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## **NAMA as a Tool of De-industrialization of Africa**

**M. Shafaeddin**

### Abstract

The author argues in this chapter that trade liberalization in Africa during the last couple of decades has led to de-industrialization, slow growth of GDP, low level of investment, growing trade deficits, particularly in food items, in many African countries. This has been the case despite some improvement in recent years due to increases in the price of primary commodities. Drawing also on the experience of successful industrializers as well as failures of premature trade liberalization in low-income countries in recent decades, he further refers to pitfalls in negotiations on NAMA in WTO against the interest of African countries. Discussing the proposals made by developed countries on NAMA, he argues that if they are agreed upon, the structure of production and exports of African countries would be locked in primary commodities, resource based activities and at best low-skill labour intensive products and assembly operation. Finally, he outlines conditions for industrialization of Africa and the required changes in international trade rules in a way to become conducive to growth and upgrading of the industrial activities of the continents.

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## **Introduction**

The purpose of this chapter is to evaluate the implications of the implementation of the proposals made by developed countries during the negotiations on Non-agricultural Market Access (NAMA), in WTO, on industrialization of Africa, particularly sub-Saharan countries. These countries are characterized by low-level of development and industrialization and are already marginalized in international trade and the world economy. Further, they suffer from de-industrialization as a result of policies imposed on them by international financial institutions and bilateral donors under the influence of Neo-liberals and “Washington Consensus” the gist of which is summarized by Williamson (1990).

We will argue that if the proposals made by developed countries are agreed upon, they would limit the policy space of sub-Saharan countries damaging their process of industrialization and development further. It may, in fact, lock them in production and exports of primary commodities and at best resource-based products and assembly operations. Such an outcome will not only lead to their further marginalization, but would also have deteriorating effects on their food security.

To provide the background to our argument, we will briefly refer to the position of Africa in international trade and their development during recent decades. Section II is allocated to the explanation of the process and contents of NAMA negotiations and their implications for industrialization of African countries. In this respect, we will subsequently draw on historical evidence on trade and industrial policies of successful industrializers and the impacts of pre-mature trade liberalization on industrialization of developing countries during recent decades.

Let us mention here that the inclusion of this chapter in a collection of studies which deal with food security may seem misplaced in the first sight. Nevertheless, it is highly relevant because of the interrelation between the agricultural and the manufacturing sectors. The growing demand for food is to be satisfied by either domestic production of the food stuff, or by imports which has to be financed by foreign exchange provided by exports of raw materials and/or industrial products (the later example is

Singapore). The lack of availability of raw materials and their slow pace of their international demand requires some degree of industrial exports for many of the African countries, particularly the larger ones. Further, development of agriculture and the necessary infrastructure, particularly increases in yields, requires some degree of industrial development. Similarly, availability of foods, as wage goods, contributes to the development of competitive industrial development (Shafaeddin, 2005.b).

## **II. Sub-Sahara's position in world trade and the impact of trade liberalization**

In an earlier paper (Shafaeddin, 1996), we have shown that Africa's position in international trade deteriorated considerably between 1950 and 1990, particularly in the case of Sub-Saharan countries. We also argued that the region would be marginalized further in international economy because of its low supply capabilities in the manufacturing industries, its difficulties in diversification of the production and export structures and the nature of globalization and international production networking. We will show in this section that since then, the region has been under pressure to liberalize foreign trade further; and many countries of the region have suffered from de-industrialization and further marginalization from international trade.

Trade liberalization has been more drastic in Africa, particularly in Sub-Saharan countries, than in many other low income regions. The average unweighted tariffs rate of the continent for all products, which had declined to 21.7% in 1995, was reduced further to 13.1% in 2006 (UNCTAD, 2008.c:table1). Further, in 2006, nine African countries showed average tariff rates of less than 10% (based on Loc.cit). Sub-Saharan show even lower tariff rate than Africa as a whole; in the same year the unweighted and weighted tariff rates were 12.1% and 7.9%, respectively. These rates are also lower than the corresponding rates of 14.9 and 13.9 for South- Asia, and 12.7 and 12.4 per cent for all low-income countries, respectively (UNCTAD,2008.c:table1 and World Bank,2008:table 6.7).The manufacturing sector was subject to more or less, the same degree of liberalization. For example the unweighted and weighted tariff rates for the manufacture products of Sub-Saharan countries were 11.9 and 8 per cent as against 12.3% and 12.1% for low-income countries as a whole (World Bank, Loc.cit.). Taking export-and import-

GDP ratios as indicators of outward orientation of the economy, it is evident in table 1 that African countries are more outward oriented not only as compared with developed countries, but also as compared with other low-income countries, particularly South-Asia.

**Inset tables 1 and 2 here**

Trade liberalization has been accompanied with marginalization of Africa in world trade, mainly due to slow growth of production, thus exports of, the manufacture sector. Table 2 indicates significant decline in the share of Africa in world trade during 1980-2000 before it improves slightly in more recent years. In particular, the share of African LDCs, which include 31 countries with about 500 million people (or 7.4 per cent of total world population),<sup>1</sup> remains extremely low. The slight improvement in the ratio over 2000-07 is basically due to the increase in price of primary commodities. During 2002-07, prices of fuel and other primary commodities increased by annual average rates of 23.3% and 16.3%, respectively,<sup>2</sup>. These two product groups accounted for 92 per cent of exports of African LDCs in 2005-06. The share of the whole of Africa in world exports of manufactured goods was about 0.72% in 2006; it was 0.27% for Sub-Saharan, excluding South Africa for 2003-6<sup>3</sup>.

