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# tradewinds

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Editorial

# Putting development back in the WTO

**Kevin P Gallagher** and **Timothy A Wise**

The Doha round of trade talks is in a stable but critical condition. A spate of elections in the US, the EU and India might bring new leadership that will reinvigorate the negotiations that were meant to be about improving the prospects of developing nations.

Global trade talks collapsed in July for the third time in seven years. Heroic efforts since then to revive the moribund negotiations have succeeded in keeping the process alive, giving hope for new life for talks that came surprisingly close to agreement.

The patient remains in stable but critical condition awaiting new leadership in the EU, US and India. This is just as well. The so-called Doha development round should be maintained on life support until the world's most powerful nations can remember why they agreed to dedicate the negotiations to improving the prospects of developing countries.

Such a respite is not a crisis. It is an opportunity to bring development back into the negotiations. Nor does the breakdown demonstrate the failure of the WTO. Just the opposite. In a system of one country, one vote, developing countries were, for the first time in global trade talks, able to defend their economic interests.

The elements of a deal have been in place for a while: modest cuts in agricultural tariffs and subsidies by developed countries in return for modest cuts in manufacturing and services barriers in the developing world. The developed world's refusal to grant poorer nations sufficient exceptions to such cuts so they have the 'policy space' to build competitive national industries and protect their economies from unfair or unequal competition is ultimately what doomed the negotiations.

Indeed, one of the deal breakers when the talks collapsed in July was a developing country demand for a 'special safeguard mechanism' – the right for developing country governments to raise tariffs in the event of sudden or large increases in imports that threaten to undermine domestic

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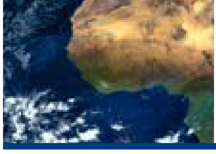


producers. The measure is exactly the kind of policy space that the poorest countries have sought from this so-called development round. The US refused, and India, backed by a large number of developing countries, walked away.

The other reason the Doha round has lost momentum is that developing countries now realise that most of them have little to gain and potentially a great deal to lose. With projected gains of less than 0.2%, poverty reduction of just 2.5 million people (less than 1%), tariff losses of at least $63-billion, and projected declines in the relative value of exports, developing countries have little to gain from rushing to conclude Doha.

## Paltry benefits

According to studies by the World Bank and other institutions, the benefits for the developing world were paltry. Under the World Bank's 'likely Doha' modelling projections, global gains for 2015 are just $96-billion, with only $16-billion going to the developing world. The developing country benefits are 0.16% of GDP. In per capita terms, that amounts to $3.13 per year, or less than a penny per day per person for those living in developing countries. Not surprisingly, such an agreement promised only a negligible reduction in global poverty, with just 2.5 million of the world's 622 million poor lifted above the $1-a-day poverty line (see table 1).

Of the benefits that will flow to developing countries, only a few countries will receive any. Half are expected to flow to just eight countries: Argentina, Brazil (which stands to receive 23% of the developing country benefit), China, India, Mexico, Thailand, Turkey and Vietnam.

Hidden in the World Bank's modelling were significant costs to developing countries. According to UNCTAD, the deal on the table would cost the poor up to $63-billion in lost tax revenue just on manufacturing imports. Add to that projected terms of trade losses – a decline in the relative value of their exports compared to their imports (see table 2).

Ultimately, poorer countries walked away from the negotiations because they saw rich-country demands as hypocritical, tantamount to a prescription to 'do as we say, not as we did'. The US and Europe, and more recently South Korea and China, all built their economies by moving into the world marketplace slowly, protecting their major exporting

### Table 1: Doha's limited poverty impact

| Projected drop in $1/day poverty from 'likely Doha' deal | | | |
|---|---|---|---|
| | Baseline millions | Decrease millions | Decrease % |
| East Asia & Pacific | 19 | 0.3 | 1.6% |
| Latin Am. & Caribbean | 43 | 0.4 | 0.9% |
| South Asia | 216 | 1.4 | 0.6% |
| Sub-Saharan Africa | 340 | 0.5 | 0.1% |
| All developing countries | 622 | 2.5 | 0.4% |

*Source: World Bank, Agricultural Trade Reform and the Doha Development Agenda, chapter 12, table 12.19, p. 382, column 5, Doha scenario 7 for 2015*

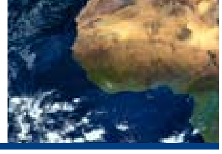
### Table 2: Doha's hidden price tag

| Doha benefits vs. NAMA tariff losses, terms of trade losses *(billions of 2001 US dollars)* | | | |
|---|---|---|---|
| | WB 'likely' scenario* | NAMA tariff losses** | Terms of trade (%)*** |
| **Developed countries** | **79.9** | **–38.0** | **–0.12%** |
| **Developing countries** | **16.1** | **–63.4** | **–0.74%** |
| **Selected developing regions** | | | |
| Middle East & North Africa | –0.6 | –7.0 | –1.32% |
| Sub-Saharan Africa | 0.4 | –1.7 | –0.83% |
| Latin Am. & the Caribbean | 7.9 | –10.7 | –1.12% |
| **Selected countries** | | | |
| Brazil | 3.6 | –3.1 | –0.18% |
| India | 2.2 | –7.9 | –1.62% |
| Mexico | –0.9 | –0.4 | –0.48% |
| Bangladesh | –0.1 | –0.04 | –0.58% |

** Anderson and Martin (2005). Agricultural Trade Reform and the Doha Development Agenda. World Bank. Table 12.14; scenario 7.*

*** De Cordoba and Vanzetti (2005). Coping with Trade Reforms. UNCTAD. Table 11.*

**** Polaski (2006). Winners and Losers: Impact of the Doha Round on Developing Countries. Carnegie Endowment, table 3.4.*



industries with tariff shields while they gained global competitiveness. Strong agricultural sectors were also critical to those earlier development processes.

The organising principle for revived global trade negotiations needs to be a recognition that the world economy consists of nations at widely differing levels of development. Developing countries need the policy space to retain, adapt and evolve the kinds of government measures that have been proven to work for development in the West and in other developing countries.

## Asymmetries

Any negotiation that claims to take development seriously must recognise these fundamental asymmetries and address them. One size does not fit all in an unequal world. To paraphrase Nobel economist Amartya Sen, equal rules with unequal partners constitute unequal rules. The Doha round has floundered over just this issue, as rich-country negotiators demand that India and other developing countries open their markets to more Northern goods and services, failing to recognise that at India's stage of development its economy will not grow dynamically if its government cannot protect some markets.

To restart negotiations on a pro-development foundation, policy space should be guaranteed in five areas.

First, in agriculture, the US and Europe should agree to honour WTO rulings that have found their subsidies for cotton and sugar to be in violation of existing trade rules that forbid exporting products at subsidised prices. This would give a tangible boost to farmers in West Africa and Latin America and send a strong signal to developing countries that developed nations are willing to honour existing WTO rules.

What is more, the WTO should take seriously the proposals by many African nations to tame highly concentrated global commodities markets, dominated by agribusinesses that suck most of the value out of these value chains. Rich nations should also grant poorer countries extensive rights to exempt staples of their local economy such as corn, rice and wheat – so-called 'special products' – from tariff cuts, and allow them to raise duties when imports surge – the 'special safeguard mechanism' the US would not agree to in July.

Second, for manufacturing, the longstanding WTO principle of 'special and differentiated treatment' should be re-enshrined for poorer nations. Developed nations should roll back patent laws that impede poorer nations from manufacturing cheaper generic drugs and allow selective industrial policy so governments can diversify their economies. What worked for the US, China and South Korea must not be prohibited by the WTO.

Third, the WTO needs to wake up to the climate crisis by leaving ample room for the transfer of clean technology to developing countries. Otherwise the diffusion of new technologies and mitigation strategies will get bogged down in global rules over intellectual property, investment and goods trade.

Fourth, for the measures that are agreed upon, developed country governments and international institutions should step in and help developing nations cover the costs of adjustment such as tariff losses and job retraining until the proper policies can be put in place on the ground. Current 'aid for trade' schemes are woefully inadequate. The IMF's Trade Integration Mechanism is already in place for such a task but is not ambitious enough and should not come with additional conditionality. The IMF plan also leaves little room for incorporating costs of adjustment and the fund is often criticised for tying further reforms to its policies.

Writing in *Foreign Affairs* in December 2005, free-trade advocate Jagdish Bhagwati commented on this problem, saying, 'If poor countries that are dependent on tariff revenues for social spending risk losing those revenues by cutting tariffs, international agencies such as the World Bank should stand ready to make up the difference until their tax systems can be fixed to raise revenues in other, more appropriate, ways.' Economists (including Joseph Stiglitz and M Shahe Emram) have shown that tariffs may be preferable to consumption taxes for raising revenues in developing countries with large informal sectors that cannot be taxed efficiently.

> To paraphrase Nobel economist Amartya Sen, equal rules with unequal partners constitute unequal rules

Finally, there should be a moratorium on North-South preferential trade agreements. These deals exploit the asymmetric nature of bargaining power between developed and developing nations, divert trade away from nations with true comparative advantages, and curtail the ability of developing countries to deploy effective policies for development.

Such organising principles for reviving world trade talks would not solely be an act of charity. On the contrary, policy space, when seized by the countries that bargain for it, brings growth to developing countries, and such growth brings rising demand for Northern products.

According to UN trade statistics, in 2006 58% of all trade from the EU, Japan and the US was destined from or destined to the developing world. Not allowing the developing world to grow thus obviously hurts Northern economies too.

For now, though, keep the Doha round on life support. And let us hope that elections in the US, Europe and elsewhere bring a new commitment to equitable development. ■

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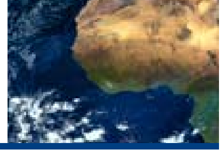
## Acronyms and abbreviations used in this issue

| | |
|---|---|
| ACP | African, Caribbean and Pacific group of countries |
| AfT | aid for trade |
| ANC | African National Congress |
| ASGISA | Accelerated and Shared Growth Initiative for South Africa |
| AGOA | African Growth and Opportunity Act |
| BLNS | Botswana, Lesotho, Namibia and Swaziland |
| CARIFORUM | Caribbean Forum of ACP states |
| CDM | clean development mechanism agreement |
| CEMAC | Commission de la Communaute Economique et Monetaire de l'Afrique Centrale |
| CERs | certified emission reduction |
| $CO_2$ | carbon dioxide |
| $CO_2e$ | $CO_2$ equivalent |
| COFACE | Compagnie Francaise d. Assurance pour le Commerce Exterieur |
| COMESA | Common Market for Eastern and Southern Africa |
| COP/MOP | Cartagena Protocol on Biosafety |
| CU | customs union |
| DDA | Doha Development Agenda |
| DFQF | duty- and quota-free |
| EAC | East African Community |
| EBA | Everything But Arms Initiative |
| ECAs | export credit agencies |
| ECGD | Export Credits Guarantee Department |
| ECOWAS | Economic Community of West African States |
| EGS | environmental goods and services sector |
| EPA | economic partnership agreement |
| ESA | eastern and southern Africa |
| ETS | Emission Trading Scheme |
| EU | European Union |
| FDI | foreign direct investment |
| FOSAD | Forum of SA Directors General |
| FTA | free trade agreement |
| G8 | Group of eight countries |
| G20 | Group of twenty countries |
| GATS | General Agreement on Trade and Services |
| GATT | General Agreement on Tariffs and Trade |
| GDEA | Global Development and Environment Institute |
| GDP | gross domestic product |
| GHG | greenhouse gas |
| GSP | Generalised System of Preferences |
| GSP/MFN | Generalised System of Preferences/Most Favoured Nation |
| IEDG | International Economic Development Group |
| IMF | International Monetary Fund |
| JBIC | Japan Bank for International Cooperation |
| JI | joint implementation |
| LDC | least developed country |
| NAMA | non agriculture market access |
| NEC | national executive committee |
| NEXI | Nippon Export and Investment Insurance |
| NGOs | non-governmental organisations |
| ODI | Overseas Development Institute |
| OECD | Organisation for Economic Co-operation and Development |
| OPIC | Overseas Private Investment Corporation |
| PACP | Provincial AIDS Control Programme |
| PTAs | preferential trading agreements |
| RTAs | regional trade agreements |
| S&DT | special and differential treatment |
| SACP | South African Communist Party |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| TDCA | Trade, Development and Co-operation Agreement |
| TRALAC | Trade Law Centre for Southern Africa |
| TRIPS | Trade-related intellectual property rights |
| UNCTAD | United Nations Conference on Trade and Development |
| UNEP | UN Environment Programme |
| UNFCCC | UN Framework Convention on Climate Change |
| WTO | World Trade Organisation |





# The shift is not ideological

Joel Netshitenzhe

In the aftermath of the tripartite alliance economic summit, many conclusions have been drawn about the source of policies agreed upon, their ideological roots and thus their implications for the post-2009 period. This applies especially to issues of long-term planning and the structure of the Cabinet.

Among the observations in the Fifteen Year Review released by government in October 2008 is the assertion that a democratic state should be adept at adjusting to changing conditions and utilising the wisdom of experience to improve its performance.

It is in this context that the notion of 'continuity of change' has been posited: that government should not operate as a rigid colossus, tied to chapter and verse of programmes, even when new opportunities present themselves for faster progress.

As such, post-2004, comprehensive anti-poverty and social-security strategies are being developed. The Accelerated and Shared Growth Initiative for South Africa (ASGISA) and the National Industrial Policy Framework were finalised and are now being implemented.

Similarly, reflections on long-term strategic planning and the configuration of the Cabinet have been brewing in government and the African National Congress (ANC) for a few years now. In a sense, the ANC's 52nd National Conference provided the platform for the consummation of such reflections. In broad terms, on these issues of substance, Polokwane happened on the cusp of a change of emphasis deriving from work that was already happening.

Take the issue of long-term strategic planning, for instance. In 2006, Cabinet delegated the policy unit in the presidency to investigate the desirability and feasibility of such an approach. At its January 2007 lekgotla, it examined country studies on Brazil, India, Malaysia, South Korea, Chile and Tunisia.

Cabinet noted that virtually all the six countries had a 'strategic approach to national planning, with a long-term vision and medium-term programmes'. It was agreed that South Africa should move in the same direction because 'modern societies face complex challenges which cannot be dealt with in an ad hoc manner; countries operate in a global environment with uncertainty and turbulence (and therefore need) a vision and plan to stay on track; (and the long lead times of social transformation) require a society that is mobilised and focussed, with leadership by a developmental state'.

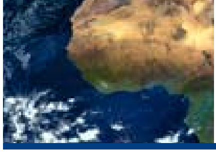
Subsequent to the lekgotla, there have also been interactions with representatives of the Nigerian and Sudanese governments, and further research on the system in Botswana.

## What are the gaps in South Africa?

Firstly, beyond the five-year medium-term strategic framework based on the electoral mandate, we do not have a long-term plan, based on a mobilising vision which can unite the nation in action. It can be argued that the constitutional aspiration to build a united, non-racial, non-sexist and prosperous society does constitute a broad vision. But in the context of strategic planning, the notion of a vision is invoked in relation to key development indicators that a nation should aim for – a storyline of the future organised around themes such as the structure of the economy and level of technological development, socio-economic quality of life, legitimacy and efficiency of the state, and the extent of social cohesion.

> Government should not operate as a rigid colossus, tied to chapter and verse of programmes, even when new opportunities present themselves for faster progress

Secondly, virtually each government department, in some White Paper or strategy, does articulate a long-term objective; but these are not necessarily aligned. The same applies to integrated sector initiatives such as the strategy against HIV and AIDS, revamp of the criminal justice system and industrial



policy – all of which would have to form building blocks of a national strategic plan.

Thirdly, our inter-governmental system provides for autonomous spheres and it is not clear how a national vision and plan would find expression across the spheres. While this may relate to issues of powers and functions currently being reviewed, there is also the fundamental question about system and process: how do the provincial and local spheres contribute to the development of a national plan, which in turn would be binding on all. Structures such as the Presidential Coordination Council and Cabinet bi-annual makgotla in which premiers and the South African Local Government Association take part would need to be examined in this context.

The Fifteen Year Review summarises this challenge thus: 'Does this require a change in the architecture of the executive?

Lastly, strategic planning requires a centre capacitated to give leadership, to monitor and evaluate, and to link resource allocation to strategic imperatives.

In other words, the need for planning and the form it should take had been in the mix of research and engagement which informed the Polokwane resolutions. At the January 2008 Cabinet lekgotla, the policy unit was tasked with developing an operational plan in this regard. Much work is being done both in government and the ANC to operationalise conference decisions; and in large measure the tripartite alliance summit was one such milestone. The 2009 January makgotla of both the ANC national executive committee (NEC) and Cabinet will take these matters forward.

The same applies to the question of whether the Cabinet is structured appropriately not only to meet the challenges of the moment; but also to lead in the development and implementation of a strategic plan.

In this regard, as early as 2005, Cabinet instructed the Forum of SA Directors General (FOSAD) to develop broad ideas on the issue. Among the matters canvassed were departmental permutations: should, for instance, education be sub-divided into a number of departments (primary and secondary levels, tertiary education, and skills development); and should the department of trade and industry similarly be decoupled, and in this context how do we ensure requisite attention to matters pertaining to small and micro-enterprises?

