Did Africa Benefit in Hong Kong?

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I. INTRODUCTION

Developing countries among them African countries played a critical role in defining the agenda for the on-going multilateral trade negotiations. These countries were categorical that the Doha Round must have a pro-development agenda in order to ensure that the skewed way in which benefits from multilateralism have been distributed in favour of developed countries was redressed. While the African countries recognize that trade could be an engine of growth and an important driver of development, unlike other countries, they have been unable to reap concomitant benefits from globalization and trade liberalisation. In deed Africa has not fared proportionately well in the sharing of the benefits even when compared to other developing countries. Cline (2004) demonstrates clearly how there has been unequal sharing of gains from trade liberalization while Bouet et al. (2005) demonstrate the contrasting fortunes of developing countries in the Doha Round.

The Doha Round was being launched within the backdrop of emerging evidence that the benefits promised at the conclusion of the Uruguay Round would accrue to developing countries were actually not being realized. African countries therefore, considered the Doha Round as the appropriate opportunity through which these gains could be guaranteed, especially given that for many of the African countries, agriculture remains the most important sector, contributing significantly to production, employment and trade as well as export earnings. The mandate for Doha Round recognized the need to come up with an agreement that would reduce distortions in world agricultural markets.

By insisting that the mandate of the Doha Round (see World Trade Organization 2001) focus on development issues, the African countries saw it as an opportunity

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through which they can be able to achieve deeper and effective integration of their economies with each other and to those of other developing countries, in the context of the multilateral trading system and global trade. A pro-development Doha Round meant that the agenda for the new trade talks would include issues of concern to developing countries, and more importantly for the very poor ones. In particular, developing countries saw the new trade talks as the avenue through which to address the issue of the interface between "trade" and "development", or what has come to be known as the "developmental dimensions" of trade and the multilateral trading system. Accordingly, developing countries took the position that the Doha Round should address the imbalances existing in the Uruguay Round and WTO Agreements between rights and obligations among WTO Members and also implementation related issues and concerns.

The initial progress of the Doha Round was not only slow, but the little progress that was being made did not give confidence that delivering on development would actually be the overriding focus of the modalities yet to be developed. The commitment to the Doha Declaration and the negotiations mandate was not being translated into action. Developing countries including African countries felt that there was backsliding on the commitments that had originally been made to deliver on development. The feeling of the lack of commitment to the Doha mandate and the little progress that was being achieved contributed in part to the failure of the trade talks at Cancun in 2003.

The conclusion of the Framework Agreement, otherwise known as the July Package in 2004 was an important development in the negotiations (World Trade Organization 2004). This agreement managed to re-inject hope in the Doha Round, as it moved the negotiations a step forward, meaning that the spirit of Doha was re-ignited and developing countries felt some hope that there could be a favorable agreement after all. The Framework Agreement managed to define the principles that should guide the negotiations to ensure that the final modalities would be faithful to the Doha spirit and would deliver on development as defined in the negotiations mandate.

Initially, the Hong Kong Ministerial was supposed to be a major step in the achievement of the Doha Round. Ambitious modalities originally expected as an outcome of the Hong Kong Ministerial were to be viewed as a real expression of the commitment to the Doha spirit and the development agenda of the negotiations. Yet, when in retrospect one looks at the Hong Kong meeting outcome (see World Trade Organization 2005) in an African perspective, the modalities that would give the expression of this commitment to Doha were not realized. It is not an overstatement to say that Hong Kong failed to deliver meaningful ambition in the modalities that would ensure that the Doha Round is beneficial to the developing countries, especially the poor African countries that are so dependent on agriculture and have fragile industrial and services sectors.

It is true that there were fears that the Hong Kong meeting could not achieve the desired outcome in favour of developing countries. A fact that was reinforced in the lead-up to the Hong Kong Ministerial meeting by the results of informal meetings of a number of WTO Trade Ministers. The Ministers failed to reach consensus on key issues that would lead to an ambitious result from the Hong Kong Ministerial Conference. This led to the suggestions that the scope and expectations for the crucial Hong Kong Ministerial meeting be scaled back. This scaling down of ambition resulted in the overwhelming view that the Hong Kong Conference would not in any way be able to come up with full modalities of negotiations in key areas, especially agriculture and non-agricultural market access (NAMA). Hence, full modalities or actual figures and formulas for reducing agricultural and industrial tariffs could not be agreed in Hong Kong, as there were still significant divergences in positions of member states.

