African Trade Prospects in a Globalizing Era

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Africa is the only developing region whose exports and world trade shares have declined since the 1980s. Dr. T. Ademola Oyejide describes ways of reconciling the policy autonomy needed to rescue African trade from this "spectre of marginalization" with the policy imperatives of globalization. He is Director of the Trade Policy Research and Training Programme, University of Ibadan, Nigeria; Managing Editor of African Journal of Economic Policy; and coordinator of several African economic research projects.

INTRODUCTION

As the growth of African economies began to falter, particularly in the 1970s, international development agencies became increasingly active in regulating various aspects of the economic policy of these countries through policy advice and the provision of funding support. Correspondingly, most African countries progressively lost full control over their own economic policy decisions. The current globalization trend and the associated movement towards global harmonization of key elements of economic policy may, it is feared, further encroach upon the domestic policy autonomy of African countries. The threat of globally harmonized policy postures is particularly significant for Africa in trade policy, given the region's special disabilities, poor initial conditions and lack of international competitiveness in virtually all facets of modern production activities.

This article examines globalization and its implications for African trade policy and reviews the trend and patterns of African exports in the context of the region's perceived marginalization in world trade. It also briefly articulates a new export development strategy and policy package for Africa and proposes shielding the region temporarily from the full force of worldwide policy harmonization implicit in the trend towards globalization.

GLOBALIZATION AND ITS TRADE POLICY IMPLICATIONS

Globalization refers to the increased integration, across countries, of markets for goods, services and capital. This, in turn, implies accelerated expansion of economic activities globally and sharp increases in the movement of tangible and intangible goods across national and regional boundaries. With that movement, individual countries are becoming more closely integrated into the global economy. Their trade linkages and investment flows grow more complex, and cross-border financial movements are more volatile. Deepening integration of trade, markets and finance all mean increasing interdependence.

The current wave of globalization, apparently begun in the late 1970s, has not been an autonomous phenomenon. It has been stimulated and facilitated by widespread and sustained changes in government policy. These have been accompanied by widely diffused technological progress, particularly in transportation and communications. More specifically, globalization has been created, and continues to be maintained, by liberalization of economic policies in several key areas. Many governments have undertaken various deregulation, privatization and liberalization activities. These have included the lowering of cross-border impediments to the flow of financial services, trade, transportation and communication. These policy changes have central importance in sustaining the trend toward globalization, and globalization, in turn, also has substantial influence on policies. Clearly, deep integration requires a certain degree of policy harmonization across countries. Thus, globalization would appear to place considerable premium on sound policies that are also globally harmonized.

The increasing integration of developing countries into the global economy, though not free of significant challenges and problems, brings certain opportunities for them to achieve higher economic growth rates. Greater competition in wider markets can stimulate them in a number of ways. It exposes developing country exporters of manufactured goods to new technologies, designs and products, as well as better management techniques. It enhances access to imports that embody new technologies and encourages transfer of technology. It also helps gain improved access to foreign resources generally. Pursuing these opportunities can, in turn, lead to more efficient resource allocation, generate productivity gains, and contribute to higher growth rates. Such considerations underpin the observation that open economies tend to grow faster than closed ones, and that countries achieving more rapid and higher level integration into the global economy tend to experience faster growth in output.

Since the 1970s, developing countries have integrated themselves into the global economy in varying degrees, as demonstrated by such “integration indicators” as ratios of trade and foreign direct investment to the gross domestic product (GDP). By those two measures, Africa stands out as the region with the lowest levels of integration. It also has had lower credit ratings and lower shares of manufactured products in total exports than other groups of developing countries from the late 1970s to the mid-1990s. The region has made considerable progress over this period in reducing trade barriers, exchange rate overvaluation, and taxation of exports. However, these steps have apparently not been translated into significantly enhanced levels of integration or higher and more robust rates of economic growth.

