The Impact of the Uruguay Round on SADC Countries

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Summary

The beneficial impact of the Uruguay Round (UR) on the SADC countries as well as other African countries is not clear ex ante. First, as these countries already receive considerable preferences, especially in the European Union, it is possible that the UR would significantly reduce these preferences, and cause short-term harm. Second, a range of commitments are required of countries that wish to be members of the WTO and this may be burden for SADC countries.

A recent study by the World Bank shows that the impacts that can be expected from the UR for African countries are rather muted, and considerably less important than for other developing countries such as East Asia. The average tariffs that exports by SADC countries would be facing after the Round would be very small. More importantly, the coverage ratio of nontariff barriers for all Sub-Saharan African (SSA) countries would fall from about 11% to only 3%. While there may be some loss in export earnings, primarily in Europe, as a result of the lost preferences in that market, these would be more than compensated for by trade creation gains in other markets, although the net gain would be very small. The gain would be so small as to be unnoticeable in comparison with other factors influencing exports and development in SADC members. Similarly, the burden of higher food bills appears to be small.

In terms of their own commitment, the demands that have been placed on SADC and other African countries are modest and should not pose any serious transitional difficulties. The UR creates future opportunities for those countries able to create an environment suitable for exploiting these opportunities.

I. Present Structure of SADC's Exports and External Barriers

To understand the implications of the Uruguay Round, it is necessary to analyze the unusual structure of SADC's exports, the barriers they face in their major markets. Because of the small base of industry and the lack of outward-oriented development policy, exports remain dominated by food and raw materials, in contrast to the trend in other developing countries. In addition, SADC countries are still heavily dependent on Europe for their exports. Because of preferences and the dominance of low taxed commodities, SADC already face very low tariffs, with trade constrained by non-tariff barriers and by the lack of domestic supply.

Exports of seven SADC countries classified by SITC product groups are shown in Table 1. The final two lines of this table compares the figures for these seven countries with all SSA countries and with all developing countries. This reveals the heavy dependence on food and agricultural raw materials of SADC countries, particularly, for Malawi (93.7%), Mozambique (69.7%), Tanzania (71.6%) and Zimbabwe (51.4%). The share of exports of food and agricultural materials for all SSA countries and for all developing countries are 26.8% and 14.7%, respectively. In contrast, manufactures account for almost 54% of LDCs exports, but only 18.8% of SSA's. For Malawi, the share is less than 5%, and for both Tanzania and Zambia, it is less than 12%. Almost all agricultural exports are free of duty, and all minerals and metals face very low tariffs. It is this low level of manufactures and preferences, that explains the near absence of tariffs facing SADC's and SSA's present exports.

Table 1: Structure of Exports by SADC Countries
(1990 or latest)

		By Main Categories of Export Products (%) Aggregate SITC Groups					
Countries	Tot Exprt $ million	All Foods	Agricultural Materials	Fuels	Ores & Metals	Manu- factures	Unallocate
Angola	1296.4	16.4	0.3	82.1	-	1.0	0.2
Malawi	417.6	90.5	3.2	-	0.1	4.8	1.4
Mozambique	101.1	65.7	4.0	0.1	12.1	17.5	0.7
RSA	18968.8	13.6	9.2	13.9	26.4	34.4	2.5
Tanzania	284.9	49.2	22.4	1.5	14.5	11.8	0.5
Zambia	1347.5	3.9	1.4	0.1	83.4	11.2	0.1
Zimbabwe	1467.6	44.1	7.3	0.7	15.9	30.9	1.1
All SSA	53688.4	18.5	8.3	36.3	16.6	18.8	1.5
All Developing Countries	708947.0	11.4	3.3	26.0	4.2	53.9	1.2

Source: The Imact of the Uruguay Round on Africa, Peter Harrold
World Bank Discussion Papers 311, 1995

Table 2 shows that the direction of SADC's exports is highly concentrated in Europe: Malawi (46.9%), RSA (55.2%), Tanzania (59.4%). The share of exports going to Europe for all SSA countries is 51.2%, compared to 25.5% for all developing countries. The exports SADC countries to SSA countries is limited: 1.5% for Angola, and less than 7% for RSA and Zambia. It should be noted that inter-African trade accounts for only 7.5% of trade, while LDC-LDC trade accounts for 27% of all LDC trade, reflecting the lack of diversity in African exports and poor trade routes.

