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Debt and Trade: Implications for the WTO Process

By: Leonard Maveneka, Opa Kapijimpanga

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Introduction.

The underlying causes of the African Debt crisis are many and complex. In the ongoing attempts to find sustainable solutions however, it has become essential to examine the strong linkages between the various social, political and economic regimes at the national, regional and global levels and the Debt crisis. In this paper we attempt to examine the roles of the global trading system, that of the WTO and the various instruments being used to make it work; the role of multilateral institutions such as the World Bank and the International Monetary Fund in propping all this up and their effects on the Debt crisis. We confirm our suspicions that the multilateral institutions, including the World Bank, the IMF and the WTO are not neutral referees trying to create an even the playing field on the global markets; their roles through Structural Adjustments programmes and trade liberalisation have worsened the debt situation of sub-Saharan African countries and has not brought them any tangible benefits.

In the search for sustainable solutions to the Debt crisis, we see the need for processes that enhance African productive capacity and fair global trade as essential and necessary elements of the enhanced HIPC Initiative framework.

As a pointer, we find it useful in this paper to address issues of Debt in relation to Terms of Trade, protectionism under the backdrop of double standards on the part of developed countries, Trade and Financial liberalisation brought in through the Bretton Woods Structural Adjustment Programmes (SAPs), the role of Trans National Corporations (TNCs), and Trade Related Investment Measures (TRIMS) just to name a few.

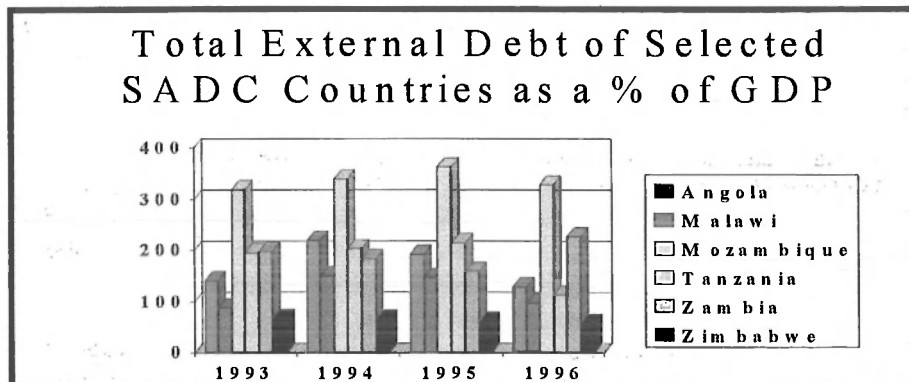
In the final analysis the issue for us about Trade and the WTO process is: to what extent is the WTO trade regime (rules and processes) going to contribute to human and economic development in Africa and indeed contribute to a sustainable solution to the Debt crisis?

The Africa's Debt Crisis and renewed calls for sustainable solutions:

The existence of a serious Debt crisis in Africa is no longer questioned. Graph 1 below, shows high levels of indebtedness in the SADC region and is indicative of the extent of the problem in severely indebted low income countries in the world; of which the majority are in Africa. The failure of the HIPC initiative designed by the World Bank and the IMF following the Copenhagen Social Summit of 1995 has brought renewed calls for concerted efforts to find sustainable solutions to the crisis on the grounds that the current debts are unpayable.

New attempts to make debt relief deeper and faster and indeed meaningful under the review of the HIPC Initiative called for by the Cologne Debt Initiative in June 1999 G7 Meeting will only have meaning if they are based on seeking sustainable solutions which include taking into account strong linkages between Debt and Trade. Cancelling Africa's Debts will need to be accompanied by measures in global trade regime that will create and secure a level playing field in global Trade for developing countries to begin to emerge from the present Debt crisis. In this regard, the notions of Poverty Reduction in the enhanced HIPC framework will have to be seen as goals to be achieved by various measures such as those in the areas of Trade, dealing for example, with some of the issues we raise here below such as Debt in relation to Terms of Trade, protectionism under the backdrop of double standards.

Graph 1



Source: Friedrich-Ebert Stiftung (1999), Workshop Proceedings:

Zimbabwe's Debt & its Impact on Development

Terms of Trade and Impact on Debt:

One of the contributing factors to the inability of African countries increasing their foreign currency earnings with which to repay loans has been the unequal terms of trade between African and developed countries. Many countries in Sub-Saharan Africa have for a long time relied on primary commodities as their main exports – agricultural and mineral. But the prices of these have been falling steadily for almost a century in their own right as well as relative to the prices of manufactured goods. Recent empirical studies suggest that the real primary-product prices have declined at an average annual rate of 0.6% since 1900. In the 15 years between 1977 and 1992, the prices of non-oil commodities relative to those of exported manufactures declined by almost 60 percent so that by 1992, they had reached their lowest point in 90 years.¹ Graph 2 indicates the decline in terms of trade over the period 1954 to 1996.

