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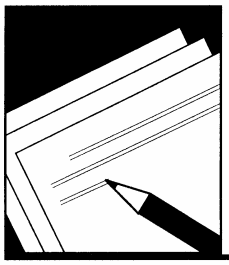

IMF Policy Discussion Paper

Africa in the Doha Round: Dealing with Preference Erosion and Beyond

Yongzheng Yang

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Africa in the Doha Round: Dealing with Preference Erosion and Beyond[1]

Prepared by Yongzheng Yang

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Abstract

Improving market access in industrial countries and retaining preferences have been Africa's two key objectives in the Doha Round trade negotiations. This paper argues that African negotiators may have overlooked the potential market access gains in developing countries, where trade barriers remain relatively high and demand for African imports has expanded substantially over the past decades. As reductions in most-favored-nation tariffs in industrial countries will inevitably lead to preference erosion, African countries need to ensure that the Doha Round leads to liberalization in all sectors by all World Trade Organization (WTO) members, so that the resulting gains will offset any losses. Such an outcome is more likely if African countries also offer to liberalize their own trade regimes and focus on reciprocal liberalization as a negotiation strategy rather on preferential and differential treatment.

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Keywords: Africa, Doha Round, preference erosion, special and differential treatment

Author(s) E-Mail Address: yyang@imf.org

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I. INTRODUCTION

The central objective of Africa's trade policy is to accelerate economic growth and reduce poverty (IMF, 2005). How to turn the current multilateral trade negotiations into a true development round for Africa is a critical component of that trade policy. This is a difficult challenge given the large number of issues that affect Africa in the Doha Round negotiations; they range from very specific issues on cotton to agriculture in general, nonagricultural market access, trade facilitation, trade in services, and special and differential treatment. The broad strategy the African countries have adopted so far appears to focus on obtaining greater market access in industrial countries while minimizing preference erosion[2] and their own liberalization commitments through special and differential treatment.

In general, it is difficult for African countries to seek greater market access while trying to retain preferences, because any most-favored-nation (MFN) reduction in trade barriers tends to level the playing field. In addition, preference erosion occurs as a result not only of multilateral liberalization but also of unilateral liberalization and preferential trade arrangements that do not include existing preference beneficiaries. Thus, the ongoing reforms of the EU's sugar and banana trade regimes and the U.S. push for preferential trade arrangements outside Africa will inevitably lead to preference erosion for Africa.

[2] Preference erosion is defined here as a reduction in the tariff advantage enjoyed by a preference beneficiary vis-à-vis its competitors. Preference erosion reduces the export competitiveness of the beneficiary by making its competitors' exports less expensive in the preference-giving market. For example, if the European Union (EU) cuts its tariffs on textile and clothing imports on a most-favored-nation (MFN) basis, least developed countries that currently enjoy duty- and quota-free entry to the EU market (subject to rules of origin) would see their market access advantages reduced vis-á-vis other countries whose exports are subject to nonzero MFN tariffs in the EU. Similarly, the U.S.-Central America Free Trade Agreement is likely to reduce the benefits of the U.S. African Growth and Opportunity Act (AGOA) for eligible sub-Saharan African countries.

This paper offers a broad economic perspective on how African countries might deal with preference erosion and take advantage of the Doha Round negotiations in pursuing their development interests. It places preference erosion in the broad context of the round and Africa's trade reform and focuses on strategies to address its impact on Africa, rather than on specific aspects of the negotiations. The paper argues that African countries should seek greater market access not only in industrial countries but also in developing countries, which have become Africa's important trading partners. And, rather than try to retain trade preferences, Africa can best pursue its development interests in the Doha Round by strengthening its commitment to liberalization while demanding generous reciprocity from its trading partners. African countries should use special and differential treatment primarily to maximize the benefits of reciprocal liberalization and to alleviate the adjustment costs arising from their own liberalization and from preference erosion.

The paper is organized as follows. To set the stage for discussion, the paper first (in Section II) provides a brief overview of Africa's evolving trade landscape and the barriers it faces in various markets. It then examines preference erosion, which is a key concern of African countries in the Doha Round trade negotiations (Section III). This is followed, in Section IV, by an exploration of options to offset the negative effects of preference erosion on Africa. In Section V, the paper concludes by discussing the policy implications of these options and the strategies that may help advance Africa's long-term development objectives in the Doha Round.