Further, appreciating the improvements in coordination that the cluster system had brought about since 1999, questions were posed about how the system could be improved. Arising from this is the challenge of ensuring that the responsibility of cluster coordinating ministers is underpinned by requisite authority to exercise oversight in relation to their Cabinet peers.

The Fifteen Year Review summarises this challenge thus: 'Does this require a change in the architecture of the executive? Steps that have been broached in this regard include the introduction of two tiers within the executive. One option would see senior ministers exercising oversight of clusters of ministries … Correspondingly, chairs of directors general clusters, which make up the FOSAD management committee, would oversee the work of their clusters.'

Further, we also have to ensure that coordination and integration find expression not only in planning, but also in joint project teams in implementation, monitoring and evaluation.

### Why is this background necessary?

Because of the incomplete nature of the work, and the character of the platforms (Cabinet and ANC NEC sub-committees) where the ideas were being canvassed, it was not possible formally to communicate the details.

However, because the South African Communist Party (SACP), in its wisdom, raised these matters publicly, the impression was created in some media reports that an unthinking ANC had – hook, line and sinker – swallowed prescriptions from outside its ranks. Not that there would be anything wrong in appropriating good ideas, especially from an alliance partner. But in this instance, for the record, the essence of the processes unfolded within ANC and government structures.

The danger in such misrepresentation is that an ideological and even conflictual bent is incorrectly attributed to what is otherwise a logical approach to matters of state efficiency and leadership in the context of national development.

It would for instance be incorrect to characterise the setting up of strategic planning capacity as a

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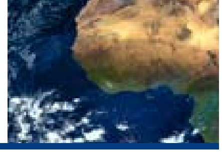


# Southern Africa and Obama's trade agenda

Flushed with victory in the US presidential election – and emboldened by the Democrats' commanding majority in Congress – it is down to business for Barack Obama and his team. **Brendan Vickers** looks at what the new administration might mean for Southern Africa.

The administration of US president-elect Barack Obama faces daunting challenges at home and abroad, ranging from a globalised financial crisis to impending recession and economic slowdown in the heartlands of Western capitalism.

Free traders – mindful of Obama's campaign pledge to overhaul Washington's trade policies and more strategically calibrate globalisation – baulk at the prospect of increased protectionism in the American market. This, they say, would represent a return to the 1930s Smoot-Hawley era, when Congress raised import tariffs to record levels.

This 'protectionist plot' thickens with the election to Congress of a swathe of new candidates committed to reforming US trade policies (chiefly Democrats, but some Republicans too). A recent Public Citizen report highlights that the 2008 elections saw a net increase in Congress of at least 30 fair trade advocates. This builds on the similar 37 net additions to Congress in 2006.

Though Obama has criticised the Bush administration's trade policy for failing American workers, scenarios of a future 'Fortress America' are gratuitous. To be sure, he has made no secret of protecting American jobs and safeguarding family farmers and ranchers. But he is also committed to rebuilding America's tarnished global image and burnishing his new administration's multilateral credentials, possibly by concluding the Doha trade deal.

## Doha doldrums

That said, the current economic climate in the US – and electoral cycles in India and Europe in 2009 – do not bode well for an imminent favourable outcome to the embattled trade round. Moreover, a recent report by the Center for American Progress, a Washington-based think tank run by Obama transition co-chair John D. Podesta, adds that it would be a waste of time and energy for Obama to commit to 'rescuing' the Doha round. Given the failure of the WTO's single undertaking principle and the realities of a swiftly changing global economy, the US should rather explore the desirability of negotiating plurilateral agreements in some of the fast-growing sectors. These include energy and environmental industries, medical and health industries, and media and entertainment industries.

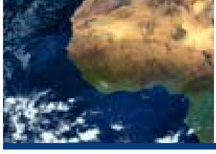
## Fair trade

The *leitmotiv* of the next administration will be fair trade. This will involve a stronger emphasis on upholding labour, environmental and safety standards; beefing up trade remedy tools to challenge dumping; cracking down on currency manipulation that subsidises exports (for example, those from China); and hard bargaining to prevent the outsourcing of jobs and investment by American companies bent on tax breaks.

Though Obama has criticised the Bush administration's trade policy for failing American workers, scenarios of a future 'Fortress America' are gratuitous

Trade agreements, says the new president, should not just be good for Wall Street but should bring tangible benefits to Main Street too. Obama has, for instance, supported re-negotiating the North American Free Trade Agreement to include enforceable labour provisions.

For middle-class America, Obama's logic is persuasive. In one recent estimate by economist Alan Blinder, trade liberalisation could spark a wave of job



losses in the US, with 22%-29% of jobs being lost to 'offshoring'. The impact is no longer restricted to low-skill jobs, but increasingly affecting the high end of the services chain, such as radiology, architecture and engineering.

As the dust settles on the hype and hyperbole of Obama-mania, what can 'SA Inc' and Southern African exporters realistically expect from the Obama administration's trade agenda?

Experienced trade hands in Washington suggest that any 'timeout' on further liberalisation would simply extend what congressional Democrats have already forced by refusing to ratify the Colombian and South Korean FTAs (respectively over labour rights and beef and auto exports). Obama's advisers have also cautioned that any decision to open further new markets would have to be balanced by greater trade adjustment assistance to manufacturing and services sector workers displaced by global competition. This should include initiatives to redevelop communities hit by job losses and burdened by globalisation. Obama's support for reviving the beleaguered US auto industry – including more speedy federal aid – epitomises this challenge.

## Realistic expectations

As the dust settles on the hype and hyperbole of Obama-mania, what can 'SA Inc' and Southern African exporters realistically expect from the Obama administration's trade agenda?

In the first instance, Obama may be more sensitive to the multiple developmental challenges that the region confronts (and nudge his G8 colleagues in that direction too). He is sure to appreciate that fair trade and support for subsistence farmers are Africa's best bets against poverty and underdevelopment. US farm subsidies – especially for cotton, which WTO dispute panels have repeatedly ruled against – depress world prices and lock millions of African farmers into poverty. The US should immediately comply with these panel rulings in order to give the continent's cotton farmers a fighting chance.

Though Obama supported the 2008 Farm Bill (doling out US$307-billion to farmers), he has taken a dim view of subsidies that concentrate agriculture in the hands of a few large agribusiness interests. While subsidy caps are on the cards, the critical question is the level at which the pork barrel is plugged. Since Obama hails from Illinois – a large corn-belt state alongside Iowa, Indiana and Ohio – it remains to be seen how his administration will tackle these thorny issues (including corn-based biofuels subsidies).

Beyond the politics of farm trade, Obama's insistence on opening up foreign markets for his country's manufacturing and services exporters is likely to clash with the legitimate developmental aspirations of many Southern economies, including SA. This has been a major sticking point in the WTO's Doha round.

## Productive partnerships

The new administration will also seek to strengthen 'productive partnerships' that assist Africa to integrate into the world economy. The US is SA's second-most important trading partner, after the EU (and the biggest partner for the Southern Africa region). South African exports to the US – principally agricultural and manufactured goods, including vehicles and auto equipment and components – rose from R11-billion in 1998, to R41-billion in 2006. This represents a sizeable increase of 270%. However, with the spectre of recession in the world's largest economy, factories in SA and the Southern African region may soon face the reality of filling fewer export orders.

Investment flows and aid, particularly for HIV/AIDS, are also significant. Several Southern African countries (including Lesotho, Namibia and Mozambique) further benefit from Millennium Challenge Account grants.

Should Obama's trade team demonstrate greater flexibility and understanding of Southern Africa's developmental circumstances, the Southern African Customs Union (SACU) – namely SA, Botswana, Lesotho, Namibia and Swaziland – may even consider elevating the Trade, Investment and Development Co-operation Agreement into fresh trade talks with Washington.

Presently, Southern African exporters to the US rely on the unilateral market access preferences granted under the Generalised System of Preferences (GSP) and the African Growth and Opportunity

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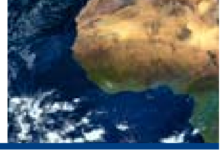


# A tangled web

## Factionalism over EPAs reveals SADC fault lines

Economic partnership agreements with the EU are a complicating factor in the regional integration debate, writes **Christopher Stevens**

THE SADC Heads of State have agreed to complete the customs union (CU) by 2010 – but in December 2007 the member countries took decisions that will make this impossible.

The decisions were those over whether or not to initial an economic partnership agreement (EPA) with the EU and, if so, within which 'EPA framework'. Under a late 'compromise' reached between the EU and the African, Caribbean and Pacific group of countries (ACP), the 'interim' EPAs had to include complete provisions on goods, whereas non-goods issues could be deferred until 2008. This article explains the current state of play and the implications of the EPAs for SADC's future.

As table 1 indicates, the 15 member states of SADC are split into three EPA groups and the group of countries outside the EPA. These are the 'SADC-minus' EPA (i.e. Botswana, Lesotho, Namibia and Swaziland [BLNS] plus Angola, Mozambique and SA); the eastern and southern Africa (ESA) EPA; the East African Community (EAC) EPA (i.e. Tanzania), and the non-signatories.

How did such an unsatisfactory situation come about? Pressure from the EU is certainly the main contributory factor. But the reason the group has splintered like this also reflects the underlying fault lines.

### Regionalism

One of the claims made by the EU during the negotiations was that EPAs would strengthen regionalism within the ACP. Always a sickly child, it was unclear whether the stresses of EPAs would, indeed, provide a catalyst to force governments to implement their numerous declarations on regionalism or would bring the whole hesitant, crab-like process to a halt.

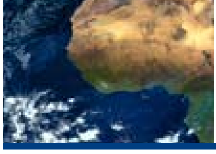
By definition, CU signatories must have one, common set of tariffs on *most* imports. They can have preferential as well as most-favoured nation regimes (as does the EU) but each needs to be nearly identical. It is not consistent with CU membership for one member to have zero tariffs on some imports from the EU (by virtue of its EPA commitments) whilst its neighbour maintains tariffs on these goods but has removed them on others (which is why the EPA position in the Southern African Customs Union [SACU] is anomalous).

If a CU is not yet complete, as is the case in both SADC and COMESA, members can have different implementation schedules and maintain different rates during this period – but only until the CU is due to be completed.

One of the claims made by the EU during the negotiations was that EPAs would strengthen regionalism within the ACP

States that belong only to a regional FTA have more latitude since they retain separate and different external tariff regimes. But if countries' liberalisation schedules are not harmonised, they will have a new incentive to keep rigorous border controls. For example, if country A excludes flour from liberalisation and maintains a 100% tariff, but its neighbour, country B, removes all duties, traders may circumvent A's restrictions by transporting EU goods across the border from B. To avoid this, either the tariff difference between A and B must be sufficiently small to make such trans-shipment commercially unviable, or rigorous border controls must be maintained to prevent trans-shipment (that would undermine A's milling industry).

The latter will hurt intra-regional trade in the process. Various studies suggest that it is the paraphernalia associated with physical barriers at land borders



### Table 1: Overview of EPA signatory states as at 1 January 2008

| | Members | Initialling states in December 2007[a] | Countries falling into EBA/*Standard GSP* | Proportion of signatory countries | Number of liberalisation schedules |
|---|---|---|---|---|---|
| ESA EPA | Comoros, Djibouti, Eritrea, Ethiopia, Madagascar, Malawi, Mauritius, Seychelles, Sudan, Zambia[b], Zimbabwe | *Comoros, Madagascar*, Mauritius, Seychelles, Zimbabwe | Djibouti, Eritrea, Ethiopia, Malawi, Sudan, Zambia | 45% | 5 |
| EAC EPA | Burundi, Kenya, Rwanda, Tanzania, Uganda | *Burundi*, Kenya, *Rwanda, Tanzania, Uganda* | | 100% | 1 |
| SADC EPA | Angola, Botswana, Lesotho, Mozambique, Namibia, South Africa, Swaziland | Botswana, *Lesotho, Mozambique*, Namibia, Swaziland | Angola | 71% | 2 |
| CEMAC EPA | Cameroon, Chad, Cent. African Rep., Congo, DR Congo, Eq Guinea, Gabon, STomé/Principe | Cameroon | Chad, Cent. African Rep., *Congo*, DR Congo, Eq. Guinea, *Gabon*, S. STomé/Principe | 12.5% | 1 |
| ECOWAS EPA | Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo | Côte d'Ivoire, Ghana | Benin, Burkina Faso, Cape Verde[c], Gambia, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, *Nigeria*, Senegal, Sierra Leone, Togo | 13% | 2 |
| PACP EPA | Cook Islands, Fed. Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu | Fiji<br>Papua New Guinea | *Cook Islands, Fed. Micronesia*, Kiribati, *Marshall Islands, Nauru, Niue, Palau,* Samoa, Solomon Islands, *Tonga*, Tuvalu, Vanuatu | 14% | 2 |
| CARIFORUM | Antigua/Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Rep., Grenada, Guyana, Haiti, Jamaica, St Kitts/Nevis, St Lucia, St Vincent/Grenadines, Suriname, Trinidad/Tobago | Antigua/Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Rep., Grenada, Guyana, *Haiti*, Jamaica, St Kitts/Nevis, St Lucia, St Vincent/Grenadines, Suriname, Trinidad/Tobago | | 100% | 1 |

*Notes:*

*(a) Countries in italics are classified as LDCs. In the table compiled by the Commission* (http://europa.eu/rapid/press ReleasesAction.do?reference=MEMO/08/15&format=HTML&aged=0&language=EN&guiLanguage=en), *Somalia and Timor Leste are listed as LDC non-signatories (in the ESA and PACP groupings respectively). Since neither has played any part in the negotiation of EPAs, they are omitted here.*

*(b) Zambia initialled the ESA EPA on 30 September 2008.*

*(c) Cape Verde has been classified as non-LDC since January 2008 but will be able to export to the EU under the EBA initiative for a transitional period of three years.*

that are the most serious constraint on intra-regional trade, rather than differences in trade policy per se, although of course the latter underpin the former.

There is no intrinsic reason why a barrier should be created between neighbours that join or do not join – but in practical terms little is achieved by staying outside an interim EPA (which applies only to goods) unless a country does erect a barrier against its neighbour. The principal reason to remain outside a goods EPA is to avoid reciprocity. But this goal would be undermined by cross-border trade if the outsider also participated in an effective FTA/CU with countries that were EPA members.

The problems of incompatible trade policy described above arise *a fortiori* for countries not liberalising on any product. So, an absolute barrier has been erected between all EPA signatories and countries that have not signed any reciprocal deal with the EU. A potential barrier has been created between signatories of agreements that are different from those of their regional partners. Between them, these two groups include all the countries of SADC.

## Inconsistencies

Tanzania's position has long illustrated the inconsistencies of African regionalism. Although a member of EAC, it has also retained its membership of SADC and, until the last months of the EPA process, was negotiating in an entirely different group from all its EAC partners. The fact that Tanzania has joined the EAC EPA and (with Kenya, Rwanda, Burundi and Uganda) has accepted the disciplines that this entails suggests that a decisive shift might have been made.

All of the tariff reduction commitments of these countries are based on the EAC common external tariff. In other words, the countries have pledged themselves to implement this tariff before the first tranche of EPA tariff reductions commences in 2015.

Madagascar, Mauritius and Zimbabwe have signed a text that is different from the one negotiated in SADC-minus and have established liberalisation schedules in relation to the COMESA common external tariff (even though details of exclusions vary). Like Tanzania, therefore, their liberalisation will not be organised around a common SADC list.

Mozambique is the only remaining SADC state apart from BLNS to have initialled an EPA. Its schedule is quite different from that of BLNS. The latter have a common schedule based upon, but not identical to, the EU-SA Trade, Development and Co-operation Agreement (TDCA).

> The EU has granted EPA treatment to BLNS for their exports even though the agreement they have initialled appears not to be enforceable across SACU

At the time of writing, all SACU members apart from SA had initialed the interim EPA but negotiations were continuing with one possible outcome that SA would also initial (and another that some or all of the BLNS would decide not to confirm their membership).

An EPA with the EU that does not include all five members would appear to be legally unenforceable in SACU. What this anomaly means in practice (if it is not removed by further negotiation) remains to be seen. The *status quo* is stable so long as neither the EU nor SA chooses to destabilise it.

The EU has granted EPA treatment to BLNS for their exports even though the agreement they have initialled appears not to be enforceable across SACU. It would be possible for each of these countries *de facto* to apply the EPA tariff to goods originating in the EU that enter SACU through their territory, provided that SA did not actively object. For example, importation directly by air to Gaborone could be taxed by the Botswana customs authorities at the EPA rather than at the TDCA tariff rate – if they are different.

But only a very small proportion of EU-originating goods consumed in BLNS actually enter through the territories of these four countries; most are imported in bulk into SA and split into smaller consignments, some of which are trans-shipped to BLNS. These imports will necessarily pay the TDCA tariff so long as SA remains aloof.

So long as one of three things occurs, this situation could continue indefinitely (or at least until 2012, when the final tranche of TDCA liberalisation will make SA's tariff regime very similar to that in the EPA).