One estimate has placed the extra costs of these deteriorating terms of trade for the least developed countries at over US\$2.5 billion per year during the last decade. As a result, developing countries world merchandise trade balances steadily deteriorated during the 1980s falling from a positive balance of US\$55.8 billion to a negative balance of US\$42.9 billion in 1994. ²

UNCTAD on Globalisation

Since the UNCTAD secretariat made its first assessment of globalisation, in the Trade and Development Report of 1997, conditions in the developing world have deteriorated drastically. The few bright spots, mainly in Asia and Latin America, which could light the way for others to a better future have been dimmed, and the much hoped-for turning point in Africa has not been reached. The predicted gains to developing countries from the Uruguay Round have proved to be exaggerated and, as feared, international capital movements have been particularly disruptive. Poverty and unemployment are again on the rise in developing countries which had struggled for many years to combat them. Income and welfare gaps between and within countries have widened further.

As the twentieth century comes to an end, the world economy is deeply divided and unstable. The failure to achieve faster growth that could narrow the gap between the rich and the poor must be regarded as a defeat for the entire international community. It also raises important questions about the present approach to development issues.

Asymmetries and biases in the global system against the poor and underprivileged persist unchecked. Leaving global economic integration to markets has not helped, and that should hardly come as a surprise. Unbridled competition, particularly among unequals, has never by itself delivered faster growth and shared prosperity even in today's developed countries, and it has at times been destructive. There is no reason to expect a different outcome in a globalising world.

Bold leadership and purposeful co-operation and compassion are essential ingredients if today's fragmented global economy is to give way to a century of peace and prosperity. In their absence, and if history is any guide, all will suffer. ³

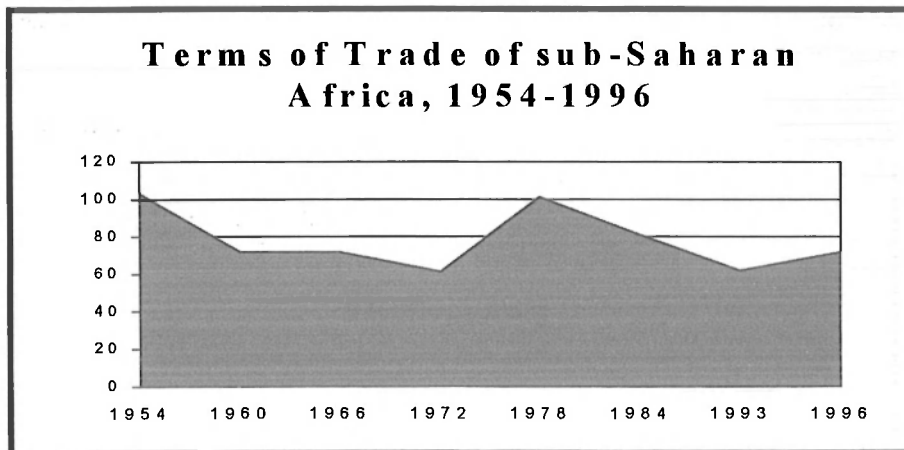
As export receipts have shrunk, so too has the capacity of developing countries governments to meet their obligations, including repayment of debts that were incurred on the basis of expected export revenues that have now shrunk. Nigeria and Zambia are typical examples of countries which planned their development programmes on anticipated receipts from copper and oil respectively but ended

up with huge debt burdens when the prices of those commodities collapsed.

To a large extent deteriorating terms of trade reflect the unequal balance of power between developing and developed countries and the weak bargaining position of the former. This imbalance requires to be shifted in the next century otherwise the debt crisis will persist even after current efforts to cancel a larger part of the outstanding debt.

There are several reasons for the deteriorating terms of trade. One of the main reasons being the falling demand for the commodities produced by developing countries. Demand in turn has fallen for several reasons one of which is the increased use of synthetic materials that have replaced commodities from developing countries. Over the past 35 years, for instance, synthetic substitutes for such diverse products like rubber, wool, cotton, sisal, jute, hides, and skins have been manufactured in increasing quantities. Between 1950 and 1980 for example, cotton's share of total fibre consumption dropped from 41 percent to 29 percent.⁴