II. Africa's Evolving Trade and the Barriers It Faces

Over the past two and a half decades, developing countries have steadily gained importance as Africa's export markets, although industrial countries as a group remain the continent's dominant export destination. By 2004, developing countries accounted for a full 30 percent of Africa's total exports, up from 18 percent in 1970, or 14 percent in 1980 (Table 1).[3] China, in particular, has become Africa's third-largest market after the EU and the United States. Despite increasing efforts on regional integration, intra-African exports as a share of the continent's total exports remained low and were virtually unchanged between 1970 and 2004.[4] Overall, developing countries, especially those in Asia, have been Africa's most dynamic export markets because of their rapid income growth and, hence, expanding demand for imports. Africa's interests in improving market access during the Doha Round will clearly be influenced by what happens in these markets.

Similarly, Africa has increased its imports from developing countries, although industrial countries continue to account for over half of the continent's total imports (Table 2). Between 1970 and 2004, the share of developing countries in Africa's total imports increased by over 20 percentage points, while the combined share of the EU and the United Stated declined by nearly 20 percentage points. China has again emerged as a major trading partner,

[3] The IMF's *Direction of Trade Statistics* does not break trade down by commodity. Separate data from United Nations COMTRADE confirm, however, that the split of African non-oil exports between developed and developing country markets is similar to that of its total exports, although China's share of non-oil exports is lower (by about 1 percentage point).

[4] For an overview of Africa's regional trade arrangements and their impact on trade, see Yang and Gupta (2005).

overtaking the United States and Japan as Africa's second-largest source of imports, after the EU.

Table 1. Africa's Exports by Destination: Selected Years, 1970–2004
(In percent of total exports, unless otherwise indicated)

	1970	1980	1990	2000	2004
World (In billions of U.S. dollars)	12.4	64.8	82.3	132.7	192.6
Industrial countries	70.8	66.5	69.3	64.4	65.0
European Union	55.9	40.1	45.4	40.7	37.6
United States	7.5	18.4	17.4	19.0	20.3
Japan	5.6	4.3	3.6	2.0	3.7
Canada	0.9	0.5	0.6	1.4	1.8
Developing countries and countries in transition	17.7	13.8	16.5	27.5	30.0
Africa	8.8	5.2	7.3	8.5	8.8
Asia	3.1	2.7	4.2	12.6	13.8
China 1/	1.4	0.8	1.0	3.0	6.3
Europe	3.3	2.3	2.2	1.1	2.3
Middle East	1.1	1.1	1.5	1.7	2.0
Western hemisphere	1.4	2.4	1.3	3.6	3.1
Other	11.5	19.7	14.2	8.1	5.0

Source: IMF, *Direction of Trade Statistics*, various years (Washington).
1/ Includes Hong Kong SAR and Macao SAR.

The changing geographical distribution of Africa's trade has important implications for its trade policy and, in particular, for its negotiation strategies in the Doha Round. From the perspective of market access, African countries have an ever-increasing interest in trade reforms in other developing countries. If the recent trend continues, it is likely that, by the time any Doha Round liberalization is fully implemented (say, 2015), developing countries will account for an even larger share of Africa's exports. Equally important, the growth in Africa's imports from developing countries will increasingly benefit its economies in terms of cheaper consumer and intermediate goods, increased technology transfer, and inflows of foreign direct investment (FDI). In fact, developing countries have already become an important and increasing source of FDI for Africa (World Bank, 2005).

Table 2. Africa's Imports by Source: Selected Years, 1970–2004
(In percent of total imports, unless otherwise indicated)

	1970	1980	1990	2000	2004
World (In billions of U.S. dollars)	13.1	60.9	83.6	108.3	192.4
Industrial countries	79.3	70.3	69.9	61.0	56.8
European Union	58.2	52.3	52.3	45.2	44.5
United States	11.9	8.9	7.7	7.8	6.2
Japan	5.8	5.8	6.6	4.9	4.0
Canada	1.2	1.3	1.2	1.1	0.6
Developing countries and countries in transition	19.0	19.2	23.3	37.9	40.5
Africa	7.4	5.1	7.9	10.3	9.4
Asia	5.8	4.2	6.9	12.9	16.5
China 1/	1.9	1.2	2.0	4.0	7.1
Europe	2.9	2.2	3.0	3.6	4.0
Middle East	1.7	5.8	3.6	8.8	7.6
Western hemisphere	1.2	2.0	1.9	2.4	3.0
Other	1.7	10.4	6.8	1.1	2.7

Source: IMF, *Direction of Trade Statistics*, various years (Washington).
1/ Includes Hong Kong SAR and Macao SAR.

