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Africa's Opportunities in the New Global Trading Scene

How do trends in global trade affect African countries? This policy brief is based on a study* that evaluates a set of practices relevant to promoting trade and investment. The first section of the policy brief examines the effects of several recently negotiated international trade agreements on Africa's opportunities for expanded trade. The second section identifies several actions that governments and companies can take to identify and promote new trade and investment opportunities. Section three presents conclusions and specifies areas for future research.

I. Opportunities Under International Trade Agreements

African countries are party to several important international trade agreements. This section identifies potential trade opportunities associated with the Uruguay Round and related agreements.

The **Uruguay Round** of the General Agreement on Tariffs and Trade (GATT) was completed and formalized in 1994. Most countries in Sub-Saharan Africa have become parties to the Uruguay Round, but with varying levels of commitment to trade liberalization. Many studies suggest that the impact of the Uruguay Round on African countries will be relatively modest.

New trade opportunities abound for exporters who can bias their exports toward products that experienced large reductions in protection because of the Uruguay Round. Since most agricultural exports already face few tariff barriers, the manufacturing sector is likely to offer the greatest export opportunities. A reduction in barriers will benefit several countries that already enjoy a comparative advantage in European markets. Mauritius and Swaziland–through their sugar industries–and Botswana and Zimbabwe through their beef and veal industries–are expected to gain from agricultural reforms in the European Union. Experts believe that the Uruguay Round will reduce tariff escalation and create an incentive among existing exporters of raw material to engage in value-added processing activities.

The **Agreement on Textiles and Clothing** establishes clear and transparent new disciplines for textile trade over a ten-year transition period. The goal of the agreement is to replace bilateral product-specific quotas with tariffs. In countries that formerly imposed quotas, including Mauritius, Kenya, and Lesotho, exports are expected to increase. For other African countries, the impact on exports may be mixed. Foreign investment motivated by quota-shopping producers may decline. Some experts predict that the textile and apparel industry will experience aggressive international competition at the end of the ten-year transition period.

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The **Agreement on Trade-Related Investment Measures** (TRIMs), completed during the Uruguay Round, aims to limit discriminatory practices in foreign direct investment. It applies only to trade in goods (and not to investment incentives or other performance requirements, including technology transfer and licensing). Tools such as local-content rules, foreign exchange or trade balancing requirements, or domestic sales requirements are to be prohibited when they distort trade, affect importation or exportation, and/or discriminate against imports relative to domestic production.

Since the TRIMs Agreement maintains a long transition period for developing countries and offers the possibility of further extensions, it imposes few immediate obligations on African countries. Yet over time, African participation in TRIMs is likely to lead to efficiency gains and provide an indication to foreign investors of a more stable and predictable investment environment. But some countries may be reluctant to participate in the agreement because TRIMs will limit their policy options in negotiating with multinational corporations and foreign investors.

The **Trade-Related Aspects of Intellectual Property** Rights (TRIPs) Agreement, also completed under the Uruguay Round, provides for most favored nation treatment of intellectual property rights as well as for minimum standards of protection and appropriate enforcement of copyrights, trademarks, industrial designs, patents, and trade secrets. The increased protection of intellectual property rights is expected to provide African countries with higher returns on innovation, increased foreign investment, and greater technology transfer. In the short run, potential gains for African countries are small. In the long run, benefits may include increased levels of technology transfer and investment and higher returns to local research, especially in more advanced countries.

II. Actions to Identify and Promote New Trade and Investment Opportunities

In the wake of the Uruguay Round and related international agreements, governments and companies can pursue new trade and investment opportunities by offering new products, entering new markets, and adopting new modes of trade. New products include goods and services that satisfy the demands of niche markets. Increasingly, trade is initiated by purchasers with a need to procure low-cost, reliable, and specialty products. Entry into new markets requires development of commercial links with neighboring countries within the region and around the world, expanding Africa's traditional markets with Europe and increasing exports to North America. New modes of trade involve the nurturing of trade through subsidiaries, partners, and other contracting relationships and the development of mechanisms for technology sharing, marketing, and product and service delivery. Below are several actions that can contribute to the identification and promotion of new trade and investment opportunities.

