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The Uruguay Round: Impact on Africa

If African countries continue to maintain barriers to trade, the overall income effect of implementation of the Uruguay Round trade agreements on Africa is expected to be negative. Different outcomes can be obtained through further reductions of trade and transportation costs, investments in agricultural productivity, and development of trade in agricultural products with Asia.*

In the 1960s, after independence, many African governments embarked on ambitious drives for economic self-sufficiency through policies that discouraged trade. Until recently, protectionist policy instruments, such as monopoly marketing boards, state trading companies and trade taxes have played an important role in reducing Africa's share of total world trade. With country-by-country reforms in trade policy, some reversals of that downward trend have been achieved, though reductions in protection have proven difficult for many countries to implement and sustain.

A study, sponsored by the UN Economic Commission for Africa assessed the impact on Africa of the large-scale changes in the world economy created by the implementation of the Uruguay Round (UR) trade agreements. Using a 10-region, 12 sector model of the global economy, projected forward to the year 2005 with and without implementation of the UR, the researchers confirmed that Africa is likely to be the only major region of the world to lose from implementation of the agreement. They attribute this result to the fact that African governments did not take advantage of the Uruguay Round negotiations to reduce their own trade barriers, hence, barrier reductions elsewhere in the world will cause trade to shift away from Africa.

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The Model

In order to capture the changes that will be wrought by the UR agreement, the researchers employed a general equilibrium model that makes reasonable assumptions about the production functions that underlie supply and treats all markets as competitive. Data on productivity, population, physical capital and human capital were garnered from the Global Trade Analysis Project (GTAP) database. These data were then used to generate estimates of where the world economy would be in the year 2005 if the UR trade agreements were not implemented. Those estimates provided a baseline against which changes deriving from the UR agreement could be measured.

In order to properly account for the impact of the UR agreement, it was important to include in the model those policies that are set to be changed. Policy interventions, as they stood in 1992, were modeled primarily as ad-valorem taxes and subsidies. Interventions in agriculture were based on producer subsidy equivalents, which captures both tariff and non-tariff measures. The only quantitative restriction that was included in the model was the Multi-fiber Agreement (MFA). The model was run with these policy interventions and estimates of trade and economic growth to the year 2005 (without UR) were generated.

The reduction of import restrictions in the "after UR" scenario was taken as the difference between pre-UR levels and each country's agreed reductions under UR. Similarly, reductions in export subsidies were calculated as the difference between existing subsidies and subsidies agreed through UR. These changes in tariffs and taxes would generate changes in prices for exported and imported goods. In terms of prices of imports into Africa, there would be little change, except for agricultural goods (primarily grains) which would rise due to reductions in export subsidies in the rest of the world. In terms of export prices from Africa, the reductions are heavily weighted towards Asia and are largest for African exports of grains.

Results of the Model

The model shows, for the world as a whole, income gains from implementation of the UR of 0.6 percent. It also shows that overall, both exports from and imports into Africa will decline under the UR. Africa is the only region of the world for which this is the case. Within this total figure, however, the model projects gains for some sectors. Forestry and fisheries, agricultural products (grains and, particularly, non-grains) and selected services will expand. However, a dramatic decline is projected for the textiles and apparel sector along with smaller declines in manufacturing.

The only regions of the world that are projected to lose from implementation of the UR are Sub-Saharan Africa and the Middle East and North Africa. These regions will suffer real income declines of about one tenth of one percent. Most of this decline is due to a worsening of allocative efficiency: African governments did not take advantage of the UR to reduce their own barriers very much, and barrier reduction elsewhere cause trade patterns to shift away from Africa. Conversely, gains from the UR accruing to other low-income regions of the world were largely due to improvements in domestic allocative efficiency. Such improvements are a result of trade liberalization by countries in those regions.

Policy Recommendations

Although the Uruguay Round negotiations have been completed, African governments can still respond with policy reforms of their own. Reform of the trade and transport sector will allow African countries to lower costs incurred in handling goods for international trade. In addition, efforts to increase agricultural productivity will allow Africa to catch up with worldwide improvements in cereal grain genetics and crop management. Finally, by implementing a strategy to open trade in agricultural products with Asia, African governments can profit from the changing nature of international trade.

• **Reduce trade and transport costs.** Africa's relatively high internal and international transport costs pose a large barrier to trade and market efficiency. Much of Africa's cost disadvantage is due to delays in customs clearing, problems in coordination and logistics, and high mark-ups by monopoly transporters serving small markets. An essential factor in transport costs is economies of scale, both in the size of individual shipments and in the size of the network in which shipment occurs. Currently both are limited by country-of-origin restrictions, which require shippers to have close links to national customs and transit systems. By eliminating national preferences each carrier could compete over several countries, thus increasing the market served. Another needed policy reform to reduce transport costs is the simplification of import regulations and making tariff obligations more transparent and speedy. Finally, management reforms in transit facilities, such as the privatization of ports and airports, are necessary to make operations more accountable to users.

• **Target agricultural productivity growth.** Although the bulk of Africa's labor and capital is employed in agriculture, the level of output in this sector has stagnated over the past three decades. For example, between 1960 and 1988 African grain yields remained relatively constant, while the total for other developing countries almost doubled. Weak agriculture, coupled with restricted trade, prevented any significant growth in productivity or wealth in Africa. Currently, Africa's farm labor force is growing more rapidly than any other sub-population. Changes in the international environment as a result of UR and trends in domestic resource levels provide incentives for African agriculture to expand to provide employment for Africa's poorest people and to meet domestic food demand.

Innovations in early-maturing seed varieties and labor-intensive management techniques have helped raise total factor productivity in Africa in the past decade. Productivity can grow even faster if input and product markets are made more efficient, so that transaction costs are reduced and greater specialization is permitted. Furthermore, African economies would benefit from increased research and development efforts to identify and diffuse appropriate seed varieties. Although these reforms only involve productivity growth in grains, substitution and income effects will cause nearly all sectors to expand. As grain production increases, domestic prices will fall and resources will flow to other activities. The economy as a whole will experience a net gain as both output and foreign exchange earnings increase.

• **Adopt a strategy to develop agricultural trade with Asia.** The countries of South and East Asia will see the biggest increases in real income after the implementation of the UR trade agreements. Furthermore, the UR guidelines will alter domestic economies such that Africa's comparative advantage in agricultural products will improve. African governments who seize opportunities to open trade with Asian partners and invest in agriculture will see rising demand for their products. In contrast, those governments that try to resist these changes with protective policies and subsidies to existing industries will only compound their losses. Because of Africa's high and rising comparative advantage in agriculture, attempts to grow by exporting manufactures are unlikely to succeed, while exports of farm goods will yield large gains from trade.

Conclusion

Implementation of Uruguay Round commitments around the world, along with simultaneous changes in underlying economic conditions, will induce significant changes in the composition of African economies. Exports will become increasingly diversified towards Asia rather than concentrated in Europe, and will increasingly consist of farm products rather than manufactures. Adopting an economic strategy that targets agricultural production and Asian trading partners will allow African economies to benefit from the UR. Furthermore, institutional reforms in the trade and transport sector and in agricultural production will bring major bursts of economic growth. The gains from these reforms promise to be over ten times larger than the costs imposed on Africa by other countries' implementation of the Uruguay Round, and can be achieved with minimal outside assistance.

***This policy brief is based on findings of Thomas W. Hertel, William A. Masters and Aziz Elbehri from their quantitative analysis of trade trends and projections for the future, reported in their Paper *The Uruguay Round and Africa: A Global General Equilibrium Analysis*. May 1997. The research was funded by UN Economic Commission for Africa.**

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