Graph 2



Source: UNCTAD (1998), Trade and Development Report 1998, UN

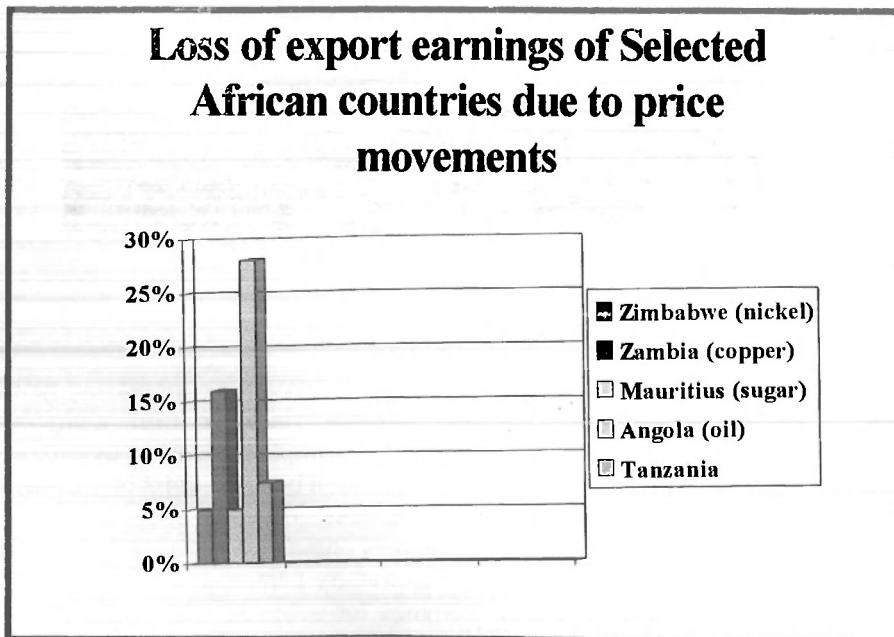
Another reason for falling commodity prices has been the increasing global production that is outstripping demand. Between 1995 and 1997, aluminium production increased by 10 percent while consumption went up by only 5.6 percent. Copper production went up by 12 percent but consumption increased by only 7.6 percent. Because of these changes, in 1998, for instance, Sub-Saharan Africa's export earnings fell 16 percent against an increase of 2 percent the previous years. Price movements for primary commodities have resulted in relatively high losses of export earnings for some African countries (see

Graph 3 below). In 1998, for instance, Mauritius and Zimbabwe lost five percent each of export earnings from the slump in sugar and nickel prices respectively while Zambia lost 16 percent from the fall in copper prices and Angola 28 percent from lower oil prices.

According to the 1999 UNCTAD Trade and Development Report, trade deficits in developing countries have been rising faster than income because of a combination of declining terms of trade, slow growth in industrial countries and the "big bang" liberalisation of trade of the capital account.⁵

One of the biggest criticisms of developing countries' trade patterns has been their over-reliance on primary commodities whose prices have been declining over time. It has been argued that developing countries should diversify their exports to concentrate on manufactures. But recent studies suggest that this is not likely to be a viable solution either. The 1999 UNCTAD Report warns that terms of trade losses are no longer confined to commodity exporters. Many manufactures exported by developing countries are beginning to behave more like primary commodities as a growing number of countries simultaneously attempt to raise their exports in the relatively stagnant and protected markets of industrial countries. The prices of manufactures exported by developing countries fell relative to those exported by the European Union by 2.2 percent per annum from 1979 to 1994.⁶

Graph 3



Protectionism against the backdrop of double standards and its impact on Debt burden:

Terms of trade apart, another major reason for loss of export earnings of developing countries which worsens the inability to repay loans, is protectionism in the industrialised countries. Todaro (1997) estimates that trade restrictions by developed countries cost the least developed countries at least US\$40 billion a year in foreign exports and lowers their GNP by more than three percent. Agricultural protection usually takes the form of tariffs, quotas and non-tariff barriers such as sanitary laws regulating food and fibre imports. The effects can be devastating on third world export earnings. The Common Agricultural Policy of the EU, for instance, is much more discriminatory against food imports from Least Developed Countries than policies that had formerly prevailed in the individual member states.⁷ Even after implementing fully all the Uruguay Round concessions by industrialised countries, trade barriers will remain in the form of high tariffs exceeding 12 percent in cases and up to 300 percent in the extreme cases while tariff escalation will continue to affect many countries.⁸ As will be shown below, this protectionism comes with double standards of aid conditionality for liberalised markets in Africa, clear double standard on the part of the developed countries which themselves are putting up trade walls.

Despite the “multilateral rule-based trade” being championed by the WTO, protectionism in developed countries still persists and is costing developing countries an estimated US\$40 billion a year. If developed countries opened up their markets the increased export revenues would significantly boost earnings for developing countries and enable them not only to repay some of their debts, but make it unnecessary to borrow as much as they are doing currently to sustain their economies. Further, improved terms of trade through less protectionism would reduce Africa's dependence on aid and strengthen its bargaining power in world trade forums.

