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tradewinds

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The Institute for Global Dialogue is proud to publish this inaugural issue of its new biannual journal on trade relations. *Trade Winds* will focus on important developments in multilateral trade, particularly those affecting Africa, including the latest developments in trade negotiations, regional and continental trade dynamics, and substantive concerns such as market access, intellectual property rights, and the interface between trade, development, investment, and the environment.

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Editorial

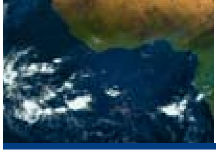
Few signs of development in Doha Round

Nathan Irumba

THE OUTCOMES of the Doha Round of trade negotiations under the WTO and the Economic Partnership Agreements being negotiated between the ACP countries and the EU will probably further accentuate the lopsided liberalisation created by the Uruguay Round, constrain the flexibility currently enjoyed by developing countries, and hamper their regional integration efforts.

The Doha Round, like the Uruguay Round before it, has been a roller-coaster. From Doha through Cancún 2003 and Hong Kong 2005 to Potsdam, and now Geneva, it has repeatedly swung between near break-throughs and near breakdowns. After six years of hard bargaining, there is little indication that the development promise of the Doha Round is about to be realised. The deal that seems to be emerging has very little development content; the benefits for developing countries – especially in respect of agriculture – are small, and the attendant costs very high. It seems as if the rhetoric of development was used simply to orchestrate the launch of the Doha Round, and that the actual negotiations are aimed at extracting additional concessions from developing countries, and further constraining their policy space.

As was the case during the Uruguay Round, agriculture is proving to be the make or break issue for the Doha Round. How the divergences



in this sector will eventually be resolved, and at what price for developing countries, will ultimately determine whether or not Doha will be a market access round for developed countries, or a development round as initially promised.

It will be recalled that the major issues that led to the suspension of the talks last year and the subsequent impasse were the demands by developing countries that the US and EU should reduce domestic agricultural subsidies and agricultural import tariffs on the one hand, and the demand by those major powers that developing countries should drastically lower both industrial and agricultural tariffs on the other. The US and EU have been reluctant to reduce their agricultural subsidies and tariffs, but are jointly exerting enormous pressure on developing countries, especially those at a higher stage of development, to substantially reduce agricultural and industrial tariffs. Therefore, the principle of less than full reciprocity for developing countries in the Doha mandate seems to be observed more in the breach than the observance.

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Developing countries are also under pressure to allow greater Mode 3 trade in services ('commercial presence' – ie, companies such as banks from one country setting up branches or subsidiaries to provide services in other countries); yet their demand that the developed countries allow greater Mode 4 trade in services ('the temporary movement of natural persons' – ie, people travelling to other countries to supply services) is being rejected.

Least developed countries (LDCs) will not be required to reduce industrial and agricultural tariffs, or undertake any commitments in the area of trade in services, but are being encouraged to bind their tariffs. On the face of it, LDCs were also given duty-free and quota-free market access for 97% of their products at the Hong Kong ministerial conference in December 2005. Following the breakdown of informal negotiations between G4 countries in Potsdam in June this year, the chairmen of the negotiating groups on Non-Agricultural Market Access (NAMA) and agriculture were tasked with producing draft modality papers which were presented to the trade negotiating committee (TNC) at the end of July.

Lopsided proposals

The Canadian ambassador to the WTO, Don Stephenson, wittingly or unwittingly revealed the lopsided nature of his proposals on NAMA when he stated that: 'After the modalities I have proposed have been applied, developed countries will have bound tariffs of below 3% on the average and tariffs peaks below 10% even on the most sensitive products … In the developing countries applying the formula bound tariffs will be below 12% on the average, and only a handful will average above 15% … In these same countries 80%–90% of bound duties will be lower than 15%, dramatically reducing the overhang in their tariff schedules.'

The range of coefficients proposed would require many developing countries to reduce their industrial tariffs by more than twice the rates of developed countries.

Strong reaction

The NAMA paper provoked a strong reaction from most groups of developing countries. In their view it failed to fulfil the requirement of less than full reciprocity in reduction commitments as per paragraph 16 of the Doha mandate, and proportionality between the ambition levels in NAMA and agriculture as per paragraph 24 of the Hong Kong declaration. As many countries pointed out, the 'asymmetry' in the proposals inverted the principle that the depth of reform of trade-distorting agricultural practices by developed countries should serve as a baseline for liberalisation in other areas, which is a cornerstone of the development mandate.

While they have cautiously welcomed the draft agriculture modalities paper, developing countries believe it still provides significant comforts to major developed countries while falling short of meeting their own offensive and defensive interests. The proposed reduction of domestic subsidies by developed countries only cuts in the water and will, in practice, leave the present level of subsidies in place. Besides this, they say the paper does not clarify modalities on issues of interest to developing countries, such as tariff escalation, commodities, special safeguard mechanisms, tropical products, and preference erosion. No wonder, then, that the July meetings ended inconclusively. Negotiations resumed in Geneva in September in what has been billed as a make or break session of the Round.

It was hoped that behind the scene discussions would help to secure tangible progress towards a deal. Despite public declarations by Brazilian President Lula Da Silva, US President George Bush, and India's trade minister that a deal was within reach, this optimism has not yet been translated into flexibilities at the negotiating table. Bush seems to have shifted the burden to other countries by stating that 'the world's largest trading nations, including major developing countries, have a special responsibility to make the tough decision to reduce trade barriers'.

Industrial tariffs

When discussions resumed in Geneva, a major disagreement over the suitability of the chairman's draft text on industrial tariffs further darkened prospects for a successful conclusion. A group of developing countries, including the African group, submitted proposals spelling out their views on the NAMA modalities, including the centrality of agriculture to the Doha Round. Developed countries, led by the US and EU, have rejected this proposal, and continue to insist that the NAMA negotiations – especially the ranges for the coefficients in the formula used to cut industrial tariffs – must be based on the figures contained in the draft paper by the chairman of the NAMA negotiating group. In effect, they are calling for developing countries affected by the formula to reduce their tariffs far more drastically than developed countries themselves.

US elections

The EU also rejects the priority-setting and sequencing proposed by developing countries. It does not agree that the outcome in agriculture should determine the level of ambition of the whole Round, and has implied that developing countries' commitments in respect of NAMA and services must be made known at the same time or before commitments in respect of agriculture.

In July, the EU and US stated that a similar modalities document was needed for services, which should be considered alongside the frameworks for agriculture and for NAMA. Referring to their earlier demand for a new peace clause in respect of agriculture, the American representative said: 'It's only logical that members who are in compliance with their domestic (farm) support obligations should not be subject to dispute settlement action over such measures.'

Analysts and others fear that if a deal is not arrived at by the end of the year or early next year, the Doha Round may move into a long period of hibernation because of the forthcoming elections in the US. It is believed that the failure by the US Congress to renew the president's Trade Promotion Authority (TPA), or fast-track negotiating authority, would make it difficult for the US representative to negotiate credibly with other parties. It is worth recalling that, irrespective of which party is in the White House, US trade policy remains more or less the same, and that any trade deal signed by the current incumbent will probably only be implemented by the next administration.

Some developing countries may also decide that it is prudent for them to lock in the apparent reductions in agricultural tariffs and subsidies proposed by the US and EU. Looking at the figures discussed at Potsdam, it seems as if the differences between the G4 countries could have been bridged if they had made a bigger effort. It is doubtful whether such an agreement would have adequately safeguarded Africa's interests.

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The history of the Uruguay Round reveals that the major players strike deals when negotiations are in hibernation, and then bring them into the multilateral process for endorsement. The Blair Accord remains vivid in the minds of those conversant with the Uruguay Round. At that stage it becomes difficult for the weaker members of the WTO to withstand the pressures to join the 'emerging consensus'. Is history about to repeat itself?

The ACP countries are under pressure to conclude, by 31 December, WTO-compatible Economic Partnership Agreements with the EU, which will include reciprocal provisions and cover trade-related issues as well. Within the WTO negotiations, it has been conceded that LDCs and most other African countries will not be required to reduce tariffs on agricultural and industrial products. Equally, except for trade facilitation, the WTO is not negotiating trade-related issues. But these flexibilities are bound to be rendered nugatory by the EPAs, which may become a means for the EU to reinsert trade-related issues in the WTO agenda in the post-Doha phase. The tariff concessions agreed in the WTO and EPA negotiations will also constrain room for regional integration by African and other developing countries.

The challenge for civil society in the post-Doha phase will remain to ensure that development and human development remains a priority, and that trade is harnessed to this end. ■

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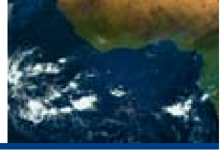
Acronyms and abbreviations used in this issue

ACCORD	African Centre for the Constructive Resolution of Disputes
ACP	African, Caribbean and Pacific
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
AU	African Union
BLNS	Botswana, Lesotho, Namibia and Swaziland
BPC	Botswana Power Corporation
CAP	Common Agricultural Policy
CBD	Convention on Biological Diversity
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
CTD	Committee on Trade and Development
CUTS-CITEE	Consumer Unity and Trust Society Centre for International Trade, Economics and Environment
DDA	Doha Development Agenda
DRC	Democratic Republic of Congo
EAC	East African Community
EBA	Everything-but-Arms
EC	European Commission
ECCAS	Economic Community of Central African States
EDF	European Development Fund
ENE	Empresa Nacional de Electricidade
EPA	Economic Partnership Agreements
ESA	Eastern and Southern Africa
EU	European Union
FDI	foreign direct investment
FEWSNET	Famine Early Warning Systems Network
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalised System of Preferences
GSP-plus	Generalised System of Preferences plus scheme
IF	Enhanced Integrated Framework
ILEAP	International Lawyers and Economists Against Poverty
IOC	Indian Ocean Commission
IPRs	intellectual property rights
ITO	International Trade Organisation
JITAP	Joint Integrated Technical Assistance Programme
Kicomi	Kisumu Cotton Mills
LDCs	least developed countries
MTS	multilateral trading system
NAMA	Non-Agricultural Market Access
NEPAD	New Partnership for Africa's Development
NRC	Nairobi Resource Centre
ODA/GNI	Official Development Assistance/gross national income
ODI	Overseas Development Institute
RAMs	recently acceded members
Rivatex	Rift-Valley Textiles
RTFP	Regional Trade Facilitation Programme
SADC	Southern African Development Community
SACU	Southern African Customs Union
SAIIA	South African Institute of International Affairs
SAMP	Southern African Migration Programme
SAPP	Southern African Power Pool
SAPs	structural adjustment programmes
SARPN	Southern African Regional Poverty Network
SDT	special and differential treatment
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
SMME	small, medium and micro enterprise
SNEL	Société Nationale d'Electricité
SPS	sanitary and phytosanitary
SP&SSM	Alliance on Strategic Products and Special Safeguard Mechanism
SVEs	small, vulnerable economies
TBT/SPS	Foot-and-mouth disease
TDCA	Trade, Development and Co-operation Agreement (also known as SA-EU Free Trade Agreement)
TNC	trade negotiating committee
TPA	Trade Promotion Authority
TRIPS	Trade Related Aspects of Intellectual Property Rights
TWN	Third World Network
VAT	Value Added Tax
UNCTAD	UN Conference on Trade and Development
UPDEA	Union of Power Producers, Transmitters and Distributors of Africa
WESTCOR	Western Power Corridor
WTO	World Trade Organisation



Unequal partners

Two Southern African groupings in trade talks with EU

Vital new trade talks are being concluded between the EU and 79 African, Caribbean and Pacific (ACP) nations including two Southern African trade groupings, SADC and ESA. However, despite assurances to the contrary, analysts fear the proposed agreements will have major negative repercussions for Africa, writes **Richard Kamidza**

The European Union (EU) is negotiating Economic Partnership Agreements (EPAs) with the Eastern and Southern Africa (ESA) configuration and with the Southern African Development Community (SADC). The ESA group consists of Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe. The latter configuration draws in Angola, Botswana, Lesotho, Mozambique, Namibia, Tanzania and SA. Currently, trade relations between the EU and these two negotiating configurations are defined by the Cotonou Partnership Agreement for developing countries; the Trade, Development and Co-operation Agreement (TDCA) with SA; and the Everything-but-Arms (EBA) initiative for the least-developed countries (LDCs).

The EPA negotiations are intended to replace the 30-year-old Lomé trade preferences with an unprecedented reciprocal market access agreement. This new trade regime – between the world's largest single market on the one hand, and many of the world's poorest and least-developed countries and regions on the other – is expected to be signed by 31 December 2007, when a waiver, initially granted by the membership of the World Trade Organisation (WTO) for the continuation of the Lomé non-reciprocal preferences, expires. The ESA and SADC negotiations – respectively launched in January and July 2004 in Mauritius and Namibia – promised that no country in the configurations would be worse off under the EPA outcomes. However, the negotiations assume a win-win scenario between negotiating parties that are vastly unequal, both economically and politically. To date the process has failed to consider these developmental differences between the parties adequately, even within the SADC and ESA groupings themselves.

For this reason there are widespread fears – supported by various impact assessment studies (see box 1: page 6) – that these free trade agreements will have major negative repercussions for Africa. The arrangements are likely to undermine national and regional industrialisation efforts as well as export diversification and competitiveness, and to frustrate existing regional integration initiatives. In addition, the loss of fiscal revenue associated with liberalisation is likely to negate socioeconomic development and aggravate already disturbing levels of human underdevelopment and insecurity. This article examines some of the developmental challenges posed by the ongoing EPA negotiations for SADC and ESA.

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Economic profiles of ESA and SADC

Countries in the ESA and SADC configurations display significant degrees of heterogeneity. This is reflected in their economic size, factor endowments, trade patterns, socioeconomic development, economic interests and even language (some countries are French-, Portuguese- or English-speaking).

Despite these differences, the poorest members of the ESA and SADC groups share a collective disadvantage vis-à-vis the EU in the negotiations. These economies are not only generally small, weak, vulnerable and inward-looking. They also include countries that are highly indebted and poverty stricken, and that are ranked as the least-developed in the world. Only SA, the newest member of the SADC group, has strong offensive and defensive interests in its relations with the EU. This is unsurprising, since it is the largest and most diversified economy, and offers a wide range of benefits to the other members of the SADC-EPA configuration (and to countries beyond). Most of the countries in this grouping procure more goods and services from SA than they do from abroad, and sell their products to that country's large, diversified market.

ESA currently comprises three different groups of countries: (a) LDCs that currently enjoy duty-free and quota-free access into the EU's market under the EBA initiative; (b) Zimbabwe, a non-LDC that is currently experiencing economic difficulties; and (c) three middle-income economies, namely Kenya, Mauritius and Seychelles, which face the possible threat of a significant increase in tariffs on their exports to Europe when the Cotonou preferences expire.

Together with Zimbabwe, the LDCs in the ESA grouping confront huge developmental challenges that frustrate their efforts to industrialise and diversify their production structures and exports. Fearing the uncertainties of a post-Cotonou trading regime, Seychelles has formally applied for the EU's Generalised System of Preferences plus scheme (GPS-plus) in order to avoid a potential disruption of its trade flows with Europe. Owing to its late application, however, the country can only qualify for that scheme on 1 January 2009. Kenya (particularly its horticulturists) and Mauritius nurse similar feelings of disquiet over their exports next year, should no EPA be in place.

Trading regulations

As far as the SADC group (excluding SA) is concerned, five products exported to Europe account for 87% of that configuration's total exports. These commodities are precious stones and metals (diamonds and gold), oil, aluminium and fish, which respectively accounted for 47.3%, 19.1%, 10.4% and 10% of exports. In addition, trade flows to the EU remain extremely skewed in favour of Angola (41%), Botswana (22.5%) and Tanzania (13.7%).

Similarly, exports from ESA to Europe are dominated by unprocessed coffee, tobacco, flowers, minerals, fish, tea, beef and sugar.

Both regions currently also benefit from sugar, and beef and veal, protocols, although export earnings are inadequate. These countries remain net importers of raw materials, intermediary products, foodstuffs, finished goods, capital equipment, tools and machinery.

Agriculture not only dominates their economic activities, but is also a source of food security. While a few cash crops (such as cashew nuts, sugar and tobacco) do generate foreign currency, food security remains critical, especially for vulnerable households, many of which are experiencing undernourishment. Although the agricultural sector provides employment opportunities for more than 70% of the population, most farming activities have remained mostly subsistence or small-scale operations. This same weak and poorly funded sector is currently competing with heavily subsidised agricultural products from Europe. As a result of this unfair advantage, most agricultural

Box 1: Kenya and EPAs: the results of impact assessments

Industries

Some 65% of Kenya's industries are vulnerable to unfair competition with the EU, according to analysis carried out for the Kenyan Ministry of Trade. Vulnerable firms include those in food processing, textiles, and paper and printing. Together they employ more than 100 000 people.

Agriculture

Food sectors such as wheat, rice, sugar, dairy products, maize, meat and meat products would struggle to complete if they were to be fully opened up to competition with the EU, particularly since many of the EU's exports are heavily subsidised. The impact on rural areas, where the vast majority of poor people live, would be substantial. For instance, more than 625 000 people are directly employed in the dairy sector, while an estimated 3 million people depend on it indirectly.

Government revenue

Between 8% and 12% of government revenue could be lost through implementation of an EPA, according to impact assessment studies by the International Monetary Fund and the European Commission. This is greater than the Kenyan government's annual expenditure on health.

Source: A Matter of Political Will, *Oxfam and TWN Africa, April 2007* goods from the SADC and ESA regions fail to compete against EU products effectively, either at home or within the EU market.

Europe is a strong trading partner and a significant donor to the countries of both regions, where it is currently bankrolling a number of initiatives: the implementation of various national and regional developmental programmes or projects; regional integration efforts; the fiscal expenditures of some countries; and bilateral trade negotiations. Table 1 highlights the EU's support to selected countries in the configurations. This support takes the form of both direct financial flows and/or technical assistance, which covers a wide range of mandates, including the EPA negotiations. Not only is the EU sponsoring the EPA negotiations (including impact assessment studies and national workshops), but its institutions have also remained influential in related national and regional preparatory processes.

Indeed, the EU has in many instances used its development aid as a tool to achieve its trade agenda, and to entrench further its exploitative, expansionist and hegemonic agenda in respect of the configurations. This in the face of growing rates of unemployment and poverty; the high incidences of HIV/AIDS, malaria and tuberculosis; a falling life expectancy; and the lack of infrastructure and social services.

Some would argue that the EU's financial support induces an aid dependence syndrome. As shown in figure 1 below, the dependence of Mozambique, Malawi, Rwanda, Ethiopia and Tanzania on international donors is projected to rise to 47, 44, 42, 33 and 27% of gross national income respectively by 2010. There are fears that the EPA outcome may further entrench this donor dependence syndrome, thus surrendering national and/or regional developmental initiatives and fiscal needs to external funders.