The declining importance of industrial countries in Africa's overall trade also has a bearing on the general efficacy of preferential market access. Although some African countries' exports have undoubtedly benefited from preferential access to the EU and the U.S. markets—for example, Mauritius's sugar exports to the EU and Lesotho's garment exports to the United States—such benefits have yet to spread beyond a relatively small number of countries. Moreover, those that have benefited from preferences tend to have already improved their investment climate and attracted some FDI in manufacturing industries (at least in the initial stages), especially from developing countries. Clearly, to promote overall trade, African countries need to strike a balance between seeking or retaining preferences and undertaking further domestic reforms, and between improving market access to developing and to developed country markets.

Africa's exports continue to be dominated by primary commodities (Table 3). Agricultural products alone account for over one-fourth of its total exports, with minerals (including fuels) accounting for an additional 50 percent. Manufactured exports account for about 30 percent.[5] This export composition has two implications. First, because MFN tariffs on most industrial goods in developed countries are already low (with a few exceptions, such as textiles and clothing), most African countries (especially net agricultural exporting countries) will probably benefit less in terms of market access from liberalization of these goods than from agricultural liberalization. The larger potential for agricultural exports can be seen from the share of agricultural and food products in Africa's total exports to its major external markets other than the EU; that share is well below the average share of these products in Africa's global exports (see Table 3). Second, the effect of preference erosion for Africa's industrial

Table 3. Composition of Sub-Saharan African Exports, by Destination, 2003
(In percent of total exports)

	World	EU 15 [1/]	United States	China [2/]	Japan	Developed Countries	Developing Countries	Sub-Saharan Africa
Agriculture	26.7	35.5	13.5	26.6	39.3	28.0	23.6	22.3
Food	14.6	23.6	4.3	4.1	6.5	14.8	15.2	18.9
Fuels	42.7	29.6	68.2	52.9	28.2	42.3	44.7	30.4
Manufactures	30.4	34.5	18.2	20.5	32.5	29.5	31.1	46.8
Non-oil products	57.3	70.4	31.8	47.1	71.8	57.7	55.3	69.6
Ores and metals	8.4	6.4	8.7	14.0	32.0	10.1	3.9	1.9
Textiles and clothing	1.9	1.5	0.3	4.0	0.3	1.0	3.5	2.9

Source: United Nations COMTRADE statistics, extracted from the WITS database.

1/ Includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

2/ Includes Hong Kong SAR and Macao SAR.

[5] Some agricultural products are also classified as manufactures because they are processed. This is why the total exports of agricultural products, fuels, ores and metals, and manufactures add up to over 100 percent of the

(continued…)

goods in industrial country markets is unlikely to dominate the overall outcome of the Doha Round. In fact, as will be discussed in Section IV, African countries have opportunities to compensate for losses arising from preference erosion by ensuring a comprehensive sectoral and product coverage of liberalization and by having as many countries participating in such liberalization as possible.

So where can African countries look for such compensation? Figure 1 shows that member countries of the Organization for Economic Cooperation and Development (OECD), except for the EU members, still maintain high protection against African agricultural exports; hence, the potential benefits of market access in these countries can be large.[6] However, benefits are likely to accrue mainly to current net exporters of agricultural products. Indeed, some net agricultural importers may lose, particularly in the short to medium term, as a result of rising world prices following trade liberalization (IMF, 2002; Panagariya, 2004).[7] In the industrial goods sector, Africa generally faces low tariffs in Canada, the EU, Japan, and the United States but much higher tariffs in developing countries and many other OECD member

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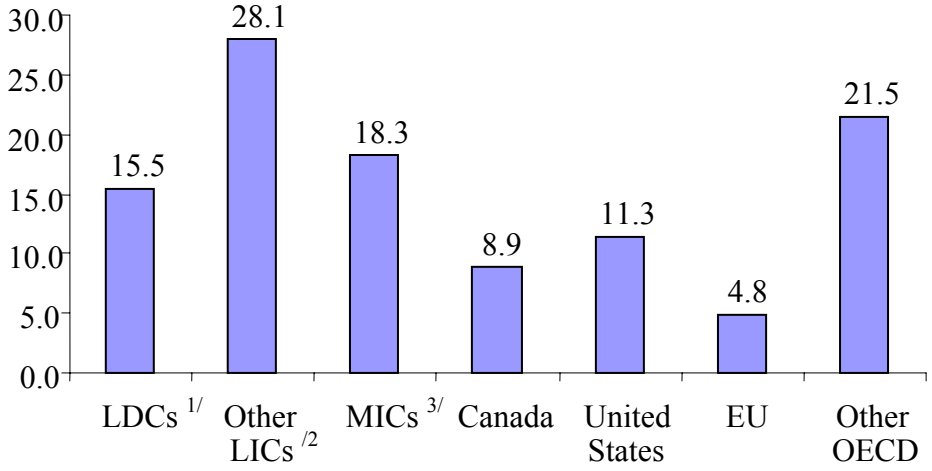
total in Table 3.