As we have mentioned already, the low share of the region in world trade is basically due to their low capacity in exports and production of manufactured goods which are among demand dynamic” products in international trade. The shares of manufactured goods in exports and GDP of African LDCs were 7.5 and 9.1% in 2005-6<sup>4</sup>, respectively. The share of manufactured good exports in GDP is less than 10 per cent for the majority of African countries (table 3).

**Inset tables 3 and 4 here**

Considering that the countries of the region are at early stages of industrialization, one would expect based on experience of other countries (Chenery and Syrquin, 1985) that the share of MVA in their GDP should have increased during the last couple of decades. Nevertheless, taking the MVA/GDP ratio as an indicator of the degree of industrialization, table 4 indicates that the region has suffered from de-industrialization

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<sup>1</sup> Based on UNCTAD (2008.a), tables 8.4.1 and 8.4.2.

<sup>2</sup> Based on UNCTAD, Ibid, table 6.1

<sup>3</sup> Based on Ibid ; table 2.2 and UNCTAD(2008.c), table 8, p.58.

<sup>4</sup> Based on UNCTAD(2008.b), p.8, table 3

during the recent decades no matter how various countries are grouped as shown in table 4. The degree of de-industrialization is even more pronounced if one compares the MVA/GDP ratio of recent years with that of 1970s. For the continent as a whole, the ratio declined from 21% for 1970-79 to 9% for 2000-06 (Sundaram and Arnim, 2008: table 7). The decline in the ratio is partly statistical because of the increase in price of fuel and other primary commodities. Nevertheless, the price increase can not explain the decline entirely; for the period 1990-99, when the price of petroleum and other commodities showed declining trend, the corresponding ratio was 12 as against 21 for 1970-79<sup>5</sup>. For the particular case of African LDCs, the ratio declined from 10.7 in 1980 to 7.5 in 2006; also it fell in 19, out of 31 cases, and increased only in 12 cases (UNCTAD,2008.b: table A.5).

Generally speaking, the development performance of Sub-Saharan African countries, in particular, has not been satisfactory following trade liberalization during the last quarter century. As is shown in table 5, during 1980s in particular even export growth (in current terms) was negative. Judged by growth of exports and GDP, economic performance has improved somewhat during 2000-06. Nevertheless, the improvement can not be attributed necessarily to trade liberalization. It is true that export growth is an important contributory factor to growth of GDP as it contributes to its growth directly and indirectly, through availability of foreign exchange necessary for investment and development. Nevertheless, the increase in the value of exports in more recent years was basically due to increase in price of non-fuel primary commodities, and petroleum which more than doubled and trebled during 2002-2007 period<sup>6</sup>. In fact, the pace of MVA decelerated during 2000-2006 as indicated in the same table.

#### **Insert table 5 here**

Moreover, trade liberalization contributed more to the expansion of imports than growth of exports. When oil exports are excluded, it is evident that trade liberalization was accompanied with increase in trade deficits of non-oil exporting African countries despite increase in the price of primary commodities in recent years. The trade deficits of

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<sup>5</sup> The price index of primary commodities was 124.3 in 1990 as against 98.4 in 1999; for crude petroleum it was 78.1.6 and 64.3, respectively (Based on UNCTAD, 2008.a: table 6.1).

<sup>6</sup> Based on Ibid.

these countries increased from \$6.2 b. in 1979-81 to \$35.1b for 1999-01 and nearly \$60b.in 2005-7 which is equivalent of about a quarter of their import bill (Based on UNCTAD, 2008.a), tables 1.1.1 and 1.1.2).

The deficit in food trade of the African countries is, in particular alarming. The combination of their own trade liberalization together with agricultural policies of developed countries has had major knock-down effects on agricultural production of the continent. Thus food deficits of the continents increased from about \$14b in 2000/2/3 to \$38.7b in 2007/8 (UNCTAD 2008.c, P.38). In 2005, 24 African LDCs, out of 31, show food deficits, out of which in 18 cases the deficits increase significantly over 2000-06 (based on UNCTAD, 2008.b:table 10).

Low level of investment has been another by product of liberalization as government expenditures were cut in many African countries under the pressure from Structural Adjustment and Stabilization Programmes of the World Bank and IMF. Further, the private investment did not particularly respond to trade liberalization and FDI has not been forthcoming much (Shafaeddin 2005.a and c and Sundaram and Armin, 2008).Despite some improvement in recent years, the I/GDP ratio was lower in 2006 than that of 1980; the corresponding ratios were 20.7 % and 24%, respectively<sup>7</sup>.

In short, trade liberalization has not been accompanied with growth of industrial sector in most African countries. In fact, de-industrialization has occurred in many of these countries. And recent recovery in exports and GDP will be short lived as the upcoming world economic down turn will definitely lead to decline in price as well as volume of exports of primary commodities. There is already some evidence in this direction. The price of primary commodities has fallen, on average, by nearly 30 per cent between April, when it was at its peak, and end October 2008<sup>8</sup>.

Taking into account the historical background during the last couple of decades, let us see what could be the possible impact of likely outcome of NAMA.

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<sup>7</sup> It was 19.1 for 1990 and 17.4 for 2000 (UNCTAD, *Handbook of Statistics*2002, table 7.3 and UNCTAD,2008.a. table 8.3.1.