Key developmental challenges

Development is a cross-cutting theme that has implications for national and regional integration strategies, industrial competitiveness, the policy and regulatory framework, economic development, trade-related infrastructure and investment promotion. Many critics have argued that EPAs have limited developmental promise or potential owing to their design, sequencing, and lack of deep and wide consultation with all

Table 1: European Commission (EC) support to selected SADC-EPA countries and SADC

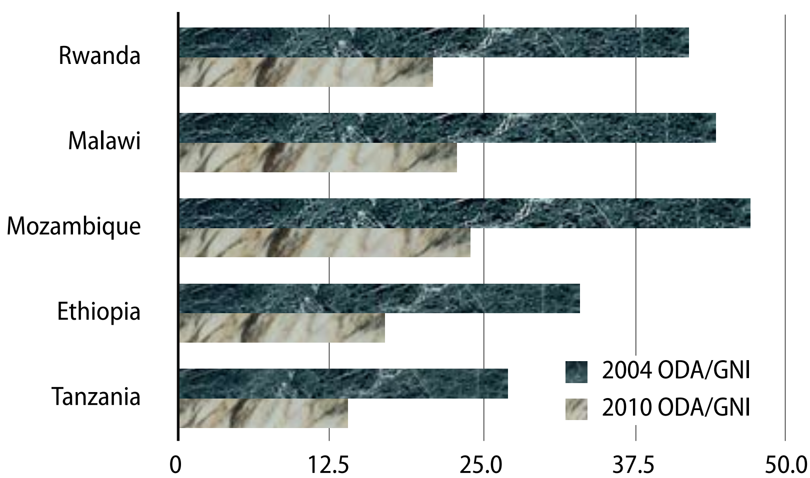
Country	Project	Budget	Period
Angola	Trade policy general (technical co-operation facility)	€3,6m	Apr. 2006–Dec. 2013
Botswana	Trade policy general (technical co-operation facility)	€1,385m	Mid 2004–Sept. 2007
Lesotho	Trade policy general (technical co-operation facility); and Customs valuation (Asycuda)	€1,9m €1,0m	2006–2008
Namibia	Trade facilitation (Namibia trade and regional integration programme)	€3,0m	2005–2009
SADC	TBT/SPS (Foot-and-mouth disease)	€12,6m	2006–2011

Source: Compiled from www.sadc.int/english/tifi/trade/documents/inventory/TRAsector-table1Aug06.pdf

constituencies. For instance, while the EC spent a year consulting with its own constituencies before responding to the SADC group's proposals, SADC and ESA did not consult as widely with their own citizens. Aspects such as this have a bearing on the outcomes of the negotiations and may limit the effective implementation of EPAs. Lack of consultation also accounts for the negative perceptions and anxieties that attend EPAs.

Highlighted below are four key developmental challenges associated with these EPAs: supply-side constraints; industrial capacities and export competitiveness; regional integration; and expected adjustment costs.

Graph 1: Aid dependence projection, 2004 to 2010



Supply-side constraints

EPAs aim to promote reciprocal market access for both agricultural and non-agricultural products, but the challenge for many African countries remains weak supply capacities. Most SADC and ESA members have huge supply-side constraints, and these have been inhibiting their potential to exploit the benefits from current EU trade preferences. Since the launch of the EPA negotiations the two configurations have continuously lobbied for, and raised the need to provide, a 'development envelope' that will adequately support their developmental thrusts and facilitate trade flows. The major supply-side bottlenecks include unreliable public utilities (electricity and water); poor public infrastructure (run-down roads, bridges and railways); weak institutional policy frameworks (fluctuating exchange rates, high inflation rates and poor fiscal measures); low labour productivity (arising from deficient education, inadequate housing and poor health); and an unfavourable investment climate coupled with inadequate resources to foster socio-economic transformation.

To address these issues, the EC has made provision for additional resources to be available under the 10th European Development Fund (EDF). This financial window covers the period 2008–2013, with individual EU member states and other donors encouraged to complement the fund's resources. Developing countries argue, however, that numerous difficulties have previously precluded or restricted their access to the funds. To date, these economies have used only 20% and 28% respectively of the total resources of the 8th and 9th development funds (see table 2). This experience feeds the negative perception that EPAs will not adequately address supply-related bottlenecks; and the fear that there simply will not be enough money to finance both EPAs and the EC's existing aid portfolio.

Owing to such lack of support, most countries' production structures and trade capacities have remained not only weak and lacking in diversification, but also unattractive to both foreign and domestic investors. This has had a strong bearing on the competitiveness of their products and services. In turn, lack of competitiveness has been a major reason for these countries' failure to improve their export performance.

Industrial capacities and export competitiveness

Past trade preferences have not stimulated industrialisation, diversification of exports or market competitiveness in Africa. Unprocessed commodities (such as diamonds, petroleum oils, sugar and tobacco) continue to make up the bulk of the region's exports to the EU. This means that countries are yet to develop and diversify their production structures and exports; add value to their exports; and increase their market share in line with the imperatives of globalisation. Given the narrow industrial bases that characterise the SADC and ESA configurations, EPAs are likely to provide only limited options for increased exports into the EU.

In addition, there is a growing perception that EPAs will limit the 'policy space' needed for the development and protection of national infant industries. There are also fears that EPAs may intensify and entrench the liberalisation of national and regional economies, to an even greater degree than the structural adjustment programmes of the 1980s and 1990s.

Table 2: Funds allocated versus funds spent during each five-year EDF financing cycle (€ million)

EDF assistance package	Total funds allocated (nominal value)	Real value of envelope (1975 base year)	Total disbursements (nominal value)	Percentage of total allocation disbursed in the 5 years to which it was allocated
4th EDF (1975–80)	3 390	2 696	1 454,5	43%
5th EDF (1980–85)	5 227	2 586	2 041,0	39%
6th EDF (1985–90)	8 400	3 264	3 341,6	40%
7th EDF (1990–95)	12 000	3 514	4 417,9	37%
8th EDF (1995–2000)	14 625	3 463	2 921,6	20%
9th EDF (2000–07)	15 200	3 131	4 239,0	28%

Source: Grynberg, R. and Clarke, A. (2006) The European Development Fund and Economic Partnership Agreements, Commonwealth Secretariat, Economic Affairs Division. Data from http://ec.europa.eu/ comm/development/body/cotonou/statistics/stat11_en.htm.

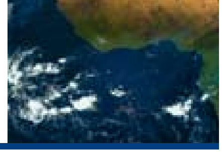
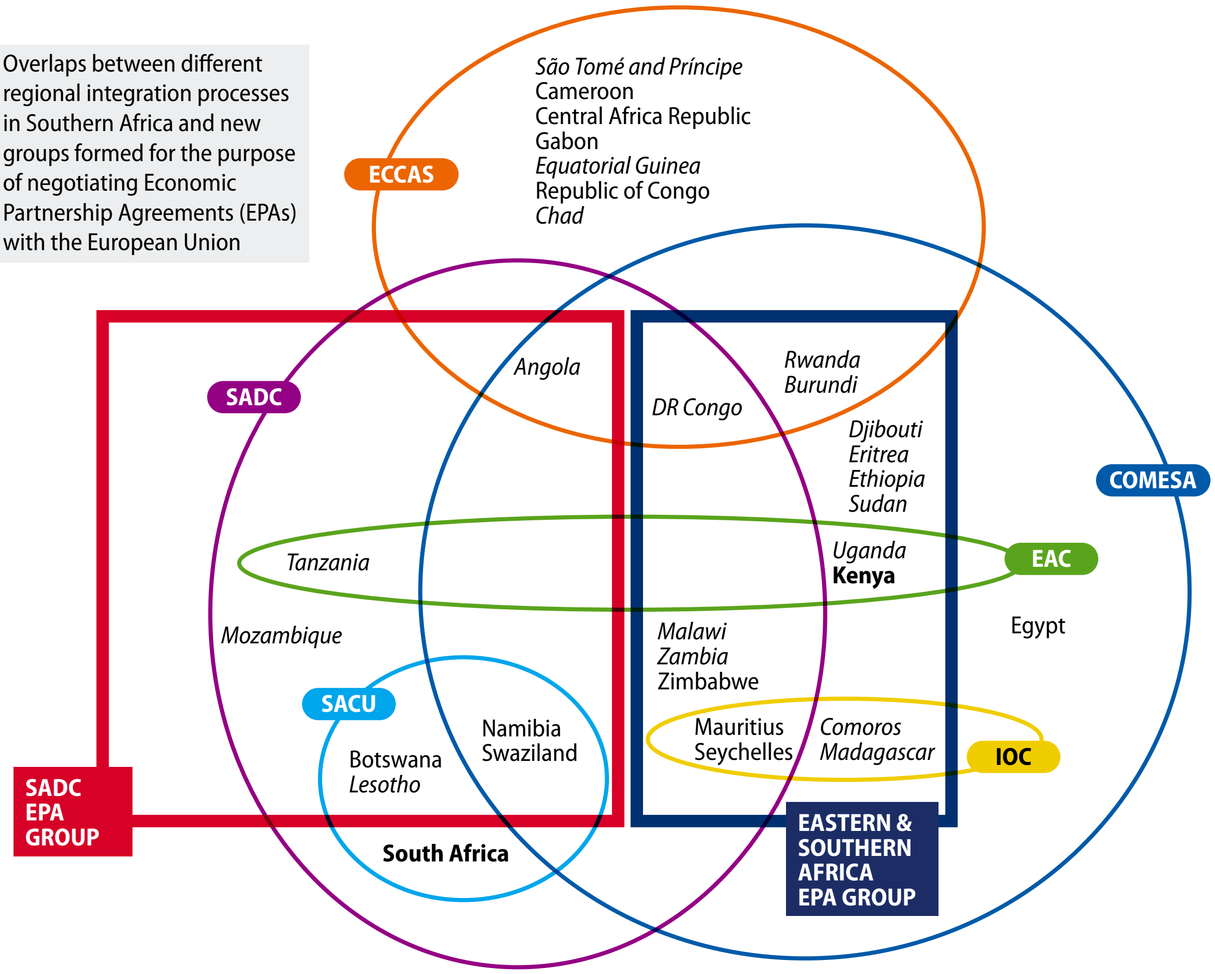


Figure 2: Division of African regional economic communities as a result of EPA processes

Overlaps between different regional integration processes in Southern Africa and new groups formed for the purpose of negotiating Economic Partnership Agreements (EPAs) with the European Union



KEY

Bold	Developed countries	**SACU**	Southern African Customs Union
Italic	LDCs (least developed countries)	**IOC**	Indian Ocean Commission
SADC	Southern African Development Community	**EAC**	East African Community
COMESA	Common Market for Eastern and Southern Africa	**ECCAS**	Economic Community of Central African States

Some countries fear that further trade liberalisation will flood local markets with cheap imports from global competitors. This will either slow down the growth of 'infant industries' or destroy their potential altogether, resulting in unemployment and the social dislocation of families, households and communities. Also dampened will be the ability of countries to create opportunities for human development in terms of skills training, innovation, research and development.

EPAs can enhance export production, diversification and competitiveness only if they are supported by the strong impetus of regional integration. In this context, ESA is of greater interest than SADC, since it is a new reality developing within the historical framework of several pre-existing regional integration initiatives. In addition, ESA has made provision for any member of the Common Market for Eastern and Southern Africa (COMESA) or SADC regional blocs to join its negotiating group at a later stage, if they so wish.

The multiplicity of overlapping regional memberships creates difficulties for ESA and SADC, since it means that they must comply with various tariff reduction schedules, rules of origin and other liberalisation requirements. Countries are expected to implement both the SADC Trade Protocol and the COMESA Free Trade Area, even though the two regional trade agreements offer different trade

Table 3: Estimated EPA-related adjustment costs by African region (€ million)

Region	Fiscal adjustment	Trade facilitation & export diversification	Production & employment adjustment	Skills/ production enhancement	Total adjustment costs
Angola	40,0	45,0	40,0	45,0	170,0
Botswana	30,0	12,0	25,0	15,0	82,0
Lesotho	40,0	25,0	25,0	35,0	125,0
Mozambique	60,0	90,0	50,0	65,0	265,0
Namibia	40,0	12,0	12,0	15,0	79,0
Swaziland	60,0	12,0	25,0	15,0	112,0
Tanzania	70,0	65,0	40,0	65,0	240,0
Total SADC	**340,0**	**261,0**	**217,0**	**255,0**	**1 073,0**
Burundi	50,0	65,0	20,0	45,0	180,0
Comoros	30,0	10,0	6,0	30,0	76,0
Djibouti	15,0	10,0	4,0	30,0	59,0
Eritrea	30,0	25,0	12,0	35,0	102,0
Ethiopia	70,0	65,0	50,0	65,0	250,0
Kenya	60,0	65,0	40,0	65,0	230,0
Madagascar	90,0	65,0	40,0	65,0	260,0
Malawi	40,0	45,0	20,0	30,0	135,0
Mauritius	40,0	12,0	12,0	15,0	79,0
Rwanda	50,0	65,0	25,0	45,0	185,0
Seychelles	30,0	30,0	6,0	15,0	81,0
Sudan	90,0	90,0	40,0	65,0	285,0
Uganda	90,0	90,0	50,0	50,0	280,0
Zambia	50,0	45,0	25,0	45,0	165,0
Zimbabwe	40,0	20,0	25,0	30,0	115,0
Total ESA	**775,0**	**702,0**	**375,0**	**630,0**	**2 482,0**

Source: European Research Office, December 2006, http://ero.at10.be/content/documents/trade_negotiations-01/pdf/1.1.epa-general/Costs-EPA-Related-Adjustments.pdf.

preferences. Furthermore, regional blocs have announced plans to establish customs unions almost at the same time (see below). No country can, however, belong to two different customs unions, unless these unions have equivalent trade policies (including a common external tariff, in which case the two could be merged). This development will force some countries – such as Uganda, Tanzania and Kenya – to choose between membership of COMESA and of the East African Community (EAC).

Some scholars argue that grouping countries into economic negotiating blocs is important for effective, sustainable development. In this view, with the financial support of the EU and other international donors, bloc creation will complement efforts to establish trade protocols for the facilitation of intra-regional and/or inter-regional trade. Already, various regions have expressed their desire to establish customs unions: the SADC, the EAC and COMESA (all by 2010). Proponents of EPAs argue that agreements of this sort will strengthen regional integration, while acting as a driving force for the gradual integration of individual economies into the global economy.

An obverse view holds that the EPA process has created the right conditions for the EU to split the regional blocs, particularly those members negotiating under different coalitions. The vulnerability of regional economies has resulted in their easy plucking and regrouping to suit the EU's long-term goal of establishing FTAs, as well as its agenda at the multilateral level. Figure 2 shows how the EPA processes have divided various regional economic communities, particularly SADC and EAC.

As can be seen from this figure, the EPA process systematically undermines existing regional integration efforts, and frustrates attempts to reconcile the configurations' multiple memberships. In addition, there are fears that the process will create and sustain small, weak and fragmented regional integration frameworks without the potential to act as stepping stones for further integration into the global economy. There is also speculation that the regional disintegration entailed by the EPA process has impacted negatively on the formulation of common offensive and defensive negotiating interests, positions and issues.

Expected adjustment costs

EPAs will result in significant adjustment costs for the SADC and ESA groupings.

Table 3 estimates the EPA-related adjustment costs by individual country, covering the following: fiscal adjustment; trade facilitation and export diversification; production and employment adjustment; and skills development.

A 2002 study by Trade Centre – which is based on the assumption that all tariffs on imports from the EU will be eliminated by 2020 – shows that countries are set to incur substantial revenue losses in coming years. Table 4 highlights the heavy losses to be suffered by Mauritius, Tanzania, Zimbabwe, Mozambique and

Namibia; they are expected to lose 39.5, 37.7, 33.0, 28.0 and 24.1% of their total import revenue respectively over this period.

In addition, the introduction of large-scale competition from European products, coupled with the extent to which domestic production is affected, raises the spectre of potential losses of tax revenue. There is a high possibility that economic enterprises will be downsized and jobs shed following liberalisation. Labour-intensive sectors such as agriculture, textiles and clothing, and food processing, are likely to be the hardest hit. Given that both company and income taxes constitute a significant source of government revenue, loss of tax revenue has become a reality in many countries.

For over three decades, most governments in the SADC and ESA configurations were forced, under structural adjustment, to dismantle their public agricultural research and extension programmes, and to drop the protection and incentive mechanisms that existed for their small farmers and other small-to-medium producers. The process also impoverished people with disabilities, fisher folk and informal traders. Furthermore, the same governments were then forced to harness their most fertile land to grow commodities for export to Northern markets, effectively pushing small farmers from their land and food production out of rural economies. This had a negative impact on local production, investment and marketing; on welfare provision; and on government revenues.

Stressing that agriculture is a critical sector supporting livelihoods and ensuring food security for large portions of their populations, the countries of the ESA region have identified various fixed priorities for their engagement with the EU on farm trade. These priority areas include improving food security; giving special consideration to the needs of net food importing countries; meeting the EU's sanitary and phytosanitary (SPS) measures; addressing the effects of the EU's Common Agricultural Policy (CAP); reviewing regional export subsidy schemes; and commodity pricing. The ESA group wants to ensure that its member countries have sufficient access to the 10th EDF, and other resources, to support these priorities.

Failure to meet these objectives, coupled with direct market competition from EU products, will have a negative impact on the potential export earnings generated by the agricultural sector. One estimate holds that the EU's SPS measures and other technical regulations prevented approximately 50% of potential exports of fish, meat, fruit and vegetables from the African-Caribbean-Pacific (ACP) grouping from entering into the EU market. Apart from these non-tariff barriers, this sector is already competing with products that are benefiting substantially from CAP subsidies.