[6] The low average ad valorem equivalents (AVEs) for the EU in Figure 1 seem to reflect the preferences granted under various EU preference schemes. Note, however, that AVEs do not cover all trade barriers, such as sanitary and phytosanitary measures that are intended for protectionist purposes. Neither do they take into account the large domestic support and export subsidies that the EU maintains. Because the estimation of AVEs is difficult and the results vary by data source and methodology, caution should be exercised in interpreting Figures 1 and 2.

[7] The emphasis on the short- to medium-term outcome here is critical, because some African countries that are currently net importers of agricultural products may, in the long run, become net exporters if world agricultural prices rise and become more stable. Supported by appropriate domestic policies, the increased price incentives could lead to large improvements in Africa's agricultural productivity, which is generally well below its potential. Historically, the European Economic Community (EEC) turned itself from a large net grain importer into a large net grain exporter with the help of higher producer prices, although it did so through policy distortions that reduced the welfare of both the EEC and the rest of the world.

countries (Figure 2). In developing country markets, in particular, no preference erosion will occur for African exports when these markets open on an MFN basis. It is worth noting that the proportion of manufactures in Africa's exports to developing countries (at about 30 percent) is similar to the share in its exports going to industrial countries (Table 3). Thus, the potential benefits of improved market access for manufactures in developing countries are significant.

Figure 1. Ad Valorem Equivalents Against Africa's Agricultural Exports, 2000
(In percent)



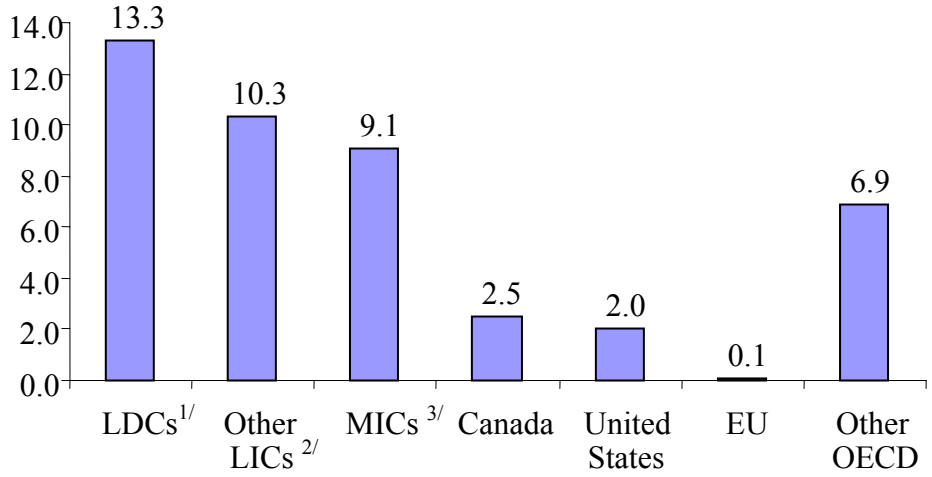
Source: MAcMaps Database, as maintained by the Centre d'Etudes Prospectives et d'Informations Internationales and the Internatioal Trade Centre.

1/ Least developed countries.
2/ Low-income countries.
3/ Middle-income countries.

Perhaps the largest potential benefits for African countries will come from liberalizing their own trade in the Doha Round. Despite steady cuts over the past decades, Africa's tariffs remain high relative to those in other developing regions (Table 4). In addition, only a fraction of Africa's tariffs are bound, and, where they are, they are often at levels considerably higher than their applied rates. A recent OECD study (Kowalski, 2004) finds

that binding tariffs closer to their applied levels significantly increases trade because it reduces the uncertainty of trade policy and, hence, transaction costs. Whether African countries can derive the most benefits from the Doha Round by liberalizing their own trade is an empirical question, which will be examined in Section IV.

Figure 2. Ad Valorem Equivalents Against Africa's Industrial Exports, 2000
(In percent)



Source: MAcMaps Database, as maintained by the Centre d'Etudes Prospectives et d'Informations Internationales and the Internatioal Trade Centre.

1/ Least developed countries.
2/ Low-income countries.
3/ Middle-income countries.

Table 4. Simple Average Applied MFN Tariffs
(In percent)

	1997	2004
Sub-Saharan Africa	21.6	17.2
Other developing countries and countries in transition:	14.4	11.6
Asia Pacific	16.1	12.1
Europe	11.2	9.7
Middle East and Central Asia	16.9	12.2
Western Hemisphere	13.2	12.2
Industrial countries	8.7	5.7

Source: IMF Trade Policy Information Database.

