Impact of the Uruguay Round on Sub-Saharan Africa

Why is the Uruguay Round of Interest to Africa?

There are six principal reasons why the Uruguay Round (UR) is of interest to Sub-Saharan African (SSA) countries:

- It will be a boost to the world economy and to demand.
- It covers agriculture for the first time, especially temperate crops.
- Non-tariff barriers (NTBs) are critical for Africa, and these are to be abolished.
- Tariff escalation comes down in the Round, encouraging industrialization.
- There are potential losses of preferences for African exporters.
- There are new obligations associated with World Trade Organization (WTO) membership.

This study, *The Impact of the Uruguay Round on Africa*, therefore attempts to measure these different factors to assess their quantitative importance for Africa.

Present Structure of Africa's Exports

A key difference between Africa and other regions is the present structure of Africa's exports. The countries of Africa are much more dependent on exports of food and agricultural raw materials (27 percent of total), and much less dependent on manufactures (19 percent) than other Less Developed Countries (LDCs), for which the comparable totals are 19 percent and 54
percent respectively. Moreover, fully 80 percent of SSA's exports goes to industrial countries, and half to the European Union, with only 7.5 percent representing intra-African trade. Finally, a key fact is that going into the UR, the average actual tariff faced by Africa was only 0.9 percent, suggesting that while in this respect, Africa had little to gain, there was potential for losses.

**Implications of the Uruguay Round for Market Access**

**Agriculture**

While all of agriculture is covered by the UR, the most significant changes are those that affect temperate crops. This is because these changes are the biggest, and because of Africa's position as a net food exporter. It is a net importer of temperate crops such as maize and wheat. The study finds that while some countries such as Nigeria and Mozambique may be quite heavily affected, the overall increase in the import bill for SSA would be less than one-tenth of 1 percent.

The winners with respect to agricultural exports are mostly the producers of beverages and oilseeds, such as the countries of West Africa.

**Manufactures**

In the case of manufactures, tariffs on Africa's exports do fall somewhat, to an average of under 2 percent in all major markets. The best-treated products are wood, chemicals and minerals. Unfortunately, products of key interest to Africa, notably clothing, leather goods, and fish -- which together represent some 15 percent of all manufactured exports from Africa -- retain the highest tariffs, showing that this Round was not really concerned with Africa's key interests. In general, as with agriculture, West African countries fare better.

**Value of Lost Preferences**

As Africa already faces very low or zero tariffs for many exports, a general tariff liberalization is bound to lower the value of Africa's preferential treatment, and could threaten some exports. Estimates of this are hard to generate, but the study's modeling suggests this would be of the order of only $10 million, or again less than one-tenth of 1 percent of present exports.

**Reduced Tariff Escalation**

Tariff escalation is directly linked to the degree of processing, e.g. higher tariffs on leather goods than on hides. In general, the news is good in this regard, as would be expected, with significant declines for important goods such as wood and leather products, but, surprisingly, with an increase for cocoa.

**Non-Tariff Barriers**

Africa faces many NTBs, especially through the Multi-Fibre Arrangement (MFA) and through 'environmental NTBs' on such products as fish and timber. These will all decline substantially. However, this factor is only relevant for those countries such as Mauritius and Zimbabwe that
have already exploited their preferential access to develop such industries, and for those which are able to exploit the narrow window that will exist until the MFA is eliminated in 12 years.

**Estimates of Overall Gains and Losses**

A number of models have been constructed to estimate the impact that the UR will have on the world and on the different regions. While the usual warnings about the assumptions inherent in such models must be noted, the results are instructive. All such models project significant gains in world GNP as a result of the UR, perhaps of the order of US$200 billion or about 1 percent higher than it would otherwise have been. It must be noted that the biggest gains are for the biggest traders -- the western countries -- and for those countries such as Japan that are offering the biggest reforms. Among developing countries, East Asian countries fare best, as they presently face the highest tariffs.

For Africa, the results are less clear-cut. The estimates range from a gain of 1 percent, to several studies that predict losses of about 0.5 percent. Why should such losses occur? These models predict that Africa would gain little of the growth in world trade, as it is not offering significant tariff reductions itself (see below). In such models, trade reforms improve competitiveness and capture export gains. In contrast, the models predict some losses due to rising food costs. But even so, these losses are very small, and unlikely to be detectable in terms of other factors, such as world growth or the volume of development assistance.

**Africa's Commitments in the Uruguay Round**

For most SSA countries, the UR does not represent any commitment to a meaningful liberalization. As most of these countries did not have 'bindings' (the maximum tariff that a country 'binds' itself to apply) before the Round, the change for Africa was that they introduced, rather than lowered such bindings. In fact, most SSA countries chose to bind themselves at tariff levels that exceed by a considerable margin their present actual tariffs. Many of these are in the range of 100 percent. Even a 'high reform' country such as Ghana has chosen to bind at an average of 33 percent, twice its present actual level. The only exception to this rule is the SACU group of countries (South Africa, Namibia, Swaziland, Lesotho), which have had to commit to a significant liberalization, given South Africa's level of income.

Thus, African countries have chosen not to take advantage of the UR to bind their domestic reforms to an international anchor to improve the credibility of such programs.

**Other Aspects of the Round**

The UR is different from past world trading agreements in that it covers a number of new areas that expand its scope beyond trade in goods. This covers such areas as trade in services (e.g. tourism, finance), intellectual property rights, investment controls and export subsidies, as well as the creation of the new World Trade Organization.

Some of these initiatives, such as the removal of export subsidies, and the need to create legislation to protect intellectual property, are very significant in world terms. However, they
include provisions which allow for special treatment of the LDCs. In general, these provisions mean that SSA countries have at least a decade in which to adapt to these circumstances, and that they will be eligible to receive technical assistance from the WTO and others to facilitate their implementation.

Conclusions

It is hard to escape the conclusion that the UR is not of great significance to SSA countries. It is not the source of huge losses of preferences. Neither is it the source of huge new demand for Africa's exports. Africa has long had reasonably good access to the markets of the industrial countries, but it has not been able to exploit them.

For two reasons, therefore, it must be concluded that the most important reaction required to the UR is the pursuit of trade reform at the country level. First, as the SSA countries chose not to bind themselves to further reforms, it is their own, rather than internationally-monitored efforts that will count and generate trade gains. Second, for those countries that are able to create the appropriate domestic environment, the UR does create opportunities to encourage efficient production oriented to the export market. It also represents an opportunity to develop a framework and environment that will be hospitable to private sector investment, both foreign and domestic. The fact that SSA countries did not seize the opportunity of the UR commitment process to bind themselves to a program of lower tariffs represents a missed opportunity in this context.