<sup>8</sup> Based on UNCTAD, Commodity Price Bulletin online:  
(<http://stats.unctad.org/CPB/tableviewer/document.aspx?FileId=252>)

### III. NAMA negotiation and its de-industrialization impact on Africa

In this section we will first outline the stated objectives of the Doha Round regarding NAMA, before referring to the proposals made by developed countries during the negotiation in WTO. Subsequently, the implication of these proposals for industrialization of African countries will be discussed if they are agreed upon by the contracting parties of WTO.

#### *i. Stated objectives of the Doha Round regarding NAMA*

The proposals so far made by developed countries during the course of negotiation on NAMA are in full contrast with the stated objectives of the “Doha Development Round”. The agreed text of the Round clearly emphasizes the special need and interests of developing countries, particularly least developed countries<sup>9</sup>. Thus according to paragraphs 16 and 50 of the Declaration a number of principles would be followed during the course of negotiation on NAMA, including:

- Less than full reciprocity in tariff reduction commitments in favour of developing countries;
- Special and differential treatment for developing and least developed countries as stated in part IV of the GATT 1994, etc.;
- Reduction or elimination of tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries.

Para 3.b of Article XXVIIIbis (GATT 94) also clearly refers to “the needs of developing countries for more *flexible* [our italics] use of tariffs protection...” Further, the text of the July (2004) package again emphasizes the principles of “less than full reciprocity” and “flexibility” in favour of developing countries (e.g. paragraphs, 3, 4 and 8 of Annex B to

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<sup>9</sup> For example, see paragraph 2 and article 6 of the declaration and reference to Article XXVIIIbis of GATT 1994, and para8 of Article XXXVI, part IV, GATT 1994).

the text of the July 2004 Package)<sup>10</sup>. Flexibility would allow a percentage of tariff lines deviate from the full extent of the formula cuts or be exempted from them. In addition, Para 94 of the Hong Kong Ministerial Declaration refers to proportionality, or balance between ambition levels between NAMA and Agricultural market access. The latter also implies that the principals applied to NAMA should be consistent with those applied to Agriculture.

*ii. The position of developed countries during the course of negotiation*

In practice, however, the proposals made by developed countries during the negotiation on NAMA are neither consistent with those principles nor conducive to industrialization and development of developing countries.

In fact, right after the conclusion of the Doha Declaration, developed countries deviated from the objectives of the Doha Round by making proposals, contained in the Annex B of the July 2004 text, against the interests of developing countries. This Annex contained elements of less than full reciprocity and Special and differential treatments in favour of developed countries rather than developing countries. It was pushed through by the chairman of the negotiating group to be sent to the General Council despite the opposition by developing countries. The contents of Annex B was, in effect, legally nullified by the paragraph 1 of the Annex which regarded them as issues for further negotiations rather than agreed decisions (Das, 2005:29-30). Nevertheless, developed countries have continued, more or less, on the basis of their original proposals contained in the remaining articles of Annex B (Articles 2-17), until the collapse of the talks in July 2008. Between July 2004 and July 2008 a number of new “chairman texts” have been issued but the content of none of them has been development oriented<sup>11</sup>. Let us explain these issues in slightly more details.

Developed countries have been pushing for across-the-board liberalization of trade in manufactured goods by applying the (non-linear) Swiss Formula for cutting and

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<sup>10</sup> See Khor, M. and Yen, G.C. (2005) for details.

<sup>11</sup> Since then the Chairman presented new texts in July 2007, and in the texts of 8 and 28 February 2008, 18 May and July 2008. Further, Mr Lamy, the Director-General of WTO, presented his own text on 25 July 2008 before the talks collapsed once again.

bounding individual tariff lines at low level, by limiting flexibility and requesting “anti-concentration” in tariff cuts and by asking for compulsory “sectoral initiatives”. They have often ignored the views expressed by delegations of developing countries, to the extent that certain clauses were inserted in the draft negotiating texts presented by the chairman of the NAMA without much prior discussion. Further, the use of time pressure, threats, bullying and blame games have been among tactics used by developed countries during the negotiations.

### *iii. The implications of the Swiss Formula*

The Swiss formula proposed in July 2004 text and used for negotiation for tariff cuts, despite the reluctance of developing countries, is a non-linear formula as follows:

$$T = (a \cdot t) / (a + t) \text{ and}$$

$$R = t / (a + t)$$

where “T” and “t” and “a” are the new and initial tariff rates and constant coefficient, respectively, and R is the rate of tariff reduction.

This complicated formula has a few main characteristics which are inimical to industrialization of developing countries, particularly those at early stages of industrialization.

- the coefficient (e.g. 15), determines the *maximum* tariff rate possible under the formula irrespective of the country’s present tariff rates and its level of industrialization,
- the lower the coefficient, the higher will be the rate of reduction in tariff,
- for a given coefficient, the higher the initial tariff rate, the higher the rate of reduction in tariff,
- for high tariff rates the rate of reduction in tariffs is higher than when a simple linear formula is applied (in which case the same percentage reduction is applied to all tariff lines).

- in a certain range of low tariff rates, the formula will lead to lower rates of percentage reduction than those generated by a tariff-independent linear reduction<sup>12</sup>.