III. Impact of Preference Erosion

How serious is the potential impact of preference erosion for African countries? A recent IMF study (Subramanian, 2003) finds that for least developed countries as a whole, losses from preference erosion as a result of MFN tariff reductions by Canada, the EU, Japan, and the United States will probably amount to less than 2 percent of exports. It also finds that a few countries may face significant losses (Table 5), but it argues that such losses are manageable. Unlike many other trade shocks, preference erosion is a permanent shock that can be anticipated. Moreover, if the experience of the previous rounds of multilateral trade liberalization provides any indication, the impact of preference erosion is likely to spread over a long time. For example, the Uruguay Round results have, in many cases, taken some 10 years to implement and the associated impact of preference erosion has been generally small.

Another IMF study (Alexandraki and Lankes, 2004) covers middle-income countries affected by preference erosion. It concludes that the overall impact of preference erosion on this group of countries is likely to be small, with the resulting losses heavily concentrated in just a few countries, most of which are small island economies dependent on sugar, bananas, and textiles and garments. The affected African countries are Côte d'Ivoire, Mauritius, Morocco, Seychelles, Swaziland, and Tunisia (Table 5). The study does not consider the impact of

Table 5. Export Losses from Preference Erosion Estimated by Two IMF Studies
(In percent of total merchandise exports)

Country	Subramanian[1/]	Country	Alexandraki and Lankes [2/]
Malawi	11.5	Mauritius	19.6
Mauritania	8.8	Seychelles	7.7
Cape Verde	6.3	Swaziland	5.8
São Tomé Príncipe	5.2	Tunisia	4.3
Tanzania	4.5	Côte d'Ivoire	4.2
Comoros	3.9	Morocco	4.1
Madagascar	3.7		
Senegal	3.4		
Ethiopia (excluding Eritrea)	3.2		
Sierra Leone	3.1		
Burundi	2.4		
Uganda	2.3		
Mozambique	2.1		
Sudan	1.4		
The Gambia	1.3		

Source: Subramanian (2003); and Alexandraki and Lankes (2004).

1/ Based on a 40 percent reduction in MFN tariffs in the export markets. The countries listed here are those whose estimated losses exceed 1percent of total exports. The assumed elasticity of export supply is 1.

2/ Based on a 40 percent reduction in the preference margin for the exporting countries. The assumed elasticity of export supply is 1.

the lifting of the remaining textile quotas on January 1, 2005, which may put significant pressures on the balance of payments, output, and employment in four African countries (Lesotho, Madagascar, Mauritius, and Swaziland), two of which (Mauritius and Swaziland)

overlap with the previously mentioned middle-income countries.[8] For these two countries, the quota removal could significantly exacerbate the export losses caused by preference erosion.

One should be cautious in drawing conclusions about the impact of preference erosion on African countries on the basis of these two studies. Perhaps the most important caveat to bear in mind is that the estimated export losses are based on partial equilibrium analysis and hence exclude other effects of MFN tariff reductions, which are likely to reduce the impact of preference erosion. When the exports of a product decline as a result of preference erosion, for example, more resources become available to produce other products in Africa, so that overall exports will not decline as much as the exports of that product do. If the product subject to preference erosion is of significance to the economy, the resulting export decline may well lead to a real exchange rate depreciation, further mitigating the impact of preference erosion.

Another important qualification of the results is that preferences are often not fully utilized, a fact that both studies acknowledge but assume away so as to avoid understating the impact of preference erosion. There is considerable empirical evidence to suggest that preference beneficiaries often fail to take advantage of preferences offered, either because they are unable to meet the rules of origin associated with preferential market access, or because

[8] The issue of the removal of textile and clothing quotas is distinct from preference erosion arising from MFN tariff cuts in the Doha Round. The quota removal resulted from the Uruguay Round trade negotiations and represented a policy change to end quota restrictions against a group of more competitive developing countries. For a more detailed assessment of the impact of the textile quota removal on African countries, see IMF (2005).

domestic industries fail to respond to increased export opportunities (Candau, Fontagne, and Jean, 2004). For instance, the utilization rate for textile and clothing products under the EU's Everything But Arms (EBA) Initiative is relatively low despite high preference margins (Inama, 2004). Indeed, the utilization of preferences is generally lower when the preference margin is small, suggesting that even when countries take advantage of preferences, the compliance costs are not trivial.