Table 2: Direction of SADC Countries' Exports
(1991 or most recent)

		Major Geographic Destinations (%)					
Countries	World $million	Europe	North America	Japan	Developing Countries	of Which Africa	Others
Angola	3105.4	25.1	52.6	0.1	20.8	1.5	1.4
Malawi	454.0	46.9	16.5	10.0	13.6	9.5	13.0
Mozambique	239.8	31.3	13.0	6.7	48.8	12.0	0.2
RSA	17052.0	55.2	12.4	10.8	15.3	6.1	6.3
Tanzania	404.0	59.4	4.5	4.5	30.7	7.1	0.9
Zambia	1347.5	34.5	1.6	29.1	21.8	11.9	13.0
Zimbabwe	1467.6	44.1	7.3	5.5	23.9	17.2	19.2
All SSA	54657.2	51.2	22.1	5.6	15.4	7.5	5.7
All Developing Countries	708947.0	25.5	24.0	12.0	27.2	2.6	11.3

Source: The Imact of the Uruguay Round on Africa, Peter Harrold
World Bank Discussion Papers 311, 1995

Table 3 shows the incidence of OECD tariffs on the exports of six SADC countries. The tariffs, ranging from 0.2% for Angola and 1.1% for Malawi, show that SADC countries export to OECD almost tariff-free. This is the source of concern that they will lose preferences, since it is impossible to improve SADC's terms of access significantly, while the Uruguay Round is designed to reduce tariffs in general.

Table 3: The Inicdence of OECD Tariffs on SADC Countries

	OECD Average		European Average		Japan		United States	
Exporting Country	Africa Tariff	Preferenc Margin	Africa Tariff	Preferenc Margin	Africa Tariff	Preferenc Margin	Africa Tariff	Preferenc Margin
Angola	0.2	-1.5	0.3	-3.2	1.8	0.0	0.1	-0.4
Botswana	0.3	-2.8	0.1	-2.9	0.0	-2.1	3.5	-1.1
Malawi	1.1	-2.4	0.1	-3.5	0.0	-0.1	5.4	-0.6
Tanzania	0.1	-2.3	0.0	-2.5	1.4	-1.0	0.0	-2.4
Zambia	0.3	-1.7	0.5	-2.9	0.0	-0.6	1.4	-1.4
Zimbabwe	0.9	-2.5	0.2	-3.3	1.2	-1.0	4.0	-1.0
Memo Item								
Taiwan	6.1	0.9	7.5	4.0	2.5	-2.2	6.8	0.7
Korea	6.0	0.6	7.8	4.2	2.7	-2.2	7.1	0.7

Note: Negative values show the average preferrential tariff margins that SADC count receive over all other exporters of the same goods.

A brief overview of the patterns of SADC's trade leads us to the following conclusions:

- SADC countries remains heavily dependent on agriculture and raw materials, and has therefore been unable to benefit from past preferences on its exports.
- The extent of such preferences is quite high relative to actual tariffs, meaning that multilateral trade liberalization will reduce preferences.
- SADC countries remain heavily dependent on the European market which gives it most preferences. This in turn suggest that it is in Europe that SADC countries have the most to lose.

II. Implications of the Uruguay Round for Market Access

The impacts of the UR may be analyzed from four aspects: agricultural trade; trade in manufactures; elimination on non-tariff barriers; and assessments of the overall net impact on trade.