Table 4: Tariff revenue losses as percentage of total import revenues

Country	T<50% in 2012	T<30% in 2016	T<20% in 2020	Total loss
Botswana	1,93	2,69	3,08	7,7
Malawi	4,23	5,93	6,77	16,9
Mauritius	9,87	13,82	15,79	39,5
Mozambique	7,00	9,81	11,21	28,0
Namibia	6,02	8,43	9,63	24,1
SA	2,58	3,62	4,13	10,3
Swaziland	2,47	3,45	3,95	9,9
Tanzania	9,42	13,18	15,07	37,7
Zimbabwe	8,30	11,62	13,28	33,2

Source: http://www.geppa.dk/files/activities/Trade%20Mondays/2004/Paul%20Kalenga%20-%20Economic%20Partnership%20Agreements%20(EPAs).pdf

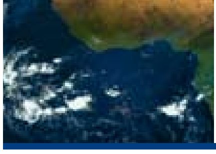
Table 5: Distribution of revenue losses from a R2 billion reduction in duty collections

Country	SACU revenue (R million) Before reduction	After reduction	% change	% share of revenue loss
Botswana	4 008	3 423	–15%	29%
Lesotho	1 984	1 709	–14%	14%
Namibia	3 228	2 753	–15%	24%
Swaziland	2 795	2 371	–15%	21%
SA	13 027	12 787	–2%	12%
Total	25 042	23 043	–8%	100%

Source: Bertelsmann-Scott, T. Overview of the SADC and ESA EPA and their Impact on Sub-Regional Livelihoods in Agriculture and Fisheries. SARPN Conference, 23 October 2006

Adjustment costs of the Trade, Development and Co-operation Agreement (TDCA)

Europe negotiated the TDCA (also known as the SA–EU Free Trade Agreement) with SA without involving the other members of SACU (Botswana, Lesotho, Namibia and Swaziland [the BLNS countries]). The TDCA is poised asymmetrically: the EU will liberalise 95% of its imports from SA within ten years; SA will reciprocate with reduced tariffs for 86%



of EU imports over twelve years. However, the BLNS countries, by virtue of being members of SACU, become de facto signatories to this new trade regime. As a result, they have demanded that the review of the TDCA be aligned with the EPA negotiations in order to facilitate the coherence and co-ordination of the two processes. The TDCA was subsequently adopted by the group as the basis for tariff negotiations. The BLNS countries have demanded proper accommodation of their product sensitivities, and the recognition of Lesotho's status as an LDC.

> The TDCA exposes other regional economies (SACU and non-SACU countries) to the highly competitive EU environment, with its heavily subsidised agricultural producers

The TDCA has already resulted in adjustment-cost implications for the BLNS. Prior to its signing, the EU accounted for 40% of all SACU imports (and was thus a major revenue source). As the TDCA lowers tariff levels, this has reduced significantly SACU's customs revenue and, invariably, the overall share accruing to the BLNS countries. In one estimate, total revenue losses for the BLNS countries range from R1,9 billion to R3,5 billion a year. This loss translates into falling levels of spending on social service delivery (health, education, housing and the civil servants' wage bill); infrastructural development; agricultural research and development; and human resource development. As shown in table 5, the annual revenue loss of R2 billion translates into a greater loss for the BLNS countries than for SA.

In addition, it has been argued, the BLNS will suffer economic and welfare losses arising from trade diversion. This means that under the EPAs, the EU will enjoy more favourable access to the SADC and ESA markets, compared to more efficient global producers. The latter – competitors of the EU – will now be priced out of the Southern African market.

To date, the TDCA exposes other regional economies (SACU and non-SACU countries) to the highly competitive EU environment, with its heavily subsidised agricultural producers. It is possible that products from the EU may end up flooding the markets of non-TDCA signatories owing to porous borders that are difficult to police. The combined effect consists of de-industrialisation (downsizing), the forcing of farmers away from their agricultural activities, unemployment, underemployment and poverty.

Emerging negotiations positions

Trade-related issues are a major source of contention between the EC and the SADC group. For the former, trade-related issues (government procurement, investment, competition and trade facilitation) are pillars of development. The EC argues that these regulatory issues help to (a) improve the business climate needed to achieve sustainable development, in the process becoming instruments for mobilising foreign capital and technology; (b) modernise customs procedures; (c) reform, harmonise and add transparency to government procurement procedures; and (d) reform competition policies. But SADC is not keen to include binding trade-related issues under a future EPA, citing deficiency in negotiating capacity; lack of common regional policies in these areas; and the absence of binding rules on investment and government procurement at the WTO level. However, while 'development aspects' are included in parts of the framework relating to SPS, TBT, rules of origin and trade facilitation, so far no substantial discussions have taken place on how to integrate development into the legal text of the EPA in ways that relate it to liberalisation commitments. Unlike in other EPA regions in Africa, the issue of development support in the SADC group has not constituted a major stumbling bloc to the negotiations. The current outline of the 10th EDF Regional Indicative Plan is expected to cover support for the implementation of EPAs.

By contrast, the ESA countries have prepared a list of 'development benchmarks' (or a 'development matrix') based on their priority requirements. The group argues that this is necessary to evaluate the costs of adjustments linked to the implementation of the EPA. In addition, the benchmarks are intended to help quantify the financial resources required to facilitate the various development programmes and projects that have been identified. The ESA group wants to incorporate this development matrix into the legal EPA text and discussions on this are under way.

Continued on page 47

Balancing act

Spotlight on SA's new role at the WTO

SA is striking an increasingly sophisticated balance between seeking greater access to world markets, and promoting the interests of the developing world. **Brendan Vickers** traces important shifts in SA's role at the WTO since the start of the Doha Round

Developing countries like India, Brazil and SA are at the forefront of countries defining the parameters of the WTO's future work programme – their ministers, ambassadors and officials are among the most effective and influential trade policy practitioners in the world today. – Mike Moore, former director-general of the WTO (1999–2002)

ALONGSIDE BRAZIL and India, SA has emerged as an increasingly important and assertive Southern player in the politics of the multilateral trading system (MTS), and particularly the fraught negotiations of the Doha Round. Although SA is not a member of the new G4 decision-making nucleus, the popular and academic literature on its participation in the WTO have cast it in the self-proclaimed role of middle power facilitator with a strong reformist agenda. Put differently, SA remains an influential 'green man' in the WTO's deliberations and processes.

This tactical position and its underlying 'norm entrepreneurship' are quintessentially supportive of the WTO system and its liberalising narrative. However, while expressing sympathy for the ultimate goal of free trade, Pretoria's immediate cri de cœur is for fairer trade and more balanced global trade governance.

For instance, SA's approach to the WTO's proposed Millennium Round and its later incarnation – the Doha Development Agenda (DDA) – was to strategically position the country as a bridge between the developed and the developing worlds. Unlike its wary and resistant African partners, this translated into support for an ambitious new trade round; SA's then minister of trade, Alec Erwin, was even appointed as one of six 'Friends of the Chair' at Doha in November 2001, to oversee the rules negotiations. Following his prominent role in these processes, Erwin was criticised for colluding with the undemocratic 'green room' modalities of the WTO.

However, not many analysts have interrogated the normative contours and tactical coalitions that have underpinned SA's multilateral trade diplomacy since then. In this regard, SA's involvement in two developing country coalitions – the G20, demanding fairer global farm trade, and the NAMA-11, a coalition around non-agricultural market access (NAMA), or industrial tariffs – highlights important aspects of Pretoria's offensive and defensive agendas in the Doha Round.

It is also possible to discern some nuanced shifts in the country's trade diplomacy: from bridge-building middlepowership (apparent at the Seattle, Doha and Cancún ministerial conferences in 1999, 2001 and 2003) to proactively pursuing a more domestic agenda that prioritises further industrial development and economic diversification, with particular emphasis on gaining greater policy space. This latter approach was best epitomised at the Hong Kong ministerial conference in 2005 with the formation of the NAMA-11, co-ordinated by SA. This new alliance essentially sought to reclaim the original developmental spirit of the DDA.

This emerging phase in SA's trade policy appears to be far more consistent with the resistant positions and claims of other developing nations than its stance during the Erwin years. Even traditionally trenchant critics of the government's trade policies from a developing country perspective concede that the SA delegation at Hong Kong – led by the minister of trade, Mandisi Mphalwa, and his deputy, Rob Davies – played a very positive role.

This unfolding approach is informed by a particular epistemic reading of this trade round, as well as the nature, meaning and obligations implied by its 'development' agenda. Davies has best captured this by stating: 'I don't think the round is supposed to be about developing countries liberalising. The main content of the previous round, the Uruguay Round, was exactly about that. The current round is supposed to be about rebalancing the global trading system more in favour of developing countries.'

Interestingly, this new approach broadly resonates with an apparent shift in domestic political discourse away from trade policy and its unilateral liberalising impulses and towards more critical industrial policy questions of economic development, diversification, and technological upgrading (elements of a nascent 'developmental state' agenda).

This thinking fits well with the Harvard economist Dani Rodrik's injunction that: 'Access to the markets of the industrial countries matters for development. But so does the autonomy to experiment with institutional innovations that diverge from orthodoxy. The exchange of reduced policy autonomy in the South for improved market access in the North is a bad bargain where development is concerned.'

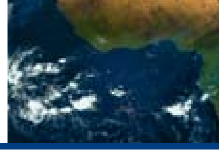
To better understand these dynamics, and the continuing stalemate following the release of the July 2007 draft texts on agriculture and NAMA, this article presents an initial analysis of SA's role in the WTO, with a particular focus on the G20 and NAMA-11.

Doha, farm wars, and the G20

The G20 was formed at the time of the Cancún ministerial conference in September 2003, principally in response to a rather unambitious joint EU–US proposal for agricultural reform. The latter whittled down the Doha principles, collusively defended Northern protectionism, and polarised the debate into a North–South farm war. In contrast with the earlier US drive to liberalise global agriculture, the transatlantic position now saw Washington palpably back-track and ultimately defend Europe's Common Agricultural Policy (CAP). In retrospect, quipped Faizel Ismail, SA's representative at the WTO: 'The EU–US alliance signalled by the joint text threatened to delay the promise of fair and freer global agricultural markets for another 10 to 20 years. It also meant that the subsidised EU and US agricultural systems would continue to undermine the rural and economic development efforts of many developing countries.'

Led principally by Brazil's trade-oriented minister of foreign affairs, Celso Amorim, the G20 brought together a number of developing countries

The SA delegation at the Hong Kong ministerial … even its critics concede that SA played a very positive role.



on the single issue of agriculture, supported by at least two other alliances: the 'cotton club', comprising Mali, Benin, Chad and Burkina Faso; and the Alliance on Strategic Products and Special Safeguard Mechanism (SP&SSM), co-ordinated by Indonesia and Philippines, and later known as the G33. The G20 held the position – and still does – that agriculture is the locomotive of the entire negotiating train, and if there is going to be any movement, this has to move first. With twinned offensive and defensive demands, the group has broadly cast its position on agricultural reform (ie domestic support, export subsidies and market access) as a compromise or 'middle ground' rather than an outlier, or simple blocking agenda.

The emergence of the G20 at Cancún was significant in many ways. It was distinguished by having assembled and unified, through intra-coalition bargains, a motley crew of unlikely partners, ranging from agricultural exporters with strong liberalising interests (such as Brazil and SA) to defensive food importers and countries with greater protectionist interests (such as India). But as a collective the G20 certainly represented a formidable Southern axis, and was further emboldened by unprecedented 'Alliances of Sympathy' of other countries, including the Cairns Group.

Unified front

Despite palpable differences within the G20 over agriculture and the broader DDA, the group maintained its unified front and did not splinter during the Cancún endgame, as many had predicted. The distinguished trade scholars Amrita Narlikar and Diana Tussie have accounted for the group's success by arguing that the G20 is a product of almost two decades of social learning by developing countries, and specifically their reformist adaptation within the broad liberal paradigm.

Narlikar and Tussie distinguish between 'bloc-type coalitions' and 'issue-based alliances'. Whereas bloc-type coalitions are galvanised and unified by ideational and identity-based factors, issue-based alliances are forged for more instrumental reasons. Furthermore, bloc-type coalitions bring together like-minded countries and try to maintain collective positions across issues and over time; by contrast, issue-based alliances are temporary, and formed to address a specific threat. From this perspective, the formation of the G20 at Cancún – and arguably the NAMA-11 at Hong Kong two years later – reflected a shift away from old bloc-style diplomacy infused with declaratory commitments to an atavistic 'Third Worldism' towards more pragmatic issue-based alliances.

Table 1: SA's growing activism in WTO clubland

	Seattle 1999	Doha 2001	Cancún 2003	Hong Kong 2005
Green Man (eg Friend of the Chair, CTD, mini-ministerials, etc)	•	•	•	•
Cairns Group (★)	•	•	•	•
Africa Group	•	•	•	•
ACP	•	•	•	•
G90			•	•
G20			•	•
G110				•
NAMA-11				•
Services Annex C Group				•

Key: (★) = SA joined the Cairns Group in 1998 (sponsored by New Zealand).
G90 = Africa, least-developed countries (LDCs) and the Africa, Caribbean and Pacific (ACP) Group.
G110 = G20, G33, Africa, LDCs, ACP and small, vulnerable economies (SVEs).

Narlikar and Tussie then suggest that the durability of the G20 in the face of a wide range of internal and external tensions lay in its propitious blending of elements of *both* issue-based and bloc-type coalitions. In other words, as a new form of 'smart coalition', the G20 based its offensive and defensive demands for agriculture on technically sound research, while also appealing to the shared weaknesses of developing countries. The former is an important point: the G20 has engaged in studious research and careful analysis to inform its proposals; its position is not simply a laundry list of 'out of orbit' demands, to paraphrase a former EU agriculture commissioner, Franz Fischler.

Whether the G20 can hold firm in the longer run of the negotiations, with its requisite tradeoffs and mercantilist bargains, is an entirely different question. Members' interests do differ. Brazil is an agricultural powerhouse, with almost unlimited arable land and water, a highly productive agricultural sector, and competitive capacity in transport, storage, distribution, and logistics for agricultural exports. The latter include sugar, soy beans, soybean oil, coffee, maize,

Table 2: Impact of tariff reductions on NAMA: bound tariff

	Swiss formula coefficient	Average initial tariff	Average resulting tariff	(a)% reduction	(b) reduction in% points
Developed countries	10	6,8	4,0	40,4%	2,7
NAMA-11 countries	15	34,4	10,4	69,6%	23,9
NAMA-11 countries	35	34,4	17,3	49,5%	17,0

Note: a mark-up of 30 p.p. was applied to unbound tariff lines.

Source: Communication from the NAMA-11 group of developing countries. Negotiating Group on Market Access, WTO, TN/MA/W/86, Geneva, June 8, 2007.

Table 3: Impact of tariff reductions on NAMA: applied tariff

	Swiss formula coefficient	Average initial tariff	Average resulting tariff	(a)% reduction	(b) reduction in% points
Developed countries	10	3,4	2,6	25,5%	0,9
NAMA-11 countries	15	12,2	6,7	44,9%	5,5
NAMA-11 countries	35	12,2	9,1	25,9%	3,2

Source: Communication from the NAMA-11 group of developing countries. Negotiating Group on Market Access, WTO, TN/MA/W/86, Geneva, June 8, 2007.

orange juice, beef, poultry and cotton. Compared to Brazil's agricultural competitiveness, India has a wider range of sensitive and subsistence agricultural products that demand protection (such as wheat, sugar, tea, spices, rice, lentils, dairy and cotton). With elections expected in India before the summer of 2009, negotiators may become even more constrained.

In this regard, it was recently suggested that Brazil and India were prepared to cut a deal on NAMA if their respective offensive and defensive demands on agriculture were appropriately accommodated. The NAMA-11 has, however, denied any rift in its ranks, pointing rather to the space for negotiation.

On the other hand, agriculture can never be a complete answer to SA's growth and employment challenges. Commercial farming produces only 4% of the country's GDP, employs about 10% of the formal labour force, and contributes roughly 8,4% of export earnings. But SA does have aggrieved offensive interests; for instance, the country's labour-intensive, resource-based and rural deciduous fruit canning industry – ie canned peaches, pears, apricots and mixed fruits – has been hard hit by global protectionism and market distortions, and local products are often priced out of third country export markets by subsidised EU goods.

In terms of this 'new politics of confrontation' between the North and South, Daniel Drache succinctly captures the politics of the moment: 'It is wrong to think that G20+ Southern states are in revolt against globalisation, but they have become smarter and much more discriminating in their response to global integration. They are no longer unconditional supporters of the WTO's idealised, but deformed, view of the market. They have climbed off the world trade express train, at least for the time being, with the basic political understanding that to succeed in the global economy, very different strategies are needed.' This understanding has also informed the emergence of the NAMA-11, which prosecutes a politics of 'defensive development' and the right to maintain policy space for future economic diversification.

The NAMA-11 and industrial policy space

The formation of the NAMA-11 in Hong Kong followed at least two related processes. First, in November 2005, nine developing nations – SA, Argentina, Brazil, India, Indonesia, Namibia, Pakistan, Philippines, and Venezuela – submitted a document entitled 'Reclaiming Development in the WTO Doha Development Round' to a special session of the WTO's Committee on Trade and Development (CTD), then chaired by SA's permanent representative to the WTO, Faizel Ismail.

Its sponsors argued that the negotiating trajectory on industrial tariffs and agriculture threatened to invert the development content – indeed, the very logic – of the round. It was therefore necessary to reassert the proportionality issue and the priority of development, at least as these countries understood it. Later at Hong Kong, SA consolidated this group of developing countries into the NAMA-11.

Second, a number of countries led by Argentina also submitted a document on the specific issue of the flexibilities in NAMA, and their interpretation of the agreement on flexibilities outlined in the 2004 July Framework. These countries rejected the notion that the flexibilities should be read together with the coefficients (ie, higher flexibilities for developing countries implied a lower coefficient for tariff cuts and caps). As Davies recalls: 'We felt there was a strong possibility that Hong Kong would endorse a simple Swiss formula with two coefficients. NAMA-11 was a combination of groups opposed to that proposal, or groups that demanded a higher price to agree to it. NAMA-11 did manage to assert a presence in Hong Kong, which was a major achievement.'

NAMA-11 diplomacy is underpinned by the original Doha principles of less than full reciprocity for NAMA (paragraph 16) and special and differential treatment (SDT) for developing and least-developed countries (paragraph 44). From this perspective, there were three highlights at the Hong Kong ministerial conference.

Sequencing agriculture and NAMA

The NAMA-11 successfully resisted attempts by the developed nations to try to force a premature agreement on modalities in NAMA, ahead of any significant agreement on the main issues in agriculture. In this regard, SA negotiators have frequently argued that the sequencing of the Doha Work Programme is not incidental: development issues are to be addressed first; agricultural modalities second; and then the NAMA modalities. In other words, substantial reform of trade-distorting agricultural policies by rich countries should be the benchmark against which NAMA tariff liberalisation is measured.

But, as Martin Khor of Third World Network (TWN) observes: 'The aggressiveness of the developed countries in NAMA contrasts with the leniency with which they would like themselves to be treated in agriculture, where they have more defensive interests.'

Proportionality, balance, and paragraph 24

At the behest of the NAMA-11, the Hong Kong Ministerial Declaration included a paragraph on the need to ensure a balanced outcome of the round as a whole. This is outlined in paragraph 24, which states that there will be a proportionately high ambition in both agriculture *and* NAMA. This is not the exact wording proposed by the NAMA-11; it would have preferred a higher level of adjustment in agriculture than in other areas (eg NAMA and services), and higher levels of adjustment borne by developed rather than developing countries. Although they did not win this battle in that format, there is now agreement on proportionality between the levels of ambition.