Bretton Woods Structural Adjustment and impact on Debt:

For many African countries, the experience of trade liberalisation came much earlier than the establishment of the World Trade Organisation; it came with the introduction of structural adjustment programmes beginning early 1980s. As Kanyenze (1999) has pointed out, globalisation has been facilitated by structural adjustment, especially with its reliance on market and economic liberalisation (especially trade liberalisation). In this context, globalisation cannot be separated from structural adjustment, the latter being the building block of the former, engineered by the World Bank and the IMF. In a way, those countries with adjustment programmes have already been integrating themselves into the global economy under the liberalisation programme but in very uneven terrain.⁹

Dot Keet (1999) reinforces the close links between globalisation and SAPS thus: "Liberalisation to facilitate globalisation was (and still is) driven in most African and Latin American countries by 'structural adjustment programmes, directly or indirectly under the auspices of the IMF and the World Bank. These adjustments are justified theoretically in terms of the necessity for such countries to integrate themselves into the global economy although what this amounts to in practice is that they open up to traders and investors from the global economy."¹⁰

As is widely known now, the standard SAPs programmes have entailed countries liberalising their exchange rates to allow "market forces" to determine the true value of their currencies – which is always downwards as evidenced by the massive devaluations that inevitably accompany the introduction of reform programmes; deregulating interest rates "to encourage savings" which has led to high interest rates that have stifled domestic investment and fuelled inflation; liberalising imports to create competition for the domestic import substitution industries and so increase their efficiency and enable them to also compete on the global markets, which has resulted in domestic firms collapsing; just to mention a few.

The experiences with these reforms however has shown that the net results have invariably lead to a contraction in local demand as the prices of goods soar, jobs are lost through retrenchments, domestic companies fail to compete with imported goods dumped on the market courtesy of IMF balance of payments support. A retrenched Zimbabwean worker succinctly summed up the problem associated with the IMF World Bank trade liberalisation measures when he said: "Competition is fine, but if you run a race, you have to make sure that everyone starts from the same place. These industries from abroad are decades ahead of us. How on earth are we supposed to match their resources?"¹¹ In a paper on The Underlying causes and Dynamics of Africa's Debt Crisis, Yash Tandon notes that: "Those who industrialised first are sitting on markets and technology that give them a monopoly of power over the pricing of resources that enter the international markets".

The experience in the SADC region confirms that when local companies collapse, their share of the domestic market is immediately taken over by multinational companies which flood the market with their products. SAPS therefore create markets for developed country firms by swamping domestic markets with cheap imported goods killing off competition from local producers. They also worsen the debt crisis as most of the money used for the imports is borrowed from multilateral financial institutions such as the IMF in "balance of payment support", originally designed as a short term facility to tidy a country over by enabling it to meet its immediate obligations but which have become an integral part of reform programmes.

Furthermore and as noted by UNCTAD, the liberalisation of imports can cause payment difficulties as well as dislocations in the economy unless it is appropriately sequenced or combined with measures to enhance competitiveness and promote exports. As it is, trade liberalisation has worsened the inverse relationship between the growth rate of trade and trade balances in developing countries.¹²

Rather than spur economic growth therefore, SAPs have instead worsened the situation of developing countries. According to Plahe, "Many countries undergoing structural adjustment programmes have suffered drastic declines in incomes, on average 15 percent in Latin America and 30 percent in Sub-Saharan Africa during the 1980s. Investment per capita fell by 75 percent in Africa and by 40 percent in Latin America whilst in the poorest countries, health spending fell by over 50 percent and education by 25 percent."¹³

The report goes on to say, that policies have been promoted to "get prices right" when some of the more important agents and institutions of a modern market economy are underdeveloped or totally absent. "Financial liberalisation has often been undertaken without first ensuring the conditions for its success, including a high degree of price stability and fiscal discipline, sound financial institutions and corporate finance, depth in financial markets and effective prudential regulation. Consequently it has led to high and unstable interest rates, widespread insolvencies, a rapid accumulation of public and domestic debt and fiscal instability." Zimbabwe is a typical case where financial liberalisation was introduced without first ensuring fiscal discipline and this has resulted in widespread insolvencies and an unsustainable public and private debt burden (see Zimbabwe Case Study).¹⁴

While most of the measures introduced by the World Bank and the IMF under SAPs have wreaked havoc on the economies of developing countries they have all tended to benefit developed country economies by creating new opportunities and markets for their products while at the same time increasing the capacity of developing countries to repay their foreign debts. In a paper on *The Multilateral Trading System* Plahe says SAPs have two roles: to restructure the economies of developing countries so that they can better save foreign exchange to service their debts and to alter fundamental macroeconomic and eventually social policies of Southern countries into a single "mono cultural laissez-faire economic model" that would be compatible with the long term requirements of the Northern-dominated economies.¹⁵