The first is that neither SA nor the EU objects to the *status quo*. The second is the extreme opposite of this *laissez faire* position: SA joins the EPA. The third

**Table 2: How SADC compares**

| Implementation period | 15 years or fewer | 16–20 years | 20+ years |
|---|---|---|---|
| | BLNS, Comoros, Côte d'Ivoire, Ghana, Madagascar, Mauritius, Mozambique, Seychelles | Cameroon, Zimbabwe | All EAC (Tanzania) |
| **Liberalisation starts for positive-tariff goods** | **2 years or fewer** | **3–5 years** | **6+ years** |
| | BLNS, Côte d'Ivoire, Ghana, Mauritius, Mozambique | Cameroon | All EAC, Comoros, Madagascar, Seychelles, Zimbabwe |
| **Exclusions** | **Under 15%** | **15–20%** | **20+%** |
| | Lesotho, Mauritius, Namibia, Seychelles, Swaziland | Côte d'Ivoire, Kenya, Uganda, Comoros, Madagascar | Botswana, Burundi, Cameroon, Ghana, Mozambique, Rwanda, Tanzania, Zimbabwe |

is a midway position: SA remains outside the EPA but acts autonomously to remove discrepancies between the TDCA and EPA tariffs. All that is required for this midway position is for SA to agree in the SACU ministerial council that it will alter the tariffs it applies on imports from the EU to the EPA levels. Whether or not it would be in its interests to do this – and whether the EU would accept this 'solution' – depends on what it means in practice: which tariffs would go down more or faster – and which less or slower – than required under the TDCA.

For now it is important to note that the midway position exists – at least on paper – since it means SA does not necessarily have to commit itself to further negotiations on services and other non-goods issues in order to stabilise BLNS's trade relationship with the EU.

## Practical difficulties

How great are the differences in the liberalisation schedules initialed by SADC states, and how soon will they emerge?

The answers will determine how great a barrier EPAs have created to regional integration among signatories and between them and non-signatories. But the questions are not straightforward to answer. Even establishing the differences faces practical difficulties, and predicting the pace and extent of implementation involves judgments about future interests and policy.

Table 2 compares on three criteria the position of the SADC states and other African countries that have initialed EPAs. The implementation period is very short for BLNS because of the need to dovetail their commitments with those under the TDCA. But Tanzania and the other SADC states will not do so for six or more years.

Four of the SADC states are excluding less than 15% of their imports from liberalisation, but four are excluding more than 20%. This calculation, though, can be distorted by the existence of a small number of major imports that are excluded (as is the case in Botswana).

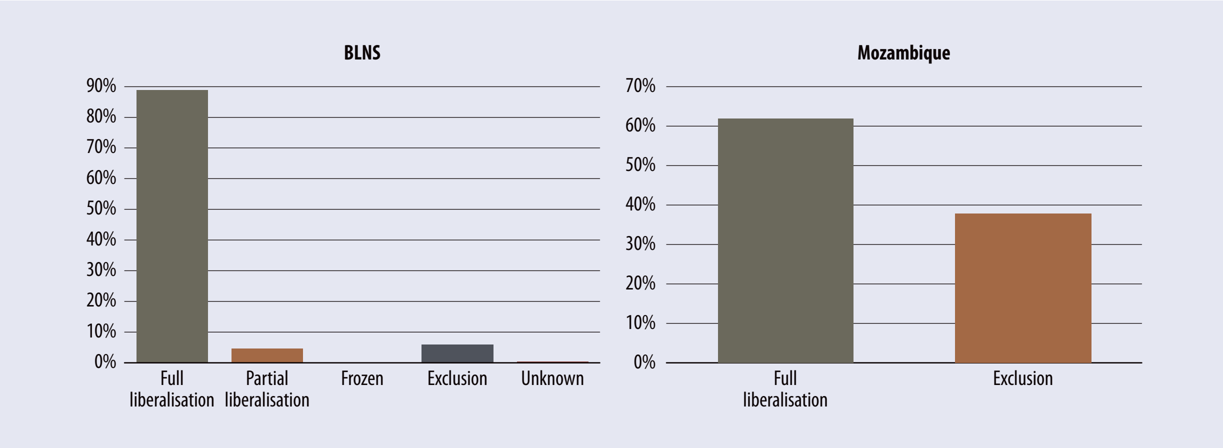
Figures 1 and 2 compare for members of the SADC-minus EPA the extent of liberalisation and the timetable for liberalisation. Each shows BLNS separately from Mozambique, given that the four SACU states have identical commitments.

Figure 1 confirms that Mozambique is excluding from liberalisation a significantly higher proportion of imports than are BLNS (although it is understood that the EU has continued negotiations with Mozambique and that this proportion might therefore fall). The reason for the high share of BLNS imports liberalised is that the TDCA has already committed the CU to liberalise on a wide raft of products, and the products excluded from the TDCA are goods not imported into BLNS to any great degree (and which hence account for a very small share of the value of trade).

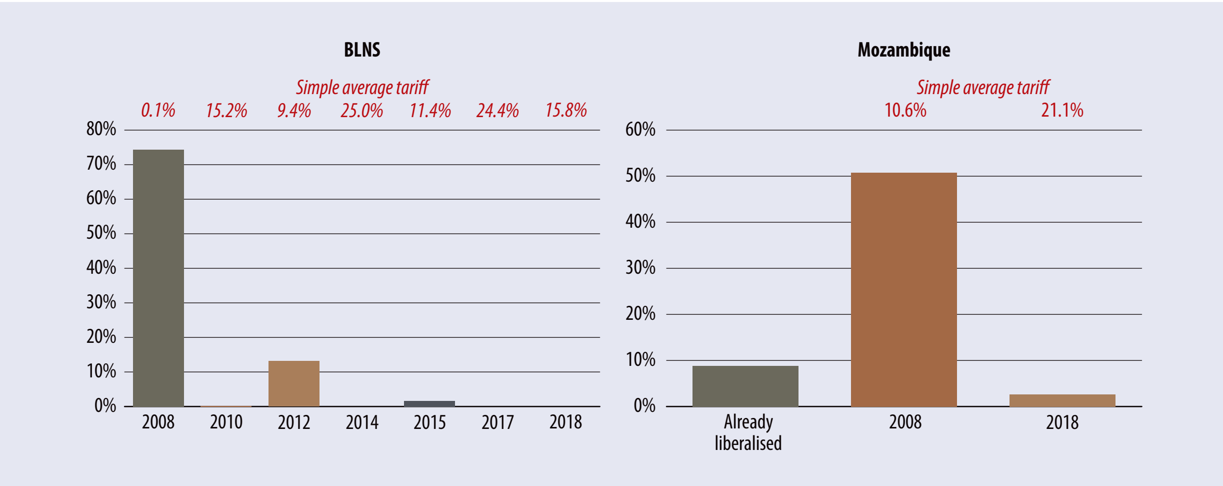
Figure 2 shows that the great majority of imports in both panes of the figure will be liberalised in 2008 if the EPAs proceed.

As a result, in Mozambique, the proportion remaining to be liberalised in 2018 is small (partly because almost 10% of imports are already duty-free), while in BLNS it is miniscule. Almost everything to

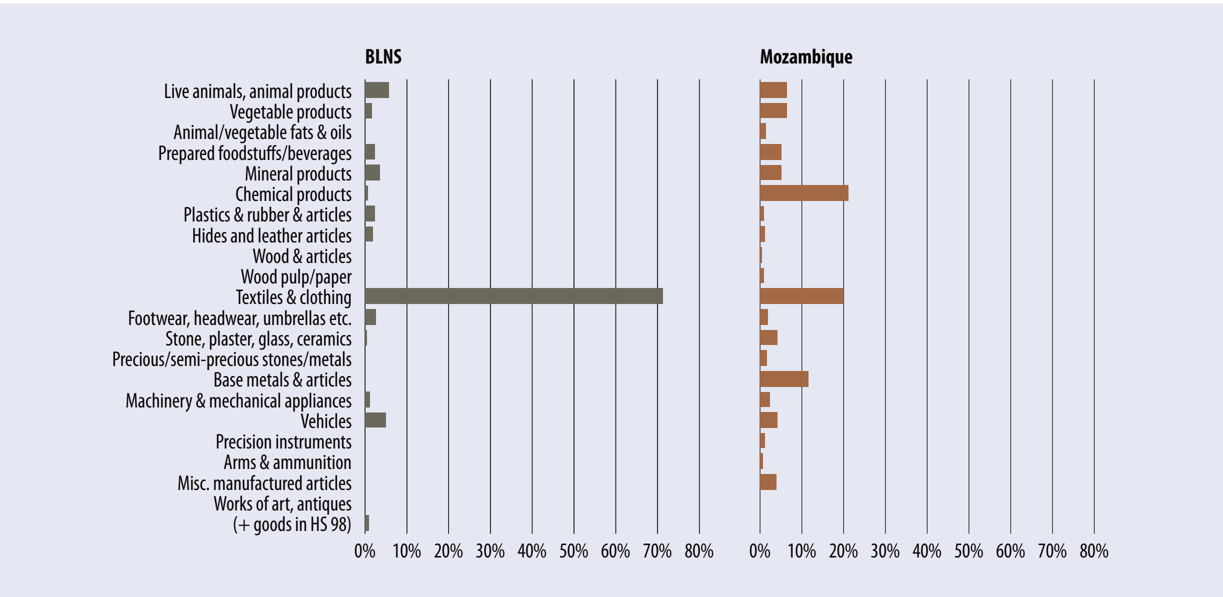
## Figure 1: SADC EPA: extent of liberalisation

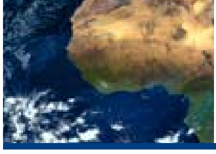



## Figure 2: SADC EPA: timetable for liberalisation




## Figure 3. SADC EPA: exclusions





be liberalised by BLNS will have had its tariff removed by 2012 – the terminal date for implementation of the TDCA.

Figure 3 compares the commodity composition of the exclusions of BLNS on the one hand and Mozambique on the other. Overwhelmingly the most substantial group of items being excluded by BLNS is clothing and textiles. These are also important for Mozambique, but its exclusions also include significant numbers of chemical and base metal products, together with a range of agricultural goods.

The critical point to note is that only a fifth of BLNS and Mozambique exclusions overlap. In other words, only one in five of the products being excluded from liberalisation by BLNS is also being excluded by Mozambique, and vice versa.

> Overwhelmingly the most substantial group of items being excluded by BLNS is clothing and textiles. These are also important for Mozambique

The speed with which liberalisation will occur is important because it indicates how much time countries have 'bought' before they need to take difficult decisions on tariff levels. The longer the time period, the more time is available for reflection and, very importantly, for attempting to mitigate the costs of not remaining a member (in order to avoid the hard decisions).

As noted above, most of the countries initialing EPAs are vulnerable to an abrupt removal of trade preferences. Some of these may be facing the strong prospect of 'preference erosion' (whereby the commercial value of the preference is reduced, e.g. because the access of competitors is improved) whilst others may be able to diversify their exports to new markets. A calculation made in, say, 2012, on whether the costs of EPA membership outweighed the benefits might not produce the same conclusion as one made in December 2007.

The commitments ACP countries have made in EPAs will have a direct impact only if they are implemented, and implementation will tend to occur only if costs are lower than those arising from non-implementation. This distinguishes 'conditionality' under an EPA from that which has been well analysed in relation to 'policy-based aid lending'. In the latter, actions were normally required of aid recipients quite quickly.

The literature has shown how the objective bargaining strength of the lender could be offset to varying degrees by various stratagems of the borrower and that the fact that repayment to the lender (in the case of the development banks and the IMF) was partly dependent upon the country being given a 'clean bill of health' in order that it continued to receive aid from other sources.

A similar sort of shift in the 'balance of power' also applies in the case of EPAs. The capacity of the EU to enforce implementation is linked to:

1. its ability to obtain evidence that implementation is not occurring;
2. an inclination to monitor implementation sufficiently closely to notice this evidence;
3. the availability of sufficiently strong sanctions to enforce change; and
4. a willingness to use them.

Requirements 1 and 3 involve the collection and analysis of factual evidence; the other two relate to attitudes. Whilst the attitudinal requirements must be a matter for speculation (especially given the time that will elapse before any 'non-implementation' occurs), there is doubt over the more factual requirements.

Knowing whether an EPA is being implemented is not as straightforward as it may sound. By the time countries start to reduce tariffs the nomenclature used to express the EPA commitments will have evolved further and some of the codes listed in the schedules will no longer exist. It will be extremely difficult (and very time consuming) for the EU to check whether the items that are actually liberalised in, say, 2015 are those that were agreed on in 2007.

The existence of strong sanctions is also uncertain. As a major source of aid for the ACP, the EU and its members will always have significant leverage over policy decisions through the threat of withholding or amending flows. This power of leverage is quite independent of the EPAs, which do not, at present, contain any additional financial provisions over and above what the countries can receive under Cotonou and the member states' bilateral programmes.

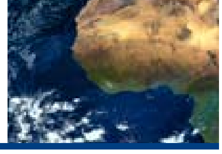


**Table 3: SADC exports for which EPA membership offers the greatest commercial advantage**

| Country | Ex HS chapter | Product |
|---|---|---|
| **Botswana** | | |
| | 02 | Fresh/frozen beef |
| | 16 | Preserved beef |
| **Mauritius** | | |
| | 03 | Fresh, chilled, frozen fish |
| | 10 | Manioc/rice starch |
| | 15 | Preparations of animal or vegetable fats or oils contain milk fats |
| | 16 | Preserved fish |
| | 17 | Sugar and confectionery |
| | 19 | Cereal preparations |
| | 20 | Preserved fruit and vegetables |
| | 21 | Miscellaneous edible preparations |
| | 22 | Beverages and spirits |
| | 23 | Bran, sharps and other residues |
| | 24 | Cigarettes |
| | 25 | Salt suitable for human consumption |
| | 64 | Miscellaneous footwear |
| | 87 | Bicycles |
| **Namibia** | | |
| | 02 | Fresh/frozen beef |
| | 03 | Fresh, chilled, frozen fish |
| | 07 | Fresh or chilled beans |
| | 08 | Fresh table grapes |
| | 64 | Slippers |
| **Swaziland** | | |
| | 02 | Fresh/frozen beef |
| | 03 | Fresh or chilled fish |
| | 07 | Vegetables |
| | 08 | Citrus fruit |
| | 10 | Maize |
| | 17 | Sugar |
| | 20 | Preserved fruit and vegetables |
| **Zimbabwe** | | |
| | 03 | Fresh, chilled, frozen fish |
| | 07 | Vegetables |
| | 08 | Citrus fruit, peaches, nectarines, plums |
| | 10 | Maize |
| | 16 | Preserved beef |
| | 17 | Sugar |
| | 18 | Chocolate |
| | 19 | Cereal preparations |
| | 20 | Preserved fruit and vegetables |
| | 22 | Wine and ethyl alcohol |
| | 24 | Cigarettes and tobacco |
| | 64 | Women's shoes |

The extra leverage afforded by the EPA is currently limited to the renunciation, by the EU, of its preferences for ACP exports.

### EPA implementation

Hence, the credibility of EU action against non implementation by an ACP state of its EPA trade commitments is limited to the commercial value of the preference. This will diminish over time as the EU extends more favourable tariff treatment to an increasing number of countries. The speed at which it erodes is not easily predictable and will certainly vary between products. But it is reasonable to suppose that the more time that elapses the greater will be the change in the nomenclature and the more substantial the erosion of preferences.

> The EU has since January accorded duty- and quota-free (DFQF) market access to all its imports from EPA states, apart from sugar and rice

The timing of SADC liberalisation commitments is therefore relevant to the credibility of implementation. As noted above, the phasing of the BLNS and Mozambique liberalisation is relatively fast by comparison with ACP states. The removal of tariffs by BLNS on the goods not excluded from liberalisation (or subject to partial liberalisation) will be complete by 2018. On the other hand, most of the 'BLNS liberalisation' simply recognises *de jure* the tariff cuts that the countries will be obliged to make *de facto* as a result of the TDCA.

In Mozambique, too, the process is due to be completed by 2018, and might not have occurred were it not for the EPA. Madagascar, Mauritius and Zimbabwe, by contrast, will not need to liberalise before 2013 any item that faces a positive COMESA common external tariff. Hence, these initial efforts will not go beyond what is needed simply to comply with COMESA commitments. Only after 2013, in a process to be completed by 2022, will items subject to positive COMESA tariffs be liberalised.

What can be said about the future commercial value of EPA preferences – by 2013 or so?

This depends on which products currently receive a deep preference and are important exports to the EU by SADC states. The EU has since January accorded duty- and quota-free (DFQF) market access to all its imports from EPA states, apart from sugar and rice, for which this will be phased in over the period to 2015 and 2010 respectively.

Given the likelihood that the EU will negotiate further regional trade agreements and that there could still be an eventual conclusion to the Doha Round, it is probably reasonable to assume that not much commercial advantage will remain for goods on which the standard Generalised System of Preferences (GSP) tariff is currently 10% or less. The continued commercial attractiveness of EPA membership is likely to be limited to some of the goods for which there is an *ad valorem* tariff of more than 10% and/or a specific duty under the standard GSP (or the MFN if the item is not included in the GSP).

Table 3 lists for each non-LDC SADC signatory the export groups in which it currently has tariff preferences of this order of magnitude. Since all LDCs have access to EBA, it is only non-LDCs that would face a potential tariff hike on leaving an EPA. The main product groups are beef, grapes, fish, citrus, sugar and processed foods containing sugar or cereals.

Whilst any assessment of changes to EU tariffs over the next five or more years must necessarily be speculative, it does appear possible that several SADC states would face a significant commercial shock if they were downgraded to the standard GSP/MFN regime on at least some of their exports. Hence, there is a *prima facie* case that the value of EPA preferences may still offer the EU some leverage in the region by the time the non-SACU states have to start reducing significant tariffs.