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A familiar response to this puzzle is that, despite its recent and wide-ranging policy reforms, Africa has not done enough; the region retains high and dispersed trade barriers which inhibit its fuller integration into the global economy. Hence, it is suggested that African countries should open up to world trade in order to stimulate their economic growth; and the way to do this is to liberalize their international trade and payments regimes even further. From this perspective, the trade policies of African countries, not those of their trading partners, need to be changed to promote growth. In other words, African countries must fully liberalize and harmonize their trade policies to the global "standard" as a condition for increasing their integration into the global economy and eventually reaping the associated benefits of faster growth rates.

THE SPECTRE OF MARGINALIZATION: AFRICAN EXPORTS

Both the value and volume of world merchandise trade expanded rapidly during the 1980s and the 1990s, and many developing countries shared in this trade buoyancy. But the Africa region failed to participate in this virtually global trade expansion.

Thus, while world merchandise trade expanded at an average annual growth rate of just over 6 per cent during this period, African exports suffered an average annual decline of 1 per cent, compared to more robust growth rates of 7 per cent and 5 per cent for Asia and Latin America, respectively. Africa's poor export growth record is reflected in the steady decline of the region's share of world merchandise trade which fell, approximately two-thirds, from about 6 per cent in the early 1980s, to roughly 2 per cent in the mid-1990s. In comparison, Latin America maintained its share of about 5 per cent throughout, while Asia sharply increased its share from 16% to 27%. These comparisons broadly confirm the suggestion that Africa has been marginalized in terms of contribution to world trade (see table).

Does Africa's poor export performance trend provide a sufficient explanation for the region's equally dismal economic growth record over this period? If so, Africa's clear marginalization in world trade would be of obvious concern. However, a different view is that the explanation lies in Africa's relatively slow GDP growth more than anything else. In this view, first, Africa trades as much as can be expected, given its level of per capita income and its location in relation to the rest of the world; and second, Africa's trade-to-GDP ratio did not fall as dramatically as the region's share in world trade during the 1980s and 1990s. Hence, Africa's marginalization in world trade reflects the fact that the region's GDP growth was much lower than other developing regions. In other words, poor economic growth performance inhibited African export growth rather than vice versa, and real economic growth then influences trade shares. Since improved economic growth constitutes the base for enhanced participation in world trade, the solution to Africa's marginalization in world trade must be found in those factors and policies that boost overall growth.

There is clearly some truth in both views discussed above, and a comprehensive attempt to understand Africa's marginalization in world trade must take account of both. Even if Africa's GDP growth had matched the average rate for other developing regions, its share of world trade could have declined for a number of reasons:

First, African exports consist of a much higher share of primary commodities (over 60 per cent) than the average for the world (less than 25 per cent) and for Asia and Latin America. The primary commodities on which so many African countries so heavily depend have experienced sluggish world demand and a long-term decline in real prices. Africa's market share for many of the key primary commodity exports experienced significant erosion between the early 1970s and the mid-1990s. Market share losses were 40 per cent for such commodities as copper, timber, and coffee; almost 60 per cent for iron ore, and close to 30 per cent for cotton and cocoa. All

TRADE COMPARISONS BY REGION

Period	Africa	Asia	Latin America	World
1. Average annual rates of export growth (per cent):				
1980s-90s	- 1	+ 7	+ 5	+ 6
2. Share of world merchandise trade (per cent):				
Early 1980s	6	16	5	
Mid-1990s	2	27	5	

of this is reflected in the region's declining share of world trade.

Second, Africa's declining share of world exports also reflects its failure to develop and expand alternative export products, such as manufactures. An increasing share of manufactured goods in a country's export basket can be an important indicator of its exposure to international technology, its access to learning and gains from technology transfer, and its ability to produce at internationally competitive standards. Compared to the other developing regions of the world, Africa has the lowest share (around 10 per cent) of manufactures in exports and the lowest growth rate of that share over the last two decades.

Africa's dramatic loss of market shares for its primary export commodities and its failure to diversify, develop and expand other alternative export products are usually blamed on poor domestic policies. This perspective suggests, for instance, that competition from new and relatively more efficient producers in Asia and Latin America displaced African primary commodity exports in the world market. Unlike African countries, their Asian and Latin American competitors sustained and enhanced their comparative advantage by investing in research, extension, infrastructure and extensive planting of new and improved varieties, thereby reducing costs. But the typical African country overtaxed its primary commodity sector—directly through explicit export charges, and indirectly through overvalued exchange rates and inefficient parastatal marketing monopolies. At the same time, African agricultural and export sectors received inadequate government support to overcome the negative incentives from policies governing trade and exchange rates.