An erroneous assumption by governments of African countries and some of their intellectuals is that organisations such as the World Bank, WTO and the IMF are neutral agencies guided by the altruistic objectives of creating global free trade for the benefit of all. While this might be their stated agenda and

original mandate, through powerful northern government which dominate decision-making in the UN bodies, the triad are heavily influenced by powerful corporations whose interests do not coincide with the stated objectives of the multilateral agencies. Canadian Economist Michel Chossudovsky has this to say: "The application of SAPs in a large number of countries favours the 'internationalisation' of macro-economic policy under the direct control of the IMF and the World Bank acting on behalf of powerful financial and political interests. This new form of economic and political domination subordinates people and governments through the seemingly neutral interplay of market forces".

By liberalising their economies, African countries lose control of prioritising imports. Huge amounts of foreign currency in individual and corporate foreign currency accounts (one of the conditionalities of SAPs to enhance confidence in the economy) are often used for importing luxuries at the expense of intermediate raw materials needed in industry or to import essentials such as agricultural inputs, medicines and educational books. Further, the liberalisation of the capital account can strain a country's balance of payment position forcing it to borrow externally for essential imports as well as for unproductive activities (such as recurrent costs).

Liberalisation of financial markets has also resulted in higher interest rates as banks strove to achieve positive interest rates. This has also affected government borrowing as they have been forced to borrow at commercial rates on the local financial market. In the case of Zimbabwe, for instance, the liberalisation of the financial markets was done before the government had the budget deficit under control, the result is that the cost of servicing its domestic debt has been rising with the increases in interest rates. At the moment, 30 cents of every dollar of government revenue goes to servicing its domestic debt. Where the government has failed to control the budget deficit in a liberalised environment such as in Zimbabwe this has fuelled inflation leading to devaluation of the local currency, which in turn has further fuelled the debt burden, leading to a vicious cycle.

Liberalisation of the financial markets, including the foreign exchange market has resulted in devaluation of currencies because of speculative pressure riding on the strong demand for foreign currency and its scarcity. Devaluation of the currency has in turn resulted in the sharp rise in the domestic value of a country's debt. In the case of Zimbabwe, for instance, while its foreign debt went up by only 22 percent between 1992 and 1998 from US\$4 071 to US\$5 001 in local currency terms the debt increased by a whopping 948.7 percent largely because of the devaluation of the Zimbabwe dollar during that period. This in turn puts pressure on the Government budget and results in debt repayments compromising social and economic development.

The liberalisation of imports also has a negative impact on the debt burden of SSA countries' economies in that it has led to deindustrialisation as the industries that were set up in the days of import substitution have collapsed. This has resulted in shrinking economies and consequently to losses in government revenues from company and individual taxes. With a smaller revenue base, governments have been forced to borrow to meet the revenue shortfall further compounding their debt problems. Liberalisation of imports also impacts negatively on countries' balance of payment positions as the available foreign currency cannot meet the increased import demand.

To a large extent, the WTO strategies and objectives in the trade arena reflect those of the World Bank and the IMF. The three organisations call for the opening up of global markets to create "free trade" and for access to other countries' investment markets. But free trade cannot co-exist within an unequal world where 20 percent of people who live in the wealthiest countries receive 82 percent of the world's income while only 1.4 percent of the income goes to the 20 percent who live in the poorest countries.

The role of Transnational Corporations in Trade

Transnational corporations, acting through their governments and through multilateral institutions such as WTO, have largely shaped the current global economic policies to ensure that they facilitate their own expansion and capacity to maximise profits. TNCs played "a very influential insider" role in the GATT negotiations leading to the establishment of the WTO. They were especially well represented in the US delegations to the talks. The US Federal Advisory Committee Act of 1972 stipulates that the United States delegation must be "fairly balanced" in terms of points of view presented by the advisory committee, which essentially means it must have high representation from the huge corporations. Members of the advisory committee include giants such as IBM, Boeing, Time Warner and General Motors (among others).¹⁶

The extent of their influence in trade negotiations is reflected in a 1989 US Department of Commerce document during the 1979 Tokyo round of GATT: "For the most part, government negotiators followed the advice of the advisory committee" in the negotiations.¹⁷

The dominance of TNCs in trade negotiations is further reflected by the new demands being pressed by developing country governments, but which are no doubt the result of strong TNC lobbying, for setting up in the WTO of a multilateral agreement on investment that would give foreign companies the right to enter and establish themselves in any sector of the economy and in all WTO member countries.

TNCs are insisting on agreements that would accord them "national treatment" in the countries in which they invest, meaning that there would not be any measures that favour local firms or discriminate against foreign ones. Restrictions on foreigners or foreign companies in opening branches, buying property or having limits on equity ownership or repatriation of profits would also no longer be allowed.