### Regional implications

The status quo with EPAs is clearly inconsistent with a SADC CU. Since this is being questioned on other grounds, the EPA may not be the only factor preventing attainment of the 2010 deadline, but policing the different trade regimes with Europe will also reduce the likely gains from the free trade area.

Not all the current exports of all the SADC countries will necessarily still be vulnerable outside an EPA

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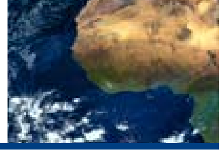


# SA government view on the Interim Economic Partnership Agreement

April 2008

## Some Background

1. South Africa's decision in 2004 to participate in the Economic Partnership Agreement (EPA) negotiations was motivated by the objective of strengthening regional integration in Southern Africa by seeking to harmonise the region's trade relations with the European Union (EU). The decision followed several requests from ACP Members and from the European Commission (EC) for South Africa to consider a role in the EPA.

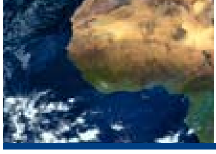
2. South Africa was under no obligation to join the EPA as the Trade and Development Cooperation Agreement (TDCA), the Free Trade Agreement (FTA) with the EU, was concluded in 2000. South Africa did however see an opportunity to align the TDCA with the EPA process through the TDCA midterm review that was scheduled for 2005, and we believed this could offer an opportunity to consolidate the region's trade relation with the EU. We were also motivated by the fact that the EPA process appeared to be fragmenting the Southern African Development Community (SADC), as the region split in 2002/3 into two groupings to negotiate the EPA.

3. Together with the SADC EPA States, over an 18 month period of intensive consultations (June 2004 to February 2006), we developed a negotiating framework that was agreed by SADC EPA Trade Ministers in February 2006 and submitted to the EC in March 2006. The EC responded in March 2007 (one year later) and, while it agreed that South Africa be included in the negotiations, it challenged the Framework on each substantive objective.

4. The SADC EPA Group Framework contained four key elements. First, since the BLNS were *de facto* subject to the TDCA by virtue of being part of the SACU customs union with South Africa, they would accept the TDCA as a basis for a negotiating outcome so long as their sensitivities under the TDCA could be addressed. Second, the other SADC EPA Members (Mozambique, Angola and Tanzania), all least developed countries, should be allowed to continue to receive duty free quota free access to the EU under the EC's Everything But Arms initiative that extends such treatment to all LDCs.

5. Third, all SADC EPA States should obtain duty free market access to the EU – a harmonization of the region's access to the EU at the best available conditions. South Africa indicated that we would not press this point at the expense of any other SADC EPA Member, and recognising the EU's sensitivities in agriculture, this could be obtained over a transitional period. Fourth, all new generation issues (services, investment, procurement, intellectual property, competition, labour, and environment) should be subject to non-binding cooperative arrangements to build capacity at national level, to be followed by regional convergence to build regional markets as a prerequisite to entering into negotiations with the EC at a future date.

6. In its response, the EC insisted that due to its level of competitiveness, South Africa would be differentiated from the region. It argued that LDCs must offer reciprocity in line with WTO rules and that, while the TDCA should remain the benchmark for the offer from Botswana, Lesotho, Namibia and Swaziland (the BLNS), it would consider addressing the sensitivities under the TDCA but would not grant new protection to South Africa. It was difficult to see how the EC considered South Africa separately from the SACU customs union on this matter. Finally, the



EC insisted that disciplines in new generation issues must be part of the negotiating process.

7. The short timeframe for negotiations of 9 months, with the December 2007 deadline when preferences would end, put enormous pressure on the negotiating process. Between March and December 2007, positions among members of the SADC EPA members shifted: LDCs in the SADC EPA Group agreed to offer the EC reciprocity, and aside from South Africa and Namibia, SADC EPA Members agreed to include services in the negotiations. They argued that their commitment to negotiate services would require an interim period dedicated to capacity building. As we approached the final negotiating session in November 2007, the EC introduced a range of new demands, none of which had been considered by the SADC EPA Group in detail.

## An Assessment

8. The emerging outcome of the negotiations, as contained in the interim EPA that was initialed by five of the original eight SADC EPA Members should be assessed against the Cotonou objectives and the SADC EPA Framework, particularly in terms of its impact on regional integration. Against this measure, it is difficult not to conclude that the EPA process has been divisive and has severely undermined regional integration in both SACU and SADC.

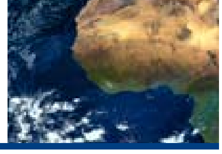
9. By December 2007, SADC had fragmented into no less than five EPA groupings. Each of these would have varying tariff phase down schedules vis-à-vis the EU, thereby complicating the trade integration agenda in SADC. Within SADC EPA Group, Tanzania was compelled to join the EAC, while Angola and South Africa did not initial the Interim EPA. Mozambique and the BLNS, which did initial the Interim EPA, have two tariff phase down schedules, and further divisions have opened up within the customs union in SACU. The BLNS tariff offer to the EC differs from the TDCA on around 500 tariff lines and managing these differences would require establishing new border controls within the customs union in SACU.

10. The EC offered all SADC EPA countries, except South Africa, duty free quota free access to its markets for all products subject to a transition for rice and sugar. While this is impressive in form, in substance all ACP countries account for less than 2% of EU world imports and thus the adjustment costs for the EU are minor. In exchange, the EC requested reciprocity amounting to at least 80% trade coverage from the region over a 12 year period. For LDCs, one would need to consider how this relates to the LDC request in the Doha Round for non-reciprocal duty free quota free access. A similar question may arise for those considered small and vulnerable economies (SVEs) in the Doha Round.

11. For South Africa, our effort to improve access to the EU market required offering reciprocal openings to the SACU market. The negotiations had progressed to the point where the EC offered improved market access on the few remaining industrial products, fish, and on a range of agricultural and processed agricultural products. In exchange, the EC requested that South Africa/ SACU accelerate the TDCA phase down for some agricultural products. However, this offer came late in the process and, as there was insufficient time to consult in South Africa and for SACU to concur, the EC offer to South Africa was removed from the table. In short, South Africa's tariff negotiations with the EC under the EPA, is unfinished.

12. South Africa has a range of concerns with the legal text of the Interim EPA. The provisions on export taxes go further than those contained in the TDCA by prohibiting their use. The Interim EPA tightens legal provisions on national treatment, government procurement and local content, by removing the qualifications and carves –outs that are contained in WTO Agreements. Provisions on customs administration and dispute settlement are onerous and WTO-plus.

13. The MFN clause requires that any advantage offered to Mercosur, India, or China in any possible future trade negotiations be automatically



extended to the EC. This goes to the heart of trade policy sovereignty, and would limit negotiating leverage and options in the future. The definition of Parties to the Agreement presumes a legal and institutional basis for decision-making among the SADC EPA States that does not exist. The Interim EPA proposes financial support to build new regional institutions that would be charged with implementing EPA obligations, but it is not clear how these institutions would relate to existing SADC and SACU structures, nor to national competencies to implement in the agreement.

14. The Interim EPA also contains a commitment to negotiate new generation trade issues. Our concern with including these issues in the EPA was spelled out in the original Framework Document agreed by the SADC EPA Group. First, there is no compulsion to negotiate these issues for WTO compatibility. Second, negotiating such disciplines with EC, in the absence of agreed policies and rules at the regional level, is likely to foreclose prospects for deeper integration in SADC and SACU in these areas. Four SADC EPA Members have agreed to negotiate substantial liberalization in services along with an investment agreement, and have further agreed to consider competition and government procurement for future negotiations. In this way, a new generation of division has opened in the region's trade policy.

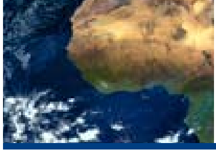
15. The Interim EPA makes reference to "political" issues, notably on human rights and weapons of mass destruction. The difficulty with importing these notions into the IEPA is that it upsets the balance of the negotiating outcome of those negotiations and subjects them to rigorous dispute settlement procedures in the EPA that includes the possibility of trade sanctions.

## Current Status

16. South Africa is unable to initial the Interim EPA in its current form. We are concerned that the Interim EPA unduly limits space for development policy; that it will undermine regional integration processes in SACU and SADC; and that it establishes new regional institutions that do not appear to relate to existing institutions. At the Africa-EU Summit, the ACP Ministerial Meeting in December 2007, as well as the AU Summit in February 2008, it became clear that many other African and ACP countries shared similar concerns.

17. At the SADC EPA-EC Trade Ministers in 4 March 2008, the first following the initialing of the Interim EPA, these issues were raised. For its part, the EC indicated that it would not consider changes to the Interim EPA and argued that the focus should now be on securing Ministerial signature and ratification of the Interim EPA by July 2008 to avoid a WTO challenge. Although the EC also indicated it was prepared to examine South Africa's concerns, it argued that these issues had been largely settled in December 2007.

18. Our view remains that, in the interests of regional integration and ensuring the integrity of SACU, it is necessary to address concerns raised by South Africa without precondition. We believe that deadlines should not take precedence over the substance of ensuring that the regional integration agenda and development policy objectives in Southern Africa are preserved.





# Trading in a recession

## The financial crisis and economic downturn raise a host of policy questions

There might be calls for tighter regulation of banks, but in drafting new rules we must be careful not to throw out the baby of development with the bathwater of excessive leverage, writes **Colin McCarthy**. And remedial measures should bear in mind the elusive goal of a global fair trade pact

THE TUMULTUOUS changes in the world's financial markets and sharp downturn in the availability of credit and liquidity will provide economists and financial analysts with experiences that will serve as a fertile source of subjects for topical research for years to come. Policymakers, including regulators, will also spend much effort in diagnosing the financial disease in order to find a cure and design preventative measures that, once the crisis like all past crises is something of the past, will prevent a recurrence.

While analysing the present crisis, two observations demand serious consideration.

The first deals with the conventional wisdom that markets can fail and that market failure justifies intervention by governments and government agencies. What the current crisis, however, clearly illustrates is that markets can fail spectacularly with devastating results for economies in general. It also illustrates that a failure in a particular market such as that of the US has a contagious impact on other markets; what we have is a stark reminder that we live in the clichéd global village.

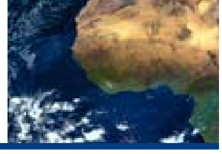
A reaction to overzealous deregulation in the past is appropriate but important conditions or warnings should be flagged

Market failure of the current degree and scope demands serious and innovative reactions by the authorities. A good illustration of unusual action taken is the decision of the US Federal Reserve to move beyond the central bank function of acting as last resort to commercial banks and not only come to the assistance of investment banks but also act as lender to companies through the purchase of the commercial paper of companies. The seriousness with which the government is acting is fortunately totally different from the advice that Andrew Mellon, at the time secretary of the US Treasury, gave President Herbert Hoover on how to deal with Great Depression: 'Liquidate labour, liquidate stocks, liquidate the farmers, liquidate real estate. Purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people.'

Comments in the media and the degree and nature of government intervention to address the crisis are signals that, in the post-crisis phase, a major re-design of regulatory structures can be expected. A reaction to overzealous deregulation in the past is appropriate but important conditions or warnings should be flagged.

Governments also fail and the consequences can be as serious as those of market failure. Furthermore, efficient markets are a prerequisite for economic growth and financial stability and, in redesigning regulatory structures, care should be taken not to get rid of the baby with the bath water. The architects of the new regulations will have to avoid structures that stifle the ability of markets to allocate credit and resources efficiently.

The second observation in the current crisis is a demonstration of the close link between financial markets and the so-called real economy. The dichotomy of neoclassical economics does not apply.



Developments in the financial markets, especially as radical as those of the current situation, have a negative impact on real economic activity. The causal link also runs in the opposite direction – from the real economy to financial markets.

What the crisis illustrates is that the credit squeeze and the illiquidity that constrain banking activity are, in all likelihood, bound to exacerbate the cyclical downturn in economic activity. The outcome could be a deeper and more prolonged recession than would have been the case otherwise.

Observers concerned about the impact on real economic activity and the consequences this holds for international trade relations need to note three possible developments. All three, but the first two in particular, call for special vigilance if the idea of international trade as welfare-enhancing is to remain alive and reflected in policy decisions at the national and international level.

## Three developments

First, a sharp and prolonged downturn in economic activity is not conducive to a revival of multilateral negotiations on trade liberalisation. Recessionary conditions have a negative impact on world trade through the positive link between real income and imports, the latter for one country being the exports of a trading partner. Protectionist thinking could thrive, as they did in the aftermath of the 1929–32 depression. These conditions are not favourable for resuscitation of the Doha Round of negotiations.

Second, in a policy environment that favours protectionist thinking, a fortunate source of discipline will be the principle of non-discrimination embodied in Article 1 of the General Agreement on Tariffs and Trade (GATT) and the security and transparency provided by WTO tariff bindings. These principles guide trade relations within the framework of the WTO agreements. However, it is not impossible and perhaps even likely that protectionism will enter through the backdoor, with firms and governments utilising WTO acceptable exceptions to non-discrimination and tariff bindings. In a protectionist environment with little possibility of import tariff amendments because of the WTO agreements, it is likely that we will see an increase in the number of anti-dumping cases. Experience has shown that it is not difficult to use this mechanism, provided for by Article VI of GATT 1994 and further regulated through the Anti-Dumping Agreement, as a protectionist measure.

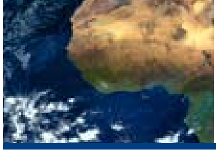
But it is not only anti-dumping action that could provide room for protectionism posing as contingent protection. In severe recessionary conditions it would even be possible to invoke the safeguard protection provided for in Article XIX of GATT, further clarified and regulated by the Agreement on Safeguards. Safeguard action allows emergency protection on a temporary basis against 'serious injury' caused by a surge in the imports of a particular product. However, the surge need not manifest as an absolute increase in imports; it can also be a relative increase in the share of imports of a shrinking market. It does not take much imagination to see how this can be used as a means of industrial protection in a situation of recession-plagued markets.

Thirdly, it should be noted that reaction to the financial crisis has demonstrated that even an advanced regional integration arrangement such as that of the EU does not ensure collective action. Within the EU not even a single currency and regional central bank could provide the basis for collective action.

Developments in the financial markets, especially as radical as those of the current situation, have a negative impact on real economic activity

The Irish, a Euro country, led the way in doing their own thing with the introduction of a deposit guarantee scheme and since then other countries have followed, regardless of high-level meetings to co-ordinate and plan reactions. What this illustrates is that, in the end, national interests reign supreme and if collective action is to be achieved post-crisis planning will have to bring banking regulation into the realm of the regional integration arrangement. ■

*Prof Colin McCarthy is an associate of the Trade Law Centre for Southern Africa (TRALAC). IGD gratefully acknowledges TRALAC's permission to reproduce this article from the TRALAC website.*





# Trade and environment

## Getting the price right

Carbon trade schemes must move beyond cost-benefit analysis. **Lesley Masters** and **Michelle Pressend** advocate an approach that tackles structural change in energy production head-on, while also ensuring local environment and social benefits

CLIMATE CHANGE, and international efforts to put a price on carbon emissions, has accentuated the division between the developed and developing world. In assuming a market orientated – i.e. cost-benefit – approach, the focus on the economics of climate change has fallen short in addressing social justice, market politics and the externalities caused by pollution.

Certainly efforts to address climate change have followed the path of least resistance with few hard choices and decisions being made. This article argues that in assuming a cost-benefit approach, international attention has been drawn away from the urgent measures needed in reducing greenhouse gas (GHG) emissions. With negotiations gathering momentum for the Kyoto Protocol's second commitment period, there needs to be greater focus on the challenges of predominantly market driven approaches.

Preparations for a new regime must work towards establishing an inclusive and equitable framework to curb carbon emissions and institute 'burden sharing'.

With negotiations gathering momentum for the Kyoto Protocol's second commitment period, there needs to be greater focus on the challenges of predominantly market driven approaches

On 30 October 2006, the *Stern Review on the Economics of Climate Change* was released. Aimed at assessing the 'nature of economic challenges of climate change and how they can be met', the review attempted to calculate the economic costs, as well as the physical and human impacts of climate change, through conventional economic appraisal using a cost-benefit analysis. The basic message is that costs and risks associated with climate change will be equivalent to losing 5% of global GDP each year; however, risks can be substantially reduced through the stabilisation of carbon dioxide (CO2) emissions at between 450 and 550ppm of CO2 equivalent (CO2e).

The report states that the central estimates of the annual cost of achieving stabilisation between 500 and 550ppm $CO_2e$ are about 1% of GDP, if immediate action is taken. In other words, as the review concludes, 'the benefits of strong, early action considerably outweigh the costs'.

While the first section of the review gives consideration to the economic impact of climate change, the second addresses the complex policy responses (mitigation and adaptation) necessary for ensuring a transition to a low-carbon economy. Here, along with adaptation and the development and transfer of technology, the review promotes the creation of prices and markets for carbon as a means of international action against climate change. Indeed, the report notes that 'establishing a carbon price, through tax, trading or regulation, is an essential foundation for climate-change policy'.

This builds on the Kyoto Protocol (adopted in 1997 and entering into force in 2005), which provides the basis for a market-orientated approach towards climate change. Under the protocol, three flexible mechanisms were developed to assist Annex 1 parties in meeting their commitments; emissions trading, joint implementation (JI) and the clean development mechanism (CDM). Both emissions trading and JI focus on the mitigation of GHG emissions in developed countries.