Also limiting the benefits of preference schemes are the exclusion of products that are of key interest to exporting countries and the sharing of rents arising from such schemes. In the case of the EBA, for example, rice, sugar, and bananas will not be subject to quota- and duty-free entry until 2006-2009, markedly lowering the EBA gains for African countries (Yu and Jensen, 2005). A recent study, Olarreaga, and özden (2005), shows that AGOA beneficiaries have, on average, captured only about one-third of the tariff rent arising from duty-free entry because of the market power enjoyed by large U.S. importers. Consistent with this result, Rolfe and Woodward (2005) find that the value added in Kenya's AGOA garment exports is very low. The corollary of these findings is that if and when preferences under the EBA and the AGOA are eroded, the impact on African countries is likely to be smaller than the resulting changes in export volumes would suggest.

Finally, the two IMF studies estimate the losses in terms of gross export revenue, rather than income, which typically declines much less than revenue does. Although it is important to consider export losses from the perspective of a country's balance of payments and industrial adjustment, any comprehensive assessment of preference erosion should also focus on the

impact on income. In addition, as noted earlier, export and income losses from preference erosion need to be placed in the broader context of the overall impact of the Doha Round, to which we now turn.

IV. How Can Africa Benefit From the Doha Round?

The final outcome of the Doha Round remains uncertain at this stage. Nevertheless, most of the latest empirical research uses the July 2004 World Trade Organization (WTO) Agreement as the starting point to assess its impact. In this section, we draw on a recent study, Anderson, Martin, and van der Mensbrugghe (2005), to discuss the possible impact of the Doha Round on African countries. The reason for choosing this study from a number of such available studies is twofold.[9] First, it uses a global general equilibrium model (the World Bank's LINKAGE model) based on the latest GTAP (Global Trade Analysis Project) database (Version VI), which incorporates trade preferences. Second, the study decomposes the impact on Africa of liberalization in various sectors and by various regions. Although some detailed results of the study by Anderson, Martin, and van der Mensbrugghe are reproduced here, the purpose of this discussion is not to put an exact dollar value on the round for Africa; rather, it is to highlight the various forces at work that determine the broad outcome of the round and how these forces may mitigate the effect of preference erosion.

Anderson, Martin, and van der Mensbrugghe explore four scenarios of Doha Round liberalization. Scenario 1 involves agricultural liberalization only, with the United States

[9] Other studies include Hertel and Winters (2005); Cline (2004); and Achterbosch and others (2004).

cutting its *actual* domestic support by 28 percent, Norway by 18 percent, the EU by 16 percent, and Australia by 10 percent. The average agricultural tariff is cut by 44 percent for developed countries as a group and by 21 percent for developing countries. Agricultural export subsidies are eliminated completely. To achieve the assumed reductions in actual domestic support and applied tariffs, the cuts in the bound rates, which are what negotiators focus on, will have to be substantially larger because of the so-called binding overhang—the difference between the bound and the applied rates. In the second scenario, in addition to the agricultural liberalization outlined previously, nonagricultural tariff bindings are cut by 50 percent in high-income countries, 33 percent in developing countries, and zero in the least developed countries. Scenario 3 assumes that developing countries (including the least developed ones) fully participate in the Doha Round by reducing their bound (not necessarily applied) tariffs by the same percentage as the high-income countries in Scenario 2. The extent of tariff cuts for various country groups under the three scenarios is summarized in Table 6. Scenario 4 involves full liberalization and is included for illustration purposes.

The idea behind having these four scenarios that consist of progressively broadening country and sector coverage and deepening tariff cuts is to show how African countries are affected by liberalization in each of the country groups (industrial, developing, and African) and sectors (agriculture and industry). In general, African countries would gain from other countries' tariff reductions if the reductions resulted in an overall terms of trade improvement—that is, if falls in some export prices as a result of preference erosion are more than offset by rises in the prices of other exports. African countries obtain primarily efficiency gains when they liberalize their own trade because their economies are generally

small and their trade policies are unable to influence world prices. In the context of Doha Round trade liberalization, the key issue facing African countries is how to strike balances between securing greater market access to industrial and to developing country markets—so as to achieve a maximum overall terms of trade improvement—and between liberalizing their own trade and improving their market access to maximize the overall (efficiency plus terms of trade) gains from the round.