The NAMA coefficients

The third contested terrain where NAMA-11 resistance has been pronounced is the respective coefficients for developed and developing country industrial tariff reductions. The Hong Kong ministerial conference adopted a Swiss formula (a variant of the non-linear formula) whereby each *individual* tariff line would be pared down, rather than the more flexible approach of reducing the *average* of total industrial tariffs (as insisted on by the US during the Uruguay Round). This formula would result in proportionately steeper cuts in higher tariffs (ie developing countries) than in lower tariffs, with some flexibility.

> It is wrong to think that G20+ Southern states are in revolt against globalisation, but they have become smarter and much more discriminating in their response to global integration

To illustrate this precarious situation, the average weighted bound tariffs for NAMA in developing countries are close to 14%, compared to 3% in industrial countries. The adoption of this formula will require about 30 'advanced developing countries' (and, indirectly, their least-developed customs union partners such as Lesotho) to pare down their industrial tariff books far more than their developed country peers. Some WTO watchers have even called this approach 'more than full reciprocity'.

In doing so, the EU, US and their developed country peers seek to further 'kick away the ladder' and discipline the policy space that would allow countries at different levels of development to optimally combine the best mix of industrial, trade and technological policies to diversify their economies, develop their manufacturing capacities, and upgrade their technological capacities.

Developing countries are prepared to make concessions, but not at the inordinate price demanded by the North. So, for instance, the NAMA-11 calls for a 'gap' of at least 25 points between the coefficients for developed and developing countries (eg 10 and 35

Table 4: Cuts into applied tariffs in the NAMA-11 countries

Country	Swiss formula with a coefficient of 35 and a mark-up of 30					
	Without flexibilities		Paragraph 8.a flexibilities		Paragraph 8.b flexibilities	
	% applied tariff lines affected	% of imports affected	% applied tariff lines affected	% of imports affected	% applied tariff lines affected	% of imports affected
Argentina	25,1%	36,7%	25,1%	36,7%	24,8%	31,7%
Brazil	27,7%	23,4%	18,4%	20,7%	22,7%	19,3%
Egypt	31,6%	17,4%	26,1%	15,9%	26,6%	15,7%
Philippines	4,0%	3,3%	2,8%	1,8%	2,7%	1,8%
India	22,9%	8,9%	20,2%	8,9%	17,9%	8,7%
Indonesia	4,0%	4,1%	1,5%	2,1%	1,1%	1,8%
Namibia	35,2%	n/a	34,2%	n/a	30,3%	n/a
Pakistan	27,7%	n/a	18,1%	n/a	22,7%	n/a
SA	35,2%	14,1%	34,2%	n/a	30,3%	13,1%
Tunisia	51,2%	n/a	41,2%	n/a	46,3%	n/a
Venezuela	23,1%	27,4%	13,%	24,4%	18,1%	15,9%

Source: Communication from the NAMA-11 group of developing countries. Negotiating Group on Market Access, WTO, TN/MA/W/86, Geneva, June 8, 2007.

respectively). This is vital if liberalisation is to be consistent with the principles of proportionality, SDT, and less than full reciprocity (in the *effect* of the reduction, not the *number* of the formula).

By contrast, developed countries such as the EU and US are proposing coefficients of 10 and 15, and insist that a NAMA agreement must bite into applied tariff rates to create 'new trade flows' or 'real market access'. In July 2007 the chairman of the NAMA negotiating group, the Canadian ambassador to the WTO, Don Stephenson, proposed compromise coefficients of 8%–9% for developed countries, and 19%–23% for developing countries. This, however, polarised the debate even further, with China also joining the fray and demanding the same flexibilities as the other recently acceded members (RAMs).

In tables 2 and 3, the NAMA-11 calculates that coefficients of 10 and 15 would reduce developed countries' average tariffs by 40%, whereas linear cuts for NAMA-11 and other developing countries would exceed 69% on average. As a result, developing countries would have to implement tariff reductions which, in linear terms, almost double those that would be carried out by developed countries. Furthermore, the average tariff cut in percentage points for developing countries would be nearly nine times higher than the cut for developed members.

The NAMA-11–Southern axis continues to defend its principled position, on two grounds. First, the group claims that for tariff reduction modalities there are significant differences between agriculture and NAMA. This effectively falls foul of the proportionality injunction and the requirement for balance, as enshrined in paragraph 24. To illustrate:

- In respect of agriculture, agreement was reached on a tiered formula with four bands and different linear cuts to be applied in each of the bands, whereas in respect of NAMA there was agreement on the application of a Swiss formula with coefficients.
- In respect of agriculture, the possibility of imposing a maximum tariff limit or cap is still being discussed, whereas in respect of NAMA, given the characteristics of the Swiss formula, there will be a maximum limit matching the coefficients adopted.
- In respect of NAMA, it was agreed that all non-ad valorem tariffs would be bound in ad valorem terms; this has not been agreed in respect of agriculture.
- In respect of agriculture, developed countries will be able to exempt a percentage of sensitive products from the general tariff reduction, including products in the lower bands, without any limit as to the value of trade involved. In respect of NAMA, paragraph 8 flexibilities for developing countries place explicit limitations on trade value.
- In respect of agriculture, tariff rate quotas will be maintained. However, developed countries' insistence that developing countries should reduce tariffs on NAMA is not matched by their agricultural proposals, which leave most in-quota tariffs unaffected.
- In respect of agriculture, the Special Safeguard, on top of being unpredictable, represents a major obstacle to market access. There is no such instrument in NAMA.

Second, and notwithstanding claims by developed countries that a coefficient of 35 would entail no reduction in applied tariffs, the new bound tariffs would entail a reduction in 22%–51% of current tariff lines in NAMA-11 countries, depending on the country, and without considering flexibilities (see table 4). The group maintains that the reduction below the

Table 5: SA's tactical positions in the Doha Round

	G20	NAMA-11
Negotiating tactic	Offensive middlepowership	Defensive development
Negotiating strategy	Distributive	Distributive
Issue area	Agriculture	Industrial goods, mining, forestry, fisheries, resources
Coordinator	Brazil	SA
Original membership	SA plus Argentina, Bolivia, Brazil, Chile, China, Colombia (•), Costa Rica (•), Cuba, Ecuador (•), Egypt, El Salvador, Guatemala (•), India, Kenya, Mexico, Pakistan, Paraguay, Peru (•), Philippines, Thailand (•), Venezuela (•) = withdrew from alliance	SA plus Argentina, Brazil, Egypt, India, Indonesia, Namibia, Pakistan (•), Philippines, Tunisia and Venezuela (•) = observer
Inception	Cancún, September 2003	Hong Kong, December 2005
Original position	• Market access: 54% average tariff cut for developed, 36% for developing countries. • Domestic support: US ceiling of US$13 billion and disciple box shifting. • Export competition: eliminate export subsidies. • Support for SP&SSM.	• Coefficient spread of 25 points for developing countries. • Enhanced paragraph 8 flexibilities (including the accommodation of customs unions). • No NAMA sectorals. • Principles of proportionality, less than full reciprocity and SDT.
Supportive alliances	G33 (on SP&SSM), ACP, LDC, Africa Group, C4 (cotton), Cairns Group	G90 (ACP, LDC, Africa Group)
Opposition protagonists	US, EU, G10 net food importers	US, EU, Canada, New Zealand, Switzerland, Chile

applied level would affect 9%–37% of the value of non-agricultural imports by most of its members.

Conclusion

Six years after its launch, prospects for concluding the Doha Round as originally conceived seem increasingly poor.

Simon Evenett of the University of St Gallen recently argued that four factors account for the round's malaise, that is, for this traditional tool of reciprocal trade negotiations yielding so little to date. These are: the choice of negotiating agenda (underpinned by the 'single undertaking', whereby nothing is agreed until everything is agreed as a package) and the principles guiding the negotiations; specific protectionist political-economic forces that have arisen to resist reform; the extent of unilateral trade reform over the past ten years; and the rapid growth of the world's leading emerging markets. With respect to the latter, a failed round will not cost China or India much, but this is not true for Brazil. Evenett calculates that if the Doha Round is not concluded, and World Bank estimates (of the gains forgone) are correct, China would lose the equivalent of about three days of economic growth, and India, the equivalent of about three weeks. Brazil, on the other hand, would lose the equivalent of one to three months of growth – at least twice as much as India.

In other words, Doha may well have reached stasis, at least until 2009 or 2010 when a new US administration is in place and can focus its energies on securing a trade deal.

Against this background, what are we to make of SA's participation in the WTO, and its contribution to the Doha Round?

SA has played an increasingly active role in the world trade body and the Round itself. This heightened activism in global trade has been shaped by both material and ideational incentives. As an outward-oriented economy that is largely dependent on trade flows and inward investment, market access abroad is an essential objective of SA trade policy. For Pretoria, the WTO provides an appropriate forum for such reciprocal exchanges but, more importantly, an institutional platform for managing the forces of globalisation. On the obverse, ideational side, SA places considerable faith in the benefits of rules-based trade multilateralism, which it argues are prerequisites for growth and development in an increasingly interdependent world.

Continued on page 48

Open for business

SADC talks on trade in services

SADC member states are engaged in negotiations about liberalising their services sectors. **Nkululeko Khumalo** dissects the talks, and concludes that they present the region with a significant opportunity for deeper economic integration

The services sector plays a pivotal role in the economic development of many developing countries. On average, it contributes more than 50% of GDP and employment, and accounts for more than half of annual global FDI flows. Services cover a wide variety of economic and social activities, embracing communications, transport, finance, energy distribution, construction, and business services, as well as final demand services such as tourism, recreation, education, health, and environmental services.

Core infrastructure services in most SADC countries are still inadequately and inefficiently supplied, which adversely affects trade and production competitiveness

SADC member states are currently engaged in services trade negotiations and are under significant pressure to liberalise their services sectors, both multilaterally and regionally. External pressures emanate from two main fronts: as members of the WTO they are part of the Doha Round of services trade talks in terms of the General Agreement on Trade in Services (GATS); and they are also involved in EPA talks between the EU and ACP countries. The latter include discussion of the liberalisation of services trade. Against this backdrop, SADC countries wish to liberalise their service sectors among themselves in order to deepen their economic integration, and to have co-ordinated positions vis-à-vis third parties. This will improve their participation and influence at the multilateral level.

However, the desire to liberalise trade in services within SADC is not a mere reaction aimed at defending it against the demands of external trading partners. SADC member states have long realised the importance of deeper economic integration as a means of achieving economic growth and human development in the region. This ideal is enunciated in the SADC Declaration of 1992, which encourages member countries to engage in common actions to promote regional economic welfare, collective self-reliance and integration. In the services sector, the goal is to increase access (from the point of view of both availability and affordability) to quality services by the regional population, so as to improve standards of living, create an investor-friendly destination, and make the region competitive in global trade.

In that context, measures to liberalise intra-regional services trade are meant to foster greater trade and competition, with a view to enhancing gains in welfare and efficiency by removing and/or relaxing domestic and foreign regulatory controls or barriers to entry for foreign services suppliers. This is critical, considering that Africa's low share of global trade is attributed less to demand-side constraints than to lack of capacity to produce adequate quantities of quality goods and services to meet both the needs of domestic operators and export markets. Core infrastructure services in most SADC countries are still inadequately and inefficiently supplied, which adversely affects trade and production competitiveness.

In SADC, the enabling provision to liberalise trade in services is contained in the Trade Protocol, adopted in 1996. While the major focus of the protocol is the liberalisation of trade in goods, Article 23 underlines the importance of trade in services for overall economic development, and encourages member countries to adopt policies and implement measures with a view to liberalising their services sectors within the region.

In pursuit of this mandate, SADC countries have recently decided to have a separate Protocol on Trade in Services, which is now at draft stage. The draft protocol sets out the framework for the liberalisation of trade in services between SADC members and will serve as a basis for negotiations. Starting with six key services sectors (ie the construction, communication, transport, energy, tourism and financial sectors), the envisaged liberalisation process seeks eventually to cover substantially all sectors and modes of supply. The aim is to reach a stage where each member state will treat the services emanating from other members, and the suppliers of such services, in the same way as its own services and service suppliers. In terms of this plan, substantial liberalisation of intra-regional trade in services is to be achieved by no later than 2015.

However, notwithstanding the fact that the draft Protocol on Trade in Services is still being negotiated, SADC countries have undertaken integration efforts that have a positive effect in facilitating trade in both services and goods across the region. Indeed, various protocols and memoranda of understanding – containing provisions that foster both the liberalisation of services sectors and the harmonisation of regulatory regimes – have been concluded, and are at various stages of implementation.

Generally, regional co-operation has focused on developing the sectors concerned by pooling together resources, developing important regional services infrastructure, and strengthening the institutional framework. Actual trade liberalisation is incidental to this process, and not its goal. In some cases, however, both development co-operation and trade in services have been achieved.

Notable achievements in sectors that are key to deeper regional integration include the following:

Transport services

Co-operation has led to the construction of highways such as the Trans-Kalahari and the Trans-Caprivi, as well as development corridors such as the Maputo, Beira, Limpopo, Mtwara, Nacala and Lobito corridors. These have enhanced the development and trade potential of the region, and have resulted in the increased flow of goods and services within the region. However, much still needs to be done, and SADC countries must step up their efforts to improve transport services in all sub-sectors. They must focus on improving the efficacy of transport corridors, and on enhancing the participation of the private sector by dismantling monopolies in air travel, ports, and rail transport.

Energy services

Trade in energy services (electricity) is already taking place in the region through the Southern African Power Pool, which was established to expand trade in electricity and to reduce energy costs. In particular, the Protocol on Energy seems to be combining co-operation in developing the energy sectors with the creation of a climate conducive to intra-regional trade in services. To enhance these efforts, the region should increase the pace of restructuring loss-making state-owned power utilities. In addition, SADC countries should ensure that pricing systems are cost-reflective, in order to attract private investments and extend access to electricity to all consumers.

The aim is to reach a stage where each member state will treat the services emanating from other members, and the suppliers of such services, in the same way as its own services and service suppliers

Telecommunication services

Much progress has been made in ensuring connectivity in the telecommunications infrastructure network, and in implementing the agreed regulatory framework as part of the Protocol on Transport, Communications and Meteorology. SADC countries should pay more attention to liberalising this sector, particularly to strengthening the regulatory framework once privatisation has taken place, in order to prevent large companies from abusing their monopoly positions and blocking benefits from reaching consumers.

Financial services

These sectors in SADC countries are generally open. The Protocol on Finance and Investment (once ratified and implemented) would clearly be an important complement to the Trade Protocol and the Protocol on Trade in Services. Already, there has been substantial liberalisation of the banking, finance and capital markets, as well as investment services, in SADC. Liberalisation has taken place unilaterally and through a number of agreements and memoranda of understanding. Further liberalisation will have to be preceded by macroeconomic stabilisation and accompanied by a strong regulatory regime. Such liberalisation should also be used to lock in reforms.

Tourism services

Perhaps owing to a wider awareness of its importance and a strong desire to attract more FDI, the tourism sector in the region has generally been more open than other services sectors. SADC should maximise its international competitiveness as a tourist destination by abolishing the remaining restrictions – those relating mainly to immigration policies and visa issues. Specific attention must be given to promoting the intra-SADC movement of visitors. The current proposal to create a universal visa system must be implemented as soon as possible. It will facilitate intra-regional travel through the easing or removal of travel and visa restrictions; and will increase the region's market share in, and revenue from, world tourism, by harmonising immigration procedures and the movement of international tourists in the region.

SADC should maximise its international competitiveness as a tourist destination by abolishing the remaining restrictions –those relating mainly to immigration policies and visa issues

Broader liberalisation of trade in services in the above-mentioned sectors must be complemented by the freer movement of natural persons. Member states are therefore encouraged to ratify the recently signed Protocol on the Facilitation of the Movement of Persons in order to increase business mobility, create greater trade opportunities, and achieve economic growth.

While some progress has been made – particularly in regulatory harmonisation – in many cases co-operation has not yet resulted in the actual trade liberalisation of services at a regional level. A number of challenges remain. In particular, the slow ratification and implementation of protocols is a serious concern, undermining as it does the regional integration process.

Conclusion

Inadequacies in key services across the SADC region have been identified as seriously constraining its economic growth and competitiveness in international trade. Yet SADC countries ought to be commended for their co-operation in reforming and developing their services sectors, as well as for the policy harmonisation achieved thus far. These initiatives must be strengthened, with co-operation leading to the actual liberalisation of regional services trade.

Together with vital domestic needs, two aspects militate against procrastination: the pressures brought about by the multilateral services liberalisation agenda, and the EPA negotiations with the EU. Timely intra-regional services liberalisation would enable these countries to have co-ordinated positions vis-à-vis third parties, and to gain clout at the multilateral level. ■

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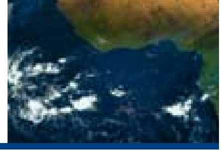


Traders on the move

Study of small-scale cross-border trade in southern Africa

Small traders are a familiar sight at border posts in southern Africa. While most of their activities go unrecorded, new research shows that they form an increasingly important sector of the regional economy. By **Sally Peberdy**.

Across southern Africa, businesses are on the move. Taxis, buses, and sometimes cars laden with people and goods can be seen on any major route and at most border posts. Many of these people are small-scale, cross-border traders, often called informal sector, cross-border traders. They are small entrepreneurs whose businesses depend on buying and selling goods across the borders of the region.

Small-scale cross-border trade includes a range of entrepreneurial activity in small, medium and micro (SMME) enterprises. Various arguments have been put forward to explain its existence: one such argument is that this trade has grown because the restrictions imposed on formal, large-scale trade provide small-scale traders with opportunities.

Restrictive policies cited include high import tariffs, quotas, state trading monopolies, export restrictions, export licensing, and foreign exchange control. Further opportunities for traders result from price differentials, exchange rates, and the differing availability of commodities in the various countries.

Because small-scale, cross-border trade is associated with the informal sector, it is often perceived as a marginal activity, associated with irregular and illegal activity and unpaid duties. Many believe that it has a less than positive impact on trade in general, on revenue collection, and on economies. Nonetheless, strong relationships do exist between the formal and informal sectors in regional trade; informal traders also interact with regulatory frameworks related to trade and migration.

Promoting intra-regional trade and facilitating the movement of people have been identified as integral to the aims of regional co-operation and integration of continental organisations. These include the AU, SADC and COMESA.

The ratification of the SADC Free Trade Protocol, and a movement towards a customs union in COMESA, indicate that member states are committed to these aims. Although slower progress has been made on freeing the movement of people, the SADC Protocol on the Facilitation of the Movement of Persons has now been signed by nine member states and ratified by one. Despite these developments, however, SADC and COMESA have tended to overlook the activities of small-scale cross-border trade in moves to relax restrictions, promote development through trade, and facilitate the movement of people.

Nevertheless, although it remains relatively under-researched, the sector is becoming increasingly interesting to regional governments and organisations.