According to the initial proposals made by developed countries, all countries were supposed to apply the same (Swiss) formula to cut average tariffs rates drastically and reduce their dispersion by binding 95 per cent of their all individual tariff<sup>13</sup> lines at the same rate at low levels. For example, the USA proposed that developing countries cut tariffs to 8 per cent by 2010 and reduce them to zero by 2015. Certain sectors were proposed to be subject to zero tariffs immediately upon the conclusion of the Doha Round. The EU proposed non-linear cuts in tariffs according to the Swiss formula and a low and uniform coefficient of 10 chosen for both developed and developing countries. Their proposal following the Hong Kong Ministerial Meeting (2005) was to apply coefficients of 15 for developing and 10 for developed countries, respectively. With coefficient of 10 for developed countries, a tariff rate of 5 per cent will be reduced to 3.33 per cent—a reduction of 33 percent, but only 1.67 percentage point. By contrast, a coefficient of 15 per cent for developing countries will lead to the reduction of a tariff rate of 50 per cent to 11.5 per cent, or a reduction of 38.5 percentages. It is clear that the choice of the formula as well as its coefficients would result in less than full reciprocity in tariff cuts in favour of developed, not developing countries.

Since July 2004, new coefficients have been proposed, but still remain biased against developing countries. In the July 2007, the chairman proposed the coefficient of 8-9 for developed countries and 19-23 for developing countries. The tariff cuts were to be implemented in 5 years and 9 years by developed and developing countries, respectively.

#### *iv. Trade-off between the coefficient and Flexibility in tariff cuts*

Further, according to the text of draft modalities of July 2007, allowing higher coefficients (lower tariff cuts) to developing countries required the trade-off with

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<sup>12</sup> For details see Shafaeddin (2006.b). It is also proposed that at least 95 per cent of their individual tariff lines be bound.

<sup>13</sup> Five per cent of tariff line can be excepted provided the related imports do not exceed 5 per cent of the total value of member's imports (para 8, annex B of the WTO July 2004 Package).

flexibilities in tariff reduction and binding. In other words, the number of tariff lines sheltered from formula cuts could be a positive function of percentage of formula cuts on those line; the higher the cut (the lower the coefficient), the higher the flexibility (the higher could be the number of tariffs lines exempted from full formula cuts). Accordingly, with coefficients of 19-23, 5% of tariff lines can be left unbound provided they do not represent more than 5% of imports of non-agricultural products of the country. Alternatively, 10% of tariff lines can be exempted from half formula cut provided they do not represent more than 10% of their manufactured imports. Countries which are prepared not to use any flexibility can apply higher coefficient of 22-26 i.e. 3 points higher than otherwise required (19-23)<sup>14</sup>.

Developed countries criticized the July 2007 text on the ground that developing countries are requested to cut tariffs little!! Developing countries, on their part, requested a minimum of 25 points difference in the coefficients applied to them and to developed countries. They also requested significant flexibilities in tariff cuts. Their views were ignored in the subsequent chairman's draft texts, including his July 2008 text and finally in Mr. Lamy's draft of 25 July 2008 before the talks collapsed.

Subsequently, Mr. Lammy, the head of the WTO secretariat, also acted also as a chairman of TNC (Trade Negotiating Committee), in proposing a package consisting of coefficients of 8 for developed countries and an option of 20, 22 and 25 for developing countries. These coefficients were only the mid points of those proposed by the chair in his July 2008 text. The flexibilities in tariff cuts would vary depending on the coefficient used:

- ❖ for the coefficient 25, there would be no exemption to cutting tariff lines,
- ❖ for coefficient 20 it would contain two alternatives: exemption of 14 per cent, or 6.5% of tariff lines from full formula cuts, provided they would not represent more than 16 per cent, or 7.5% of imports of manufactured goods, respectively

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<sup>14</sup> For details see South Centre (2007), particularly pp 30-34.

- ❖ for coefficient 22, 10% of tariff lines would be exempted from tariff cuts provided they would not represent more than 5% of imports of manufactured good.

The difference between coefficients of 25 and 20 is not significant. Taking into account the average tariff rate of 30 per cent for developing countries, their new tariff rate would be 13.6% and 12%, respectively; they would lead to 54 % (or 16.4 percentage point) and 60% (or 18 percentage point) cut in tariff rates of developing countries, respectively . By contrast, the coefficient of 8 would lead to a reduction in simple average tariffs of developed countries from about 3.7% to 2.5% by about 31% (or only 1.2 percentage points)<sup>15</sup>. The comparison of these calculations reveals that the outcome is again absolutely the reverse of the less than full reciprocity for developing countries. It basically leads to enhanced market access for developed countries.

It is interesting to note that in defiance of the agreed rules of GATT, the chair claimed that there had never been “agreed definition of reciprocity”. The notion of reciprocity and less than full reciprocity in treating developing countries is, however, clear in the Decision of 28 November 1979 of GATT (see Appendix A).

#### *v. Anti-concentration and sectoral issues*

Further, Mr. Lamy’s proposals also limited flexibilities further by linking flexibilities (and coefficients) to the so-called “anti-concentration” clause and “sectoral initiative” which were initially introduced by the chairman in his July 2008 text. According to anti-concentration clause, developing countries must not exclude from any formula cuts a whole sector or a proportion of tariff lines in a sector beyond a certain level. For example, it is proposed that 20 % of tariff lines with at least 9% of total import value in any sector (or HS chapter) must be subject to full formula cuts. The implication of this clause is that various parts and components necessary for development and upgrading of an infant industry can not be protected against imports. While at the

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<sup>15</sup> Taking into account the average tariff rates of 3.9,3.2 and 2.3 for the EU, the USA and Japan, respectively, it corresponds to 33% (1.3 percentage points) for EU; 29% (1 percentage point) for the USA and 22% (1.6 percentage point) for Japan.

beginning of industrialization, duty free imports of parts and components are necessary, the increase in domestic value added is important as time passes. Such development requires flexible and dynamic trade policy (see below).