A. Trade in Agricultural Products:

Under the UR agreement on agriculture, one hundred percent of trade in agricultural products by both developed and developing countries will be bound and all quantitative restrictions will be tarifficated and eliminated, and subsidies for both export and domestic markets will be reduced by a third. For many African countries, exports of agricultural products faced few tariff barriers, but they face many nontariff barriers. However, tariffs are applied for some exports of several SADC countries in OECD markets, including the U.S. and Japan. Table 4 shows the most important tariff reductions and SADC countries for which the reduction is significant. While the changes in tariffs as shown in table 4, will have little impact for SADC's exports in Europe since they already enjoy preferential tariff, they may stimulate growth in SADC's exports to Japan and the U.S.A.

Table 4: Tariff Reductions (in percent) on Agricultural Products

Products	OECD	EU	US	Japan	SADC countries benefiting
Coffee, Tea	35%	41%	21%		Tanzania, Malawi
Fruits & Veg	36	28	39	33	Mozambique
Animal Prod.	32	42	34	30	Botswana
Tobacco	36	25	41	46	Malawi, Zimbabwe

Trade balance of food for some SADC countries for 1990-92 is presented in Table 5. As shown in the table, the ten SADC countries as a whole enjoyed substantial trade surplus in food, and only Angola and Zambia had deficit. SSA countries as a whole also had substantial surplus in food trade: an average of $7.8 billion during 1990-92. With recent policy reforms in these countries, particularly in agriculture, trade balance for later years (though data are not available) is expected to be better.

Table 5: Food Trade of SADC Countries
(US$ million)

	Food Exports			Food Imports			Food Balance			Annual Average
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990-92
Angola	9	10	12	166	142	219	-157	-132	-207	-165
Botswana										
Malawi	393	445	360	45	55	55	348	390	305	348
Mozambique										
Namibia										
RSA	5465	5603	5527	816	841	954	4649	4762	4573	4661
Swaziland										
Tanzania	254	221	244	66	75	76	188	146	168	167
Zambia	12	10	10	87	105	109	-75	-95	-99	-90
Zimbabwe	647	601	544	68	45	76	579	556	468	534
SADC Total	6780	6890	6697	1248	1263	1489	5532	5627	5208	5456
SSA total	13938	13694	15371	6232	6481	6961	7706	7213	8410	7776

Source: The Impact of the Uruguau Round on Africa
World Bank Discussion Paper 311, Peter Harold, 1955

The negotiations in agriculture in the UR were focused on industrial countries. As a result, very little is asked of developing countries. They are permitted to declare simple ceiling bindings, without relations with existing tariffs, and the least developed are not required to reduce these bound tariffs over the life of the UR.

The review of the implications for SADC countries of changes in agricultural trade under Uruguay Round suggest that they are not likely to have any serious negative impact.

B. Trade in Manufacture

As mentioned earlier, manufactures are a small part of total exports of SADC countries, and SSA in general. Accordingly, the impact of the UR on SADC's manufactures in the medium term may be of less importance. However, continued trade liberalization in manufactures may stimulate aggregate demand and improve market prospects for future exports by SADC countries. The tariff bindings in manufactures will rise from 68% to 87% of tariff lines and almost total coverage for industrial countries, and tariffs on African manufacturing exports will fall by an average of 31%.

Table 6 shows the pre- and post- UR tariff position for exports of manufacturing products by five SADC countries, and their key exports. The table shows that Namibia will enjoy the largest reduction in average tariff but the tariff levels themselves are low (from 2.8% to 0.8%) and the export volume is relatively small: US$43 million. The weighted average (by export value) of the reduction for the five countries is about 15%.