To date the EU's Emission Trading Scheme (ETS) is the largest formal scheme; nevertheless there have been significant shortfalls within this scheme, including the over-allocation of emission permits to industry and its failure in achieving any reductions in GHG emissions. In demonstrating the impact of carbon pricing in accentuating the division between developed and developing countries, the CDM is the primary focus of this analysis as it is the only one of the three mechanisms that links the two.

The CDM, as defined in Article 12 of the Kyoto Protocol, allows Annex 1 (developed) countries to implement emission reduction projects in developing countries in return for certified emission reduction (CERs) credits that can then be used towards emission reduction targets set out by the protocol. The drive to offset emissions at the cheapest price saw the CDM market expand threefold within the course of 2005–2006.

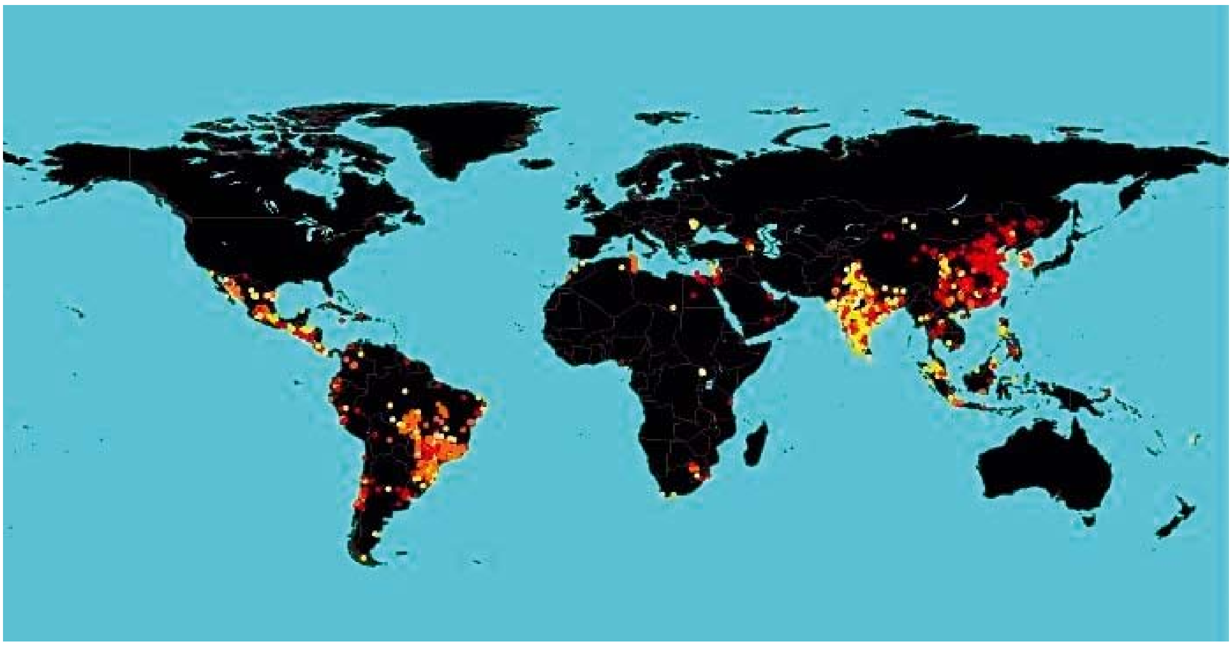
## Carbon market

Nevertheless, as the carbon market expands, inherent failures are increasingly apparent. The design of emission trading schemes as a means of providing 'least-cost' reductions has contributed towards inequality in the distribution of CDM projects globally and in the types of projects undertaken.

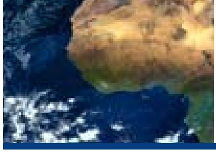
According to Elizabeth Harris, in a report released by the International Institute for Environment and Development, although 100 non-Annex 1 countries qualify to supply CDM projects, 'supply tends to be dominated by a handful of countries including, China, India, Brazil, Mexico. These four leading countries continue to host an increasing share of new CDM projects, rising from 50% of all projects in the first quarter of 2004 to 83% in the second quarter of 2006.'

In addition to providing Annex 1 countries with a means of earning carbon credits, the CDM also aims to promote sustainable development. In ensuring their right to present and future development, sustainable development has become a central concern in environmental negotiations for the developing world. In reality, the emphasis on cost-efficient emission reductions has taken precedence over issues of sustainable development resulting in 'cherry-picking'. In other words, projects that include significant costs in terms of sustainable development are overlooked for those that offer maximum carbon credits for limited input. The failure to address sustainable development has been compounded by the design of the CDM,

**Distribution of CDM projects (June 2008)**



*http://cdm.unfccc.int/Projects/MapApp/index.html*



whereby the host country decides whether a project meets sustainability criteria or not.

In an effort to draw CDM projects to Africa, the Nairobi Framework was launched by the UN Development Programme (UNDP), the UN Environment Programme (UNEP), the World Bank Group, the African Development Bank and the UN Framework Convention on Climate Change (UNFCCC) in 2006. The aim was to provide a catalyst for improving Africa's level of participation in the CDM through capacity building and promoting investment opportunities for projects, as well as improving the sharing of information, education and inter-agency co-ordination.

Nevertheless, as is evident in the CDM project distribution map above, there has not been a substantial increase of CDM projects in Africa. The focus on cost efficiency does not favour less developed countries with their underdeveloped infrastructure and high-risk investment environment. The link between foreign direct investment (FDI) and the distribution of CDM projects is a point raised in a review of the CDM for *Energy Policy* (2007): 'countries expecting to generate the most credits from proposed CDM projects to date are also often countries that are recipients of a significant proportion of total flows of FDI. Many of the poorest nations that are unable to attract flows of FDI do also not appear to be attracting significant interest in investment in CDM projects'.

**Constraints under the current global economic system and political economy pose a challenge to carbon pricing**

As the trade in carbon develops there is growing apprehension in the developing world that this market will provide another avenue for developed states to affect economic relations through the granting or withholding of CDM projects. Concern has also been raised on the management of clean technology funds and the limited role of the developing world in its administration. Certainly questions have been raised on whether the source of 'new' funds for climate change projects is simply the re-allocation of existing development aid.

The credibility and the subsequent cost of the CDM for the developing world has been particularly evident in its market orientated approach and ties to the international economic order. The focus on the economic optimisation of emissions reductions has not resulted in any hard choices or decisions for the significant reduction of GHG emissions as advocated by the Stern Review. Instead, as the *groundWork Report* on peak poison (2007) points out, the CDM 'is good business for polluters and the bigger the polluter, the greater the opportunity for carbon credits'.

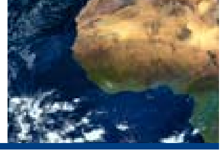
## Inequitable trading regime

Constraints under the current global economic system and political economy pose a challenge to carbon pricing, which in turn impose obstacles for a transition towards low carbon development, especially for developing countries. This is a point not addressed in any detail in the Stern Review. The current inequality in the global trading system and WTO rules present two major challenges:

1. technology transfer under trade-related intellectual property rights (TRIPS), and
2. restricting policy regulation under the General Agreement on Trade in Services (GATS).

The TRIPS agreement has serious implications for developing countries' access to technology necessary for addressing climate change. Principle 9 of the *Rio Declaration on Environment and Development* supports co-operation for capacity building through exchanges of scientific and technical knowledge, along with the enhancement of development through the adaptation and transfer of technology, yet there has been little significant movement of technology towards the developing world. Rather than assisting developing countries to 'leapfrog' over polluting forms of industrial development, the international regime (through the WTO) protects knowledge with technology transferred in such a way that it enhances control and ownership, ensuring that benefits remain with the 'owner'.

The CDM should have provided the basis for accelerating technology transfer. Nevertheless, as *Energy Policy* (2007) indicates, 'the emphasis on development of markets for least-cost mitigation has meant that the CDM project portfolio now has a large and growing share of brownfield projects, where investment in new technology is limited'. This has resulted in growing pressure from the developing world,



prevalent at the 2007 Bali climate change talks, where countries called for the provision of technology and finance that is 'measurable, reportable and verifiable'.

GATS, in its current form, and the liberalisation of energy services in general, have significant implications for the rights of governments to choose and regulate services. Through the legal concept of national treatment in GATS, foreign service suppliers are meant to be treated in exactly the same way as domestic service suppliers. In addition, once a country has committed itself to services liberalisation under the GATS, it is virtually impossible to reverse the commitment. Allowing national energy sectors to be controlled by foreign companies will have dire consequences for developing countries with high levels of unemployment and poverty. In developing countries, workers and governments who currently rely on fossil fuel revenues need maximum flexibility and 'policy space' to manage the transition from carbon-based economies to alternative economic activities and not be subjected by onerous conditions imposed by the World Bank and WTO measures.

Furthermore, the environmental goods and services sector (EGS) is amongst the most rapidly growing industries worldwide, with access to new markets vital for developed countries. The privatisation of water, waste and power utilities has created enormous opportunities for firms. However, control of essential services by international firms, whose objectives may not be congruent with national objectives, can have serious implications in terms of access to, and the affordability of, energy services. Indeed, market-based approaches for essential service delivery may hold significant costs for low-income populations unable to pay market related prices for basic necessities.

Studies and experience has proven that market-based initiatives alone will not be sufficient to reduce carbon emissions. In fact, since the inception of the Kyoto Protocol many developed countries have increased their emissions. The trade in carbon emissions effectively allows countries to avoid any serious commitment to GHG reductions. Moreover, the carbon market has been criticised as merely a stop-gap rather than a significant attempt at reducing emissions. The CDM has exacerbated inequality and profiteering at the expense of a focus on *how* emissions are reduced. In addition, the focus has been on the financial incentives (quantitative measures) of the carbon trade, rather that sustainable development (qualitative measures). Even the Stern Review noted that 'the CDM in its current form is making only a small difference to investment in long-lived energy and transport infrastructure. Its role is limited by factors such as transaction costs, policy uncertainty, technology risk and other barriers'.

Allowing national energy sectors to be controlled by foreign companies will have dire consequences for developing countries

The *Earth Negotiations Bulletin* (2007) indicates that concerns were raised on the inequality of CDM project distribution at the Bali climate change conference in December 2007, with the COP/MOP recognising the 'barriers to regional distribution and the need to address them and abolish the CDM levy and registration fee for projects in LDCs'.

Nevertheless, in order to secure substantive action in addressing climate change, further debate is needed on an inclusive range of challenges facing the carbon market including market politics, social justice and the externalities caused by pollution. Indeed, getting the price right requires more than simply a focus on the economics of climate change.

## Policy recommendations

1. Emission reduction schemes need to consider structural changes in both energy production and use, going beyond cost-benefit analysis.
2. Policy needs to be mainstreamed into national development so that measures to address climate change are integrated in key policies and sectors that account for the bulk of emissions and consume the most energy – including industrial policy, energy, transport, construction, infrastructure and agriculture, among others.
3. Further clarification and debate regarding carbon markets is needed within countries as the technical nature of the emissions trading process has hampered inclusive dialogue.
4. Climate change policies need to provide incentives to shift production and consumption patterns towards low carbon dependence

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# Chile braves new frontiers

## Politics and business sleaze threaten the dream

The smile on the face of Latin America's success story is fading. The country faces new challenges as the ruling coalition hits a rocky patch, but **Lyal White** discovers a capacity for renewal that should see Chile pull through and remain an example for the rest of the continent.

LONG THE great success story of Latin America, Chile is facing a new set of daunting challenges as it enters the next stage of its development under a liberal democratic political and economic system.

Nearly 20 years after its democratic transition, Chile has recorded some of the highest economic growth rates and boasts one of the most stable political democracies in the region. In 2006, the country attracted $8 billion of foreign direct investment (FDI) – the highest in the region in per capita terms – and by the end of this year FDI stock will have exceeded $110 billion, 90% of which flowed in post-1990.

Chile is arguably the most integrated economy in Latin America with the largest recorded number of trade and investment agreements signed with partner countries in the world.

> A growing percentage of the population believes that market-orientated economic policies, often hailed as integral to Chile's economic success story, have perpetuated inequality

Per capita income growth in Chile is by far the most impressive in the region. Between 1990 and 2007 it increased nearly threefold, from $4 700 to $14 000. This has had a positive impact on human development, where poverty levels have fallen from well over 40% in the mid-1980s to just 16% today.

But, despite this progress, Chile is still haunted by severe inequality and a faltering education system, which has spurred social and political unrest. The recent economic slowdown has heightened some of these concerns and fuelled negative perceptions and questions around mis-governance in the country. The Chilean establishment might have insulated itself from these issues in the past, but since 2006 they have crept into the political economy framework and now require serious attention and creative responses from President Michelle Bachelet and her government.

Perceptions in the country are becoming increasingly negative and have started to reflect the widespread disenchantment with policies and political leadership in general. A growing percentage of the population believes that market-orientated economic policies, often hailed as integral to Chile's economic success story, have perpetuated inequality and are driven by the self-interest of a small elite.

Meanwhile, a strong negative sentiment has emerged among business people and in the media. The Chilean business and investment environment has received some of the worst publicity in more than 10 years. A previously good record has been marred by corruption scandals in the public works sector and by fault-lines in its institutional fabric.

Capable and effective institutions were always Chile's strong point. This is what offered foreign investors and local citizens robust guarantees and secured ongoing stability after the transition in 1989. Chilean institutions were traditionally filled with a professional and highly competent technocratic class. This efficient institutional culture has fallen victim to politics and a growing patrimonial influence.

Such patrimonialism in Chilean institutions is a by-product of mounting insecurity within the current political leadership and, more specifically, surging party political rivalry that allows scant concern for national interest. This is a common phenomenon in

Latin American countries, but is one that has eluded Chile up until now.

The centre-left coalition, or the Concentracion, now in its fourth term, appears to have grown accustomed to power, at the cost – some might argue – of political accountability and governance. There is widespread belief that the political elite has lost touch with the general constituency and has little idea of where to take the country next, or how to do it. This has resulted in an increasingly restrictive rules-based system and a bloated government that insists on a greater role in macroeconomic and monetary policy issues. Independent policy-making and debate were key to Chile's efficiency and competitive success in the past.

The coalition itself appears to be suffering fatigue, with some factions threatening to break away and most questioning the state of legitimate leadership required to hold the diverse political grouping together.

In short, political leadership in Chile is in disarray. One prominent businessman and lawyer insists: 'Ricardo Lagos [the former president] may not have been ideal but he was a strong, unifying leader, who took the reigns with authority and led the country into a new era of modernisation and integration. With Bachalet at the helm, one is not sure exactly who is running the country. Its all about party politics in Chile now.'

## Corruption

Lagos himself has been implicated in a range of corruption scandals. This has come as another blow to the social democrats, who successfully integrated the middle class and private sector into their outward-looking strategy, with its strong development priority.

A loss of support as a result of such scandals, and the threat of a Concentracion break-up, will benefit the rising conservative factions in Chile. The country has a long tradition of conservatism, and the Conservative Party has grown stronger through each election. Many observers believe it could take the next election in 2009 if the current situation prevails.

Most ordinary Chileans agree that corruption has grown out of control. This is a result of massive public spending after years of impressive growth and a booming copper price. The government coffers are full and large-scale social and public programmes are finally achievable. Unfortunately, the management of these projects and public spending in general has been poorly administered. Corruption has crept into a diversity of sectors, from public works and transport to education and banking. Amounts siphoned off are estimated at well over a $1 billion, which is huge considering that Chilean GDP is currently a little more than $150 billion. This has had an effect on perceptions about government agencies and institutional capacity – two traditional strong points in the Chilean success model.

## Botched reforms

Transport and education have become the lightning rod for government critics. Violent riots by scholars and students two years ago brought the country to a standstill. Most of the concerns raised are yet to be addressed adequately and student protests continue.

> Corruption has crept into a diversity of sectors, from public works and transport to education and banking

Meanwhile Chile's botched transport reform and lack of foresight in the consolidation of public transport last year made it the laughing stock of Latin America and cost the country millions of dollars. Ultimately, planning and leadership were to blame once again.

Apart from the political and institutional concerns plaguing the country, the Chilean economy has entered a difficult period. Growth has slowed from an average of 7% a year over the past 15 years to just above 3% in 2007. While FDI is still flowing in at an impressive rate, Chile appears to be growing less competitive as rivals in the region improve their political economy dynamics and business environments.

Chile has become expensive. It is no longer a cheaper and safer alternative to Miami for multinational corporations seeking a Latin American head office for their business. Property is scarce and day-to-day living costs are comparable with the US. Without its own natural reserves, Chile also faces an array of energy challenges, which are driving operating costs up to new levels.

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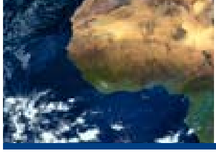




# Peering into credit 'black boxes'

## The bodies that control much of Africa's debt need more scrutiny

Export credit agencies have a big role to play in Africa meeting its development challenges, but that role should be better regulated to avoid dependency, corruption and economic colonialism, writes **Chukwuma Agu**.

THE USE of international finance as an instrument of power and subordination, especially in Africa, has been the subject of major debate in government, policy and academic circles. But little is ever said about export credit agencies (ECAs).