Remedies to reverse the trend of marginalization of Africa in world trade must include policies to revitalize growth, diversify and promote exports, as well as improve market access abroad for African exports.

Similarly, inappropriate domestic policies are blamed, together with lack of human and technological capacity, for Africa's failure to develop, expand and export manufactured products. With the exception of only a few countries (e.g. Mauritius), the predominant industrialization strategy in much of Africa during the 1960s and 1970s emphasized import-substitution manufacturing activities oriented largely to limited domestic markets. It is argued that the lack of a strong and sustained outward-orientation and export focus generated in Africa a relatively inefficient manufacturing sector, dominated by low technology activities and inherently unable to compete internationally.

The point of view which emphasizes poor or inappropriate domestic policies as the root cause of Africa's marginalization in world trade suggests a fairly straightforward solution: policy reform. However, there are good reasons to suggest that Africa's poor economic growth (and hence export growth) may not be explained solely in terms of bad policies. The socio-political environment is probably just as much to blame, and thus performance could remain poor even after reforming key economic policies. Recent research finds that just over half the African population lives in conditions that are simply unsafe or subject to severe macroeconomic instability, or both. It is more reasonable to expect growth when governments provide a consistent minimum level of social order, macroeconomic stability, and adequate resource allocation. Less than 15 per cent of Africa's population lives in countries that satisfy this minimum adequate environment for supporting and sustaining modest rates of economic growth. But even for this group, survey evidence suggests that risk remains a major deterrent to growth.

In the light of these considerations, it seems clear that appropriate remedies for reversing the trend of marginalization of Africa in world trade must include policies to revitalize growth, diversify and promote exports, as well as improve market access abroad for African exports.

ADJUSTING TO GLOBALIZATION AND DEMARGINALIZING AFRICAN TRADE

African countries can neither stand aside from nor ignore the current globalization process. They have to adjust to the process and become more fully integrated into the world economy. But they should do so in ways that permit them to revitalize their economies, as well as stop and reverse their marginalization in world trade.

Two efforts can help achieve the latter objective. One is to establish and strengthen Africa's capacity to compete internationally.The other is to seek special market access abroad for the region's exports before this capacity is fully established. Both elements may require policy initiatives that are unlikely to be fully consistent with the global policy harmonization which globalization promotes. What is required is a special framework for reconciling the policy imperatives of globalization with the policy autonomy needed to rescue African trade from the spectre of marginalization.

A viable export development strategy for Africa should exploit the region's comparative advantage. More specifically, it should be rooted, to begin with, in the region's current strong comparative advantage in primary production. But it should also be sufficiently flexible to take into account comparative advantages that may subsequently emerge in labour-intensive industry. Thus, there are at least two major elements to the strategy. The first is to rebuild the primary commodity sector and its exports as a means of regaining and possibly expanding Africa's world market shares, as well as creating an efficient and productive agricultural base as a foundation for future industrial and economic growth. The second is to establish a dynamic and diversified export sector by promoting the processing of primary commodities for export and encouraging the growth of labour-intensive manufactured exports.

The experience of several Asian countries demonstrates that the main investments required for maintaining competitiveness in export agriculture are in research, infrastructure, marketing and planting programmes. Africa needs to make concerted efforts in the same direction.The potential, inherent in Africa's smallholder agriculture, for future expansion in output and export is unlikely to be fully realized until the region develops a dynamic and competitive agriculture which draws its strength from science-based productivity growth. Efficiency-boosting and cost-reducing measures are thus at the heart of any future strategy to develop primary commodity exports in Africa, since the only effective response to world competition is increasing productivity.

Establishing a dynamic and diversified export sector in Africa necessarily goes beyond rebuilding and expanding primary commodity exports. It requires also the processing of primary commodities for export and the growth of labour-intensive manufactured exports. Accumulated experience from other developing regions suggests that this requires the establishment and scrupulous maintenance of macroeconomic stability and the insulation of the export sector from the disincentives of protection and rent-seeking.