> Recent research by SAMP indicates that this sector may form a significant proportion of intra-regional trade in southern Africa

Recent research by the Southern African Migration Project (SAMP) challenges some common assumptions regarding small-scale, cross-border trade. It indicates that this sector may in fact form a significant proportion of intra-regional trade in southern Africa, as well as traffic through border posts.

The survey monitored such trade through 20 border posts connecting 11 southern African countries. These were:

- Tlokweng, Kazangula, Ramokwebana (Botswana);
- Maseru Bridge (Lesotho);
- Songwe, Mwanza, Dedza (Malawi);
- Lebombo, Namaacha (Mozambique);
- Oshikango, Wenela (Namibia);
- Livingstone, Nakonde, Kasumbalesa (Zambia); and
- Beit Bridge, Chirundu, Mutare, Nyamapanda (Zimbabwe).

The survey was the largest of its kind undertaken in the region. The count revealed that more than 205 000 people, including 85 000 traders, passed through the border posts. The transactions of 5 500 traders with customs officials were monitored, and over 4 500 traders interviewed.

The study highlights the complexity of small-scale, cross-border trade in southern Africa and notes that it is not uniform across the region, or even through different border posts of the same country.

A heavy flow of traders

A significant proportion of traffic through the border posts consisted of traders. With the exception of Botswana and Namibia, traders made up more than 30% of travellers – more than 50% at Beit Bridge, and almost 75% at Namaacha. This clearly indicates that these traders should be taken into account when effective and efficient border management policies and procedures are developed.

Existing research, smaller in scope and scale, indicates that women dominate in this sector. It has highlighted the economic independence this trade provides for women entrepreneurs, and contributions to household economies. Some 41% of the traders counted in the SAMP survey were women, but they formed the majority of traders crossing through nine of the border posts surveyed, including some of the busiest:

- Livingstone: 80%;
- Lebombo and Namaacha: 71%;
- Chirundu: 67%;
- Mutare: 63%; and
- Beit Bridge and Chirundu: over 54%.

Table 1: Proportion of traders among border crossers, specified by sex (%)

Country of survey	Traders as% of border crossers	Male traders (%)	Female traders (%)
Botswana	9,8	33,3	66,7
Lesotho	34,3	52,0	48,0
Malawi	42,9	68,0	32,0
Mozambique	53,4	28,9	71,1
Namibia	11,2	64,5	35,5
Zambia	43,5	77,9	22,1
Zimbabwe	45,5	44,8	55,2

Source: SAMP survey

Table 1 illustrates this in more detail.

The prevalence of traders in border traffic may reflect the role that cross-border trade plays in their businesses. Most of them could be classified as shoppers, travelling to another country to buy goods for their businesses at home, or carrying goods from their home country to sell elsewhere. Only 13% bought and sold in the countries they travelled to.

The majority of the traders interviewed travel frequently, for short periods of time. Many travel every day, or once or twice a week (72% in Namibia, 50% in Zambia, 48% in Mozambique). How often they travelled, and how long they stayed, depended on the distances involved.

The types of goods carried, where they were produced, the volumes of trade, and the duties paid, all show this sector's relevance to governments and organisations in the region.

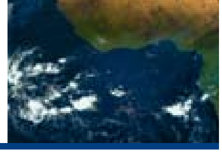
Other border-monitoring exercises in the region – such as the Famine Early Warning Systems Network (FEWSNET) – have focused on small-scale cross-border trade in agricultural products. FEWSNET's multi-year study began in 2004. Since then the movement of selected agricultural products and inputs has been monitored across border posts in the DRC, Malawi, Mozambique, SA, Tanzania, Zambia, and Zimbabwe.

FEWSNET monitored the movement of maize, wheat flour, soy beans, sunflower seeds, groundnuts, potatoes, sorghum, and fertiliser. It shows that small-scale trade in these crops has increased, and has responded to food shortages in various countries. It argues that the trade plays an important role in supplying the region with food and in creating an income for traders.

Food items top of the list

The SAMP survey monitored all goods carried by traders. It revealed that the types of goods varied widely between countries and border posts. However, the goods carried through most borders consisted mostly of food items, including groceries, fresh fruits and vegetables, meat, fish, and eggs (see Table 2). Groceries were more important than agricultural products.

New clothes, household and electrical goods were also all significantly present. Other goods included fabric, petrol (particularly in Namibia and



Zimbabwe), alcohol, car parts, and construction materials.

The SADC's mission to promote intra-regional trade is thus well served by these traders, who contribute to the regional economy and move goods produced in the region through the region. The overwhelming majority of goods in the SAMP survey (93%) were made or produced in SADC countries. SA led the way, as 49% of the stock carried was produced there. It should be noted, however, that some traders may not have been clear about the difference between where the goods were produced and where they were bought.

The value of the goods points to the complexity and diversity of this sector (see table 3). Traders travelling longer distances less frequently are likely to carry loads with a higher value than those travelling shorter distances frequently. A significant number of traders appear to work in a survival mode – many carried goods worth less than R500 (see table 3). Some of them travel with low-value loads very often, even daily. Most traders, however, carry stock worth between R1 000 and R5 000. A small number carries loads worth more than R15 000.

The differing values of the goods carried show that small-scale, cross-border trade encompasses a wide range of entrepreneurs, from survivalists to relatively large-scale traders.

Although many traders appear to be trading on the margins, smaller and more localised research has studied their activities and the structure of their businesses, as well as the impact on households of this type of trade. It indicates that profits have a significant impact on household incomes. Also, many small-scale traders employ people, who are often *not* family members. The research suggests that traders are committed to entrepreneurship and are looking for ways to grow their businesses.

The question of duties

As noted earlier, small-scale cross-border trade is often associated with corruption, smuggling, and the avoidance of duties. The survey found that 1 780 of the 5 500 monitored traders paid duties. The remainder carried loads on which duties were not payable and/or fell under the personal allowance limit.

The amounts collected varied between border posts and countries. Variations can be explained, at least in part, by the following:

Table 2: Types of goods carried (%)

Country of survey	Groceries	Fresh fruit & vegetables	Meat/fish/ eggs	Electrical goods/ household goods	New & pre-owned clothes/shoes	Other
Botswana	8,1	26,7	1,2	16,9	19,2	21,1
Lesotho	10,4	31,3	1,5	6,0	17,9	23,9
Malawi	17,7	7,0	0,3	43,0	37,5	2,9
Mozambique	69,9	21,0	60,9	9,8	12,6	8,6
Namibia	56,3	16,4	5,8	10,5	3,4	18,8
Swaziland	3,6	6,8	0,4	22,8	64,6	10,3
Zambia	29,2	13,5	7,6	11,2	36,5	15,5
Zimbabwe	69,5	1,6	1,5	10,6	11,7	3,1

Source: SAMP survey.

Note: Percentages may add up to more than 100, as multiple answers were allowed and traders sometimes carry mixed loads.

Table 3: Value of goods carried (%)

Country of survey	R1–500	R501–1 000	R1 001–5 000	R5 001–10 000	Over R10 001
Botswana (N=643)	80,3	12,2	6,1	0,2	—
Lesotho (N=67)	62,7	16,4	17,9	1,5	1,5
Malawi (N=294)	7,5	11,6	55,1	11,9	13,9
Mozambique (N=443)	30,4	28,5	36,2	1,8	2,7
Swaziland (N=470)	7,9	54,0	25,6	4,5	8,1
Zambia (N=529)	44,0	10,3	24,6	16,3	6,8
Zimbabwe (N=765)	23,6	11,9	56,7	6,1	1,6

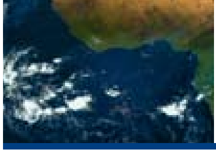
Source: SAMP survey.

Note: Percentages do not necessarily add up to 100%.

- the types of goods carried;
- the values of goods carried through border posts;
- the vigour with which customs officials carry out their duties; and
- the means that traders use to evade paying duties.

During the ten-day survey period at the 20 border posts, R3.75 million was collected from the 1 780 traders who paid duties. So it is likely that at least R135 million is collected each year in this way at these border posts.

The countries where traders buy their goods also benefit. Although most traders buy from the formal wholesale and retail sectors, few claim VAT on a regular basis. In the various countries the proportion of traders not claiming this tax was very high. Almost all



traders in the Namibian (96%) and Zambian (94%) surveys and over three quarters of traders interviewed in Botswana, Swaziland and Zimbabwe, said that they did not claim VAT. It seems that many do not know that they can claim VAT; while others indicate that the systems are too complex and time-consuming, and that they find it difficult to cash the cheques received.

Because they do not claim this tax, it follows that they contribute to the government fiscus of the country in which they buy the goods.

No doubt the presence of researchers reduced opportunities for either traders or officials to offer or solicit bribes. However, researchers in various studies have identified alternative ways in which traders avoid paying duties. One of these is breaking down their luggage into smaller loads and paying people to carry them through or around the border post. Other traders pay people to carry the whole load through for them. Bribes are paid to avoid paying duties – sometimes traders pay duty on part of the load and a bribe for the rest. More rarely, sexual favours are solicited or offered.

Although informal-sector, cross-border trade is viewed as part of the 'second' economy of the region, the reality is far more complex

Although informal-sector, cross-border trade is viewed as part of the 'second' economy of the region, the reality is far more complex. Strong relationships exist between this sector and formal and informal sector markets. The majority of these entrepreneurs buy their goods in the formal sector, from wholesalers, retailers, manufacturers and commercial farms. However, they are likely to sell in the informal sector, on their own stalls or through networks (including friends and family), as well as door to door. Some act as wholesalers, selling to vendors in informal markets. A small proportion sells to retailers and restaurants in the formal sector.

Conclusion

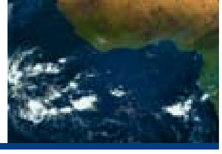
The volumes of trade, the duties paid, the types of goods carried and where they are produced, all indicate that this sector of regional trade is relevant to regional governments, as well as to COMESA and SADC, both of which aim to promote development by growing intra-regional trade.

Nevertheless, the movements and activities of small-scale cross-border traders pose a number of challenges for governments. Although many traders do pay duties and even make a relatively significant contribution to tariff collection, there are also traders who, through bribery and smuggling, avoid paying duties. In order to develop effective and efficient border-management policies and procedures, governments need to consider the various aspects of this situation.

Implementing the SADC Free Trade Protocol and development of the COMESA customs union will help. The implementation of the SADC Protocol on the Facilitation of the Movement of Persons (even though it is likely to take some time) will also assist some traders. However, the provision that allows visa-free entry to other SADC countries for 90 days a year has the potential to constrain the movement of others.

Greater recognition of the existence and complexity of small-scale, cross-border trade, and further exploration of it, could help southern African states to develop policies and practices that are able to boost the positive aspects of this trade sector, and to avoid its negative ones. ■

This article draws on research undertaken by the Southern African Migration Project and its partners, funded by the British Department for International Development through the Regional Trade Facilitation Programme (RTFP). Thanks to the SAMP partners who led the research: E Campbell (Botswana); T Green (Lesotho); M Tsoka (Malawi); I Raimundo (Mozambique); N Nickanor (Namibia); N Zindela (Swaziland); C L Mulenga (Zambia); and D Tevera (Zimbabwe).



Market muscle

Applying 'Aid for Trade' in sub-Saharan Africa

'Aid for Trade' can play a positive role in helping low-income countries to integrate with and benefit from the global economy. **Hugo Cameron** reports on attempts to implement this approach in sub-Saharan Africa.

NEGOTIATIONS IN the WTO's Doha Round and in other forums (eg EPAs and AGOA) hold out the prospect of further market access for goods, services and investment for low-income countries. While many barriers to exports such as tariffs and subsidies are being addressed in these negotiations, often the most important constraints to further participation of poorer countries in the global economy remain on the supply side. These involve major challenges such as insufficient infrastructure, production capacity constraints, and an inability to meet standards in high-value export markets. A deficit in institutional capacity to effectively engage in trade negotiations and implement the outcomes sets up further roadblocks for low-income countries to gain benefit from participation in the multilateral trading system.

Adverse tariffs

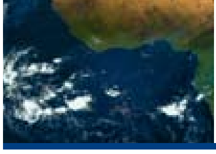
These challenges at the national and regional levels are compounded by significant pitfalls in the negotiations themselves. Many developing countries – particularly those reliant on only a few imports and exports – are vulnerable to trade-related policy shocks, price changes, and other adjustment costs. Reductions in their tariffs can have a significant adverse effect on scarce government revenues, further hampering their already weak ability to re-deploy labour from sectors negatively affected by liberalisation. Across-the-board tariff cuts could hurt many countries reliant on preferential access to Europe and other developed economies. In addition, as Joseph Stiglitz and Andrew Charlton point out in a 2006 report for the Commonwealth Secretariat, net food-importing developing countries could face higher food costs as reductions in agricultural tariffs and subsidies in developed countries lead to higher prices for previously subsidised goods. At the same time, the policy options available to developing countries for shielding industries from strong global competition have shrunk under structural adjustment programmes and successive rounds under the GATT and WTO.

Bringing low-income countries on board the global economy in a way that supports their long-term development requires a mix of policy reforms and investments

As a result, there is an urgent need for the integration of these countries into the global economy to be supported by development assistance targeted to enhance growth and trade. Such assistance must improve their competitiveness, build productive capacities, and take account of the potential negative effects stemming from trade liberalisation.

While support to assist low-income countries integrated into the multilateral trading system has previously been offered, it has been done in a piecemeal fashion, and has tended to focus on improving trade policy capabilities rather than on building productive supply-side capacities. Because the underlying capacity problems have not been adequately addressed, the challenges faced by low-income countries in integrating into global production and trade persist.

Bringing low-income countries on board the global economy in a way that supports their long-term development requires a mix of policy reforms and investments across a broad range of areas – including infrastructure, training, the private sector, and institutional development. Programmes targeting these types of interventions have become known as 'Aid for Trade' – a concept that has recently received increasing



global attention. While various interpretations exist, the London-based Overseas Development Institute (ODI) broadly defines Aid for Trade as 'any assistance intended to help countries to trade and, in particular, to help them take advantage of trade agreements.' This means strengthening trade capacity and supply-side constraints such that low-income countries are able to contest markets.

Aid for Trade Task Force

In December 2005, the Hong Kong Ministerial Declaration created a new WTO work programme on Aid for Trade, with the aim of helping 'developing countries, particularly least developed countries (LDCs), to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to expand their trade'. In response, a Task Force on Aid for Trade was created in early 2006, and delivered its report a few months later in July, following extensive consultations. In all, the report outlined 32 recommendations for the WTO, donors, and beneficiaries to implement so as to fulfil trade-related needs and monitor the progress of Aid for Trade activities. These included proposals for strengthening the identification of needs at the country level, improving donor response, and enhancing the beneficiary-donor link. The report also advocated improving monitoring and evaluation.

> Poor trade-related infrastructure, such as dysfunctional ports, roads, and telecommunications, can add significantly to the cost of overseas-bound products

The Task Force also recommended forming national Aid for Trade committees to identify priorities and co-ordinate actions, and advocated exploring the merits of doing the same at the regional level. Regional committees could comprise sub-regional and regional organisations and financial institutions, and could, among other things, oversee the implementation of the sub-regional and regional dimensions of Aid for Trade; report on needs, responses and impacts; and oversee monitoring and evaluation.

LDCs and other low-income countries in Africa face some of the greatest supply-side challenges of any region, and by extension are expected to be key beneficiaries of any Aid for Trade initiative. Poor trade-related infrastructure, such as dysfunctional ports, roads, and telecommunications, can add significantly to the cost of overseas-bound products from Africa, often negating any gains that might be made in improving market access. Many of the region's countries are landlocked and face hurdles in transiting goods to export markets across neighbouring countries. Customs and regulatory systems in many countries require significant reform, while human-resource capacity is often insufficient to negotiate and design the dynamic trade policies needed to support domestic industrial development.

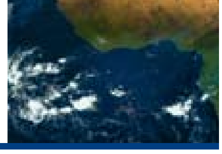
African countries themselves have recognised the need for support at these levels. Leading into the WTO's Hong Kong ministerial meeting in December 2005, the African Union (AU) Arusha Trade Ministers' statement held that:

'We reiterate the centrality of adequate and predictable development assistance for trade capacity building for African countries. We emphasize the need for a firm commitment to expand development assistance for trade capacity-building in all African countries. The proposed Aid for Trade Initiative should focus not only on the capacity to negotiate, adjust, produce and trade, but also lead to better market access [and] improved infrastructure, and address supply-side constraints. Such aid should come in grant form without compromising on Members' negotiating positions.'

Key elements

Since the release of the Task Force report, a great deal of work has been undertaken to bring forward the main concerns and priorities concerning Aid for Trade for sub-Saharan Africa. These have included delivery mechanisms, specific projects and programmes, and financing arrangements. Notably, support to the private sector, and to developing regional approaches, have emerged as key elements of a successful Aid for Trade strategy for the continent.

At a March 2007 meeting of African governments and regional bodies convened by International Lawyers and Economists Against Poverty (ILEAP),



the following priorities were identified as essential in moving an Aid for Trade programme forward:

Each African country should fast-track the process of creating a national Aid for Trade committee. In most cases, this will require appropriately amending the mandate of existing processes or committees.

- The Enhanced Integrated Framework (IF) will provide the overall context for the LDCs.
- An equivalent process must be developed and funded urgently to address the needs of non-LDCs. African delegates at the WTO should consider making this a priority in their discussions in Geneva.
- At the regional level, further work must be undertaken around harmonising policies, identifying supply-side priorities, investments directed at poverty reduction, and the consideration of private-sector concerns in developing Aid for Trade programmes.
- Existing regional strategies and mechanisms should be used by countries as the basis for developing regional Aid for Trade priorities.
- An important education effort is needed, to reach out to the private sector, and also for those countries that have no experience with programmes such as the IF or the Joint Integrated Technical Assistance Programme (JITAP).
- French-speaking African countries seem, generally, to run behind their English-speaking counterparts in implementing regional initiatives; more effort is needed in these regions, to bring them up to a comparable level.

A chicken-and-egg problem

One of the central hurdles to moving forward with Aid for Trade is the so-called 'chicken-and-egg' problem. This involves donor allocation of funds on the one side, and the identification of bankable projects and programmes on the other. Many would-be beneficiary countries have not made trade-related funding requests a priority, because, they say, donors have not funded projects in trade-related areas to the same extent they have funded projects related to concerns such as HIV/AIDS or education. For their part, donors say they have not come forward with much assistance for trade-related aid because recipient countries have not identified this as a priority in their poverty-reduction strategies, and also do not have well-developed programmes or projects to propose. The end result is a lack of committed resources for building productive capacities where they are most needed.