The 1980s and 1990s were 'lost decades' for most developing countries on account of debt. The debt crisis led to massive transfers of resources from, and the narrowing of 'policy space' for, these poor countries. However, most analysis of this crisis tends to focus on the roles of the World Bank, the International Monetary Fund (IMF) and other financial institutions.

Countries such as Gabon, Algeria and Nigeria owe more than 50% of their total debt to ECAs

The reality is that ECAs hold 40% of all debts to developing countries, in contrast to the World Bank and IMF's 22% and 7% respectively. The ECA-induced debt constitutes the largest component of developing country official debt. Countries such as Gabon, Algeria and Nigeria owe more than 50% of their total debt to ECAs. This has serious implications for the debt crisis, growth and development in developing countries. However, for particular reasons, not least the indirect nature of their operations, ECAs have hardly been factored into the debt-growth-development equations of developing countries.

This article explores the impact and nature of ECA operations in Africa. It draws from a detailed review of ECAs, which included Nigeria, Cameroon and Zambia as case studies. The aim of the research was to outline salient issues relating to developing countries' indebtedness and their implications for growth and development.

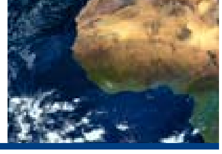
### Understanding ECAs

ECAs are often created as departments or agencies within governments and are charged with providing support to domestic firms to increase their exports and investments abroad. To do this, ECAs provide two-way credit and insurance aimed at ensuring that the supplier is never disadvantaged in the transaction, especially in areas considered risky for investment. ECAs first provide the exporter with credit to be able to supply or invest. They then provide destination countries with credit to pay for the goods supplied to them. In addition, they facilitate credit arrangements and insurance support from destination countries for own-country firms.

They also guarantee credits given by private banks and other lending institutions to exporters and firms to be able to export. When such credit is provided to a buyer country, that country is, by the terms of the contract, 'forced' to buy the goods originating from the firm or country awarding the credit, even when there are lower-cost suppliers.

ECAs have primarily been the preserve of developed nations. All OECD countries and many other developed countries have ECAs. More recently, a few developing and middle-income countries, such as Brazil, have also established ECAs. Some developed countries keep multiple ECAs.

The activities of ECAs are often 'black boxes' – little is known of them in both countries of origin and destination. Given that their activities are in distant lands, there is little scrutiny of their activities in their



home countries and citizens in other places know even less.

Funding and political support for ECAs are secured by a few interests that manipulate government machinery. These interests in turn remain the key beneficiaries of ECA funding. For example, in the US in 2001, only 10 firms received about 90% of all EXIM loans and long-term guarantees. More than 70% went to five corporations and 60% to just three. Equally, in the developing countries where they operate, ECAs support client firms and these firms are more visible in projects. ECAs are often powerful enough to influence policy design and perpetuate non-transparency for client firms in countries of operation.

The bulk of ECA running costs come from counter-guarantees recovered from developing countries. ECAs often pay out more claims than they could ever hope to make in premium returns. So, to complement the subsidies from their own countries, they rely heavily on counter-guarantees from importing countries. Recoveries from such guarantees account for about twice what most ECAs receive in premiums. This means they generate the bulk of their revenues from poor and debt-ridden countries that import ECA-insured products and services.

Meanwhile, many contracts supported by ECAs are over-priced, consultants and technicians are overpaid, and contracting institutions have very high mark-ups covering all possible risks. Contract terms are usually wholly drawn-up, designed and enforced by the ECAs with a take-it-or-leave-it attitude. Counter-guarantees provided by host developing countries therefore serve as a mechanism for converting purely private transactions into public debts in the event of project failure – and the rate of such project failure is abnormally high. Client firms thus have no liability if a project fails, but they have all the profits if it succeeds. Therefore, they have no compelling incentives for considerations of rigorous market viability or the interests of the host communities.

**Table 1: Examples of export credit agencies**

| Country | Export credit agency |
|---|---|
| US | Export-Import Bank of the US<br>Overseas Private Investment Corporation (OPIC) |
| Germany | Hermes Kreditversicherungs-AG<br>KfW IPEX Bank<br>PwC Deutsche Revision AG |
| France | Compagnie Francaise d. Assurance pour le Commerce Exterieur (COFACE) |
| Japan | Japan Bank for International Cooperation (JBIC)<br>Nippon Export and Investment Insurance (NEXI) |
| UK | Export Credits Guarantee Department (ECGD) |
| China | Export-Import Bank of China |
| India | Export-Import Bank of India |

## Financing development

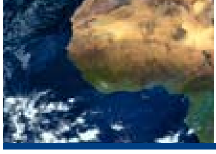
Post-independence Africa faced numerous development challenges. There were pressing needs to rebuild institutions and extend infrastructure to cater for growing populations; to establish an industrial base to ease import pressures, and to accelerate service delivery. But the need was greater than available funds at a time when instability scared private investments.

Under these conditions, ECA-supported funding for 'developmental' projects seemed attractive. However, ECAs are set up to support firms in projects where the private sector may be unwilling or unable to undertake investment. This often translates into funding economically non-viable projects.

This led to debt accumulation for many countries in Africa, to an extent where ECA transactions account for more than 50% of their debt. For instance, by 2004, the percentage of ECA-induced debt in total external debt was more than 86% in Nigeria, 58% in Lesotho, 55% in Gabon and 42% in Congo. For less-indebted countries, such as South Africa, the figure stood at 21% of its external debt.

This makes ECAs the single largest creditor group to African countries. For many countries, this was not the case at the beginning of the debt crisis. Most countries borrowed small from ECAs but had to pay back big on account of the accumulation of arrears and penalties arising from the initial borrowings. For example, as Nigeria's debts to other groups were being rescheduled in 1985, the country was not able to agree with its Paris Club group of creditors on rescheduling terms. This led to high charges and penalties for default. In this case, despite huge debt servicing between 1990 and 2004 and little or no new debt, the value of ECA debts as at 2004 averaged 175% of the value of original credits extended to the country.

There is more. Fierce competition among ECAs and firms they support to win projects in African countries often implies 'fighting dirty' – i.e. vigorous pursuit of projects with bribery, kickbacks, lobbying and over-pricing. This helps deepen the scourge of



corruption among public officials in host countries. Although endemic, corruption spiked in Nigeria and Cameroon in the 1980s and 1990s, 'coinciding' with astronomical growth in public debt through ECA-related complications.

In November 2006, a German firm involved in the Lesotho Highlands Water Project – Lahmeyer International, through the support of Hermes – was indicted by the World Bank for corruption. But the incident, like many others, received limited publicity. Worse, while Lahmeyer was temporarily suspended from further participation in World Bank projects, Hermes walked away unscathed.

Aside from waste and inefficiency in public sector investment stemming from corrupt, over-priced and abandoned ECA-supported projects, the biggest losses to many African countries is the decay in social infrastructure arising from debt complications and macroeconomic distortions. Following the debt crises of the 1980s and 1990s, expenditure in the social sector – particularly on health and education – shrank for many African countries, including Nigeria and Cameroon. As a result, there were no social sector gains for more than two decades in both countries.

> ECAs are now the largest single source of official finance for developing countries

Another important trend emerging from ECA activities in Africa is the institutionalisation of colonial ties. In Nigeria, the most active ECA is the ECGD of the UK. ECGD holds 28.1% of all debts. It contributed: 19.7% of direct federal government of Nigeria debt; 67% of guaranteed debt to states; 6% of unguaranteed debts to states, and 9% of private sector unguaranteed debts. It also accounted for 6% of post cut-off debt and 38.5% of short-term trade arrears. In effect, most of the debts to ECGD are concentrated on direct or directly guaranteed debts.

Similarly, in Cameroon, dominant ECAs come from its two erstwhile colonial masters (COFACE of France and Hermes of Germany). By 2004, COFACE and Hermes jointly held close to 50% of the total debts. COFACE is owed nearly US$2 billion and Hermes about $1.4 billion. This contrasts with the fact that no other ECA has a total debt of more than $500-million anywhere in Africa.

Export credits are growing as an important source of development financing in Africa. Export credit lending since the 1990s has increased. In the same period, ECAs globally increased their commitments fourfold in eight years, from $26 billion in 1988 to $105 billion by 1996. ECAs are now the largest single source of official finance for developing countries. At the same time, foreign direct investment and private capital flows grew from $24.5 billion and $44.4 billion, to $109.5 billion and $243.8 billion respectively.

The challenge is that practical alternatives to private capital flows with support from export credits are few, if available at all. Whether in the recent past or in the near future, ECA funding may continue to increase in developing countries. This is particularly so given that official development assistance has continued a downward slide since the end of the Cold War.

In effect, the structure of international financing is fast changing and, in the emerging structure, ECAs are major sources of funding for investment in Africa. As at 2002, ECA-held debts constituted 40% of total debt of developing countries. In contrast, the World Bank and IMF together held only 29% of total debts. Bilateral debt for the same period amounted to only 21%, while multilateral debt outside of the World Bank and IMF formed only 10% of developing countries' debts.

The situation presents both a threat and an opportunity for developing countries. It is a threat in that, if not well managed – as has been the case in the past – ECAs have the capacity to perpetuate poverty and economic backwardness in Africa. The opportunity exists in the possibility of harnessing ECA presence in Africa for debt reduction, positive growth facilitation and welfare.

ECAs in themselves do not pose a threat to Africa's development. Rather, it is the structure of their operations that does. For a long time, Africa bargained with its partners from a disadvantaged position. Such bargaining disadvantages arise not so much from a poor position as from a lack of information. Despite the potential for very high investment returns, most firms still believe they are doing Africa a favour.

## Sovereign guarantee

This attitude must change. African leaders need not worry about insurance given to investing firms by their ECAs, but they definitely have to worry about issuing additional sovereign guarantees to these firms for their investments in the continent. Such sovereign guarantees have done great harm to countries and they are still deadly. In particular, in addition to its peer review mechanism, NEPAD has to liaise with the African Union to draw up guidelines and rules guiding sovereign guarantees.

The matter has to be dealt with at a political level because it has become more of an instrument for political subjugation than financing. The problem with Africa's debt is as much the borrowed funds as it is political and economic subservience. Structural adjustment programmes and poverty reduction strategies were necessary only because Africa got entangled with debt complications. The long-term effect was a psychological dependence of African leaders on models and economic packages from outside, with the express endorsement of international financial institutions. This has meant that many policymakers in Africa seem almost incapable of independent critical thinking and policies. Alternatively put, it is not really the $300 billion debt that is Africa's problem, but 'policy space' that is shrinking.

Part of the problem is the fact that many African countries do not have effective laws guiding investment and foreign inflows. These are badly needed for effective policy co-ordination and to avoid parasitic tendencies. The present unbridled openness in many African countries can only continue the impoverishment of the continent. Given that Africa is particularly abundant in natural resources and investment potential, there have to be rules guiding exploitation of these resources.

While the continent cannot afford to over-regulate economic activity, it is doubtful that it can move far without any regulation at all. The fear that further regulation will scare off foreign resources is unfounded given the experience of China and some other developing countries. The greater challenge is to avoid arbitrariness and volatility in the regulations.

To this end, the AU can help build consensus among its members on investment regulation, including ECA activities. It should also lay out broad policies and strategies for foreign inflows into the continent and the extent of support from ECAs. Countries can thereafter adapt such broad policies to suit local conditions. At national level, one way of doing this is to establish central co-ordinating mechanisms for guarantees and negotiations, so that individual agencies are not free to commit countries. Debt management offices, established in many countries in response to the debt crises, could be helpful here.

The present unbridled openness in many African countries can only continue the impoverishment of the continent

Information sharing is also critical. Debt management offices must set guidelines and minimum standards for contractual obligations that may have financial obligations for governments *vis-a-vis* ECAs or private foreign firms. There is a need to increase the capacity of individuals or groups to negotiate, particularly when committing their countries to long-term obligations. Given the current focus on natural resource exploitation and service sectors with nominal returns, there is a need to channel investments towards sustainable and labour-intensive productive sectors, such as manufacturing and agriculture. Individual countries can design incentives to draw firms towards investment in these job-creating sectors.

## Looking ahead

In Africa, there is an alarmingly low awareness about the activities of ECAs. There has not been much media coverage or public debate on them. So a concerted continent-wide education campaign is called for, first targeting government agencies that deal with approvals. There is also a need for more critical research to inform future advocacy activities. Such activities would supplement an ongoing global campaign against the predatory tendencies of ECAs.

With international pressure on ECAs to open up their activities to public scrutiny, Africa and the rest of the developing world can take advantage and demand a more reasoned assessment of the whole debt debate. And, importantly, developing countries need to ensure there is no repeat of the debt crisis.

While outright hostility towards ECAs is not a viable option, conditions for their activities on the continent have to be harmonised and made to conform to development needs of host countries. In

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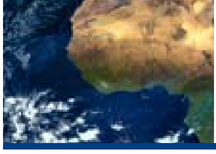



# How should we trade?

## Probing the way forward for the multilateral trade regime

The Warwick Commission, an independent panel of academics and trade practitioners set up by the University of Warwick, has published the results of its year-long enquiry into the future of the multilateral trade system. **Richard Higgott** and **Andrew Roadnight** provide a guide to the main findings and recommendations.

IN ITS report *The Multilateral Trade Regime: Which Way Forward?*, the Warwick Commission identifies five main challenges facing global trade governance in the early 21st century.

Taking as its starting point an assumption that the system is not irrevocably broken, the commission asks how the rules, principles and processes that underpin the multilateral trade system can be reformed to meet these challenges. It makes a number of recommendations which it believes are reasoned rather than ideological, to reform the governance of global trade. In doing so, the commission proposes measures it believes are necessary to make good systemic flaws in the multilateral trade regime and which would result in a system that is fairer to the smaller and weaker members of the WTO.

During 2008, the developing financial turmoil in world markets fanned the flames of protectionism already present in many developed countries

In September 2008, the Australian government's review of trade policy adopted recommendations of the commission. The Mortimer Report, *Winning in World Markets: Review of Export Policies and Programs*, explicitly acknowledges the salience of the Warwick Commission's analysis and is particularly supportive of its proposal that 'critical mass' decision-making should be considered as a way of speeding up negotiations at the WTO. In addition, the review supports the commission's recommendation that the WTO's temporary Transparency Mechanism for Regional Trade Agreements be made permanent.

The context in which the Warwick Commission carried out its enquiry was one of sustained and dramatic, but uneven, global economic transformation. This change was characterised by increased integration of the global economy through processes of rapid trade growth and liberalisation, and dramatic increases in capital mobility on the back of rapid financial deregulation. It was also accompanied by the rise of new economic powers, notably China and India, and heightened aspirations in many other newly industrialising countries.

However, the commission notes that weakening growth, a shift in the centre of global economic activity and a failure to secure reform of the global trade regime in the Doha Development Agenda (DDA) are undermining political support for globalisation, especially in industrialised countries.

The result of this has been the emergence of large pockets of societal discontent and resistance across the world. During 2008, the developing financial turmoil in world markets fanned the flames of protectionism already present in many developed countries, where growing opposition to further multilateral trade liberalisation is rife.

However, the commission also identifies an emerging paradox in the current global political and economic landscape: this trend away from further liberalisation in the developed world takes place at a time when many governments in the developing world continue to liberalise and internationalise their economies.

Analysis of these factors led the commission to identify five principal challenges to be addressed by policymakers. These challenges are distinct, yet often related, and the commission does not seek to prioritise them. Taken together, they arise from several sources: national political dynamics, global economic developments and inter-state diplomacy.

- The first challenge is to counter growing opposition to further multilateral trade liberalisation in industrialised countries. This tendency threatens to render further reciprocal opening of markets unduly limited and to weaken a valuable instrument of international economic co-operation.
- That the bipolar global trade regime dominated primarily by the US and Western Europe has given way to a multi-polar alternative is now an established fact. The second challenge, then, is to ensure that this evolving configuration does not lapse into longer-term stalemate or, worse, disengagement.
- In this changing environment, the third challenge is to forge a broad-based agreement among the membership about the WTO's objectives and functions, which in turn will effectively define the 'boundaries' of the WTO.
- The fourth challenge is to ensure that the WTO's many agreements and procedures result in benefits for its weakest members. This requires that the membership addresses the relationships between current trade rules and fairness, justice and development.
- The fifth challenge relates to the proliferation of preferential trading agreements (PTAs) and what steps can be taken to ensure that the considerable momentum behind these initiatives can be eventually channelled to advance the longstanding principles of non-discrimination and transparency in international commerce.

## National governments

Before coming to any firm conclusions about how to reform the architecture of global trade governance, the Warwick Commission makes two striking observations about the role of national governments in providing the context within which the trade system functions.

First, there is the argument that action must be taken by national governments to challenge waning public support for the further opening of economies, which it believes seriously threatens the conclusion of future trade agreements and the maintenance of orderly, rules-based international trade relations.

The commission suggests that national and political leaders have often failed to explain adequately to the public what is at stake, instead preferring silence or, worse, the politics of blame and responsibility avoidance. It urges governments to look beyond their electoral cycles and confront more directly the vested interests that benefit from protection and the inefficiency it breeds. Noting that enhanced efficiency is, however, but one element in the equation of economic change, the commission contends that governments must also pay more serious attention to the distributional consequences of change.