As Carla Hills, US Trade Representative under the Bush administration said : "We want corporations to be able to make investment overseas without being required to take a local partner, or export a given percentage of their output, to use local parts or to meet any of a dozen other restrictions."¹⁸

The impact of such opening up on Developing countries' economies and on debt and trade would be disastrous. One of the reasons for the near collapse of the Asian Tigers and Mexico in recent years was the large inflows followed by the sudden outflows of speculative capital from their equity markets following the liberalisation of their financial sectors which made them attractive havens for the trillions of dollars floating around on the global financial markets. UNCTAD has identified one of the biggest problems leading to the Asian crisis as too little rather than too much government control.¹⁹ This should sound a warning to African countries on SAPs which are being urged incessantly by the World Bank and the IMF to leave everything to market forces.

The opening up of the global financial markets may be one of the biggest threats to global economic stability, which even developed country governments can no longer control let alone Third World governments. In the past decade, the world has witnessed a huge increase in the trade in money – money changing hands for money without being put to any productive use.

In 1987 the annual value of exports was US\$1.3 trillion whilst global foreign exchange was US\$4.6 trillion. By 1995 world exports had increased to US\$4.8 trillion whilst the foreign currency volume was US\$325 trillion. This meant that global export value accounted for only 1.5 percent of global foreign exchange transactions while the rest of the money was being traded on the global equity markets in portfolio investments that do not bring any value-added to the recipient countries.²⁰

Trade Related Investment Measures (TRIMS)

One of the agreements under the WTO is the Trade Related Investment Measures (TRIMS). A clause under the agreement calls for lifting of restrictions on the import of intermediate goods used in manufacturing. This gives an advantage to transnational corporations who are no longer obliged to source inputs locally. This clause poses a significant threat to attempts by developing

countries, such as Zimbabwe, with a significant manufacturing base (accounting for 26 percent before liberalisation in 1990 but which has now shrunk to 18 percent of GDP) to promote the development of downstream infant industries manufacturing to supply larger firms. TRIMS has a direct bearing on Debt as the import of intermediate raw materials at the expense of local manufacture strains foreign reserves and consequently increases the Debt burden of many developing countries who have to import inputs that could otherwise be supplied locally. A proposals already being put forward by developing countries is that, in the interest of domestic industrial development, TRIMS should not bar developing countries from setting local content requirements upon the direct investment ventures of foreign capital in their countries.²¹

Although the Multilateral Agreement on Trade and investment (MAI), which would have allowed the full and unfettered operation of foreign investors and TNCs throughout the world, was shot down under intense pressure from various groups, developing countries should not rest on their laurels as developed countries are still determined to sneak it in through the back door at future trade talks. In fact there is a strong suspicion that they are trying to do so through TRIMS.²²

New Issues

Of major concern to developing countries are some of the new issues being proposed by developed countries which would have severely hamper trade. These include the "trade-related" agreements on labour and social rights (Social Clauses), on environment protection and even on human rights and "good governance" and corruption. The social clause on labour, for instance, would bar products from countries which do not observe minimum labour standards, such as on child labour, freedom of association for trade unions and apply minimum safety regulations. While Southern trade unions would like to see an improvement in workers' conditions, they feel that these issues can be better dealt with under the International Labour Organisation and that the real reason developed countries are insisting on the social clauses is to protect their companies from cheaper exports from developing countries.

Other issues being proposed include the Trade Facilitation and Transparency in Government Procurement. Under the Transparency in Government Procurement proposal, governments – including local authorities and municipalities – would have to put to international tender all its procurements contracts. Because of their technological advantage, developed countries would stand the better chance of winning the contracts at the expense of national companies trying to start up in business or that are too small to compete on a global level. A further downside to the equation would be that although companies from developing countries would also be free to tender for

government projects in developed countries, few have the capacity or would stand much chance of winning. Only developed countries therefore would benefit while for developing countries, this would increase their debt burden as they would have to pay for the services in hard currency.

An Agenda for Change

Globalisation has not benefited sub-Saharan African countries. While initially it was argued that this was because of their failure to adapt, the recent experience of the Asian Tigers has shown just how vulnerable even the emerging markets are to the global tidal wave. According to UNCTAD, "The humbling of the Asian Tigers in 1997 has revealed the vulnerability of even the strongest developing economies to the powerful forces of globalisation. Indeed, the 20th Century is closing on a note of crisis and a growing sense of unease about the policy advice that was proffered in the past decade.²² Helleiner (1995) also sounds a word of caution: on the basis of the evidence available, however, to suggest that there is already a universal optimal trade policy prescription that will generate improved economic performance for all who embrace it is to ignore too much recent experience.²³

From the foregoing discussion, it is clear that Sub Saharan Africa's debt crisis is closely linked to the unfair trade terms that are being bankrolled by the Bretton Woods institutions, including the WTO. Unfortunately for the region, the poorer it gets, the less influence it has in global negotiations on trade. Accounting for less than two percent of global trade, Sub-Saharan Africa can be and has been ignored in trade negotiations.