Table 6. Average Applied Tariffs by Region and Commodity Group, 2015
(In percent)

	Baseline	Scenario 1	Scenario 2	Scenario 3
Agriculture and food				
South Africa	8.6	8.1	8.1	6.6
Other southern Africa [1/]	11.8	11.6	11.5	11.0
Rest of sub-Saharan Africa	21.2	19.6	19.6	16.1
Developing countries	14.2	12.5	12.4	10.6
High-income countries	15.9	8.4	8.2	7.5
Textiles and clothing				
South Africa	21.9	21.9	17.4	13.2
Other southern Africa [1/]	12.5	12.5	12.4	12.2
Rest of sub-Saharan Africa	26.2	26.2	25.9	24.6
Developing countries	14.3	14.3	12.7	11.3
High-income countries	7.3	7.3	4.1	4.1
Other merchandise				
South Africa	5.4	5.4	5.1	4.2
Other southern Africa [1/]	7.5	7.5	7.3	7.4
Rest of sub-Saharan Africa	14.0	14.0	14.0	13.7
Developing countries	7.1	7.1	6.4	5.9
High-income countries	1.2	1.2	0.8	0.8

Source: Anderson, Martin, and van der Mensbrugghe (2005).
1/ Botswana, Madagascar, Malawi, Mozambique, Tanzania, Uganda, Zambia, and Zimbabwe.

It is clear from simulations that, in the first scenario, the bulk of the benefits from liberalizing agriculture accrues to high-income reforming countries, which recoup the efficiency losses from their own policy distortions (Table 7, column 1). The gains (largely in the form of terms

of trade improvement) for sub-Saharan African (SSA) countries are only $0.4 billion, less than one-tenth of 1 percent of their initial income. This result highlights the limitations of SSA countries' reliance on improved market access in industrial countries during the Doha Round—even in the highly distorted agricultural sector. These small gains are attributed partly to preference erosion and partly to the fact that many African countries are net food importers and lose, at least in the short-to-medium term, as world food prices rise following liberalization. [10]

Table 7. Changes in Real Income in Alternative Doha Round Scenarios and Full Liberalization, 2015

(Deviation from the baseline)

	Doha Round Scenario 1	Doha Round Scenario 2	Doha Round Scenario 3	Full Liberalization
In billions of 2001 dollars				
Sub-Saharan Africa	0.3	0.4	1.2	4.8
South Africa	0.1	0.4	0.7	1.3
Other Southern Africa 1/	0.1	0.1	0.2	1.0
Rest of sub-Saharan Africa	0.0	-0.1	0.3	2.5
Developing countries	9.0	16.1	22.9	86.0
High-income countries	65.6	79.9	96.4	202.0
Percentage change				
Sub-Saharan Africa	0.06	0.10	0.27	1.1
South Africa	0.06	0.25	0.49	0.9
Other Southern Africa 1/	0.21	0.19	0.26	1.5
Rest of sub-Saharan Africa	0.02	-0.02	0.13	1.1
Developing countries	0.09	0.16	0.22	0.8
High-income countries	0.20	0.25	0.30	0.6

Source: Anderson, Martin and van der Mensbrugghe (2005).
1/ Botswana, Madagascar, Malawi, Mozambique, Tanzania, Uganda, Zambia, and Zimbabwe.

[10] The benefits quantified here do not include long-term productivity gains that may accrue to African countries. The World Bank (2002) shows that gains to low-income countries (including most African countries) increase by 155 percent if productivity is assumed to be positively related to changes in sectoral openness. Nevertheless, reaping such "dynamic" gains would probably require African countries implement domestic reforms. In addition, some net agricultural importing countries could also enjoy terms of trade gains by turning themselves into net agricultural exporters because agricultural liberalization in industrial countries raises world agricultural prices and makes them more stable. Also, see footnote 7.

In Scenario 2, where nonagricultural tariff cuts are added to Scenario 1, but developing countries receive special and differential treatment for their tariff cuts and the least developed countries do not reduce their tariffs at all, the gains nearly double for SSA as a group; still, the rest of SSA group suffers a small loss.[11] This latter result points to the possibility that as industrial countries cut their tariffs more deeply, some African countries stand to lose if the resulting increases in preference erosion are not offset by improved market access in developing countries and by the African countries' own liberalization. At the same time, the overall result for Africa highlights the importance of developing country markets; even moderate tariff reductions in these markets would significantly increase market access benefits for the continent as a whole.

In Scenario 3, as the developing and least developed countries reduce their *bound* tariffs by the same amount as the high-income countries, the gains to SSA countries more than quadruple, to nearly 0.3 percent of their income—even though, under this scenario, their ambitious cuts of bound tariffs do not reduce applied tariffs by very much (compare column 4 with column 1 in Table 6).[12] Moreover, all three groups of African countries gain. If trade

[11] The groupings of African countries in the modeling exercise appear to reflect data availability as well as differences in economic structure. While South Africa is clearly different from the rest of SSA in terms of economic structure, countries in the "other southern Africa" group are those that are identified separately in the GTAP database. In contrast, the "rest of SSA" group consists of countries that are not identified separately in the database.

