

# Africa and the Global Trade System

## A Policy Paper

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**Abstract:** This policy paper explains the global trade system reform. It proposes to burgeon international trade – a way in which the least developed countries of the world can attain their share from the global economic system. The paper examines why the global trade system worked very well with the advanced industrialised countries in the north, and the newly industrialised countries of the south, but not the least developed countries (LDCs) as the share of their global economy has declined dramatically since in the 1980s? The research draws attention to the unfair policies in the global trade system. It also explains the existing technological and industrial obstacles, which resulted the developing economies’ negative participation in the world trade, and the causes of trade imbalances that hinders LDCs, not to attain their portion from the global economy. Then the paper recommends:

- WTO member states should come up with trade policies of mutual advantage.
- LDCs to move from inward-oriented trade policies to outward-looking
- To reform the unfair EPAs between EU and ACP countries.
- LDCs to diversify their economies from primary commodities to industrial base.
- To make Doha Round talks a success.
- WTO member states to eliminate the unfair import-substitution policies of agriculture.
- Africa should address supply-side constraints to its infrastructure and deepen its regional integration.

**Keywords:** global trade system, international trade, industrialised countries, global economy.

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### 1. INTRODUCTION

The inter-governmental organisations of the World Bank Group and the World Trade Organisation (WTO) highlighted that the total aggregate of international trade has grown considerably for the past decade – after the global recession in 2008 (Constantinescu, et.al 2015 and WTO, 2016). Although the above institutions eulogized the integration of the world economy, the IMF stated that the developing countries of the global south shared the prosperity of high income and substantially increased their exports. On the other hand, the uneven economic integration of the least developed states has also been identified by the very same institutions (IMF, 2001). This means not all nations of the world benefited the affluence of the global trade system. Most of the expertise in the development studies and academics of this field argue that the global trade system is unfair between the advanced industrialised countries of the global north and the least developed countries of the global south (Haslam, et. al. 2012).

Therefore, this policy paper will put forward the prospect of international trade in its first section. The second section begins with the deep-seated structural problems of trade by looking the implications of global trade system (Haslam, et.al, 2012). In the third section the policy paper will demonstrate the existing marginalisation of international trade by revealing the imbalances of the rich nations in the north together with the newly industrialised countries (NICs) in some parts of Latin America and East Asia and the declining share of LDCs (Stiglitz, 2003 and Baer, 1972). This includes the nature of business practices in Africa, its regulatory environments and the capacity of the limited infrastructure of the continent (Yong-Shik Lee, 2016). After defining the international trade problem, highlighting the failures of the unsupportive external environment and the inappropriate domestic problems along with the institutional weaknesses of Africa (Moyo, 2014; Ricardo, 1817), the paper will illustrate its key findings. Then the policy paper will propose seven points of recommendations. This is to tackle the existing unfair trade policies with new amendments and seek ‘comparative advantage’ from the global economic system.

## 2. THE PROSPECT OF FREE TRADE

The limitations of state interventions and the removal of the international trade barriers are believed to be the utmost importance of the global trading system. The liberalization of international trade became the dominant outlook among regional governments, inter-governmental organisations as well as national governments (Haslam, 2012). After the Second World War, the global trading system became an element of policy debate – this transpired, because of the influence of the neoliberal economic thinkers at the time. Then the neoliberal inter-government organisations such as the IMF and the World Bank Group have emerged. This is when most of the African nations turn out to be independent sovereign nations. There came with the trade policies of institutional harmonization where economic integration begin to be regulatory arrangements such as the removal of quotas, the reduction of tariffs and the restrictions on capital flows (Drozdz, J. and Miškinis, A. 2011) – mainly when the Cold War has ended.

## 3. IMPLICATIONS OF INTERNATIONAL TRADE

The United Nations Conference on Trade and Development showed in its report on trade and development that Africa's fair participation of global merchandise export has declined its percentage from 5.5% in 1960 to 3.1% in 2009 (UNCTAD, 2010). This figure shows the level of unfair trade in the global trade system. It also illustrates how the poorest countries of Africa experience the diminishing percentage of international trade. On the contrary, not all the developing countries' share declined in the global trade system – part of the developing nations of Asia have a great faith in the economic integration of the world as an act of catalyst for human development and job creation (IMF, 2001). These parts of the developing world – the global trade system accelerated their economic development.