This problem points to the need for further commitment – from both donors and beneficiaries – to address the core concern of lack of competitiveness in low-income countries. Donors need to ensure that additional, new money is both forthcoming and accessible. Recipients need to make further efforts at mainstreaming trade-related needs in national and regional poverty reduction strategies, and building these into projects that are capable of being implemented and can attract both public funding and private investment. According to WTO deputy-director Valentine Rugwabiza, on the demand side, assistance must be provided to help recipient countries accurately assess their trade-related needs, with country ownership as a priority. On the supply side, continued advocacy is needed to ensure that donors provide additional resources and harmonise their responses. Finally, a robust link has to be built between supply and demand, and a clear system created to monitor Aid for Trade. Indeed, it is these linkages that will be at centre stage during a WTO General Council meeting scheduled for November 2007.

The intervening period, therefore, will entail focusing on how best to identify concrete needs, as well as on the means to meet them. ■

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One of the central hurdles to moving forward with Aid for Trade is the so-called 'chicken-and-egg' problem

Seven steps to prosperity

How developing countries can trade their way out of poverty

CUTS International is conducting a major study of the linkages between trade policies and poverty in developing countries throughout the world. **Victor Ogalo** reports on its findings in five African countries, and distils seven key recommendations for policy-makers.

This article covers a four-year research project initiated by CUTS International and lasting from January 2005 until December 2008. The main aims of the research have been to clarify the possible effects on poverty and poverty reduction of various existing policies in international trade; and to use this knowledge to formulate new, coherent poverty reduction policies suited both to the international trading system and to national development strategies.

CUTS International is implementing these activities in association with its different centres and partner organisations in 15 different countries across South and South East Asia, Eastern and Southern Africa, and Europe. In Eastern and Southern Africa, the countries involved are Kenya, SA, Tanzania, Uganda and Zambia.

To comprehend the linkages between trade and poverty reduction better, two sectors were studied in each of these five countries, based on their importance in the economy. The sectors were:

- cotton and telecoms in Kenya;
- clothing and tourism in SA;
- textiles and fisheries in Tanzania;
- maize and dairy in Uganda; and
- agro-processing and textiles in Zambia.

Box 1: Kenyan workers in cotton mills face unemployment

Liberalising the cotton sector through structural adjustment programmes in the early 1990s led to many workers in giant manufacturing textile industries in Kenya, such as Rift-Valley Textiles (Rivatex), Raymond Cloth Mills, and Kisumu Cotton Mills (Kicomi) being laid off and eventually to closure of the mills. In towns like Eldoret, Kisumu and Thika, the main textile centres, the local economy shrank dramatically. The textile industry was the largest employer after government. According to Jayesh Shah, director of a large textile production company, Spin Knit, his company would have 500 000 employees today if it had not been interfered with. Research indicates that over 70 000 jobs were lost in the textile and garment-making subsectors. The government also lost revenue – the illegal importation of khangas, a cloth favoured locally, costs the government KShs 108 million (US$1,4 million) each year in import duties.

Key findings and recommendations

Seven key findings and recommendations have emerged from the research and its case studies. The results clearly point to the need for more development-oriented foreign trade policies.

Strengthen labour-intensive sectors

In most developing countries with abundant labour, labour-intensive sectors play the social function of absorbing parts of this labour into the country's economy. This is particularly so in the case of surplus labour from rural areas, and of less experienced workers in the cities, both groups being among the poorest inhabitants. Yet most developing countries have limited alternative economic opportunities to offer workers who lose their jobs, and thus negative shocks in labour-intensive industries can have serious social and economic repercussions.

An example is the case of cotton millers in Kenya. Here, relaxing restrictions on the textile and garment industries led to imported goods competing with local ones. A decrease in demand for local fabrics followed, leading to increased unemployment.

The country also lost considerable revenue in import duties as traders engaged in illegally importing the competing products (see box 1). Poverty levels have snowballed; they have spread beyond the individuals who lost their jobs and now affect whole families, households, and communities. In many cases, these are people who are already carrying the additional burden of having to support impoverished family members or relatives.

An important finding is that labour released by shrinking sectors has not been integrated into those sectors that are expanding; the reason is that skills across various industries are mismatched. This mismatch has hindered the labour mobility needed to compensate for the adverse impact of liberalisation. As a result, poor workers are unable to take advantage of new opportunities, as they lack the dynamic skills needed to adapt to changing conditions.

To increase competitiveness, the private sector has frequently sought to save on employee costs by demobilising employment in labour-intensive industries through part-time, casual, and temporary contracts. This has led to new wage instabilities, the worsening of working conditions, and reduced social security (tied to looser regulation on labour, social rights, and employee benefits). The poorest segments of the population are the worst hit, because of their lack of skills. There are times, however, when flexible labour has had a positive impact on poverty. In certain cases it can offer a complementary source of income. In Zambia, small-scale processing businesses that are run from home – and require minimal investment – have successfully contributed to an increase in income and access to food for the poor.

In the SA clothing industry, liberalisation has resulted in an expansion of the informal sector. The industry has chosen to replace formal-sector factories with networks of informal producers, who are connected to the formal company through sub-contracts. The same applies in Uganda, where the market share of informal traders in the milk and maize sectors has increased dramatically, from 20% in 1995 to 80% in 2004. The main problem is that informal traders have now taken advantage of a transition to open markets, which still lack sufficient regulation. This has harsh consequences, both for sustaining labour and for consumers, who are often denied the product quality that was available before liberalisation. Box 2 illustrates this.

Box 2: The informal milk trade in Uganda

The informal sector controls about 80% of all milk produced in Uganda. This has led to price distortions and deteriorating quality. Informal traders can offer a higher price to milk producers; later, they sell the milk more cheaply, increasing their profits by adulterating the product to increase its volume. As a result, milk marketing has become difficult to co-ordinate and regulate, investment is discouraged, the few processing plants established after liberalisation have been abandoned, and some export markets have been lost because of poor quality.

Policy recommendations

The governments of developing countries should investigate the changes in employment that result from international trade, and strengthen labour-intensive sectors where poverty and unemployment are widespread. The need to strike a balance between managing liberalisation on the one hand and growth and development benefits on the other, means that governments should pay more attention to specific sectors directly linked to the reduction of poverty.

Where labour rigidities between sectors exist, the government should provide alternative training programmes. It could also offer tax incentives to companies that train the laid-off workers, who could otherwise slide into poverty. These measures would help to integrate workers into alternative employment or entrepreneurship.

If the private sector is to protect employment, the state needs to support competitiveness and labour-intensive production. Appropriate policies could:

- improve access to marketing and distribution networks;
- increase technological capacity;
- invest in trade facilitation (to reduce transaction costs); and
- invest in trade-related infrastructure (to reduce transport and energy costs).

Ensure that the benefits of growth work to lessen inequalities

Critics of liberalisation say that whenever it has promoted economic growth, it has also perpetuated economic inequalities. Obstacles to a more effective distribution of the benefits of liberalisation include:

- physical distance from the centres of trade;
- unequal power relations within households and nations; and
- lack of access to resources and markets.

These are issues that a pro-development trade policy should address.

The gap between average incomes in different regions within a country has often become wider as a result of uneven liberalisation. One reason is that areas remote from markets often receive little benefit. Another is that industries today have turned to casual labour. (Before the 1990s, flexible labour costs were achieved, instead, through the geographical decentralisation of industries to low-wage rural areas.)

Also, poverty usually has a greater impact on women and children, because of unequal power relations within households. Many workers in the textile industries in Kenya, Zambia and Tanzania are low-waged, female migrants. Although the majority of them are unskilled, employment in the textile industry has significantly improved the living standards of their families. There are four main reasons why there is an increased risk of these workers returning to poverty as a result of liberalisation. These are that:

- They face high wage elasticity, which means they are vulnerable to price increases and demand shocks.
- Increased foreign competition has made the textile sector of these countries more fragile.
- A negative perception of the employment of women in factories can harmfully impact on their social status.
- Because foreign direct investment (FDI) tends to be capital-intensive, the demand for unskilled female labour is reduced; upward mobility also suffers from gender discrimination that leaves women in more risky, low-level employment. Protecting these women must be a priority.

The gap between average incomes in different regions within a country has often become wider as a result of uneven liberalisation

Trade reforms should therefore be underpinned by policies promoting an equitable distribution of the benefits of trade liberalisation to the poor and to rural areas. Important conditions for trade growth in rural areas include access to resources and improved infrastructure and services.

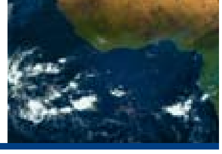
In many industries – such as the dairy sector in Uganda – producers have become frustrated when, following liberalisation, market forces have not rewarded their investment and improvement efforts. This is mainly because of the lack of government support for the most important trade-related investment. While such investments do not have to be provided only by the state, governments do play an essential role in improving the poor's access to resources. Similarly, liberalisation has widened the inequalities between large and small companies, particularly in their ability to seize new economic opportunities. Because small and medium enterprises (SMEs) represent the biggest share of employment in most developing countries, policies must promote these and encourage the employment of local people. This has to happen in order to open up opportunities for the poor and maximise the potential of trade to reduce poverty.

Policy recommendations

To lessen the inequities of economic growth, governments of developing countries should launch decentralisation programmes by creating incentives for companies to establish their activities in rural and marginalised areas. The state must ensure that information about foreign market opportunities, quality standards, and investment in export infrastructure and services reach SMEs. However, most SMEs are unorganised and often do not have the necessary capacity to request or receive government support efficiently. In such cases, SMEs should form organised unions in order to better champion their needs and demands.

Strengthen domestic policies and regulatory capacity

Trade reforms cannot succeed if they are isolated attempts to reduce poverty. Strengthening domestic economic policies is key to increasing trade and growth to benefit the poor. More recently, governments and development agencies seem to be giving more importance to the potential of trade as a tool for development. On the one hand, increased growth and employment opportunities are necessary to



lift people from poverty. On the other, sustainable growth requires government intervention through support measures – such as subsidies, the promotion of human capital, education and health services, and a favourable business environment. All these aspects need to be considered as a whole if trade is to be synchronised with national development strategies.

Some of the negative effects of liberalisation on the poor can be directly linked to the removal of subsidies or other government support measures. While some stakeholders consider government intervention as necessary to alleviate poverty, others – mostly large producers – see competition as the only valid way to achieve improved welfare. The impact of the withdrawal of state support has been mixed. It is important, therefore, to identify how the poor were affected, to design effective policies and assistance to address the problems.

In many countries, new institutions and regulatory bodies were created after liberalisation. Some of them have successfully supported trade growth. However, many have been unable to achieve their mandate, owing to funding issues and a lack of capacity. This has left producers with various problems, such as poor information on markets and prices, delivery inefficiency, and complicated financing mechanisms.

Legal and institutional development frequently lags behind market forces. As a result, many producers have become more vulnerable to exploitation and failure than they were before, as the behaviour of the different role players is not adequately monitored and regulated.

If governments are to provide support, they need to choose sectors with the most potential for reducing poverty and creating employment. It is crucial, however, that this support is not viewed as long-term protection, but rather as a contribution to increased competitiveness in those sectors. See box 4.

Policy recommendations

Trade regulations must ensure that a favourable structure is in place to help seize the new economic possibilities that are available to the private sector and poorer communities. The governments of developing countries need to curb unethical practices (such as dishonouring orders) or the misuse of power to reduce prices without considering input and production costs. Exploitative malpractice aggravates the situation, particularly for poorer farmers.

Good domestic policies are necessary, as industries important in the quest to reduce poverty must be able to develop and expand. Such policies include establishing and reinforcing marketing institutions, favourable tax policies, support for research and development, investment in infrastructure, monitoring of quality, and development of human resources. An efficient regulatory framework would ensure that market participants get the best possible outcomes, as both producers and consumers. Competitive markets need to improve their service to consumers in more

Box 3: Unstable dairy industry in Uganda following liberalisation

Until liberalisation, the Uganda Dairy Corporation guaranteed to sell all the milk produced in Uganda. It was mandated to purchase milk countrywide at fair prices for farmers. Following the competition brought about by liberalisation, the price of milk increased. Competition also ensured that all the milk was sold. For about a year, new investors entered the market and production increased. But this situation was temporary.

With higher competition in milk production, regular purchases from individual farmers could not be guaranteed, which resulted in reduced volumes. At the same time, private buyers had not established any milk-marketing centres and the purchase of milk was sporadic. Prices declined steeply, and several new entrants collapsed rapidly.

While liberalisation gave farmers new market options, government's disinvestment proved extremely costly to dairy producers. The responsibility for collecting, bulking and transporting the milk, for example, now lies with the farmers, drastically affecting their real income.

Box 4: SA government makes tourism top priority

Since 1994, the SA government has recognised the role of tourism as a key catalyst for economic growth and development. It has thus embarked upon various initiatives to develop this industry in a sustainable and responsible manner. In 2002, the Responsible Tourism Guidelines were adopted – these encourage recruiting workers and buying goods and services locally, as well as establishing partnerships with local communities. The government's new Accelerated and Shared Growth Initiative for SA (AsgiSA) also targets tourism. This initiative forecasts that the contribution of tourism to gross domestic product (GDP) will increase from 8% to 12% by 2014, creating at least 400 000 new jobs.

remote areas, or in areas characterised by high costs and low incomes. When strengthened domestic policies are implemented, it is essential to monitor them, to ensure efficient performance and the resolution of possible policy conflicts.

Government policies must promote human development through trade

If reducing poverty is the aim, chance and market powers must not be given the ultimate responsibility of establishing the right balance between trade benefits and human development. Again, the reason is that growing economic inequalities are often a consequence of a lack of regulations as a result of liberalisation.

The state has a role to play in promoting human development through trade. A good trade policy must give governments the space for sustainable development policies that promote human development. For example, trade regimes need to be integrated to:

- ensure and promote labour rights;
- undertake measures and investments that benefit the poor (eg healthcare and education);
- regulate certain business practices; and
- ensure that FDI promotes the efficient use of local resources.

In countries and industries with surplus labour, wages can be low – regardless of the level of productivity – partly because of the many low-skilled workers in search of employment. Even increased exports and market success cannot guarantee wages appropriate to alleviating poverty. Aside from the controversial topic of minimum wages, safety nets are believed to be useful to prevent the poor from sliding below a certain income level. SA is a classical case where the government has chosen to address the issue of an appropriate wage (see box 5).

Improved working conditions do not only contribute to human development. They are also a sound economic prescription, as in many cases they increase competitiveness in markets sensitive to human rights, such as the US and the EU.

Another crucial factor for human development is the need for governments of developing countries to play a more active role in international trade negotiations; this is to ensure that poverty-reduction objectives and fairer trading rules are included.

Governments must also ensure that international standard-setting does not discriminate against poorer countries that simply do not have the resources to achieve high standards without support. The result of such action will be that certain countries are excluded from international trade.

Remember the importance to the poor of economic integration and spillover

To evaluate the repercussions of an economic change on the poor more precisely, backward and forward economic integration, as well as multiplier effects, need to be carefully considered. The impact of change in one industry does not only affect supporting and related industries and total domestic production: it is also relevant to jobs indirectly created by spill-over opportunities. These spillovers can be particularly important in linking trade and poverty, in particular when they benefit or damage the achievement of other development objectives. The box that follows illustrates how they should be taken into account when deciding how to promote a specific industry.

Box 5: Determining wages in the SA clothing industry

Labour rates are determined through sectoral negotiations in the National Bargaining Council. Agreements on wage rates and conditions of employment are extended through a ministerial order to non-parties. The industry wage structure differs according to its geographic location. The 'metro rate' is about 40–50% higher than the official rate for 'non-metro' areas, and includes medical aid. Lower wages in rural areas correspond to the lower skill level of workers producing lower-value garments for the mass market. One noticeable drawback is that many producers do not register with the National Bargaining Council, in order to avoid the levies for social care.

Box 6: Informal sector offshoots of the Zambian textile industry

Using by-products of the textile industry – such as cotton and lint waste, or off-cuts – small businesses can make a number of items, for example furniture, mattresses, or mops. Also, the influx of a wide variety of goods into the local market creates new businesses in repackaging and distribution.

Backward linkages are particularly important in strategies to reduce poverty, as they frequently involve the production of raw materials, which mostly employs poor people. A good example of economic integration assisted by liberalisation is offered by the Zambian agro-processing sector, which uses a significantly high quantity of local raw materials and thus encourages local production.

At the other end of the chain, *forward linkages* are important for creating employment and economic growth. In Uganda, for instance, milling has rapidly developed as a value-added activity in the rural maize economy and has created a new investment avenue for maize farmers. The mills have also introduced a new dimension of paid employment for people living in Uganda's maize belt.

This new development has positively affected productivity and efficiency. The proliferation of private millers using intermediate technology has reduced the cost of milling, making it easier for farmers to add value to their produce at minimal cost. However, some major obstacles still remain in the supply chain, which prevent the maize industry from enjoying the full benefits of this further economic integration. Box 7 illustrates this.

A good trade policy should also identify and promote sectors with positive externalities, such as dairy, fisheries, and telecommunications. In Uganda, for instance, both the dairy and the maize industries traditionally represent a source of both income and food for many households, thereby contributing to food security nationally. (Maize is a major component of the diet of rural and urban communities.)

In Kenya, telecommunications has stimulated positive spillovers for development by playing a dual role, as a traded service and as a vehicle for trade in other sectors. When information transfer is effected at the lowest possible cost, it can boost trade and income, and lead to the rapid diffusion of technology among poor communities. The tremendous growth of the telecommunications sector in diverse countries has created many direct and indirect jobs in distribution, retail outlets, support services, and repair and maintenance, as well as new opportunities for micro-entrepreneurs.

Box 7: Hindrances to supply in Uganda's maize industry

Maize has recently become a major export crop in African regional markets. At the processing level, grain milling is the most widespread, power-driven, and small-scale industry in Uganda, in both rural and urban areas. Maize mills account for more than 70% of all grain-milling activities. However, while high production and distribution costs still reduce the benefits for producers and traders, grain mills within Uganda and the region operate below full capacity, since they cannot purchase adequate supplies of maize. More efficiency in supply-chain planning is needed, to maximise benefits for all.

Policy recommendations

The private sector often cites the unreliability of sources, the lack of uniform quality, and high prices as the reasons why it does not buy raw materials or other inputs from local producers. Certainly, governments can contribute to a more effective supply chain through improved infrastructure, fiscal inventiveness, and training and awareness programmes. Government intervention to support linkages is justified when social benefits – such as reducing poverty – are not realised, for example because of poor financial institutions and perceptions that risks are too high.

To assist in alleviating poverty, economic integration must be considered in its many forms to ensure that important linkages are taken into account. If the vulnerability of the poor is to be reduced, and trade gains increased, the value chain of production needs to be strong and well coordinated. Stakeholders from each level of production also need to participate, to ensure the adequate distribution of benefits.

Work with a realistic market analysis

For countries to reap the benefits of more open markets, people in trade need to have the capacity to understand markets, as well as to recognise opportunities and threats by analysing the potential effects of liberalisation on all trade stakeholders. Various international and national initiatives in developing countries have been dedicated to human capacity-building in trade-related issues.