[12] There are virtually no additional tariff cuts by industrial countries in this scenario except a limited reduction in agriculture; most additional action comes from tariff cuts in developing countries (including African countries).

barriers are completely removed, as assumed in the full-liberalization scenario, SSA's gains would more than quadruple again, to more than 1 percent of its initial income.

These results indicate that Africa's own liberalization, along with that of other developing countries, is critical for the poorer SSA countries to achieve a positive Doha Round outcome. To put differently, the negative effects of preference erosion can easily be overcome if SSA countries reduce their applied tariffs—even if only moderately—by substantially reducing their bound rates. These results do not suggest that liberalization by industrial countries is unimportant. The importance of industrial countries should perhaps be seen in terms of their influence over the overall level of liberalization commitments in the Doha Round as well as in the direct market access they can offer to African countries. As noted earlier, even the much-demanded agricultural liberalization by industrial countries would generate limited benefits for SSA if reductions in tariffs and domestic support were only as deep as has been assumed by most recent studies—even though, it should be noted, those would be quite ambitious by the standards of the Uruguay Round.

The role of tariff cuts by developing countries outside SSA is also evident (see Table 8). Under Scenario 2, without the combined expansion of agricultural and nonagricultural exports to developing countries, including SSA countries themselves, the increase in agricultural exports to high-income country markets would not be able to completely offset the decline in industrial goods exports—a result that reflects the effect of preference erosion. Equally important, developing countries would provide nearly half of the import increase that SSA countries need to achieve the overall positive income outcome reported in Table 7.

Table 8. Changes in Sub-Saharan Africa's Merchandise Trade by Destination and Source as a Result of Doha Round Liberalization, Scenario 2

(In billions of US dollars)

	High-Income Countries	Sub-Saharan Africa	Other Developing Countries	World
Exports	-0.3	0.0	1.5	1.2
Agricultural and food	1.4	0.4	0.8	2.6
Other merchandise	-1.7	-0.4	0.7	-1.4
Imports	0.5	0.0	0.4	0.9
Agricultural and food	-0.3	0.4	0.5	0.2
Other merchandise	0.8	-0.4	-0.1	0.7

Source: Anderson, Martin, and van der Mensbrugghe (2005).

V. POLICY IMPLICATIONS

From the perspective of market access, the Doha Round will serve Africa's interests best if it leads to comprehensive reductions in trade barriers across all commodities in all WTO members. Because of preference erosion, liberalization in industrial countries alone does not ensure benefits for every African country. Although industrial countries remain Africa's main export markets, developing countries have become such important trading partners for African countries that their commitment to a comprehensive and ambitious Doha Round is essential for African countries to mitigate the impact of preference erosion and to benefit overall from the round.

African countries, including the least developed ones, need to bind and reduce their own tariffs in order to maximize the benefits of the Doha Round—although tariff reductions are not required of the least developed countries under the July WTO Agreement. Such

liberalization is crucial not only for a positive Doha Round outcome for African countries, but is also essential to move their trade policy forward as an integral part of a strategy for promoting growth and reducing poverty. A firm and ambitious commitment by African countries to bind and reduce all tariffs, which would lead to significant cuts on applied rates, would help create a more favorable investment climate that is desperately needed in many African countries. A firm commitment would also help industries to adjust to changing trade conditions by anchoring business expectations. Where needed, African countries could use special and differential treatment to reduce the adjustment costs arising from preference erosion and from their own liberalization.

An ambitious commitment to bind and reduce tariffs in Africa would also help open developing and industrial country markets. If many African countries avail themselves of a "round for free," their arguments for greater market openness in industrial countries would be less persuasive. Less ambitious liberalization in industrial countries would, in turn, reduce developing countries' incentives to open their markets. In short, a strong commitment to liberalize their own trade would make African countries' position in the negotiations much stronger and would enable them to demand necessary special and differential treatment. Moreover, Africa would have more compelling reasons to ask for aid for trade if it committed to ambitious reforms.

The erosion of Africa's preferences will be an inevitable result of Doha Round liberalization. But the adoption of a defensive strategy to minimize such erosion will not provide a lasting solution to Africa's problems. African countries need to look beyond trade preferences and

focus on reciprocal liberalization. Special and differential treatment should be designed to help African countries maximize the benefits of reciprocal liberalization and reduce the resulting adjustment costs. Seen this way, the Doha Round provides a unique opportunity to shift Africa's negotiation strategy from retaining preferences to demanding reciprocity and from seeking special and differential treatment to building competitiveness.

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