But can we say, looking back at what was agreed in Hong Kong, that the lowering of expectations led to the "lowering of ambitions" for the Doha Work Programme especially in the eyes of developing countries? The answer to this question could be understood within the context of earlier expectations as outlined above. While it may not be possible to state conclusively the final impact of the Hong Kong deal on the original level of ambition by the developing countries, one thing is clear. In hindsight, it is apparent that the balance in the eventual scaling down of the ambitions for the Hong Kong outcome was not equitable. There was lack of balance in the way different members shared the burden of the scaling down, given that the lowering in ambition essentially meant delaying early harvests of trade gains or even having a Doha Round result that is sub-optimal for some members. A critical analysis of the Hong Kong text, vis-á-vis earlier stated positions indicates that developing countries especially the African countries, both LDCs and non-LDCs, did actually have their ambitions scaled down. And also to some extent, other developing countries even those in the G-20[1] grouping also shared some of the burden of scaling down. However, the same cannot be said conclusively about the developed countries. Looking at the positions by the developed countries, one sees very limited concessions compared to their positions since the July Package signing and in some cases; their positions have remained as they were prior to the Cancun Ministerial Conference.

It is therefore safe to argue, as will be shown in the remainder of this paper, that Africa failed to achieve much on its long held positions on key areas of the negotiations. In this respect, even as developing countries find it unfathomable that the Hong Kong deal was sub-optimal vis-á-vis their earlier expectations, it is a fact that African countries took most of the burden of the lowering of the level of ambitions. Two observations on the Hong Kong deal underline this conclusion. Firstly, it is now evident that the level of ambition of the reforms especially in agriculture will be low. Secondly, and very importantly, supply constraints and low level of diversification of the African economies

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[1] The G20 developing nations emerged from the Cancun meeting. It is a group of largely advanced developing countries, characterized by its common demand for greater agricultural market access from developed countries. The G20 is Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela, and Zimbabwe.

mean that the African countries will not be able to exploit optimally even the limited opportunities likely to be presented by the Doha Round.

In this paper therefore, an attempt is made to provide further arguments to show that Africa did not benefit much from Hong Kong. The remainder of the paper is organized as follows. After this introduction, Section II recalls Africa's concerns in the Doha Round. This is to highlight what African countries considered as the priorities in the current negotiations and their motivation. Section III takes a critical look at some of the proposals on the modalities that are to be developed ultimately in the Round and asks the pertinent question whether the Doha Round is actually addressing Africa's concerns. This section provides evidence on the potential benefits of some of the proposals that have been made in agriculture and NAMA negotiations, and which were implicitly accepted so to speak, in the Hong Kong Ministerial Conference. And in Section IV the paper presents the case why it is likely that Africa may have only little benefit even from an ambitious liberalisation. Using the case of bound duty free quota free proposal for least developed countries, the paper presents results showing that other LDCs apart from the African ones may benefit more. The section therefore highlights the limited supply capacity and low diversification in Africa. By presenting evidence on diversification trends, the paper argues that it will be necessary for key levers to be established that can form as part of a tool-kit that African countries can use to ensure that they attain diversification results that are not only favorable to trade but also economic growth.

II. Recalling Africa's Concerns in the Doha Round

It helps to recall Africa's concerns in the Doha Round. Africa's concerns cut across almost all the areas of the negotiations and in this section; these concerns are highlighted to reiterate the importance for an ambitious Doha Round outcome. The various African Union Ministers of Trade Ministerial Declarations outline the continent's concerns and issues in the Doha Round (Africa Union 2004; 2005).

Improved Market Access

The desire for effective market access for African export products has been one of the major issues for the African countries. As a result improved market access for both agricultural and non-agricultural exports has been one of the key concerns of the African countries. While it is acknowledged that African countries do enjoy preferences under different schemes that are currently in place, such as African Growth and Opportunity Act (AGOA) and the Everything-But-Arms (EBA), or even the Cotonou preferences, it is also the case that there are significantly high tariffs, tariff peaks and tariff escalation concerns which limit African exports. The African countries have therefore been keen on a Doha Round outcome that would effectively eliminate tariff peaks and lead to significant reductions on all tariffs, especially in those products of the continent's export interests. And in order to allow the African countries to add value to the many primary products that the continent currently exports, there has been concern that the final modalities for tariff reduction should also deal with the problem of tariff escalation. Tariff escalation has tended to create a disincentive for the African countries to carry out vertical diversification that would lead to the production of products for exports that are of higher value in the value chain.