To make an impact in the global trade negotiations, sub-Saharan Africa needs to build a constituency with other developing countries to negotiate better trade terms under the WTO and to put greater efforts into understanding the implications, for their development, of some of the Agreements under the trade regime.

The Call to Africa to heed its own agenda for development as enshrined in the Lagos Plan of Action and the Final Act of Lagos of 1980, the Cairo Agenda for relaunching Africa's development of 1995 and other proclamations is becoming louder. It is encouraging to note that African governments are striving hard to reach common positions on the various issues affecting them in the WTO trade negotiations. Under the auspices of the Organisation of African Unity, African trade ministers met in November 1999 and came to a common position opposing a new round of trade negotiations at the WTO arguing that this would entail an "unsustainable burden" on their economies. The ministers also argued for more time to implement the Uruguay agreements. African governments are also trying to come to a common position on a variety of trade

issues with Caribbean and Pacific countries.²⁴ In the Southern African region, governments of the Southern African Development Community (SADC) also met and resolved on a similar position, opposing a fresh round of trade negotiations. Such steps should be encouraged for it is only through its combined voice that the region can hope to be heard.

While delinking from the global economy is perhaps not a viable option, it is important for the region to seriously work towards integrating their economies to create a bigger trading block that will wield more clout in international fora. Such integration should however be grounded in a clear understanding of the existing unequal relations between member states in the region and should therefore aim for equity in the sharing of benefits.

Because of the failure of globalisation, through SAPs to foster economic growth in the region, it might also be prudent for Sub-Sahara African countries to take heed of UNCTAD's advice and that of its own (in the African Alternative to Structural Adjustment of 1989 under the auspices of the UN Economic Commission for Africa) that it should focus on growth enhancing policies rather than concentrate on trade liberalisation as it is unlikely that a liberal trade regime will by itself generate a greater volume of trade unless it is accompanied by a faster rate of economic growth.²⁵

Such-growth enhancing policies would focus on rural development as the majority of the region's population are peasant farmers existing outside formal markets. Their priorities are not for export-led growth focusing on the export of primary agricultural or mineral products but for improved capacity to grow their own food and to live healthy lives. The Asian Tigers succeeded because they concentrated on agrarian reform as a first step to improve the livelihoods of the majority, SSA could do well to follow this example, especially in view of the dismal returns it has so far got from trying to integrate its economies into the global economy.

Conclusion

We conclude by saying that it is through increased productive capacity and fair trade that Africa can meaningfully participate in the global economy in such a way that would not have a negative impact on its Debt situation. Put another way, the question at hand in the WTO process is that unless the WTO trade regime (rules and processes) can contribute to human and economic development in Africa and indeed forms part of a sustainable solution to the Debt crisis, Africa will resist globalisation.

Appendix I

Zimbabwe Case Study

Zimbabwe provides a unique case of a closed economy that survived for 15 years and even thrived in the face of global economic sanctions. Up to independence in 1980, Zimbabwe was one of the most closed economies in the world, largely as a result of the UN economic sanctions imposed on the country for the illegal and unilateral declaration of independence by the white government in 1965. During the sanctions period Rhodesia, as Zimbabwe was then known, developed a strong import substitution industrial base and by independence in 1980 manufacturing accounted for 26 percent of GDP, the highest in sub-Saharan Africa. Rhodesia's import substitution strategy relied almost entirely on the domestic market for its survival. The economy also survived with little or no external investment (FDI). During that period, there was also no external aid or foreign loans available to the country.

Despite these severe constraints, the economy grew much faster than it has done since independence in 1980. Between 1965 and 1970 for instance, GDP grew by an average of 8.9 per cent per year compared to a mere 1.8 per cent between 1990 and 1996 when Zimbabwe had liberalised the economy as part of the structural adjustment programme introduced in 1990 to stimulate growth.

To a large extent, the economic growth between 1980 and 1990 can be attributed to the continued austerity policies from the pre-independence era which were strongly protectionist of domestic industry and where foreign exchange was strictly rationed. The import of goods equivalent to those available on the local market was very restricted as was the import of "luxury" household electric and electronic goods such as colour television sets, satellite broadcasting equipment, motor vehicles and other consumer goods. The result was a severe shortage of these goods, which could only be bought by people with access to external funds.