> The bipolar global trade regime dominated primarily by the US and Western Europe has given way to a multi-polar alternative

Second, there the commission calls on governments to show support for the WTO. It believes that sustaining the WTO is the collective responsibility of all its members, in particular both the longstanding and the new poles of power and influence in the world economy. The parties concerned must reach an accommodation and act upon their common interests, as failure to do so risks paralysis at the WTO and the de facto disengagement of some members.

While such efforts are clearly in the common interest, it will be the smallest and weakest members of the international community that would suffer most from such a failure.

Turning to the trade regime, the report proposes an integrated, comprehensive and systemic response to the problems it faces. Explicitly, the commission has not sought to suggest how to bring the DDA to a conclusion, arguing that, whether or not the round is successfully concluded, the system itself requires reform.

## WTO rules

The commission first examines decision-making in the WTO, with particular reference to agenda formation and notes that the reach and content of WTO rules have been among the most contentious issues in the 60-year history of the multilateral trading system. Commissioners conclude that the negotiating and rule-making priorities established within the WTO are a crucial determinant of how well the institution serves the interests of its diverse constituents. They also accept that a core challenge is to shape the agenda in a way that both respects the interests of the entire membership and secures the continued commitment of all parties.

An area of concern is the method by which the WTO's membership determines the scope of the negotiating agenda. The simplest and clearest criteria on the purpose and boundaries of the WTO would ideally be based on the goals outlined in the Agreement Establishing the WTO.

Unfortunately, as even a quick glance at this agreement reveals, the objectives of 'full employment', 'raising standards of living', 'expanding production of, and trade in, goods and services', 'sustainable development' and 'development', among others, are not always consistent with each other. Nor does the agreement give us a ranking of these objectives. Also, the situation is further complicated by the factors motivating WTO members to seek an expanded WTO agenda.

> In certain circumstances, the notion that 'nothing is agreed until everything is agreed' should be set aside in order to allow like-minded members to move forward in areas that are of concern to them

The Warwick Commission considered three main approaches to decision-making in an effort to find a way of speeding up the process of agenda formation – consensus, voting and a relaxation of the single undertaking, or what it calls 'critical mass' decision-making. In rejecting consensus as a mode of decision-making, the commission notes that it allows single players the power to block progress whether or not they have an interest in the outcome of negotiations.

Turning to voting, the commission observes that a 'one member, one vote' is currently eschewed at the WTO and would be counter-cultural, while an acceptable weighted voting system would be difficult to design and would potentially introduce problems of disenfranchisement into the system.

As a result, the first recommendation is that consideration be given to the circumstances in which a 'critical mass' approach to decision-making might apply. The commission proposes that, in certain circumstances, the notion that 'nothing is agreed until everything is agreed' should be set aside in order to allow like-minded members to move forward in areas that are of concern to them.

Also, there should be some relaxation in the single undertaking, unbundling in some measure the obligation-related single undertaking. Such an approach, which would be conditional on the identification of a global welfare benefit, protection of the principle of non-discrimination and the explicit accommodation of the income distributional effects of rule-making, would allow the WTO to reach quicker decisions and make it more responsive to the different priorities of members.

Next, the commission notes that the WTO's dispute settlement mechanism has been one of the trade regime's most successful features, with a very high level of compliance. Nevertheless, where members neither comply nor offer compensatory trade policy action, the option for aggrieved parties to take retaliatory measures is neither attractive when seen against the objectives of the WTO Agreement nor feasible when small economies are pitted against large ones. In light of this, the Warwick team recommends that consideration be given to WTO members accepting an obligation to provide cash compensation to aggrieved parties where compliance or trade-related compensation is not forthcoming.

In its quest to bring greater fairness and equity to the trade regime for developing countries, the commission also looks at the related issues of special and differential treatment (S&DT) and aid for trade (AfT). It notes that the impact of the multilateral trade regime on developing countries is influenced by effective export opportunities, the choice of the negotiation set, the policy design of negotiated outcomes and the manner in which results are implemented. In their report, the commissioners accept that S&DT provisions are often insensitive to the diverse conditions in developing countries. They recommend, therefore, that efforts be redoubled to design clear, concrete S&DT provisions based on solid analysis of development needs and cognisant of the reality that differing needs among developing countries call for differentiated measures.

The Warwick Commission applauds the AfT initiative as an important way of allowing developing

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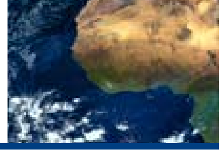


# SA statement to the WTO trade negotiating committee in Geneva

22 July 2008

Presented by the Minister of Trade and Industry, **Mr Mandisi Mphalwa**

Mr Chairman,

SA is a strong proponent of multilateralism, and our core objective in the Doha round has been to work to strengthen the global rules-based trading system in a manner that supports the development aspirations of developing countries. In our view, an equitable and balanced trading system that fully takes into account developmental prospects would enhance the legitimacy and stability of the system. SA supported the launch of the round on the basis of the mandate of the Doha Declaration that aimed to '… place the needs and interests of developing countries at the heart of [its] work programme'.

We are concerned that this injunction that we all agreed to is under threat, and therefore we believe it is necessary to reclaim the development content of the Doha Development Round. It is our view, and one shared by a great many other WTO members, that while it is of great importance that we conclude the negotiations as soon as possible this cannot be at the expense of the round's developmental content.

In this respect, we still require an unambiguous indication that this round will deliver meaningful outcomes in the agriculture negotiations that would lead to reform of international agricultural trade rules that allow developing countries to realise their comparative advantage as a basis for wider development. This will be the essential measure of the developmental content of the round.

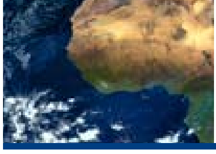
A suggestion heard repeatedly is that slow progress in negotiations on NAMA is holding up an early conclusion of the round. The reverse is true. Substantial progress in agriculture remains the key to this round, and its outcome will set both the pace and ambition for the other important negotiating issues. While important progress has been achieved in the agricultural negotiations, many key issues are outstanding. This includes securing meaningful and real reductions in trade distorting domestic subsidies in developed countries so as to open up production and trade opportunities to more competitive farmers in the developing world, including those in Africa. This has become more urgent with the global food crisis and, paradoxically, easier to achieve because global food prices are at record high levels.

We also require an outcome that offers greater clarity and precision on the level of tariff reductions in agriculture. Currently, the range of outstanding issues and loopholes built into the negotiations gives little comfort that the outcome of tariff reductions will result in significantly enhanced access to the markets of developed countries on agricultural products of export interest to developing countries. SA's assessment of implications of the agricultural modalities text for our export and development prospects is not heartening. There is no indication that SA farmers will obtain any new access into the agricultural markets of the developed countries as a result of the application of the range of flexibilities set out under the agricultural market access pillar. When we assess the proposed range of cuts on overall trade distorting support, it is clear that there would be no cuts in actual spending. Lowering the ceiling may have some value if food prices begin to fall and support levels begin to increase but there is no basis to suggest that the agricultural reform process in this round will be anything more than moderate.

Mr Chairman,

Let me turn briefly to the issues of process we have embarked on this week. Our overriding concern is that this week may not allow sufficient time for real negotiations on the range of issues that need to be settled. Our experience in the NAMA negotiations over the last two years is that the texts that have emerged at various points have consistently ignored the positions and views we have expressed as the NAMA 11. This is an issue that the entire NAMA 11 group is deeply concerned about. It would be very difficult to accept a process that delivers an outcome where our positions are either ignored or not accommodated in any meaningful way.

Herein lies the fundamental imbalance between the agriculture and NAMA modalities texts. In contrast to the logic of NAMA negotiating process and its textual iterations, the



agricultural negotiations have been conducted through a carefully constructed 'bottom-up' process whereby the positions of all WTO members can be found in the agricultural modalities text. This has allowed for an evolving negotiating outcome where the agricultural text captures what is agreed among the WTO members. The result has been a complex agriculture modalities text with a range of outstanding issues still to be negotiated. A second characteristic of the agriculture modalities text is that it is replete with flexibilities designed to accommodate the specific difficulties of particular developed countries. In some measure, the convergence achieved is based on the constructive approach and positions of the G20 that have aimed to find accommodation and convergence among the key players in order to advance the process.

By contrast, the NAMA modalities text is highly circumscribed and prescriptive. The text sets out a narrow range of coefficients, and offers flexibilities that have a double constraint in terms of the percentage of tariff lines and trade volumes that can be covered. In these industrial tariff negotiations, the NAMA 11 group of developing countries has been at the centre of efforts to ensure an outcome that supports our common industrial development objectives. In this respect, we cannot accept proposals that reverse the principle of less than full reciprocity in favour of developing countries. We have witnessed a range of demands that would result in an outcome where many developing countries that are required to reduce their tariffs are being required to accept reduction commitments that are deep and in excess of the cuts to be borne by developed countries. These demands are inconsistent with the Doha development mandate and cannot be a basis for concluding the round.

While the NAMA 11 Communique sets out in some detail the group's common positions, I thought it would be important to highlight three key aspects. First, NAMA 11 insists that the principle of less than full reciprocity in reduction commitments must be respected in agreeing to the spread of coefficients between developed and developing countries.

Second, the NAMA 11 reiterates that an adequate level of flexibilities is an essential element of the final package. We are deeply concerned that, late in the day in the negotiations, we confront new proposals on anti-concentration and sectorals that will have the effect of further limiting the already limited flexibilities and raising the overall ambition for an outcome. This will create further imbalances in the negotiating process and, coming late in the negotiations, as they have, these proposals could lead to a breakdown in this process.

Third, the NAMA 11 acknowledge the efforts to address the situations of other developing country groups, including those with low binding averages, small, vulnerable economies, recently acceded members, and the least developed countries, but cannot support attempts to require commitments from these countries that are beyond their development capacity.

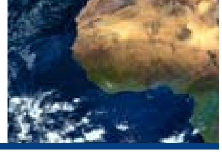
Mr Chairman,

I would want to acknowledge the fact that there is widespread recognition among WTO members of the historic injustice that SA suffered in the Uruguay round when we were obliged to take the rate of tariff cuts agreed for developed countries. This means that SA, and other members of the Southern African Customs Union, maintain levels of industrial tariffs that are uniquely lower than would otherwise be the case. The application of the agreed tariff cutting formula in this round would result in cuts in applied industrial tariffs on a scale and depth that is greater than the tariff cuts that would be made by developed WTO members in either NAMA or agriculture.

SA has been offered the possibility of between one and six additional percent of tariff lines that could be subjected to half the formula. This is offered – but not given – in order to mitigate the fact that 16% of our tariff lines will be required to take a 30% reduction on the basis of a Swiss coefficient of 35. Clearly, if the coefficient is to be reduced towards the ranges that are currently set out in the modalities text, then SA will need a greater percentage of lines to be covered under the flexibilities. Even with such flexibilities, SA will be making cuts in applied rates of on over 60% of our tariff lines at rates of between 30 and 40% in our most sensitive sectors. Anything short of a significant expansion of the flexibilities and an appropriate increase in the level of coefficient will be politically and socially very difficult to accept in our country which has unemployment rates of between 23 and 26% and where we are straining to build a more diversified industrial base. Any outcome cannot be at the expense of our industrial development prospects or at the expense of deepening unemployment and poverty in our country.

Mr Chairman,

Among of the most positive aspects of the Doha round has been the emergence of alliances and groupings that collectively seek to achieve development-supporting outcomes. These alliances have made an historic contribution to the global trading system and have positively shifted the negotiating dynamic. We expect that these alliances will continue to demonstrate their strength in unity and, in this regard, we continue to work closely with the G20, NAMA 11 and Africa Group. SA remains engaged in this process and we are prepared to continue to negotiate towards a developmental outcome. ■



# Aid, trade and governance: the bottom billion's holy trinity?

## Paul Collier's award winning book on the challenges of global poverty and development

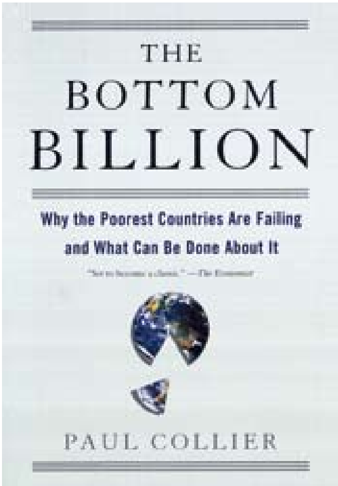
Reviewed by **Phil Alves**

HOW TO help the world's poorest? More aid, no aid, or aid done better? More trade or just 'fairer' trade? More external pressure to improve governance? More democracy? Military interventions, even?

These are some of the questions that drive Paul Collier's first 'pop-econ' book. It represents a clear improvement over others in this genre and is an accessible resource for those unfamiliar with the grand development debate. One can only wonder why it has not generated more fuss.

This book pulls together years of Collier's own academic work to produce punchy, rational, pragmatic, yet sometimes controversial arguments. These cut through the cacophonous clutter of competing views; incisive 'bumper sticker' lessons abound. These are supported by practical examples, anecdotes and insights. This is a brilliantly crafted book that is not short on analytical rigour or scathing wit.

So who is the bottom billion? Collier believes that, by and large, the middle four billion of the world's six and a half billion people live in economies that are now doing well enough on their own to sustain and increase gains in poverty reduction into the future.




*Paul Collier, Oxford University Press, Oxford. April 2007.*

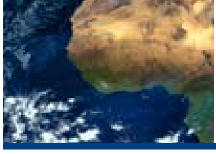
Global capitalism is now working for the majority, however rocky the future may seem.

Fifty-eight countries, on the other hand, have seen their average income growth diverge from the rest of the *developing* world at increasingly rapid rates since 1970. They are '…falling behind and falling apart' and by 2050 'the development gulf will no longer be between a rich billion … and five billion in the developing countries; rather, it will be between a trapped billion and the rest of humankind'. Most of the bottom billion lives in Africa.

The first lesson, says Collier, is that the bottom billion must grow. This may seem obvious, but in our post-Washington Consensus malaise it is almost heresy to argue that growth of any sort is good for poor people. Collier did so while he was at the World Bank (to much derision) and maintains that position in this book. We must understand and accept that 'Growth is not a cure-all, but lack of growth is a kill-all'.

In making his case, he confronts 'development practitioners' (NGOs and aid agencies), accusing them of being unjustifiably suspicious of growth, fundamentally confused on some critical issues (such as trade policy), and too often guilty of acting with a 'headless heart'. 'Poverty is not romantic,' says Collier. 'The countries of the bottom billion are not there to pioneer experiments in socialism; they need to be helped along the already trodden path of building market economies.'

Yet he is similarly critical of market fundamentalists, who feel aid is just part of the problem. This constituency 'has to face up to the fact that these countries are stuck, that competing with China and India is going to be difficult. Indeed, it has to recognise that private activity in the global market



can sometimes generate problems for the poorest countries that need public solutions.'

Collier is, therefore, a pragmatist and his book navigates the ideological divide effortlessly. It should pull many closer to the centre, which can only be a good thing.

Why hasn't the bottom billion grown? Collier argues that they are trapped in vicious cycles of underdevelopment. The 'trap' concept – that there are self-reinforcing processes guaranteeing repeated bad outcomes, in turn requiring sustained interventions to break the cycle – is not new in development economics. But it is contested. Orthodox economists question the theoretical underpinnings of non-linear growth paths replete with their disequilibria, thresholds and tipping points.

Arguably, Jeffrey Sachs is the most vocal recent proponent of this idea. But whereas Sachs sees micro-traps everywhere (e.g. population overwhelmed by malaria or incapable of accumulating some minimum asset level), Collier sees only four, somewhat more macro, traps. These are the conflict trap, the natural resources trap, the 'being landlocked in a bad neighbourhood' trap, and the governance trap.

## Conflict trap

All bottom billion countries have fallen into one or more of these on one or more occasion; the conflict trap is probably the worst repeat offender. Collier presents a bewildering amount of detail on how each trap works, what the impacts are, and why the trapped are incapable of plotting a safe escape. He then adds that Asia's ongoing industrialisation has closed off many export opportunities, reducing the potential for economic globalisation to help. The bottom billion missed the boat around 1980, and will have a wait a long time – too long – for it to come around a second time.

Many of these arguments have appeared in Collier's earlier academic work, and each has been duly critiqued – none more so than his work on conflict. In this book he admirably debunks his critics, but does not escape the overarching problem: explaining the causes of civil wars and coups is not what economists do best.

The book itself proves as much: despite dedicating a sub-section to 'The Causes of Civil War', Collier does not identify any. He does identify structural problems that, universally, make some countries more prone to civil war than others – low incomes, slow or negative growth, and, often but not always, dependence on primary commodities. But these are caused by many of the same things that cause conflict in the first place.

The task at hand is to find ways for these countries to break free of their traps. This raises two more lessons Collier insists the rich world has not learned.

First, there is no silver bullet solution (like a doubling of aid), and there certainly is no single model for each of the 58 bottom-billion countries. Second, if the West's goodwill is to do any good, constituencies in these countries must come to understand better (than Bono, at least) the problems facing the bottom billion. The compelling first half of this book should assist tremendously in that regard.

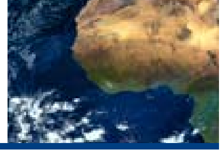
Collier argues in favour of four sets of instruments. Aid is among these. In Collier's view aid has thus far done little more than prevent complete collapse in many bottom-billion countries, and in too many instances has caused demonstrable damage. But it must be part of any solution.