Table 6: SADC Countries' Gains in the Uruguay Round

			Average Tariff			
Country	OECD Export Value $million	Share of Industiral Product in Exports	Pre-Uruguay Round	Post Uruguay Round	Percent Reduction	Key Products
Botswana	230	86.8	11.1	9.4	15	Metals
Lesotho	44	91.7	10.9	9.1	17	Textiles
Namibia	43	96.3	2.8	0.8	71	Metals,
Swaziland	228	35.4	71.3	67.5	5	Wood
Tanzania	300	28.6	11.6	9.9	15	Textiles Minerals
Average (weighted by exports)					15	

Source: The Impact of the Uruguay Round on Africa
World Bank Discussion Paper 311, Peter Harold, 1995

One of the major concerns that African countries had about the UR negotiations was that the loss of their preferences resulting from cuts in OECD MFN tariffs could have an important negative impact on their exports. Most African exports to industrial countries were admitted duty-free and were generally unrestricted by quotas or ceilings. A recent analysis of the pre-UR MFN tariffs on products exported by the African LDCs suggests that the importance of preferences as well as their concerns have been exaggerated. For example, in the European market, the principal preferential market for Africa, roughly 20% of all LDCs' export products have zero MFN duties, so tariff preferences could not be extended on these items. Also, due to the reductions in MFN tariffs that were achieved in previous multilateral negotiations, the margins of preference of pre-Uruguay Round were generally quite low.

A partial equilibrium trade projection model developed by the World Bank and UNCTAD to simulate the impact of the actual Uruguay Round MFN tariff cuts in European Union, the U.S, and Japan conforms that preference erosion resulting from the Uruguay Round would be relatively small: only 0.1 percent loss in total African LDC exports to these markets. Of the six SADC countries included in the model, three countries would have negative impact of very small percent: Malawi (-0.08%), Tanzania (-0.01%) and Zambia (-0.52%). Three other countries would enjoy increased exports: Botswana (0.27%), Lesotho (3.38%), and Mozambique (0.05%).

C. <u>Reduction in Non-Tariff Barriers</u>

Since mid-1980s, many developing countries adopted trade liberalization under their structural adjustment programs and the quantitative restrictions were eliminated and replaced by tariffs. Ironically, the developed countries are now catching up with the process under the Uruguay Round. We have seen that pre-UR tariffs for most exports by SADC and SSA countries were already low, but it is not the case for Non-tariff Barriers (NTBs).

Table 7 shows the extent of NTBs facing SADC countries' exports pre-UR, as well as SSA countries and developed countries. The table shows the surprising results that OECD countries have applied NTBs more heavily on the exports of developing countries than against developed countries. This is because of the key importance to LDCs of certain highly protected industries in OECD countries. Of the seven SADC countries for which data available, Malawi's exports has the highest coverage by NTBs (29.6%), followed by Zimbabwe (20.3%). For all SSA countries excluding RSA, the share covered is 13.1%, compared to 16.6% for developing countries and 10.2% for developed countries.

Table 7: NTBs Facing SADC Countries in OECD Markets

Countries	1992 Value of Exports ($M) All OECD	EFTA	EU	Japan	USA	Share of Exports Covered by NT (Percent) All OECD	EFTA	EU	Japan	USA
Angola	3684	1	1132	5	2436	4.7	2.2	14.7	0.0	0.0
Malawi	393	20	130	68	64	29.6	13.5	18.2	99.5	13.4
Mozambique	147	4	94	16	21	10.3	5.7	9.1	0.0	31.7
RSA	11132	525	4892	1781	1878	13.0	5.2	14.9	21.1	0.0
Tanzania	266	8	158	33	12	3.8	1.2	5.4	0.1	0.0
Zambia	630	8	279	249	71	0.7	12.1	0.7	0.0	0.0
Zimbabwe	875	54	418	120	114	20.3	6.5	28.5	4.4	8.5
SSA total	44791	1556	21592	2945	12675	13.1	3.4	19.7	13.2	1.6
Developing Countries	705634	29551	204374	120426	233595	16.6	15.1	24.9	4.2	15.4
Developed Countries	1986779	186789	908622	110548	317996	10.2	6.6	8.8	16.5	15.4