Phasing Out of Export Subsidies and Trade Distorting Domestic Support Measures

Domestic support programmes, export subsidies and other export competition issues have been another area of major concern for African countries in the on-going negotiations. These subsidies, be they for domestic production support or for the exporters have been shown to have substantial distorting effects on international markets. These schemes are prominently used by the major developing countries in support of their agriculture sectors. The costs of the distortions from these subsidy programmes are borne by other agricultural producers and exporters, especially in developing countries including the LDCs, who may not be in a position to receive similar support from their governments. The distortionary effects on the international cotton market of the subsidies provided to cotton farmers in the US has been a classic example of how domestic policies in developed countries end up hurting producers in poorer countries.

For the reason that domestic support programmes and export subsidies provided to agricultural producers and exporters in the developed countries distort international agricultural markets, ambitious agricultural reforms have been a major issue for Africa. Elimination of the export subsidies and substantial reduction of the domestic support measures is seen as one way through which African countries can benefit from the comparative advantage that they possess in agricultural production. Moreover, the phasing out of these subsidy schemes would also be fundamental in the creation of a level playing field, even in the African agricultural market itself, where African producers would be in a position to increase the share of intra-African trade on agricultural commodities.

Strengthening of the Development Dimensions in the Multilateral System

The pro-development agenda that developing countries won at the launch of the Doha Round meant that for the trade negotiations to be considered a success, the Round must deliver real development benefits. Africa's concerns in this area have therefore remained on ensuring that development dimensions of the multilateral system are strengthened. In particular, the African countries have been keen to see a broad definition of development which integrates enhanced market access in areas of export interest to developing countries; balanced rules; and capacity building. In this respect, development should encompass, in addition to special and differential treatment (S&D), policy space and flexibility; better market access conditions for Africa's exports; and efficient capacity building initiatives.

Policy space and flexibilities should therefore be mainstreamed in all aspects of the negotiations in order for African countries to achieve their legitimate development goals. For instance, in agriculture negotiations, the modalities agreed upon should provide policy space and flexibilities that would allow African countries pursue agricultural policies that support development, poverty reduction strategies, food security and rural livelihood concerns. Moreover, full operationalisation of the principle of proportionality in the modalities while taking into account the existing tariff structure of the African countries would help strengthen development dimensions of the Doha Round. And with respect to the industrial tariffs, the modalities aimed at reducing or eliminating tariff peaks, high tariffs, and tariff escalation, should at the same time allow autonomy to enable African countries pursue industrial policy, in line with their development strategies and also allow them to be able to initiate and deepen diversification processes of their economies.

Improving Africa's Participation in the Global Trade: Trade Facilitation and Services Concerns

It is well acknowledged that trade facilitation is an important issue in that it would help African countries not only become effectively integrated in the global trading networks but would also be instrumental to deepening African integration. African countries appreciate that trade facilitation is an important determinant of a country's efficiency and competitiveness. Hence, these countries are cognizant of the fact that removal of intra-Africa trade barriers, and provision of favorable market access conditions in the international markets will not be sufficient, unless measures are in place that facilitates trade. Key among these measures include, reforming the customs administration and other regulatory issues. However, trade facilitation measures need to go beyond customs reforms to behind the border issues that hinder free flow of trade between African countries and with other trading partners. This raises the question of costs. Trade facilitation measures, even as basic ones as customs administration are costly and require adequate technical assistance and capacity building support. Consequently, Africa's concerns with trade facilitation negotiations has been and remains the need to have a balanced outcome that acknowledges the different stages of development of countries and the varying capacities and resources availability to implement trade facilitation programmes. Special and differential treatment, especially in the agreed time-frames, coupled with effective and operational technical assistance and capacity building at the implementation stage, is of high concern for Africa and if the Hong Kong meeting was to show seriousness in matters of special and differential treatment, this is one area where such an opportunity existed.

In the area of services, African countries realize the potential the services industry has in all the modes under negotiations, especially in the capacity for services to raise incomes, employment and export earnings. However, services is one area where for Africa, the question of prioritization has been key. It is also in this area of the negotiations where trade-offs between the various modes of delivery is critical. But it is important to note that the African countries have underscored the need for the services negotiations outcome to take into account the real needs of the developing countries. That mode 4 constitutes a priority for majority of the African countries is not in doubt, but there are also particular concerns regarding tourism and construction services.

III. Is the Doha Round Addressing Africa's Concerns—A Reality Check on Modalities Development

Given the ambition and commitment ingrained in the mandate of the Doha Round and taking cognizance of the concerns that African countries have had with the negotiations as they progress, it is important to carry out a reality check to see whether the negotiations at the current stage are faithful to the Doha Spirit. This sub-section therefore looks at the modalities development at the current stage of the negotiations[2]. This section essentially undertakes an analysis of the different modalities development as captured in the Hong Kong text and its annexure. The analyses are based on various empirical work using the Global Trade Analysis Project (GTAP) model and database. And as will be seen in the empirical evidence presented, the main results emerging is that the level of ambition in the Hong Kong deal is low when viewed as a whole. There could be some elements that are ambitious, but this ambition is eroded by lack of ambition in other areas that are likely to have the highest gains for Africa.