In many developing countries, government officials need a greater capacity for policy-making geared to development. The private sector – especially SMEs

– must be able to grasp market opportunities, and civil society organisations must understand trade issues in order to advocate better policies.

Ideally, national trade and economic experts, working for diverse public and private organisations, need to follow and analyse markets, and the behaviour of the actors in them. Too often, it is only after a trade agreement has been signed that some stakeholders realise its possible negative consequences. The capacity of negotiators and analysts needs to be boosted.

While the identification of market opportunities – for instance, the preferential market access provided by the US African Growth and Opportunity Act and the EU's Everything-But-Arms initiative – may be the first step to boost trade, the identification of obstacles is equally important. These could be supply-side constraints (eg production capacity, modern technology, and possibilities for diversifying exports) or highly limiting rules of origin confronting local producers.

> Economic growth depends to a large extent on trade, and poverty reduction on economic growth

Most trade preferences have yielded disappointing results, since few poor countries have succeeded in substantially increasing exports through those schemes, mainly because of such obstacles. On the whole, however, the relevance of most preferential schemes is declining, after various rounds of multilateral trade liberalisation.

Policy recommendations

Strategic priorities for the optimal use of scarce resources must be set if obstacles to trade are to be overcome. This requires clarity among stakeholders on a country's economic development objectives, and increased human capacity. Reforms need to be carried out in the right sequence to allow for the necessary capacity-building, and to ensure that complementary measures are in place. This would permit the adequate anticipation of new trade patterns, enhance competitiveness, mitigate negative effects, and avoid potentially high social costs such as increased unemployment.

Establish strong partnerships among relevant stakeholders

Strong partnerships are the fabric of good governance, since they are based on transparency, consultation, and accountability. Enhancing the participation of relevant stakeholders is essential, to increase efficiency and find the optimal approach to achieving objectives such as trade growth and the reduction of poverty.

Two of the major linkages throughout this article can be summarised as follows: economic growth depends to a large extent on trade, and poverty reduction on economic growth. This means that strong partnerships are essential. These can lead to increased efficiency in the achievement of stakeholders' objectives through an improved flow of information and use of resources, and, most crucially, through increased coherence. Synergies can be generated between stakeholders' efforts, accelerating economic growth and facilitating the reduction of poverty.

Partnerships among producers in a particular industry can also mean a stronger voice in dealing with other stakeholders, enhanced bargaining power, and increased market stability. The SA clothing industry, for example, has recently witnessed a strong alliance being forged between textile mills, manufacturers, and the country's five biggest clothing retailers – which increases competitiveness and facilitates co-operation along the value chain. Such partnerships can be powerful as a result of including certain stakeholders, but will remain weak if they do not involve stakeholders who are concerned with poverty reduction.

Policy recommendations

For good and stable partnerships, governments need to be clear about their objectives and ensure that all decision-making processes are transparent. This will allow all other stakeholders to react and prepare themselves accordingly, and reduce uncertainties. Only then can the real needs for sustained, development-oriented growth be identified; and only then can investments be linked to the reduction of poverty. ■

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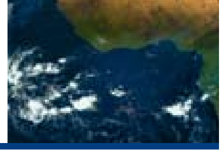


Pat Naidoo

Eskom's investments in Africa

The Grand Inga project on the Congo River promises to be the world's greatest source of hydroelectric power, with many benefits for Africa. **Brendan Vickers** spoke to **Pat Naidoo**, chief executive of Western Power Corridor (WESTCOR), about Eskom's African investments, particularly its involvement in this and other power generation projects

What is the extent of Eskom's involvement in Africa, and in which sectors are you investing?

Eskom's strategy currently is to focus on building new generation capacity within SA to meet increasing demand. We will, however, also look at power generation projects within the Southern African region that are strategic and mutually beneficial to our sister utilities and ourselves; and assess how we can partner in the development of such projects. Eskom continues to play a role in the region through the Southern African Power Pool (SAPP) and other continental bodies like the Union of Power Producers, Transmitters and Distributors of Africa (UPDEA).

Eskom is currently involved in small hydro-power plants in Uganda, where we have Eskom Uganda; in Mali with the Manantali; and in Zambia, we have partnered in the Lunsemfwa Hydro a 40MW power station.

How are these activities supporting NEPAD and the socioeconomic renewal of the continent?

The strategy of investing in new generation capacity, including transmission and distribution sectors in SA and in the region, will enable us to support economic growth and attract more investments in various sectors of the economy. Lack of power capacity has a crippling effect on economic growth; it retards growth in all sectors of the economy. The availability of power capacity including access to it is pivotal to all other NEPAD projects, without power most of these projects are bound to suffer.

The Inga dam project on the Congo River promises to be the world's greatest source of hydroelectric power. What is the extent of Eskom's involvement in this project and what kinds of partnerships does it entail?

Eskom is involved in a joint venture in the Western Power Corridor (WESTCOR), as part of the development of Inga III. This is a 3 500MW hydro-power project on the Congo River. There are four other utilities that are also part of this project namely Société Nationale d'Electricité (SNEL) of the Democratic Republic of the Congo (DRC); Empresa Nacional de Electricidade (ENE) of Angola; Botswana Power Corporation (BPC) of Botswana; and NamPower of Namibia. This project was identified as a NEPAD project, and we hope that feasibility studies on this project will soon begin in earnest.

The Grand Inga project (the site is 225km from Kinshasa, and 150km to the sea) on the Congo River, with a potential generation capacity of 40 000MW, has been highly publicised as the solution to Africa's crippling power generation capacity. It is a major project of power generation and transmission, with potentially many world firsts, such as longest distance transmission, highest capacity run of river generation, and so forth. It is a natural fit to our business of bulk power generation, bulk power transmission and control telecommunications for operations. So Eskom will be interested in this project, but this is perhaps on the long-term horizon; the success of WESTCOR will provide impetus to the Grand Inga project. If the Grand Inga hydro-power project became a reality in many years to come, it will certainly alleviate power constraints in the continent. It is important not to focus on a single project, but to look at an array of other new power generation projects such as coal, nuclear, wind and solar to minimise risks.

At present, where are we? What is the status of the Inga dam project?

As I pointed out earlier, the WESTCOR project should be on course shortly with feasibility studies. The challenge there will also be raising project finance of about US$4 billion on the international markets. The African Development Bank is currently looking at funding feasibility studies for both WESTCOR and Grand Inga.

What benefits does the Inga dam project hold for Africa?

There will be immense benefits if these projects succeed. Currently, in the Southern African region, people with access to electricity ranges between 7% and 73%. Most people with access to electricity are urban dwellers and rural people still rely heavily on biofuels. On average less than 20% of the estimated 200 million people in the SADC region have access to electricity. Access to electricity brings immense opportunities to people in commerce and industry apart from being a critical instrument in the alleviation of poverty, as it impacts on delivery of clean water, sanitation, health services, irrigation of crops in agriculture and the development of home industries and the provision of telecommunication infrastructure.

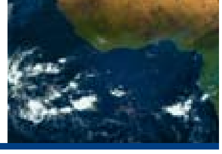
What is important is that Inga offers an attractive source of energy. It is renewable (with an exceptionally regular river flow in the Congo River basin, since it straddles the equator); reliable and dependable; and affordable. We are also seeking to achieve zero environmental impact.

Our total focus is on the economic renaissance of the African continent. We hope that Inga will present an opportunity to become the benchmark for the world's lowest cost electricity. We are also creatively thinking about how to ensure that the project benefits local communities.

I should add that the timing of the project is very apposite. We have reached the end of the excess power supply era, with national and regional demand now leading supply. There is growing regional interdependence and continental peace and security, which offer opportunities for tangible and beneficial regional cooperation. We also confront the threat of global warming, which is high on the minds of the G8 countries.

In Eskom's view, what are some of the key obstacles to further unlocking Africa's economic potential and business opportunities?

Political stability and peace are key to unleashing Africa's prosperity, together with a need for a change in attitude by the major international investment institutions. The tendency of most international investors is to invest on short-term projects. Africa also needs to mobilise its own financial resources and marshal these to long term investment in infrastructure projects. There is also a need to develop an enabling environment that can support investment. A conducive environment should ensure that utilities are financially stable with sustainable tariffs being approved to allow utilities to invest on capital expansion at the same time maintain and service the existing infrastructure. ■



Educating young minds

Model World Trade Organisation 2007

Philani Mthembu attended Model World Trade Organisation 2007, held in Geneva, Switzerland, on 18–22 June 2007. He reports back on his experience, and examines the relationship between trade and the environment.

In an ever-changing global environment, in which decisions made in one part of the world have a profound impact on the lives of people in SA, Africa, and other developing countries, African scholars have to broaden their horizons through greater exposure to the international community. While states still retain elements of their sovereignty, human beings are increasingly becoming global citizens in an increasingly interdependent network of states.

The 2007 discussions of the Model World Trade Organisation (WTO), organised by a student organisation called Oikos International, based at the University of St Gallen in Switzerland, focused on the impact of international trade on international ecology. The topic is especially intriguing because globalisation and industrialisation are rapidly developing trends, with major impacts on people's lives. International leaders in the political, civil society and economic realms are now paying more attention to environmental measures established in terms of different WTO agreements, but there is still a long way to go to striking a workable balance between economic growth and environmental protection.

With institutions of global governance playing a more prominent role in international relations, developing nations must ensure that they send delegates to those institutions who truly understand them, who are familiar with the interests of their countries and regions, and are able to articulate their interests with confidence and, in concert with others. The WTO has 151 members, accounting for more than 97% of world trade. It is the only international organisation that deals with global rules governing trade between nations, and its main function is to ensure that trade flows as smoothly, predictably and freely as possible. It is thus a very important structure for enhancing growth and development, especially in the developing world.

Governments' rights

While the WTO has no specific agreement dealing with the environment, existing WTO agreements do confirm governments' right to protect the environment, provided certain conditions are met (a number of them include provisions dealing with environmental concerns). The objectives of sustainable development and environmental protection are sufficiently important to be stated in the preamble to the agreement establishing the WTO. This shows that, despite the WTO being a trade regime, its members – particularly developing nations – regard the environmental aspects of trade policy as increasingly important.

In the current Doha Round, WTO members are negotiating certain aspects of the link between trade and the environment, while market access for environmental goods is also being vigorously discussed. The impact of trade policies on the environment and vice versa have been given greater importance, as revealed by the formation of the Trade and Environment Committee within the WTO in 1995. Under the Doha Development Agenda (DDA), the committee is also

Submissions to Students' Corner

Post-graduate students are invited to submit essays of no more than 2 000 words on the topic of Africa and the international political economy of trade and development, for possible publication in *Trade Winds*. Kindly submit essays to Brendan Vickers at brendan@igd.org.za.

examining the effects of environmental measures on market access, intellectual property, and biodiversity.

While the WTO has a number of committees working on various aspects of international trade, the discussions on the environmental aspects of trade policy are cross-cutting, and affect a number of agreements falling under different committees. This calls for greater interaction among trade ministers serving on those committees, in order to harmonise their policies and agreements more effectively. It also calls for greater interaction between representative of different countries in order to find common solutions to common problems.

Wider participation

Initiatives such as the Model WTO are designed to ensure wider participation in the discussion surrounding sustainable development through trade. It is aimed at bringing together young people interested in trade from different parts of the world, and allowing creative minds to come up with innovative solutions for sustainable development.

> Intellectual property rights have never been more economically and politically important than they are in today's 'knowledge-based economy'

Such initiatives are not only good for knowledge-sharing and skills transfer, but also disseminate knowledge about the rules of engagement within the WTO. The Model WTO was very enlightening in this respect, as it simulated a WTO ministerial conference, and the participants followed the rules of the WTO. Such initiatives will grow in importance as countries seek to find ways of reaching consensus on important trade initiatives and policies, especially those impacting on the environment.

It will be more important for young people from different world regions to gather together and discuss common matters relating to trade, and this will assist future trade negotiations, since one hopes that the same young people will eventually play a vital and proactive role in their own countries in formulating sustainable trade policies. Whether as trade ministers who will be the future negotiators, academics through knowledge production and policy formulation, or leaders of NGOs and the private sector, they will all have to understand how the WTO functions.

Several texts adopted by WTO members are relevant to both trade and environmental matters, and these deserve a mention, as they will continue to shape trade policy with environmental implications. They also present opportunities for the developing world.

Article XX (General Exceptions) of the General Agreement on Tariffs and Trade (GATT) was negotiated as early as 1947, and outlines a number of specific instances in which WTO members may be exempted from GATT rules. These include two sets of circumstances for environmental protection. The Article states that subject to the requirement that such measures are not applied in an arbitrary, unjustifiable and discriminatory manner. It further states that it should not constitute disguised restrictions on international trade. It continues that nothing in the Article shall be construed to prevent the adoption or enforcement by any contracting party of measures:

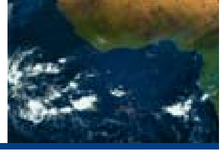
(b) necessary to protect human, animal or plant life or health; or

(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption.

Article XX has positive implications for developing countries able to participate in the global trading regime, while also promoting sustainable development by protecting the environment against irreparable damage. Such an exception should not be viewed as distorting trade; it should be remembered that the WTO still holds the liberaliation of equitable trade as its ultimate goal. Thus countries who utilise this exception to the WTO rules must present a justified argument on the need to protect the environment from damage, and should not use the environment as an excuse to distort free trade.

Milestone

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) represented a milestone in the evolution of the multilateral trading regime, and has major implications for trade policy that affects the environment. This agreement will probably continue to grow in stature and importance,



and should therefore be closely monitored, especially by developing nations, as it not only allows them to protect their environmental assets, but also presents them with greater trade opportunities.

Intellectual property rights (IPRs) have never been more economically and politically important than they are in today's 'knowledge-based economy'. IPRs are legal and institutional devices designed to protect creations of the mind, such as inventions, works of art, literature, and designs. At the international level, the most important legal document on IPRs is the TRIPS Agreement, one of the main outcomes of the Uruguay Round of the GATT, which is administered by the WTO.

TRIPS refers explicitly to the environment in Section V, which deals with patents. It states (in Article 27.2 and 27.3) that members can make certain inventions ineligible for patenting in order to protect human, animal, plant life or health, in order to avoid serious harm to the environment. These provisions are designed to address the environmental concerns related to intellectual property protection, and thus the TRIPS Agreement allows members to refuse to patent inventions that may endanger the environment, while plants and animals can be excluded.

Major chalenges

One of the major challenges for developing countries is to ensure policy coherence, so that the implementation of TRIPS is consistent with the international agreement that deals specifically with genetic resources and biological diversity, namely the Convention on Biological Diversity (CBD). The CBD, which entered into force in 1993, has as its three objectives 'the conservation of biological diversity, the sustainable use of its components, and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources'. IPRs and particularly patents are considered to be most relevant to the third of these objectives, namely the fair and equitable sharing of benefits.

The most important parts of the CBD are Articles 15 and 8(j). Article 15 recognises the sovereign right of states over their natural resources and their authority to determine access to genetic resources, and that access, where granted, shall be on mutually agreed terms and subject to the prior informed consent of the provider party. Article 8(j) requires parties to 'respect, preserve and maintain knowledge, innovations and practices of indigenous and local communities embodying traditional lifestyles relevant for the conservation and sustainable use of biological diversity and promote their wider application with the approval and involvement of the holders of such knowledge, innovations and practices and encourage the equitable sharing of the benefits arising from the utilization of such knowledge, innovations and practices'.

Balance of power

In future, historians of trade law may well point to 1999 as a year that marked a shift in the balance of power at the WTO. While the old Quad countries (the US, EU member states, Japan and Canada) were still disproportionately powerful, developing countries became more proactive and assertive. Developing countries have begun not only to complain in an organised fashion about TRIPS, but also to make proposals in a co-ordinated manner. Developing nations are starting to undertake further research, and realising the opportunities open to them within the WTO. They have accordingly sought to maximise the benefits arising from their comparative advantage in biological diversity. Thus, as revealed through the TRIPS Agreement, while states have the ability to protect their natural resources to ensure sustainable development, they also have opportunities to determine reasonable terms and conditions regarding the use of their biodiversity, opening opportunities in benefit-sharing.

> While states have the ability to protect their natural resources to ensure sustainable development, they also have opportunities to determine reasonable terms and conditions regarding the use of their biodiversity

The Agreement on Agriculture will also have major implications for progress at the WTO, especially in respect of the environmental aspects of trade. Adopted during the 1986–94 Uruguay Round, the WTO Agriculture Agreement seeks to reform trade in agricultural products and provides a basis for

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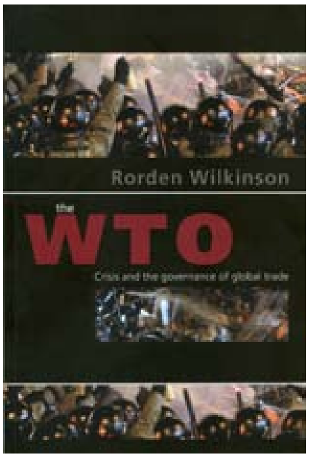
Doha's fraught negotiations

Brendan Vickers

The history of the Doha Round – launched amid ringing pro-poor rhetoric in the Qatari capital in November 2001 – is littered with the dashed hopes of developing countries seeking a rebalanced world trading system, and with numerous deferred deadlines. For many observers, crisis and collapse have become endemic features of Doha's fraught negotiations: the endgame at the Cancún ministerial conference in 2003; the suspension of the talks in 2006; and the stalemate at the Potsdam meeting between the US, EU, Brazil and India in 2007. Even prior to Doha – in 1999 – the running battles on the streets of Seattle conjured up images of the WTO as an organisation in an existential crisis. It is also not unimportant that two of the WTO's first six ministerial meetings ended in collapse. Before that, the Uruguay Round (1987–1994) and its much-vaunted 'grand bargain' (or 'bum deal', as Sylvia Ostry opined) was in trouble too.

Rich narative

Against this canvas Rorden Wilkinson, in his book *The WTO Crisis and the Governance of Global Trade*, crafts an empirically rich narrative of international trade politics since 1947 and specifically addresses the role, causes, and consequences of crisis in the WTO. In light of the current stalemate in the Doha Round, both scholars and trade practitioners will appreciate



The WTO Crisis and the Governance of Global Trade
Rorden Wilkinson
New York: Routledge (2006)

the book's penetrating insights into these past and present – and no doubt future – dynamics.