Source: The Impact of the Uruguay Round on Africa
World Bank Discussion Paper 311, Peter Harold, 1995

If we look at the NTBS by product, it is food exports by developing countries that are most seriously affected overall. Overall, 23.4% of SSA food exports (excluding SSA) are covered by NTBs, compared with only 5.6% of manufactures. The tariff equivalent of those NTBs in the EU and Japan has been calculated in the range of 50% to 200%, indicating that they are significant. As mentioned earlier, most quantitative restrictions (QR) are to be abolished or tarifficated. This may or may not have any immediate impact on the level of actual protection, but it will place trade on an equal basis between competitors and reduce uncertainty. From a SADC perspective, the problems with the MFA and the Voluntary Export Restraints (VER) is the way that they "freeze" market shares and make entry very difficult. Some safeguards will be retained to avoid sudden shocks to individual countries.

The results of the UR with respect to the removal of NTBs are shown in Table 8. The impacts on SADC countries are significant. For example, Malawi's share of exports facing barriers declines from 29.6% to 3.7% getting the largest impact (-25.9%). The share for Zimbabwe declines from 20.3% to 6.9%. In comparison, the share for all SSA countries goes down from 13.1% to 8.0%.

Table 8: Pre- and Post-UR Coverage of NTBs on SADC Exports

Countries	1992 OECD Imports $ million	OECD Non-Tariff Measure Coverage Ratio		
		Pre-Uruguay	Post-Uruguay	Change
Angola	3684	4.7	4.7	0.0
Malawi	393	29.6	3.7	-25.9
Mozambique	147	10.3	0.6	-9.7
RSA	11132	13.0	3.7	-9.3
Tanzania	266	3.8	0.5	-3.3
Zambia	630	0.7	0.0	-0.7
Zimbabwe	875	20.3	6.9	-13.4
SSA total	44791	13.1	8.0	-5.1

Source: The Impact of the Uruguay Round on Africa
World Bank Discussion Paper 311, Peter Harold, 1995

It should be noted that while industrial countries are required to eliminate these NTBs, the LDCs are exempt from such requirements, or have a very extended period for applications. While SADC countries could therefore continue with many such measures, the fact is that most such measures have already been eliminated in structural adjustment programs. The removal of NTBs is therefore not an issue with respect to concessions by SADC or other African countries. In conclusion, the removal of NTBs under the UR will be a positive move for SADC countries, particularly for Malawi and Zimbabwe, which get larger benefits.

D. Estimates of the Overall Impact on Africa's Trade in Goods from the UR

We have reviewed the impact of the UR on three aspects of trade in goods in SADC countries. There are a number of quantitative estimates that have attempted to measure how the factors we discussed in previous sections balance out on SSA-wide basis. We are not aware of any quantitative estimates for each country or sub-continent. These estimates are for general impact of changing trade patterns and we have to exercise extreme caution in interpreting the results. The results from various models show different results. However, we could draw a general conclusion: a small gain for SSA as a whole, about 1% gain.

Conclusion

Review of several aspects of the UR in previous sections leads us to a conclusion that the UR would not have a significant impact on the trade of SADC countries. It will not be the source of a large loss of preferences, nor of a large increase of new demand for SADC's exports. The UR will have significant impact on the rest of the world, particularly East Asia. SADC countries, like other SSA countries, have already good access to markets in Europe and Japan, but has not been able to take advantage of these opportunities for a number of reasons. The UR will bring about a more open and certain trading system and it will create opportunities for those countries that are able to generate the right domestic environment to encourage efficient production oriented export markets and policy framework favorable for private investment.

The reduction of trade barriers worldwide does not tend to reduce interest in regional integration, and reduces the extent of trade-creation of the integration. At the same time, the reduction of trade barriers reduces the extent of trade-diverting of the regional integration.