This strategy recognizes several key features of the existing realities in Africa. First, the region's stock of efficient modern manufacturing facilities is extremely small and fragile, and could easily be destroyed by an abrupt and premature exposure to international competition. Second, Africa's emerging comparative advantage in primary commodity processing and labour-intensive manufacturing may not evolve rapidly enough under strictly market-based incentives. Third, Africa's current level of industrial experience suggests that much industrial learning and capacity-building need to be done. Finally, the costly nature of the required capacity-building and industrial learning imply that the processes involved would need to be protected.

These features of the existing realities in Africa imply that its export development strategy should not require African countries to move immediately and fully to a virtually free-trade policy posture. However, Africa's past experience with industrialization policies also cautions that protection of industrial learning and capacity-building should be narrowly targeted, moderate, temporary and performance-based. The purpose should be to minimize undesirable distortions and costs while encouraging rapid learning and productivity gains. The strategy tolerates a degree of protection, but appropriate export-promotion incentives, such as duty drawback and exemption schemes, can have adverse effects on exporters unless a free trade environment is created to shield them.

The export development strategy briefly articulated above is made up of several key parts whose proper sequencing and time-phasing can be crucial to successful implementation. The starting point is to establish the policy and institutional prerequisites for rapid and sustainable export growth and overall economic growth. These include political and macroeconomic stability, sustainable fiscal policies, realistic and flexible exchange rates, stable financial system, efficient infrastructures, and private sector development, with a hospitable climate capable of attracting foreign investment and technology. These have been important elements of Africa's structural adjustment and policy reforms since the mid-1980s. Considerable success has been achieved, although many countries are still some distance away from the frontiers of "best practice" in several areas. It may be reasonable, however, to expect many African countries to satisfy these preconditions within the next three to five years.

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The next stage of this strategy is to design and implement policies aimed at reinvigorating Africa's primary commodity sector through initiatives that enhance productivity and reduce costs. This stage involves rebuilding and strengthening the region's agricultural research and extension services, rehabilitating and improving rural infrastructure, developing appropriate technologies for higher-yielding varieties, and engaging in aggressive replanting programmes. Hence, it is unlikely to be successfully implemented in many African countries in less than 10 to 15 years.

The final stage of the strategy should overlap with the second. It involves the design and implementation of a policy reform and capacity-building programme aimed at moving each African economy gradually but systematically away from its current posture of control and inward-orientation. It should move toward a more deregulated and outward-oriented environment, in which the remaining protection is moderate, targeted and time-bound, while exporters are appropriately insulated. Given the amount of industrial learning and capacity-building needed, this stage may require a time span of 20 to 25 years in many African countries.

An export-development strategy must also pay attention to whether secure market access can be attained abroad. One might think that, on this count, African countries should have no problems. After all, Africa receives trade preferences under various generalized system of preference (GSP) schemes and the Lomé Convention. But over the last 25 years these preferences have neither helped African countries expand and diversify their exports, nor been sufficient to maintain their shares of world trade. While trade preferences have not been entirely without value to African recipients, they suffer from severe limitations which significantly diminish their intrinsic worth; and they provide a doubtful basis for African countries to build more permanent comparative advantage. Key limitations include their biased and restricted product coverage, limited duration, built-in quotas, and restrictive rules of origin. The Lome Convention, for instance, is much more restrictive for manufactures (which are subject to quota limits) than for primary commodity exports. Quantitative limits, exclusions and tight rules of origin are also built into some trade preferences. These limitations tend to shift resource allocation in African countries away from, rather than towards, manufacturing activities that are critical in early stages of industrialization, such as clothing, leather, agricultural and mineral products processing.

The recently completed Uruguay Round (UR) of multilateral trade negotiations has had the effect of eroding much of the existing trade preference for Africa. The UR agreements have also had the effect of limiting the policy autonomy of African countries in such areas as the use of subsidies to promote exports, and temporary trade restrictions to protect infant industries and combat balance-of-payments problems. In addition, the agreements for intellectual property protection and trade-related investment measures could limit African countries' range of action in support of the export development strategy described above.