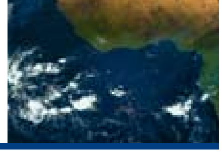
Reviewing the book, one is left with a sense that crisis and collapse are perhaps structural features of today's world trading regime. More significantly, for global trade governance, is the idea of a 'post-crisis politics' underpinned by reflection and renewed energy, which progressively catalyses the further development of multilateral regulation. Wilkinson, for instance, argues that the Hong Kong ministerial conference in December 2005 was a quintessential instance of post-crisis politics: 'The collapse of the Cancún meeting and the political settlement reached in the July 2004 package ensured that despite a general negotiating sloth, each of the principal protagonists approached the meeting in an optimistic and willing fashion' (p. 137).

But the current malaise in the Doha negotiations is hardly new: ministerial meetings of the GATT similarly collapsed in Geneva (1982); Montreal (1988); and Brussels (1990). However, the organic connection between crisis and the development of multilateral trade regulation is seldom recognised and Wilkinson has provided critical pointers in this regard.

Liberalisation project

Wilkinson suggests that, ironically, crises keep the rickety trade bicycle from falling over and do not disrupt or derail the liberalisation project. 'If anything,' he writes, 'multilateral trade regulation is stronger and more robust than it has been at any time since the negotiation of the GATT in 1947; and the way in which it structures the relations of its member states remains firmly intact' (p. 3).

The value of this book lies in its critical scholarship, which in Coxian terms stands back and enquires how and why particular institutions – such as the GATT/WTO and their underlying power dynamics – were established. Wilkinson argues that the existing literature on trade politics, while a useful record of the politics of the moment, largely misdiagnoses the broader causes of the breakdown of these trade meetings and the consequences of their



collapse. He draws on institutional theory to argue that the collapse of WTO ministerial conferences results from the manner in which multilateral trade regulation was historically created and has since developed (including specific and quite peculiar institutional practices, procedures and ways of operating). This has meant that the GATT/WTO system and its various political bargains have perpetuated – and in some instances, even amplified – asymmetries in economic opportunity, particularly for developing and least-developed countries.

The book is divided into six chapters. After the first, introductory, chapter, these build upon each other historically. Chapter 2 details the origins of multilateral trade regulation, namely the post-war settlement, the aborted International Trade Organisation (ITO) and the rise of the GATT. From its inception, the GATT as a political project provided for the selective opening of markets and imbued multilateral trade regulation with a distinct institutional bias towards the economic needs of its industrial contracting parties (particularly the US and post-war Western Europe). Chapter 3 demonstrates how selective liberalisation under the GATT effectively established asymmetry of economic opportunities between developed and developing countries. GATT liberalisation concentrated on the opening of industrial and manufactured goods markets while excluding agriculture, and textiles and clothing. The latter are sectors in which developing countries are most competitive.

Although the Uruguay bargain brought the agricultural and the textiles and clothing sectors back into the fold and '… the sprinkling of development-sensitive provisions represented a step forward from the GATT era' (p. 94), the introduction of new rules in services, intellectual property rights (TRIPS) and investment measures simply generated additional asymmetry. Developing countries simply did not have the resources or capacity to benefit from the liberalisation of the agricultural and the textiles and clothing markets. Moreover, J. Michael Finger, the former lead trade economist of the World Bank, has elsewhere argued that the estimated cost of implementation in just three areas – TRIPS, customs valuation and sanitary and phytosanitary measures (SPS) – may be as much as US$150 million per country, diverting scarce resources away from more socially pressing concerns.

Privileged core

Not surprisingly, argues Wilkinson in chapter 4, the result of the Uruguay Round was to carry international trade regulation across the transition in institutions from the GATT to the WTO, thereby reinforcing and perpetuating a global configuration of power that privileged the core to the detriment of the periphery.

Chapter 5 covers the new WTO epoch since 1995, particularly the collapse of the Seattle and Cancún ministerial meetings, and the launch of the Doha Development Agenda in 2001. Although the latter promised to address some of the existing anomalies in the WTO's legal framework (in return for an extension of the organisation's rule-making into other areas of domestic regulation, notably the Singapore issues), Wilkinson argues that the balance of potential gains from the work programme remained firmly with the industrial states. He goes so far as to suggest that: 'From the point of view of the developing states, agreeing to the DDA was a fundamental error' (p. 124).

> This book is a welcome addition to the canon of literature on the WTO and international trade politics, which too often relies on rationalist perspectives and interpretations

Since Cancún, developing countries have managed to assert their voice and presence better, as with the G20 on agriculture and later, in Hong Kong, the NAMA-11 on industrial tariffs. Despite these gains, the manner in which asymmetries of opportunity have been layered one upon another by successive trade rounds suggests that anything less than a Doha outcome that markedly favours developing countries over their industrial counterparts will merely perpetuate existing imbalances. Given the incessant demands of industrialised countries for more harmonised global rules, however, the prospects of such a deal are hardly good.

In conclusion, this book is a welcome addition to the canon of literature on the WTO and international trade politics, which too often relies on rationalist

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Welcome voices from the South

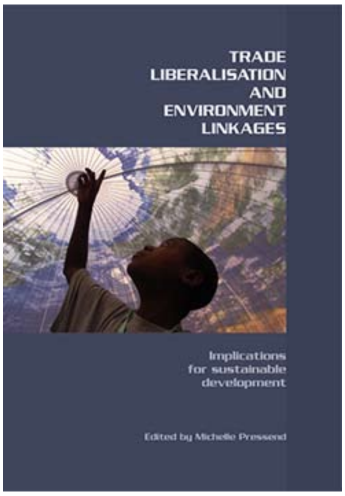
David Fig

As the WTO's Doha Round of international trade negotiations alternates between final collapse and belated attempts at revival, this timely collection of articles examines one of the fault lines of the situation: the perennial trade–environment nexus. How can trading countries square solemn environmental commitments with global trade rules when the two are so often at odds?

While the North insists on the relentless extension of liberalisation measures, the South has major concerns about environmental protectionism, problematic interpretations of intellectual property rights, the intrusion of Northern companies in the field of environmental goods and services, and easy Northern access to the South's abundant natural capital.

Edited by the IGD's Michelle Pressend, this volume is a welcome addition to the growing literature examining the complex arena of trade–environment linkages. Voices from the South are not often reflected in the debate, and so this book brings with it a number of refreshing interpretations and challenging observations.

Contributions to the book are based on research presented at a September 2005 IGD conference. There are useful framing chapters (including a brief history, by Hallé, of the environment in global trade negotiations since 1947), and concise summaries of the conference deliberations, which open up the



Trade liberalisation and environment linkages: implications for sustainable development
Michelle Pressend (editor)
Midrand: Institute for Global Dialogue.
(2006)

material in the individual chapters that follow.

A key theme running through most of the papers is the contextual one of growing trade liberalisation in a globalised world, and the impact this has on the global South. While contributors vary in their approach to this, in general they note the South's particular conditions and needs, and the requirement that global trade rules should be sensitive to asymmetries of power.

Tussie and Tuplin, from FLASCO at the University of Buenos Aires, question the validity of the proposition that trade liberalisation will lead to better environmental management. They also challenge the notion that smaller, bilateral trade arrangements are adequate 'stepping stones' in recrafting the basis for stronger multilateral agreements. They recommend the creation of an empowered global environmental organisation that could trump the WTO in its lack of restraint. Ochieng, whose research covers Africa, also points to the need for changes in the architecture of multilateral institutions.

In this context, it is difficult to concur with Barbour on the 'win-win' outcomes of the liberalisation of services. Even in joint ventures with government, foreign providers of environmental services have ended up recruiting local public servants, depleting government of its best-skilled layer of officials. A look at some empirical research might have demonstrated that not everyone wins.

Another theme of this volume is the contradictions between the global trade regime and some multilateral environmental agreements. Two chapters cover the ongoing tug of war between the WTO's Trade-related Intellectual Property Agreement (TRIPS) and the UN's Convention on Biological Diversity (CBD). A number of issues are at stake, including the patenting of living micro-organisms and control over bioprospecting. These matters have not been fully resolved, not even with the development of the Bonn

Continued on page 45

Guidelines covering access to, and the sharing of benefits from, indigenous resources. The two chapters – written by an environmental lawyer (Feris) and a government negotiator (Mbengashe) respectively – provide interestingly varied insights.

The remainder of the book picks up on themes that affect southern Africa. Keet, in reviewing the impact on trade and trade diplomacy of the General Agreement on Trade in Services (GATS), warns that its rules display a Northern bias, override any meaningful transfer of technology, and may threaten the sovereignty of countries in the global South. The power of the North may also be exercised informally, a point made in Mayet's work on trade in genetically modified food. In the field of services, the stronger international service providers are described as inevitably absorbing or sidelining less competitive domestic service industries. Keet argues for stronger, more principled and better harmonised trade diplomacy in Africa, so as to adequately defend the continent's interests.

Rudin shows that while there has been little formal acceptance of the GATS in the water services sector in SA, informally the commodification of water delivery suits GATS-type principles, as the agreement orients services toward trade rather than toward meeting public needs. GATS casts a ubiquitous 'shadow', and growing reliance on the market means increased suffering for the poorest. The derisory free 25-litre water allowance is unrealistic, creating health and nutritional problems.

The SA case studies also cover agriculture (Greenberg), retailing (Tselentis), fisheries (Johnstone) and natural products (Stephens), providing valuable insights into these sectors.

The final section of the book consists of reports from a series of round-table discussions held to address some of the strategic issues arising from the topics discussed at the conference. This is very useful, although more could have been made of the content. Absent from the book is a further section presenting these strategic issues in a systematic manner, making them more easily available to national and regional trade negotiators, and to NGOs lobbying for a fairer global trade system.

Despite this limitation, the collection has many qualities to recommend it, not least of which is the fact that it ensures that a series of complex arguments has become accessible to the general reader. ■

Dr David Fig is an independent environmental researcher.

Doha's fraught negotiations – *continued from page 43*

perspectives and interpretations. Such perspectives discount the socially constructed nature of rules, norms and power, viewing the WTO and multilateralism as neutral rule-making and procedural instruments that may simply require fixing. A typical argument would be that development does not begin in the WTO, and that the WTO is not a development agency. However, the preambles to the GATT and to the Marrakesh Treaty establishing the WTO explicitly place development objectives at the heart of both. The same goes for recent WTO ministerial conferences; 'development' is certainly the paramount declaratory principle of the Doha Ministerial Declaration. Moreover, peppered throughout the global trading regime are at least 145 provisions for special and differential treatment (SDT) for poorer countries. As Wilkinson eloquently documents, SDT is an explicit concession to the fact that the historical evolution of the multilateral trading system and its global trading rules are heavily skewed in favour of the developed countries. A central refrain of this book is a reminder of the manner in which the GATT/WTO continues to disproportionately serve the interests of the dominant powers over those of the poorest and weakest members.

Historical asymmetries

A better understanding of the institutional evolution and perpetuation of these historical asymmetries of the trading system helps to contextualise the loss of 'policy space' that is a major theme of recent reports by the UN Conference on Trade and Development (UNCTAD), as well as the resistant positions of developing countries to further liberalisation. What should be added – although this is not the subject of the book – is an understanding that the inequities of the multilateral trading system have been further amplified not only by successive trade rounds, but also by the structural adjustment programmes (SAPs) foisted upon the developing world in the 1980s and 1990s. In Africa, these programmes led to the closure of large numbers of manufacturing firms and the virtual collapse of important production and supply sectors in many countries, including Cameroon, Kenya, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe.

Wilkinson concludes, poignantly, that the asymmetry at the core of multilateral trade regulation and the propensity of related meetings to collapse (followed by an incipient post-crisis politics) will remain the structuring features of the world trading regime and shape its future evolution. There is, however, a glimmer of hope for a more emancipatory trade politics. But this, says Wilkinson, will require a dramatic shift in the global balance of power (in which a vastly different institutional architecture is put in place); the development of an alternative ideological consensus; the emergence of a viable competing institutional framework; and/or a fundamental overhaul of the WTO. In the end, it remains to be seen whether there is sufficient political commitment from the industrialised North to make the world trading regime more equitable, balanced and development-friendly. ■

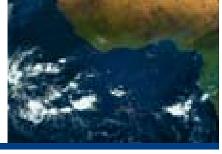
Educating young minds – *continued from page 41*

market-oriented policies. In its preamble, the agreement reiterates members' commitment to reform agriculture in a way that protects the environment. Under the agreement, domestic support measures with a minimal impact on trade (known as 'green box' policies) are allowed, and are excluded from subsidy reduction commitments. These are listed under Annex A of the agreement. Among them are expenditures under environmental programmes, provided they meet certain conditions.

In WTO terminology, subsidies are identified by 'boxes', which are separated into different categories and assigned different colour codes. The Agriculture Agreement consists of the amber, blue and green box, with the latter seen as a non-trade-distorting measure. 'Green box' subsidies have to be government-funded. These subsidies include environmental protection and regional development programmes and are thus allowed without limits, provided they comply with the criteria articulated in Annex 2. Although 'green box' subsidies can be applied without limits, developing countries working within limited budgets are often not able to support environmental protection measures and rural development projects, and this often means that developed countries are in a better position to implement 'green box' measures. The intended recipients of these provisions are developing nations, and this shows that more research is required to ensure that developing nations find alternative ways of protecting their environment.

The Ministerial Decision on Trade and Environment, adopted in Marrakesh on 15 April 1994, which called for the establishment of a Committee on Trade and the Environment, will continue to impact on the progress of the WTO and its other committees, especially at a time where the environment has been elevated in trade talks and public dialogue. Bringing together young people in a mutually beneficial exchange on how to deal with global challenges within the WTO has positive implications, and instils a global culture of joint learning – something that will grow in importance as the process of globalisation increasingly calls for joint solutions and inputs from all the regions of the world.

Oikos, the international student organisation for sustainable economics and management, has contributed greatly to educating young minds about the importance of the WTO, and the assembly of a diverse and talented group was a clear indication of the need of events like this. We participated in a week of stimulating negotiations on the most pressing issues confronting the world trade system today. The disillusionment of many developing countries over the stalemate in the Doha Round and the dissatisfaction of different stakeholders places a question mark against the capabilities of the WTO to establish and



maintain a world trade system that is fair to everyone. Despite the many valid criticisms, the WTO remains one of the most potentially beneficial multilateral organisations in the world. A relapse back towards regional and bilateral agreements would most certainly hurt the poor the most.

Philani Mthembu is a master's student in international relations at Wits University. His visit to the model WTO was sponsored by the IGD. For more information about oikos and the model WTO, see: www.oitos-international.org

Unequal partners – *continued from page 12*

The ESA region argues that it lacks the necessary financial resources to implement the economic, social and regulatory policies required to address supply-side constraints and to add value in key sectors. The group is currently undertaking audits of SPS capacities, and identifying other capacity needs, with a view to utilising the technical assistance promised by the EC. The SADC group and the EC have also focused on the need to build capacity around SPS and TBT measures.

In particular, the ESA group is committed to addressing several developmental concerns in the fisheries sector, so as to increase its supply capacity and its ability to add value to its products. This entails resources to (a) support the sector while it becomes sustainable; (b) stimulate the development of inland fisheries and aquaculture; and (c) strengthen fisheries infrastructure. This is emerging as another contentious area, with the EC wanting fisheries to be an integral part of the EPA, much to the resistance of its counterparts. The ESA and EU negotiators must still agree on two clusters – market access (including exclusion lists) and development – as well as on the question of who signs an EPA.

Conclusion

What are the alternatives if no agreement is in place by 31 December 2007?

The answer to this question is open to debate. A number of scenarios have been suggested, applicable to both ESA and SADC. They are as follows:

- LDCs in both configurations continue to trade under the EBA scheme, but with stringent GSP rules of origin that are costly to adhere to.
- Non-LDCs in both configurations still have the GSP option, although some of their exports face higher tariffs (eg 142% for Namibian beef) and lose the benefit of the easier Cotonou rules of origin.
- Some states (like Seychelles has done) apply to the EC for GSP-plus, although this scheme has conditions attached to it and is subject to unilateral EC determination. In addition, the process and duration of approval are likely to go beyond 2008 (usually a year), meaning that GSP-plus cannot provide immediate preferential market access.
- Quite different options are sought. They include agreeing without negotiation on detailed schedules prepared by one party to the EPA talks; seeking an extension of the WTO waiver; and agreeing on EPA agreements that establish the key principles but leave the details to further negotiation.

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Editor's note: since the time of writing, Botswana, Lesotho, Mozambique and Swaziland, members of the SADC configuration, have initialled an interim goods-only EPA. SA and Namibia are yet to sign the agreement. It is also reported that Kenya, Tanzania, Rwanda, Uganda and Burundi – which form the East African Community (EAC) trading bloc – and the EC have signed an interim agreement, covering trade in goods, ahead of negotiations over other matters such as services and investment. According to the EU, the EAC states will gradually open their markets to goods from Europe over a period of 25 years. After 15 years, 80 per cent of the exports from the EU will enter the EAC market free of duties. Negotiations will continue in 2008 with a view to concluding a comprehensive EPA not later than July 2009.

Balancing act – *continued from page 19*

This lies at the core of its internationalist reform agenda. Examined from a more critical political-economic perspective, SA's tactical approach to the MTS, WTO and DDA, however, continues to reflect a conservatively adaptive attitude towards the existing world order, rather than a more interrogatory or transformatory paradigm. In other words, SA is a 'system supporter' rather than a 'system-wrecker'.

While its heightened and more visible activism in the WTO is arguably a function of the post-Cancún environment in which developing countries have asserted a stronger and more strategic presence, too often the discourse remains one where developing countries make polite proposals and developed countries speak of red lines, vetoes, and no-go areas. This remains a challenge for developing countries, including SA: the South's negotiating win-sets are too often deemed malleable and flexible under Northern pressure. The recent principled positions of the G20 and NAMA-11 should therefore be welcomed.

Significantly, SA social forces such as labour, led by the Congress of SA Trade Unions (COSATU), have also become more prominent players. In March 2007, in a historic move that has hiked the pressure on rich countries, trade unions from the NAMA-11 countries, led by COSATU and Brazil's Central Unica dos Trabalhadores, formed a transnational trade union alliance for defending their manufacturing industries and employment. The two trade union federations had earlier collaborated at Hong Kong in 2005, and issued a joint statement. However, not much attention has focused on these alternative non-state trade policies, or the perplexing silence of business in the current trade round.

To conclude, as a middle-income developing country with limited political leverage in the WTO, SA has sought to strengthen its bargaining power by building coalitions with key Southern 'developmental regimes' and by forging common regional and subregional positions (such as the Kigali Consensus of May 2004; the Grand Baie Declaration of July 2004; and the Arusha Development Benchmarks of November 2005). But while SA is certainly closer to the Africa Group today than it was at Doha six years ago on Erwin's watch, forging common continental positions is hardly a fait accompli. Finding a balance between pragmatic self-interest and seeking greater access for the country's intermediate manufacturers and service exporters to markets in the region, the continent, and abroad on the one hand, and politically supporting the more defensive, dependent and developmental interests of the G90 on the other, remains a major challenge. ■

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