In future, he argues, aid must be targeted at infrastructure and technical assistance – evidence shows these to generate the biggest bang for each aid buck, with the fewest unwanted side effects. But far more important is the need for incentives in donor governments, aid agencies and recipient governments to change. Collier provides some ideas how this might be done, but recognises that nothing will happen quickly – aid is an industry and a foreign policy tool, and aid agencies never have any concrete exit strategies.

Collier also believes in the potential of new international laws and charters to improve governance, reduce investment risk, and better regulate the activities of multinationals. One cannot disagree that these things are desperately needed. But can they be done properly?

If recent history teaches us anything it is that this sort of international co-operation is difficult, and even when wise commitments are made, enforcement is weak. Given the intrusive nature of such charters, most corrupt governments would oppose or ignore them, because they know that aid money would probably still be forthcoming.

Nevertheless, there is hope for an international charter establishing some degree of transparency in public finance management (a la the OECD), especially those finances derived from natural resource



wealth. There is also hope for a charter regulating the various extractive industries (we need to improve the Extractive Industries Transparency Initiative); and for an international agreement on cross-border investment, which would serve primarily to reduce risk in bottom-billion economies. We have come close to this already, but since it forms part of the so-called WTO-plus agenda many of the poorest governments and even more activist NGOs are highly suspicious.

There is little hope for an effective charter on democracy, and it isn't clear that one is necessary. Asia shows that political stability is what counts, not what sort of political system is in place.

The most controversial recommendation is for targeted military intervention to stop or prevent conflict. As Collier admits, the US's badly managed intervention in Iraq makes such an idea unfathomable. But he also notes that military intervention is the only thing that stopped Sierra Leone's madness. So it can work, and should not be ruled out. The risks will always be high, however, and the outcomes extremely uncertain.

Collier's weakest suggestions are in the trade policy field. This is particularly disappointing given his excellent analysis of the relevant terrain earlier in the book. For those who do not know the contours of the trade-development debate and indeed for those who have fundamentally misread it or dismiss its mainstream conclusions, Collier will show you precisely why Oxfam is wrong on the economics of multilateral trade negotiations, or why certain donor organisations are misguided on the economics of regional integration in Africa.

Given the ongoing battle of ideas in these fields, arguably more intense now than 20 years ago, perhaps most striking, and worrying, is that Collier's main references are to bodies of work that have been established for some time, and whose policy conclusions academics do not seriously debate anymore. This may well be due to his observation that very few people properly understand trade economics, least of all first world NGOs, who are now very powerful actors.

Having argued, correctly, that the bottom billion suffers as much from its own protectionism as it does the OECD's, he then argues in favour of a WTO 'transfer' round where only OECD countries open their markets. However, if the bottom billion's own liberalisation is important for growth, why make such a recommendation? Besides, most bottom-billion countries (the least developed countries) are already due to get almost completely free access to OECD markets in the current Doha round, if it ever concludes.

Collier also places too much emphasis on the role preferential market access can play. He correctly argues that the major US and EU preference schemes are badly designed, which is why they have not delivered the promised benefits. But, he argues, if they can be overhauled, and if bottom-billion exports into OECD markets can be shielded from Asian competition in the process, then these economies will have a real shot at industrial diversification and development.

The timelines for achieving all this are extremely tight, as multilateral liberalisation will, according to Collier, have substantially eroded all preferences by 2015.

Collier's weakest suggestions are in the trade policy field. This is particularly disappointing given his excellent analysis of the relevant terrain earlier in the book

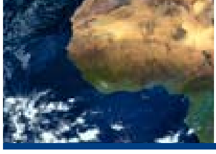
Despite many problems, Collier's plan for the bottom billion deserves very close attention. However, it would require a degree of international co-ordination the world has never seen before. And it would need to happen soon.

But how? There is no global government to make all these changes and time them appropriately. And the rich world is now obsessed with climate change, environmental sustainability and terrorism. The book is thus forced to place too much faith in the ability of ordinary citizens to both understand the problems (and their solutions) better, and then pressure their governments to act effectively.

The book, therefore, is excellent on diagnosing the problems, but less adept on how to solve them. This, unfortunately, is common to all efforts to tackle such large and intricate questions.

Indeed, if solutions to extreme poverty were easier to discover and easy for all stakeholders to agree on, the bottom billion would not exist. So we have to start somewhere, and Paul Collier has provided ample sensible options for where that might be. ■

*Phil Alves works for the Competition Commission in SA.*



## Trade and environment Continued from page 25

and developments such as promoting energy efficiency in buildings, encouraging public investment and research and development for climate-friendly technology, subsidies for access to renewable energy and an efficient public transport system.

5. Further use should be made of the 'polluter pays' principle. As a disincentive for energy intensive industries, the phasing out of fossil fuel subsidies should be encouraged.
6. Regarding market approaches, emerging economies need to regulate domestic, regional and international investments in the energy sector and other sectors with environmental and climatic implications. This should be located within an agreed financial framework and investment code that would facilitate technology transfer, managerial and skills training, timeframes for reinvesting profits, and encouraging the creation of backward and forward linkages to existing and newly stimulated local companies as well as social and environmental responsibilities.
7. Current and future CDM projects need to be designed in such a way that they result in long-term ongoing emission reductions, provide local environment and social benefits, demonstrate sustainable production and consumption and are based on 'environmentally sound technology' as articulated in the UNFCCC. ■

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## The shift is not ideological Continued from page 6

fight against National Treasury rather than an issue about strengthening alignment between strategy and resource allocation – which National Treasury itself has called for. In fact, over the past few years, the medium-term strategic framework and its annual reviews have served as the frame of reference for medium-term expenditure plans as articulated in the medium-term budget policy statements of the minister of finance.

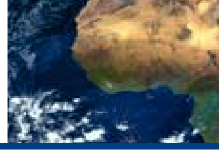
Lest we forget, strategic planning and ensuing budgeting processes have to do with weighing options and making hard choices. Given the competing demands on the fiscus, decisions will have to be made in each planning and budgeting cycle to defer some plans and phase in others differently.

Even where strategies are agreed upon, business plans will still have to be provided. As such, we should be under no illusion that some of these decisions will be unpopular among some departments and ministries. It can safely be assumed that the final arbiter on these matters, wherever located, will attract some ill feeling.

A related question that has been the subject of much speculation is on the fate of the department of public enterprises. How does a developmental state leverage the capacities of state-owned enterprises to provide leadership to national economic development? Certainly, responsibility for strategic deployment of these capacities cannot be bunched together with policy and regulatory functions, simply because of profound conflicts of interests that would arise. It is better that policy departments deal with policy for the sector as a whole (such as the telecommunications and electricity industries); and where appropriate independent regulators will be required. In principle, shareholder strategic leveraging should locate elsewhere.

As all this work proceeds, the very definition of 'a national plan' will need further interrogation: should this narrowly be a plan about government intentions or one that includes the programmes of the private sector and other social partners? Is the latter possible with a developed private sector and in a society with such varied and at times conflicting interests? What lessons does the 2003 Growth and Development Summit hold in this regard?

The principles have been agreed upon. But much more work needs to be done to put the operational issues to bed. In this regard, it is not accidental that on the structure of Cabinet for instance, the summit



carefully referred to supporting 'in principle the need to develop and consider proposals' rather than any final decisions.

Debate should continue and, hopefully, ongoing work will reach the public domain as such, rather than falsely as demands to which the ANC is imagined to accede. Thus the public will not be misled into reading ideological shifts where none exist. ■

*Joel Netshitenzhe is head of the policy unit in the presidency and a member of the ANC NEC. This feature first appeared in the* Mail & Guardian *(31 October–6 November 2008).*

## Chile braves new frontiers Continued from page 27

On the back of high copper prices, Chile appears to be suffering from a serious bout of Dutch Disease. This means that the buoyancy of one commodity (copper) has pushed up the price of other products and crowded out potential exports, detracting from the country's overall export diversity and turning it into an expensive, single-export country. It also places a greater reliance on commodities, in this case copper, over processed agricultural products, manufactured goods and services, all of which Chile has been trying to boost in an effort to diversify its export basket.

Chile's real challenges, as mentioned at the outset, lie in perception and institutional reform. These are areas the country has relied on to attract foreign investment – the lifeblood of development and growth in Chile – and maintain competitiveness through various phases of reform. The task of the leadership is no small one as the country breaks through the next frontier and enters the bracket of 'upper-developing' countries – with counterparts mostly in the East Asian region – while still grappling with issues such as inequality, poor education, energy and jobless growth.

Chile needs a new generation of creative thinkers, and visionaries of the calibre of those who ushered the country through political transition and economic modernisation from the early 1990s.

This is not all bad news for Chile. Most would agree that the country is probably experiencing acute growing pains as it slowly graduates from developing world status. Others would say this is a timely wake-up call for a country well integrated and highly dependent on the global economy, where perception and competitiveness mean everything.

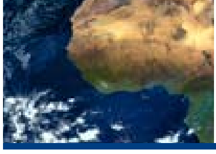
And, in broad Latin American terms, the problems are not all that bad. If some other countries in the region were facing similar challenges there would be talk of violent regime change, social unrest and nationwide strikes, presidential resignations and the deafening sound of pots banging in the streets of cities. Success has helped Chile rid itself of such drama.

So, while Latin America's economic poster child may have lost some of its youthful charm, it has not been transformed into ugliness. On the contrary, Chile is likely to emerge from this period more resilient and grittier than before, and well-prepared for a new set of challenges in breaking the mould of developing countries in Latin America. ■

*Dr Lyal White is a research associate at the Institute for Global Dialogue (IGD). This article is based on a research visit and interviews in Chile in May 2008.*

## A tangled web Continued from page 16

in the medium term. In some cases the exports may have disappeared. The key variables for beef, for example, are the cost of meeting sanitary standards and EU liberalisation to other suppliers. If the cost of sanitary compliance continues to rise, the EU may cease to be a profitable market. And if the EU offers increased tariff quotas to Mercosur (either in the context of a regional agreement or under Doha) that are sufficiently large for it to make commercial sense for these countries to take over BLNS markets, it is unlikely that southern African could compete on price. The best that can be said is that the continued commercial value of EPA membership for beef in five years' time is 'uncertain'.



For sugar, the key variables (which are linked) are the future EU price and the extent to which LDC suppliers expand exports. Under DFQF the EU will retain safeguards on non-LDC sugar exports even after 2015. The same will apply to processed sugar. It seems likely that Swaziland, at least, will have a continued interest in exporting to the EU, but the position of Mauritius is more uncertain.

In most other cases, though, it seems likely that EPA membership will continue to offer commercial advantages during the period when most SADC states will have to complete their tariff cuts. This suggests that a real commercial loss will be incurred if countries exit the EPAs.

It implies that the SADC states need to identify precise differences in their schedules in order to determine the implications for further regional integration. If the key differences can be reduced or removed, the barrier to regional economic integration provoked by the EPAs may be eased. But since the differences reflect, presumably, differences in national perceptions of their trade interests, this task may prove difficult.

In that case, the EPA may best be seen as a mirror – reflecting underlying trade and economic policy differences between members. Although they may have crystalised these differences (and in this way made it harder to remove them), the EPAs will not have created incoherences in national policies. ■

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## Peering into credit 'black boxes' Continued from page 31

particular, the idea of sovereign guarantees for private trade or investments has to be jettisoned.

Also, ECA supports have to be channeled to areas of need for host countries. And when policy on such supports is being debated, it might be realised that building government-run hotels and buying wines (some of the areas where ECA funds have been committed in the past) are not priorities for developing countries. ■

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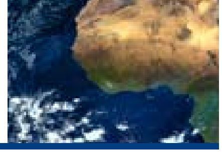
## Debate: how should we trade? Continued from page 34

countries to benefit from greater trading opportunities. It recommends that the respective responsibilities of the WTO, donor nations, potential recipient nations, and the other international organisations involved with this initiative be clearly delineated. Failure to identify the locus of respective responsibilities will weaken the effectiveness of AfT and heighten the risk that the WTO is wrongly blamed for the lapses of others. In short, the Warwick Commission believes each party should be held accountable for its contribution to this initiative, which should stand apart from trade negotiations.

The commission is concerned that the proliferation of PTAs has raised pressing questions about the quality of trade relations today and their likely future direction. It acknowledges that PTAs are here to stay, but contends that greater effort should be devoted to reinforcing accepted multilateral principles. It makes three specific recommendations in this regard:

- current efforts to clarify and improve disciplines and procedures in relation to WTO provisions on regional trade agreements (RTAs) should be intensified
- major industrialised countries should refrain from establishing PTAs among themselves and large developing countries with significant shares in world trade should similarly refrain from negotiating PTAs with each other



- WTO members should strengthen and make permanent the recently established 'transparency mechanism' for reviewing RTAs.

Given that the multilateral trading system is at a cross-roads, the final recommendation centres on the need for an urgent reflection exercise to clarify and solidify the commitment of the international community to a healthy, vibrant and equitable multilateral trade regime.

A recurring theme in a number of recommendations is the need for stakeholders in the trading system to permit themselves the time and space to take a step back from negotiating, litigating and running the daily business of trade policy in order to reflect on how they would like to see the trade regime evolve over the next few years. An inter-governmental 'reflection exercise' of this nature would seek to identify diverse needs and common interests, and to inject greater legitimacy, order and dynamism into the multilateral trade regime. Reflection and dynamism are not contradictory terms. An inter-governmental reflection exercise, the commission believes, would be best instigated sooner rather than later.

The proposal is that this reflection exercise should be open to all WTO members, should welcome inputs from other interested stakeholders and should examine the wide range of issues confronting the multilateral trade regime, including matters such as the impact of trade on climate change.

The Warwick Commission set out to find ways in which the multilateral trade system could better serve the global community. Its approach is guided as much by the practical realities of the contemporary trading regime as it is informed by analyses of long-term trends and national and regional circumstances. The report offers fresh perspectives on the future trajectory of a critical element of global governance – the management of global trade relations.

It does not claim originality for all its recommendations. Where it has not been original it is because commissioners are convinced that some old ideas are badly in need of resurrection in the face of current challenges confronting the multilateral trade regime. Above all, the Warwick Commission believes its report points the way towards a system of global trade governance that better meets the challenges of our times and the needs of all WTO members. ■

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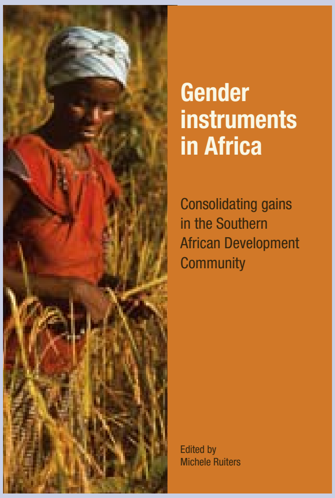


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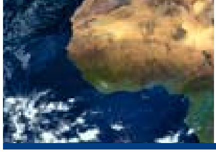
**Gender instruments in Africa: Consolidating gains in the Southern African Development Community**

*Michele Ruiters*

The rights of women are occupying an increasingly important place in the global – and African – political discourse. African governments have committed themselves to a growing number of instruments for protecting and promoting the rights of women, yet implementation continues to lag.

In May 2005 the Institute for Global Dialogue held a ground-breaking workshop at which analysts and activists from numerous African countries surveyed gender instruments applicable to Africa, identified factors influencing their implementation, and evolved proposals for strengthening them.

Following the success of the first project, the IGD held a second workshop in August 2007 aimed at deepening and regionalising the debate on gender instruments and their implementation. The amplified and expanded contributions appear in this volume.



## Southern Africa and Obama's trade agenda Continued from page 8

Act (AGOA). Though Obama could strengthen and extend AGOA beyond its 2015 lifetime, a more flexible, development-focused trade agreement would formally lock in and secure SACU's market access into the US. This would also put to rest arguments for 'graduating' SA from the GSP beneficiary list.

The SACU countries are the leading suppliers of non-fuel goods, mainly textiles and apparel, to the US under AGOA. This represents more than a third of US non-fuel goods imports from the 40 eligible sub-Saharan African countries.

Many 'lesser developed' Southern African apparel exporters to the US benefit from AGOA's third country provision. Since the US and Africa are high-cost producers of yarn and fabric, this derogation allows these countries to use fabric originating anywhere in the world. This provision expires in 2012. While future competitiveness may require integrated regional production operations, an extension of this special rule would provide a short-term boost to the region's apparel exporters. However, Obama is also known to be sympathetic to the inclusion of the 'yarn forward rule' (no third country fabric) in trade agreements.

Though more than 98% of SA's exports to the US are duty-free, there is also scope to improve access for several farm products where tariffs are prohibitively high. These include preserved apricots (29.8%) and raw shelled groundnuts (131.8%).

Non-tariff barriers – such as stringent sanitary, phytosanitary and safety standards (for example, citrus black spot) and complex rules of origin – often act as protectionism and raise the cost of exporting. A strong case can be made for greater region-wide technical assistance, capacity building and 'aid-for-trade' to overcome these obstacles (not only in the 'soft' regulatory sphere, but for 'hard' infrastructure too).

The new era US leadership presents an historical opportunity for SA and the region to strengthen trade with a market valued at more than US$9-trillion. Obama's emphasis on fair trade and his mantra of change could indeed be a boon for Africa.

*Dr Brendan Vickers is a senior researcher in the IGD's Multilateral Trade programme.*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