Double-Edged Modalities Proposals in Agriculture Negotiations That Might End Up Giving with the Right Hand and Taking with the Left

While all the areas of negotiations are critical to delivering pro-development results favorable to African and other developing countries, taking a critical look at the Hong Kong text and proposals on modalities for the agriculture negotiations, it is possible to give an assessment regarding whether Africa's concerns are being addressed. Some convergence was attained at Hong Kong some of the areas in the agriculture negotiations, especially in the export competition pillar, but significant divergences remain in the other two pillars. It is evident that the levels of ambition in each of these pillars vary. The US for instance makes an ambitious proposition in the market access pillar by proposing that the highest tariffs in agriculture should be cut by as much as 90

[2] This analysis is based on the outcome of the Hong Kong Ministerial meeting.

per cent. The EU and G-20 are on the other hand proposing higher reductions in domestic support.

Assessments that have been made so far if one was to project current trend and picture a final Doha outcome based on the current progress indicate that there will be little benefit for African countries for several reasons. Firstly, due to the low level of ambition, it is unlikely that these countries will realize any significant benefits (see Economic Commission for Africa 2004; Hammouda et al. 2004). Secondly, the limited diversification of the African economies means that they will be unable to exploit even the little benefits that may result from the reforms that would follow from Doha. And thirdly, and most importantly, the trade-offs that are being negotiated especially among the major trading nations have the unwelcome effect of eroding any potential benefits likely to accrue from the Doha Round. To illustrate this point, we provide results from the analysis of the proposal made by the US on agriculture. For simplicity, we consider the proposals made by the US in the market access pillar.

After applying the tariff reduction proposals on existing tariff structures, it emerges that unless significant special and differential treatment is integrated, in the case of developing countries and more particularly African countries, the US tariff reduction formula implies stronger commitments. The formula is like a double-edged sword for African countries. Firstly, the African countries are in favour of reducing tariff peaks and tariffs escalation particularly to their export of labour intensive products. However, they will need to be conscious of how best to ensure that they do not suffer from this proposal from failing to take appropriately into account their objective to defend their emerging and import-sensitive sectors. Without significant lesser cuts and sufficiently long phase-in periods the final modalities will obligate them to widely open their borders to major agricultural exporters.

Tables 1 and 2 give the simulation results obtained on the economic impacts of the proposed modalities in the market access pillar by the US. The three simulations differ in the way they treat both sensitive and special products. The first scenario applies tariff reduction as defined in the US proposal, but excludes 5% of the tariff lines for developed countries (sensitive products) and similar number of tariff lines for developing countries (special products) from tariff reduction. In the second scenario, the sensitive products are eliminated but the special products for developing countries are retained. In the third scenario neither sensitive nor special products are retained. Essentially, the third scenario tells us the implication/impact of the sensitive and special products on the market access that would arise from the tariff cuts proposed by the US.

The lesson from the modalities proposed by the US is that with respect to African countries concern with tariff peaks, once implemented, the US proposal leads to a more pronounced reduction in tariff peaks and eliminates a large proportion of tariff peaks. As a result, the US proposal could have greater impact on high tariffs which is rather good news for African exporters due to the formula's efficiency in dealing with tariff peaks,

TABLE 1: CHANGE IN TRADE BALANCE (US$ MILLIONS)

	Scenario I	Scenario II	Scenario III
Sub-Sahara Africa (SSA)	–2343.06	–2472.89	–2449.41
North Africa	–3219.97	–1395.64	–3521.67
Japan	5793.65	4673.43	5357.9
China	–7857.81	–8038.78	–7505.26
EU-25	10336.29	11502.76	11953.69
USA	19017.68	19000.3	19439.36
Cairns developing	–5935.19	–6377.37	–6252.54
Cairns developed	1428.68	998.2	1136.59
ROW	–17220.2	–17890.01	–18158.6

Source: Simulation from GTAP 5.4

TABLE 2: WELFARE VARIATIONS (US$ MILLION)