It seems likely that the rapidly unfolding process of globalization will continue in the direction of widening the mandate of the World Trade Organization (WTO) over an increasing range of trade and trade-related policy issues. Current trends suggest that developed countries will pursue deeper integration among themselves over this range of policy issues. In this circumstance, it becomes important that time-phased "concessions" be provided for the low-income developing (including African) countries. Such transition periods take into account the speed with which low-income developing countries can alter their trade and payments regimes and build the necessary institutional framework. In other words, time-bound phasing should relate to differences in initial conditions, accommodate differences in the capacity for adjustment, and give a breathing space before full WTO obligations take effect.

The case for time-phasing also applies to the question of whether trade preferences for African countries should be abolished, given the many limitations of the existing preferential schemes. Are these countries likely to be better served by a world trading system that is based on full reciprocity in making concessions and complete symmetry in the rights and obligations of all participants? The arguments against this idea can be stated very briefly as follows. African countries do not have the negotiating leverage necessary for active participation in the WTO process. Preferential trade arrangements are probably the only effective mechanism for them to maintain some access to developed world markets. Their initial conditions are widely diverse and their levels of development are markedly different; this implies that their adjustment is likely to be asymmetrical, since their ability to adopt trade-liberalizing measures varies considerably.

The UR agreements do not include a multilaterally negotiated and comprehensive framework from which to derive both the special market-access rights and time-phased derogation from appropriate WTO disciplines for African countries that would meet the needs specified above. To be effective, such a framework would have to be contractually binding on all parties to the WTO and cover all trade and trade-related issues. It would have to adopt common criteria for agreeing to special market access and derogation from relevant rules, time limits for their duration, and criteria and international review procedures governing countries' graduation from both provisions. To eliminate the deficiencies of the existing GSPs and similar trade preferences, it would be necessary to grant contractual zero tariff treatment to all exports of beneficiary countries. In the case of derogation from WTO rules, a multilaterally negotiated list of WTO disciplines should be the basis for granting an agreed time-phased transition to these countries for up to 25 years, subject to periodic review at 10-year intervals; approval should be based on the same criteria used for the trade preference scheme.

To ensure that beneficiaries do not become permanent "free-riders", they should be subject to some conditions. First, they should agree to bind their tariffs at multilaterally agreed levels, perhaps not above 50 per cent. Second, they should agree to a negotiated schedule of tariff reductions over the transition period that bring bound tariffs to reasonable levels such as 10 to 15 per cent.

CONCLUDING REMARKS

It can be argued, with some justification, that Africa's poor export and overall economic growth performance predated and is therefore not directly ascribable to the current wave of globalization. However, there may be legitimate concerns on at least two counts. First, the process of globalization may contribute to a worsening of the current trend towards the marginalization of Africa in world trade. Second, the move towards global policy harmonization, which is closely associated with the globalization process, may preclude precisely those policy initiatives that are required to stop and eventually reverse Africa's marginalization trend.

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Globalization is likely to generate substantial gains in productivity and associated welfare. However, it tends to diminish national economic policy sovereignty in relation to international market forces. This may well worsen inequality both between and within countries, and exclude poorer countries and weaker segments of society from sharing in the benefits and welfare gains. Yet it will not provide a viable and robust mechanism for dealing with these effects.

In the particular case of African trade prospects, it seems clear that there is a need to reverse the marginalization trend without opting out of the globalization process. This may require establishing a protective "shield" against certain elements of globalization over a transition period. There is an urgent need for the international community seriously to address this issue. An appropriate framework should be devised to help African countries adjust to globalization in ways that are compatible with policies to hasten the recovery and sustained growth of their economies. ■

Bibliographical note

This paper draws from two earlier papers (and references cited therein) by T. Ademola Oyejide: "Access of African Exports to the EU Market: Lome and Beyond" (1997); "Low-Income Developing Countries in the GATT/WTO Framework: The First Fifty Years and Beyond"(1998). Copies of both papers are available from the author upon request.