The sectoral initiative, was supposed to be non mandatory; it means contracting parties should voluntarily reduce tariffs in some sectors to zero or near zero. In practice, in the 18 may draft modalities introduced by the chair of NAMA, the sectoral initiative was linked to flexibilities. In other words, to acquire extra flexibility (or a higher coefficient); a country ought to participate in sectoral initiative.

Hence, the Swiss formula with a low coefficient fits the interests of the developed countries, while it goes against the interests of developing countries, particularly those which are at early stages of industrialization. Developing countries would be subject to significantly greater reduction in their tariff rates in terms of percentage as well as percentage points. Even with the latest coefficients and flexibilities proposed By Mr. Lamy, the policy space of developing countries will be limited, there will be less than full reciprocity and special and different treatment in favour of developed countries. It is true that the initial tariffs of developed countries are much lower than those of developing countries, but developing countries do need higher tariffs on industrial products as will be mentioned shortly.

*vi. Exceptional clauses for LDCs*

The July (2004) package provides some exceptional clauses and extra flexibilities for least developed, small and vulnerable economies and recently acceded countries in applying tariff cuts and binding. However, they are insufficient, for providing them policy space for industrial development. Some of the proposals in fact limit their policy space. Regarding Least developed countries, according to paragraph 45 of the July (2004) package and as well as para 9 of its annex B on NAMA framework exempt them from applying the formula cut and from reducing tariffs or participate in sectoral approach. But they are expected to substantially increase their tariff binding commitments. The Hong Kong Ministerial meeting (para 18) and the July 2007 text confirmed this proposition;

developed countries also offered them free market access to at least 97% of all their tariff lines. In the Hong-Kong meeting they were promised simplification of the Rules of Origin which applies to trade preferential schemes. They were also exempted, on temporary basis, from obligations in the TRIM agreement by allowing them to maintain the existing measures, which deviate from the obligations under the TRIM Agreement, for 7 year and from any new measures they may introduce for 5 years. This transition period *may be* extended (WTO, 2005; Annex F).

Nevertheless, first of all, exemption from tariff reduction would not apply to countries which are members of a Custom Union (e.g. Lesotho, Anogola, Mozambique, and Tanzania). Secondly, the binding of tariff at a low level would reduce their policy space and flexibility in changing their individual tariff rates for different groups of product (consumer good, intermediate goods and capital goods). Such a dynamic and flexible tariff structure is necessary for upgrading of their industrial. As is exemplified in table 6 different industries require different tariff rates in different phases of industrialization depending on their degree technology intensity.

**Insert table 6 here**

Thirdly, provision of duty free access to 97% of tariff lines allows importing developed countries to continue imposing tariffs on about 300 products. As least developed countries usually have concentrated export structure of manufactured goods around 10 tariff lines or so, in essence they may not be able to benefit from that exemption (South Centre, 2007: 22).

Fourthly, the idea of simplification and improvement in transparency in the Rule of Origin, which is often an obstacle to expansion of exports of manufactured goods from least developed countries, has not been taken up.

Finally, considering that the process of industrialization is pretty long, 5, or even 7 year, exemption from obligations related to the TRIM agreement is too short and their prolongation is not certain in order to provide incentives to investors to invest in activities with long or medium gestation period.

Hence, the exceptional provisions provided to LDCs are not sufficient to satisfy the needs of these countries for industrialization or upgrading of their industrial base

*vii. Other tactics used by developed countries*

Arbitrary insertion of some issues in the draft modalities, by the chairman of the NAMA negotiating committee, threat, bullying and blaming have been other tactics used by developed countries during the negotiations. For example, the views expressed by the chairman in various draft modalities (e.g. July 2007 text and 8 February and 28 February 2008 texts) were attributed to the majority of members. Yet, developing countries did not confirm this proposition and regarded some of issues included in his texts arbitrary as they had been hardly discussed in the formal meeting. Hence, they were regarded as “coffee shop” proposals.

An example of threat and bullying is that made during the course of negotiation in July 2008 when anti-concentration and sectoral initiative were introduced and discussed. The US and EU representatives threatened that unless these issues were accepted by developing countries as drafted by the chairman, they would not agree to opening the brackets in the text on other issues on which progress had already been made<sup>16</sup>. Another example is their threat that without successful NAMA outcome, there would be no reduction in agricultural subsidies, no liberalization in services, no advance in trade facilitation, and no development round<sup>17</sup>.

Finally, while developed countries did not show much flexibility during the negotiation, each time the negotiation was interrupted, they blamed a number of developing countries engaged in small-group discussions. Further, while developed countries insisted on limiting flexibilities in tariff cuts in negotiation on NAMA, they requested far greater flexibilities in tariff reduction as well as subsidies in the course of negotiation for liberalization of trade in agriculture.

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<sup>16</sup> See “Divisive issues throw shadow over NAMA state of play” in the SUNS (South-North Development Monitor), 9 July 2008.

<sup>17</sup> Ibid, 30 May 2008. See also zeroing in previous pages.

#### **IV. Implications for industrialization**

The application of the proposed coefficients, limited flexibilities suggested by developed countries, and insufficient exceptional clauses for least developed countries will have a significant detrimental long-term effect on industrialization of African and other developing countries which are at early stages of industrializations. They have by contrast no negative effects on developed countries. Developed countries are already industrialized; they have the supply capacity to produce capital-intensive, skill-intensive and technology-intensive goods. By giving up some-in fact in this case small - trade barriers on imports in exchange for market access in developing countries, developed countries do not sacrifice their long-run industrial development. Of course, their upgrading of the industrial sector depends on the development of new technology. But they have firmly secured protection of their new technologies through the WTO's TRIPS Agreement as mentioned in the previous pages.