- **Use the private sector and market analysis techniques** to evaluate new trade and investment opportunities. Economists and business managers are trained in a range of market analysis techniques that evaluate financial and economic profitability, analyze internal rates of return, and assess the value of alternative projects or investments. Generally, the private sector is better able than the public sector to use these techniques in responding to trade challenges.
- **Achieve comparative advantage through process technologies, unique characteristics, and a stable macroeconomic environment.** A successful business requires all aspects of production to be managed with vision and organizational skill. Resource-based industries are in decline while man-made brainpower industries can be located anywhere. Cost is only one of several bases for comparative

advantage. Design, sales, or service may also be distinguishing characteristics that contribute to comparative advantage.

A basic requirement for developing trade is a stable macroeconomic environment. A stable environment is characterized by access to foreign exchange and short- and long-term capital, political stability, a legal system that protects private firms from expropriation or excessive government interference, an efficient system for importing inputs, and an appropriate infrastructure.

- **Adopt institutional reforms that promote trade and investment**, such as export promotion zones or duty and indirect tax exemption. Alone, many institutional reforms are likely to yield minimal benefits. Together with political, macroeconomic, and trade policy reforms, however, they can contribute to changes in the trade and investment environment. The advantages and disadvantages of several institutional reforms are presented below.

Export promotion zones are physically separate facilities with their own customs office that facilitates access to duty-free trade and rapid customs clearance. At least 30 developing countries, including Malaysia, Indonesia, and Mauritius, have established export promotion zones, but many of the zones have proven to be poor investments. Reasons include unfavorable location, high investment costs, mediocre management, and uncooperative customs officials. Isolation from a country's economic activity prevents spillover effects that assist in export expansion. One alternative is to create a streamlined duty exemption scheme that can be used by any approved export enterprise regardless of location. This concept is popular in Mauritius, where only about one-third of approved export enterprises are located in industrial sites.

Duty and indirect tax exemption schemes enable local exporters to enjoy access to imported inputs on an equal footing with foreign competitors and at world prices. Although such schemes provide financial benefits to local exporters, they can also discourage domestic production of inputs, limit opportunities in the local industrial sector, and increase dependence on foreign suppliers. Success requires the generation of backward linkages in the economy so that domestic suppliers of exporting firms will receive the same incentives as foreign suppliers.

Malawi, Morocco, Nigeria, Senegal, Tanzania, Uganda, and Zambia have rebate systems based on actual exporters' declarations. Verification by customs officials is supposed to take place within six months, but delays are a common complaint. Rebate schemes need to ensure that sufficient quantities of inputs can be imported and that the imports are not resold at higher prices on the domestic market.

Promoting *foreign direct investment* can bring in capital from around the world. Foreign capital expands the opportunities made available by domestic capital alone and is recognized as essential to economic development. In 1995, Sub-Saharan Africa received $2 billion in foreign direct investment. Primary recipients were Nigeria and Angola, with lesser amounts going to Botswana, Zambia, Namibia, Guinea, Ghana, and South Africa. Foreign investment has concentrated primarily on natural resource extraction industries rather than on manufacturing. The Asian experience suggests that the promotion of foreign investment should involve legislative and macroeconomic reforms.

Export and investment promotion support services have provided a high payoff to some Asian and Latin America countries, particularly with respect to foreign exchange earnings and employment creation. Support services include accounting, packaging, quality control, storage, market research, and advertising. A 1991 World Bank-USAID study found that African exporters place a high value on government interventions including the promotion of foreign/domestic collaboration, export policy instruments, and investments in physical trade infrastructure. For technical, marketing, and management assistance, African exporters prefer commercial agreements. The study recommended increased collaboration between foreign and domestic enterprises.

Donors have supported ***private sector development projects*** in Africa to improve business skills, promote domestic and regional networks of entrepreneurs, and provide access to outside advice regarding production, marketing, and international trade issues. Since 1993, USAID has supported the West African Enterprise Network (WAEN), an association of national networks of commercial and financial service providers and manufacturers in 11 countries. WAEN has trained members in international market analysis, researched constraints to regional trade integration, and promoted policy reforms relevant to regional integration.

III. Conclusions

Trade policy reform is necessary but insufficient to promote modern trade. The political, economic, and social environments are all important in encouraging trade and investment. The Uruguay Round and related international agreements offer new opportunities and pose significant challenges. There is much to learn. The experiences of other countries and regions offers insights but no clear recipe for success.

Research can contribute to policy decision making and help solve problems along the way. For example, studies can address African productivity by investigating the types of training and management strategies that increase firm competitiveness. As trade opportunities expand, research can examine the effects of new policies and assist in developing appropriate regulatory structures to avoid worker safety and environment abuses. Research can also clarify the relationship between foreign investment and trade and help expand understanding of the private sector.

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