Moreover, trade has enabled the consumers of some Asian countries to enjoy a greater variety of goods through the exchange of commodities (Pettinger, 2017). The reasons why these countries benefited international trade is; because they realized the need to develop their own industrial base – to compete for the global trade system (Yong-Shik Lee, 2016). However, in Sub-Saharan Africa, international trade is not as good as the other parts of the world. These least developing countries experienced trade marginalisation, though this is complex to explain as the problem is multifaceted and includes a less possibility of a win-win situation when it comes to free trade. One could infer that the current global trade system requires readjustment of market mechanisms to be employed in order to support “development efforts of the south” (Haslam, et.al. 2012). While others argue that Africa requires to discover a new strategy of trade policy by suggesting the industrialisation development strategy. For example, Lee argues that primary commodities price is falling, therefore “Africa needs to covert its raw materials into unfinished goods” (Yong-Shik Lee, 2016)

## 4. THE IMBALANCES OF THE GLOBAL TRADE SYSTEM

The agreements and policies of the global trade system have never been fair, this is because Africa's least developed countries depend on raw material export-led industry and agriculture-based economies. And in the global trading system, countries who sell primary commodities and in return buy secondary manufactured commodities are “restricted and distorted” their development by unequal exchange (Haslam, 2012). Primary commodities in the least developing countries are difficult to compete against the advanced technology and the industrial commodities and services from the developed world (Wallerstein, 1974; Frank 1972). The abovementioned problems are the recurrent glitches in which arise out between Africa and the industrialised countries in the global north. On the other hand, the comprehensive free trade agreement between the European Union and the ACP countries known as the Economic Partnership Agreements (EPAs) is another good example of unfair policy as this can result in mass unemployment to the farming sector of Africa (EU-Africa Summit, 2014).

The trade deal is non-reciprocal and discriminating the trade agreement of the preferential trade area. This unfair trade offered by the European Union is conflicting trade agreement with the WTO trade rules (Bilal, and Rampa (2006). Moreover, trade policy reform is one of the most complicated reforms as every decision is to be settled by consensus of all WTO member states. This is, in order to sign an agreement, every member country of the WTO is to agree with the whole deal (Low, 2011). These are the reasons why the essential fair international trade agreements fail. For example, the Doha round of the trade talks was suspended after the United States and the European Union rejected to ease and/or eliminate their agricultural subsidies (Charlton, 2006). It could be argued that such a failure of Doha Round Trade talks means that other future trade agreements between the members of the WTO might simply fail for the same reasons.

Because the first world countries will always put their trade interests first – that means they will not allow the developing countries' low-cost commodities because lobbyists of interest groups will keep an everlasting political pressure to the US and EU policymakers.

The above argument could not be plausible as it can never be reached fairly among all developed and developing nations of the world even if all trade policies turn out to be fair. Because the rich and the poor countries of the world do not have the same technological and industrial capacity to equally benefit the share of the global trade system. In Africa, there are deep-seated structural problems, this include, Africa failed to participate "into the global economy to the same extent as the newly Asian industrialised countries"(O'Brien, 2000). To further elaborate this; most of the member states of the African Union failed to diversify their traditional primary commodity exports as these traditional primary goods lost their importance in international trade (O'Brien, 2000), Moreover, this followed a limited infrastructure, lack of technological advancement and industrial base (Yong-Shik Lee, 2016). The counterargument of the above failure explains that the causations of underdevelopment and dependency of Africa are happening because of the new form of colonialism – this is the pretext support of the continent. For instance, the institutionalized trade and development pattern enforced policies developed by the inter-governmental organisations of the IMF, the World Bank Group and the WTO "have restrained African Union member states to continue dependence on colonial states. The same policies seem to favour a trade imbalance to the already wealthy Western economies over the struggling ones in Africa" (Nyikal, 2005).

The neoliberal states were pushing these trade policies – whereby most of the global south countries were adopting the idea of globalisation and free trade. On the other hand, African nations at the time of independence from the colonial rule in the 1960s and the 1970s were struggling with the problems of rising debts and balance-of-payments (Kirkpatrick and Weiss 1995). One can argue that the challenges of debt and the continents inability to payback these debts resulted that your nations (AU Countries) tried to address these challenges by adopting import-substitution policies, and inward-looking trade policies in order to reduce import dependency (Babatunde, 2006). Most of the African countries, import substitution was a way of promoting and encouraging domestic production patterns. However, in Asia import substitution was important for local manufacturing before they changed that pattern dramatically when Asia "sustained the development of industries by successfully exporting the products produced by domestic industries, which could not be consumed locally" (Yong-Shik Lee, 2016).