By contrast, the industrial sector of African, and other low-income, countries is, unlike that of developed countries, underdeveloped, and the use of tariffs is almost their only remaining trade policy instrument. They need to apply higher tariffs to some of their industries, particularly newly established ones. The low and bound tariffs rates will disarm them of an important policy tool for establishing new industries and upgrading the existing ones. Clearly, if they obtain further market access in developed countries, they will improve their prospects for expanding exports of products produced by their existing efficient industries, i.e. industries in which they have static comparative advantages. But binding tariffs at low levels deprives them of the tool of diversification and expansion of supply capacity in new industries in which they may wish to develop dynamic comparative advantage. Therefore, even if market access is provided for such potential products, the prospects for their supply expansion will be absent due to the lack of their policy space. In other words, for the sake of better access to markets for their current export products, they sacrifice the ability to establish new industries or diversify their production structure away from primary commodities or upgrade their manufacturing

sector into new products. Such a trade-off will result in deepening of their static comparative advantage. It may, in fact, lock them in production of resource based and at most simple labour intensive industries and assembly operations.

Professor Wade correctly argues that “International rules should be judged against how they assist or hinder production diversification” (Wade2006: 8), not specialization according to static comparative advantage. Otherwise, whatever efficiency is gained due to liberalization will be at the cost of growth and diversification in the long-run. He is also correct to say that WTO rules makes the “creative function” of the markets more difficult by hindering diversification and upgrading of the production structure in developing countries; but they encourage industrial upgrading in industrialized countries as they “permit industrial policy activism of the kind needed to nurture ‘knowledge-intensive’ industries and activities which prevail in developed countries! (Wade 2006: 8-9). The protection of technology intensive industries through TRIPs is a clear example of such encouragement as mentioned earlier.

Before ending this section, note that applying the CGE models in their simulations exercises, the neo-liberals conclude that developing countries are the major winner of the simulated Doha scenarios (e.g. Bouet *et.al*, 2007). These models, however, are based on restrictive and unrealistic assumptions and static comparative advantage theory disregarding the need for supply capacity building in accordance with the principle of dynamic comparative advantage (Shafaeddin 2005.b).

## **V. Lessons from History**

The experience of successful industrializers and premature liberalization in colonies, and in developing countries in more recent years, provide us with lessons from history indicating that premature liberalization will lead to de-industrialization (Shafaeddin (2005.a and 2006.a) <sup>18</sup>.The experience of successful early and late industrializers indicates first of all that with the exception of Hong Kong, no country has managed to industrialize without going through the infant industry protection phase,

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<sup>18</sup> The following paragraphs are based on Shafaeddin (2006.a). See also Wade (2007).

although across-the-board import substitution and prolonged protection have also led to inefficiency and failure

Secondly, government intervention, both functional and selective, in the flow of trade and in the economy in general has played a crucial role in the process of industrialization. In all cases, including Great Britain, industrialization began on a selective basis, although to a different degree, and continued in the same manner until the industrial sector was consolidated.

Thirdly, when their industries matured industrialized countries began to liberalize selectively and gradually. Therefore, trade liberalization is beneficial after an industry reaches a certain level of maturity provided it is done gradually and selectively. In contrast, premature trade liberalization, whether by early industrializers, by colonies during the colonial era, or by developing countries in more recent decades, has had disappointing results. For example, when the USA tried to liberalize pre-maturely in 1847-61, the industrial sector suffered and the country had to revert to protectionism against imports from Great Britain.

Fourthly, government intervention was not confined to trade; the state intervened through other means, directly and indirectly, in particular to promote investment and to develop the necessary institutions and infrastructure. Industrialization was also supported by attention to and growth in agricultural production. Hence, the issue is not the lack of intervention, but the nature and the efficiency of government intervention.

Fifthly, while different countries did not follow exactly the same path, all learned from the experience of others; the USA learned from Great Britain, Germany from the USA, Japan from Germany and the Republic of Korea from Japan, etc.

Sixthly, all main early industrializers tried to open the markets in other countries when their industrial sector matured. In the 19th century, free trade policy was forced on the colonies and the 5 per cent rule (according to which 5 per cent was the maximum tariff rate allowed on any import item) was imposed on semi-colonies and independent

countries through "unequal" bilateral treaties and/or through force (for example, in China, after the opium war of 1839-42).

Further, the policy space of the colonies, in the 19th century, was further limited by England by outlawing high value-added manufacturing activities in the colonies and banning the export of competing items from colonies to England (Chang2005.b). Instead, production of primary products was instituted and promoted. The outcome of the imposition of pre-mature trade liberalization on the colonies was devastation and led to de-industrialization. For example over 90 per cent of textiles industries of India were destroyed as a result of liberalization by the colonial power.