After almost 25 years behind a barrier of protection, 1991 was a watershed year for Zimbabwe with the introduction of the Economic Structural Adjustment Programme (ESAP). The reform programme, with its emphasis on markets and economic liberalisation facilitated the globalisation process in Zimbabwe. As Kanyenze (1999) says: globalisation cannot be separated from structural adjustment, the latter being one of the building blocks of the former. The most direct impact of trade liberalisation for Zimbabwe has been the shrinking of the manufacturing sector from 26 percent of GDP in 1990 to 18 percent in 1998 as firms collapsed under the weight of competition from cheap imports.²⁶

One of the major reasons for introducing ESAP was employment creation, but the rate of employment growth fell from an annual average of 2.4 percent during the period 1985–90 to 1.5 percent during the ESAP period, 1991–1997. The textile industry, one of the biggest employers in Zimbabwe, has shrunk by about 50 percent in terms of employment from 20 000 employees in 1990 to a mere 10 000 in 1999. Trade liberalisation has affected the industry in several ways. When it was introduced, some textile firms borrowed heavily to upgrade their plants to standards that would enable them to penetrate foreign markets. However interest rates shot with financial liberalisation, which was part of the package of reforms, and many of them could not service their debts and went under.

Although the domestic market absorbs only 25 per cent of the total textile production, with liberalisation this fell further as cheap imports flooded the country, including imported second hand clothes from industrialised countries. With inflation at around 70 percent, borrowing rates have shot up to well over 70 percent, making it difficult for companies to upgrade their equipment. There is uncertainty over the foreign exchange market so companies are hesitant to borrow offshore for fear of foreign exchange exposure that might come with the devaluation of the local currency.

Trade liberalisation has also resulted in the collapse of wages in Zimbabwe. The functional distribution of Gross Domestic Income in Zimbabwe has shifted in sharply in favour of capital since the introduction of ESAP. The share of wages to profits fell from 56.7 percent in the period 1980–1984 to 45 percent in the period 1990–96 while the share of gross operating profits went up from 41.6 percent to 54.8 percent over the two periods respectively, reflecting the liberalisation of the labour markets, which was part of the reform package.²⁷

Liberalisation of the labour markets has also resulted in wages shrinking in Zimbabwe from an index of 100 in 1980 wages reached their highest level in 1982s before falling steadily to an average of 92 in 1990. By 1996 the indices of average annual earnings had fallen to 68 in public administration, 60 in education, 75 in health and 25 in domestic employment. Given that 80 percent of products made in Zimbabwe are for local consumption, such a decline in real incomes generates a local recession, which undermines employment creation. The collapse in wages also reduces government revenue from individual taxes, including sales tax and income tax, which affects its revenue base, forcing it to borrow to continue to provide services and also making it difficult to service its domestic debt.

But for Zimbabwe the biggest curse as it struggles to integrate into the global economy has been its growing indebtedness. Zimbabwe's debt domestic and foreign shot up from Z\$1 644 million in 1980 to Z\$10 447 million in 1990 and to

a staggering Z\$132 641 million in 1998. Zimbabwe's external debt has also gone up from US\$4 071 million in 1992 to US\$5 001 million in 1998. This reflected an increase of 22.8 percent in US dollar terms although in Zimbabwe dollar terms the increase was much sharper at 948.7 percent, largely due to the sharp devaluation of the Zimbabwe dollar during that period.²⁸

Trade liberalisation and the opening up of Zimbabwe financial markets have seen inflation rising to unprecedented levels. Between 1992 and 1999 inflation rose from 32 percent per year to 70 percent per year from an average of around 15 percent in the pre-reform period.

Part of the reason for the high inflation is that Zimbabwe's financial markets were liberalised before the government had dealt effectively with the budget deficit. IMF officials acknowledge that they made a mistake in the sequencing of financial liberalisation in Zimbabwe. For it brought with it the concept of positive interest rates which the government was forced to pay for its own borrowing from the domestic market. The high interest rates at which the government was servicing its loans fueled inflation and are responsible for Zimbabwe finding itself in a debt trap.

For Zimbabwe, trade liberalisation and hence globalisation has brought little if any benefit to the economy. On the industrial front, it has resulted in deindustrialisation as firms failed to compete with imports and collapsed. On the social front it has resulted in increased poverty. A Central Statistical Office (1998) study says the incidence of poverty has increased from 40.4 percent in 1990/91 to 63.3 percent in 1995/96. Zimbabwe's debt burden has also increased sharply and continues to rise fueled by high inflation and a depreciating currency.

Appendix II

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AFRODAD (African Forum & Network on Debt & Development)
P.O. Box MR 38, Marlborough, Harare, Zimbabwe
Tel: +263 4 702093, Fax: +263 4 702143, e.mail: afrodad@samara.co.zw
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