Another explanation of African trade problems is the lack of policy framework for enhancing comparative advantage. For example, the similarity of export commodities of agriculture, raw material and textiles without adopting the technological innovation of intermediate capital (Moyo, 2014). Most of the theoretical assumptions of international trade and the historical experience of the both the developed and emerging economies of the developing countries need to remove policy barriers of trade (Bhagwati, 2002), and at the same time access to gain northern technology in order to develop comparative economic advantage (Sachs, 2005). The agriculture-based economies in Africa against the European export subsidy is another explanation of international trade imbalance. According to the IMF report (2001), the highly industrial developed countries pay a higher subsidy to farm industries. The report states that around 2/3 Africa's total GDP, which is around 2.7 billion euros goes sugar farming in order to become profitable, while at the same time "shutting out low-cost imports of tropical sugar (IMF, 2001).

## 5. KEY FINDINGS

The UNDP Report led by its Director Kevin Watkins on Human Development also shed light on that the bulk of the problem of the unfair trade between the least developed and the developed countries is the falling prices of the primary commodities in which African countries depend on. This followed the agriculture subsidy of the developed countries of Europe and the United States. The report also stated that the agriculture sector is the economic mainstay of more than fifty developing countries, and this is the sector they rely on for at least one-quarter of their export earnings. A sector that has fallen from 15 per cent to 10 per cent since 1980 (UNDP Report, 2005). On the other hand, Africa's dynamism to change the structure of the export, which is mainly from primary commodities into the industrial base of manufacturing is nonexistent policy (Warner and Sachs, 1995 cited in Haslam). Conversely, according to Sachs and Warner the reason why some of the Asian developing countries (NICs) benefited from the world economic integration is the outward orientation strategy, while Africa failed – because of the inward-looking development strategy centered on import substitution plus the low price export of its primary commodities – followed by the export subsidies in offsetting import protection of the developed world (Sachs and Warner 1995 cited in Haslam).

## 6. POLICY RECOMMENDATIONS

This reform policy paper of the global trade system on how to improve the system in order to work for the least developed states of the African Union hereby to make the following recommendations:

- The WTO and its member states should stick to a policy plan in which to facilitate the development of the LDCs. This is to support the interests of the less industrialised countries by granting the Special and Differential Treatment of GATT/WTO discipline GATT 1947, Article XVIII), in order to safeguard the interests, allow flexibility, offer technical assistance to the developing countries in according to World Trade Organisation Report (WTO, 2013 cited in Yong-Shik-Lee).
- The WTO and its member states should equally open their markets, lift import-substitution policies, while the least developed countries diversify their economies, following the steps of the Japanese and other Asian styles of dramatic opening to the world economy. This would progressively rollback all obstacles that hinder free trade and it will attract foreign direct investment.
- Africa needs to deepen regional integration, i.e. to create a single market that allows goods and services to freely move between all its states. This would ease the problem of lower share of the global trade, and improve the weak development of capital.
- Africa should improve and address its supply-side constraints to its road and transport infrastructure. This would improve the quality of the service, reduce high cost and its crucial for import and export of goods and services.
- Africa should consider an outward-oriented trade policy to avoid the ill-afforded huge implicit subsidies that narrow privileged interests. There is a considerable evidence that open markets consistently grow faster than closed markets.
- African and other ACP countries should stand together on Doha Round with the intention of their way out of poverty with the particular focus on agriculture. Likewise, WTO member states should work together to make the suspended long-drawn-out Doha Round a success story.
- The WTO and its member states should convince the EU to reform the unfair of EPAs as the agreement is incompatible with the WTO rules.

## 7. CONCLUSION

Primarily, the policy paper concisely contextualized how states, academics, and inter-governmental organisations demonstrated the importance of global trading system and examined its role of development in various issues (Haslam, 2012). The policy paper also demonstrated how international trade boosted shared prosperity and help to reduce the extreme poverty of some parts of the developing world – mainly in the newly industrialised countries (IMF, 2001). While at the same time, the policy paper focused on the unfair trade of the least developing countries of ACP and Sub-Saharan Africa. The paper highlighted in a nutshell that Africa's global share of export has declined its percentage, whilst the world outside Africa increased its share of the global economy (UNCTAD, 2010). It explained the unfair trade agreement between the European Union and ACP countries known as European Partnership Agreement (EPA) (EU-Africa Summit, 2014). The paper has also explained the failure of the Doha Round talks in which the developed countries of the EU and the United States refused to eliminate or reduce the export subsidies in offsetting import protection (Sachs and Warner 1995 and Charlton, 2006). Finally, the policy paper proposed recommendations to improve ways in which the system work for the least developed countries.

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