### *Recent experience*

During recent decades, African and many other developing countries have been pushed through multilateral organizations, bilateral trade agreements and donors to open their markets. In addition, tariff peaks and escalation and arbitrary anti-dumping measures have been among the means of restricting imports of high-value added products from developing countries. The results of a study, by the author, of about 50 developing countries which have undertaken trade liberalization during the 1990s indicates that with the exception of East Asia, their trade liberalization has had three main features which are common with the proposals of developed countries in NAMA negotiations:

- Premature and rapid liberalization.
- Uniformity: i.e. a tendency toward uniform tariff rates for various industries in each country;
- Universality, i.e. application of the same recipe to all countries irrespective of their level of industrialization and development;

The results of this kind of liberalization have been disappointing for most of the countries other than those in East Asia. Firstly, only 20 countries, or 40% of the sample, have shown high (more than 10% a year) rate of growth of exports of manufactured

goods. And of these, only in about 10 countries (mostly in East Asia) were high growth rates of exports accompanied with increasing or high growth rates of Manufacturing Value Added (MVA). MVA is a more important indicator of performance than export, as it measures the net output or income accruing to the country, whereas a rise in exports could also be accompanied by a corresponding or even higher rise in imports (including inputs that are used in the production of exports).

Secondly, and more importantly, in fact, in half of the sample countries de-industrialization took place over 1980-2000. The MVA/GDP ratio declined without recovering to its initial level. In many countries industrial employment also suffered severely.

Thirdly, when exports expanded, this growth was mainly in resource-based industries and some assembly operation without much upgrading, except for industries which were dynamic during the import-substitution era and were near the stage of maturity, or which continued to benefit from some sort of support from the government. The aerospace industry of Brazil is a good example of an industry which was near the stage of maturity and benefited from trade liberalization.

Fourthly, even though the relative incentives changed in favour of exports, the manufacturing industry suffered from low investment despite a significant increase in foreign direct investment in some cases (for example, Brazil). Investment in manufacturing suffered because the balance of risk and return turned against the manufacturing sector (Shafaeddin, 2006.b).

The brief review of development in Africa presented in section II of this paper is consistent with the results of the survey summarized above<sup>19</sup>. In the case of countries which are at early stages of industrialization and development, different industries require different rates of protection and different lengths of time for their development as mentioned earlier. This is because there are differences in risks and scales of production involved in different industries which also need different length of time and experience

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<sup>19</sup> See also Easterly (2001 and 2002).

for their technological upgrading. Further, uniform tariff rates provide different effective rates of protection for various industries, depending on their import intensity. For given uniform rates for output and inputs, the higher the import intensity, the lower the effective rate of protection. As a result uniform rates involve biases against new industries as new industries usually have high import intensity. This explains why assembly operations do not easily lead to increases in value added as shown in the case of Mexico (Gallagher and Shafaeddin, 2008).

In short, if agreed upon, proposals made by developed countries on NAMA, would lock the structure of production and exports of African countries into primary commodities, simple resource-based and labour intensive products and at most assembly operations.

## **VI. Concluding Remarks**

We have shown in this chapter that African countries, particularly Sub-Saharan countries have become increasingly marginalized from international trade and the world economy during the last couple of decades following considerable trade liberalization and increases in their openness. While their  $X/GDP$  and  $M/GDP$  share has increased to a level higher than low-income countries as a whole, trade liberalization has been accompanied by de-industrialization in many African countries. Moreover, the private investment has not been stimulated as neo-liberals expected. In 2006, the investment/GDP ratio was lower than that of 1980 despite some improvement in recent years due to availability of foreign exchange as a result of increases in price of primary commodities. Further, GDP growth has been slow and trade liberalization has led to increases in trade deficits, including deficits in food trade, as imports increased faster than exports. As a result, dependence on external factor has increased considerably while poverty is widespread.

Under these conditions, developed countries have been pushing African, and other developing countries, to cut tariffs on their industrial goods substantially and reduce their restrictions on activities of multinationals in exchange mainly for a slight cut in their tariffs on industrial goods and in their domestic supports for agriculture. Although some exceptions are proposed to least developed countries, they are insufficient to prevent their

lose of policy autonomy, particularly if they bind their individual tariffs lines at low levels.

Drawing on the lessons of historical experience, we have argued that as African countries lose their policy space necessary for development of their industries in accordance with the principal of “dynamic comparative advantage”, their structure of production and exports will be locked in primary commodities, resource based industries and at best low-skill labour intensive activities and assembly operations. Of course, they may gain some market access for products for which they have static comparative advantage. But such gains would be at the cost of slow growth and lack of diversification of their production structure and development in the long-run.

What is more damaging than NAMA is conditions which EU is trying to impose on African, and other members of ACP, countries under EPA(Economic Partnership Agreement)-although we did not discuss it here (see e.g. Oxfam,2008.)

What is needed for developing and industrialization in accordance with the principle of dynamic comparative advantage (Cline1983, Amsden1989, Gomery and Baumol, 2000, Wade, 2005 and Shafaeddin 2005.b), is first of all that African countries should have a clear concept of their industrial development strategy and trade policy before entering into negotiation in WTO or other forums. This is a necessary condition. However, it should be emphasized that any intervention might not serve the purpose of diversification and upgrading. For this purpose the decision making capacity of the government should improve to enhance the efficiency of its policy making mechanism. While a country may learn from the experience of others, it can not copy them; each country has its own characteristics which may be different from others to some extent. Thus development of government capacity in policy making is an essential factor.

The sufficient condition is that the rules of the World Trading System should be changed in a way that it would be conducive to industrial development of developing countries by allowing a *dynamic* and *flexible* trade policy with dimensions of space and time. Such a framework of international trade rules should<sup>20</sup> accommodate countries with

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<sup>20</sup> For details see Shafaeddin (2005.b), and Wade (2006):10-13.

different levels of industrialization and development at each point in time, therefore allowing “Special and Differential Treatment” as a rule not as an exception. Therefore, the concept of “less than full reciprocity” should be taken more seriously as countries are at different levels of development and have different needs. Change in trade policy should be allowed in each country as the country develops; hence a country should be allowed the necessary policy space for both selective infant industry protection and gradual and selective liberalization, when an industry reaches near maturity. For liberalization of the tariff structure, flexibility would dictate that only average tariffs (which may be even higher than the current average rate) are bound with significant dispersion (Akuz 2005). The trade rules should also permit the use of export performance requirements by African and other developing countries in TRIMS. Easier transfer of technology to African, and other developing countries which are at early stages of development, should be permitted by changing TRIPS Agreement and revising Subsidy and Countervailing Measures Agreement and GATS to provide more policy space particularly for low-income developing countries.

Of course, such a re-conceptualization of the trading system will not take place over night, but it eventually need to happen (Helleiner, 2005). Recent development in international financial market is a clear indication of over reliance on market forces even in developed countries, let alone countries at early stages of development. The international community should not wait for facing a human disaster in Africa and other low-income countries before acting to change international trade rules.

#### Appendix A:

##### *The Decision of 28 November 1979 on Differential and More*

##### *Favorable Treatment, Reciprocity and Fuller Participation of developing Countries.*

The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to trade of developing countries, i.e. the developed countries do not expect the developing countries, in the course of negotiations to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter’s development, financial and trade needs.

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## Text tables

Table 1: The trade/GDP ratio of Africa and other groups of counties (2006)

Region	X	M	(X+M)
All Africa	38.2	32.1	70.3
North Africa	43.3	31.3	74.6
North Africa ex. Sudan	44.8	32.0	76.8
Major African petroleum exporters	51.2	26.3	77.5
African least developed countries	38.2	36.2	74.4
Sub-Saharan African countries <sup>a</sup>	34.8 (35)	32.2(36)	67.0(71)
Sub-Sahara ex. South Africa	38.1	32.7	70.8
Low-income developing countries	27	30	57
South Asia	22	26	48.0
Developed countries	26	27.5	53.5

Source: Based on UNCTAD (2008.a) table 8.3.2 except the figures in brackets and those for South Asia and Low-income countries which are based on World Bank (2008), table 4.8.

a. Includes Haiti except for the figures in the brackets.

Table 2: Percentage share of Africa in world trade, 1980-2007

	1980	1990	2000	2007
<i>Exports:</i>				
Total Africa	5.86	3.08	2.37	2.87
Sub-Sahara, excluding South Africa	2.46	1.23	1.09	1.34
African LDCs <sup>a</sup>	0.6	0.46	0.33	0.66
Non-oil exporting Africa <sup>b</sup>	2.55	1.67	1.18	1.30
<i>Imports:</i>				
Total Africa	4.52	2.70	1.96	2.43
Sub-Sahara, excluding South Africa	2.12	0.96	0.80	1.03
African LDCs <sup>a</sup>	1.15	0.69	0.66	.82
Non-oil exporting Africa <sup>b</sup>	2.68	2.02	1.53	1.78

Sources: UNCTAD(2008.a), tables 1.1.1 and 1.1.2

a. Includes Haiti

b. Excluding major petroleum exporters.



Table 3: The percentage share of exports of manufactured goods in GDP of African countries (2000-06)

Share in total exports	No. of countries	% of total	
		Each group	Cumulative
Less than, or equal to 1	9	25.7	25.7
1-2	6	17.1	42.8
2-5	8	22.9	65.7
5-10	5	14.2	80
10-15	2	7.7	87.7
Greater than 15 <sup>a</sup>	5	14.3	100
Total	35	100	

Sources: calculated by the author based on UNCTAD(2008.c), table 7 and pp-55-56.

a: Botswana, Mauritius, Namibia, Swaziland and Tunisia.

Table 4. The percentage share of MVA in GDP of Africa<sup>a</sup> (1990-2006)

Year	All	S-S	S-S ex.SA	N.A.	LDCs <sup>b</sup>	petroleum exporters
1990	16.5	17.8	15.1	13.5	9.7	12.2
2000	13	12.8	9.4	12.9	7.7	10.1
2006	11.6	11.5	7.7	11.5	7.5	9.1

Sources: Based on UNCTAD (2008.a) and UNCTAD, Handbook, data online, Table 8.3.1 and 8.3.2 and UNCTAD82008.b),Appendix table 5

a: all variables are in current terms

b: 10.7 for 1980.

Notations: S-S: Sub-Saharan African countries; N.A.: North Africa

Table 5 : Indicators of Economic performance of Sub-Saharan countries (1980-2006)<sup>a</sup>

	GDP	GDP. Per capita	MVA	Investment	Export value
1980-90	2.1	-0.8	1.7	-3.8	-0.9
1990-2000	2.7	-0.1	4.7	4.5	4.3
2000-06	4.9	2.4	3.4	7.6	15.3

Sources : Based on UNCTA(2008.b)table A.5 and (2008.a), tables 1 and 8.  
All variables are in constant prices except exports which are in current terms.

Table 6: Evolution of average tariffs for various groups of industries at different phases of industrialization

Phase	RB&LI	LT	MT	HT	Manufactures (Average)
I	20	0	0	0	5
II	10	40	0	0	12.5
III	0	30	50	0	20
IV	0	20	40	40	25
V	0	10	30	40	20
VI	0	0	15	25	10
VII	0	0	5	15	5
VIII	0	0	0	0	0

Source: Akyüz (2005: 27).

Notations:

RB: Resource-based industries

LI: Labour-intensive industries

LT: Low-technology-intensive industries

MT: Medium-technology-intensive industries

HT: High-technology-intensive industries