	Scenario I	Scenario II	Scenario III
Sub-Sahara Africa (SSA)	–29.52	564.26	613.92
North Africa	1240.25	1094.74[3]	3917.61
Japan	14693.94	16360.31	16230.33
China	5818.39	7445.3	7897.24
EU-25	11289	11305.05	13272.37
USA	–2308.77	–2638.08	–2176.24
Cairns developing	5114.03	5213.01	5289.56
Cairns developed	183.71	1858.94	1814.55
ROW	21374	23574.06	24416.77

Source: Simulation from GTAP 5.4

and hence limiting the dispersion of a country's tariffs and having a harmonizing effect of member countries' tariff structures. But the positive benefits expected from the market access ambition in the US proposal are very sensitive to the treatment of sensitive and special products. The retention of sensitive products by developed countries has the effect of eroding any benefits that the tariff cuts proposed by the US could have. For Africa, deep tariff cuts accompanied with sensitive products for developed countries is like giving with the right hand and taking it away with the left. Africa loses the higher the threshold of sensitive products defined by developed countries, what it is supposed to gain from the ambitious tariffs cut. This clearly shows that while the US propose modalities with only 1% for sensitive products, if this percentage will eventually be the trade-off issue as was the case in Hong Kong with a grouping like the EU for it to raise its offer on the tariff reduction commitments, it would be of little benefit for Africa. It is noteworthy on this score to appreciate the significance the proposals on sensitive products, which range up to 15% as indicated in Annex A of the Hong Kong Ministerial Declaration.

[3] A closer examination of the results for North Africa of what appears like a contradiction reveals that tariff dispersion is greatest in North Africa under scenario II, while scenario III has the effect of harmonizing the tariff rates and hence maximizing on allocative efficiency gains.

In conclusion therefore, it is important to be cautious and conscious about the sensitive products. It seems that there is a consensus from different groupings that a successful Doha Round may not be realized without ambitious reforms in agriculture trade. From the Economic Commission for Africa different simulations, the persisting result and conclusion is that any level of ambition is going to be eroded by high levels of sensitive products (Sadni-Jallab et al. 2005a). In a nutshell therefore, having deep tariff cuts and retaining the sensitive products, at least for Africa is like giving with the right hand and taking it away with the left. Africa could lose through sensitive products what it is supposed to gain from the ambitious tariffs cut. Similar results emerged from studies at the World Bank (Anderson and Martin 2005).

Another conclusion that emerges from the analysis of this element of the agriculture modalities negotiations is the need to re-emphasize the need to strengthen the special and differential treatment. There are two reasons why this is important for Africa. First, special and differential treatment both in terms of depth of the tariff cut and the phasing-in period will help African countries to provide appropriate protection to local production. This will create some policy space to African countries to deepen the development of their agricultural sector. A second but obviously a more mundane reason but which can easily be downplayed, is that special and differential treatment will give to African countries a better market access to developed countries markets.

In NAMA, Proposed Modalities to Accelerate the Opening of Developing Countries Markets with Little Attention to their Concerns on De-industrialisation Risks

Developments in the negotiations leading to and the result from the Hong Kong meeting were characterized by three main issues, which raise concerns for developing countries, at least for Africa. The first characteristic is that there is a clear move towards reduction of flexibilities. The move from a Girard-type formula to a Swiss formula will clearly result in reduced flexibilities. This move is not only a technical change; it is a major political shift because it reduces the level of flexibilities needed by developing countries to build their industrial development. In a Girard-type formula, it is possible to introduce flexibilities through two different coefficients.

The second concern of the developments so far is the absence of convergence on the real need for differentiation in the type of coefficient with regards to the Swiss formula. The EU for instance continues to insist that developed countries will apply a simple Swiss formula with a coefficient of 10, with no flexibilities/exclusions for any product. The highest duty will be 10%. The "controversial idea" of differentiation between developing countries has also been proposed in the negotiations, and the Hong Kong text did not any way categorically reject this notion. Indeed, the EU had proposed in the lead up to the Hong Kong meeting that "advanced developing countries" would have to apply the same Swiss formula with a coefficient 10, and the introduction of

Paragraph 24 in the Hong Kong text, which deals with the issue of balance between NAMA and agriculture, is an indication that the issue of differentiation between developing countries is yet to be resolved. The EU has explicitly conditioned the outcome of all areas in the Doha Round negotiations, including agriculture, on a satisfactory outcome in NAMA, and Paragraph 24 is a result of this position. The US on the other hand, while proposing differentiation, the variation is quite small to give a semblance of differential treatment. As such, this second concern is also not just a technical issue but also a political one as it reduces the possibility of integrating special and differential treatment. Clearly, the Swiss formula gives less flexibility than the Girard formula[4] or other kinds of non-linear formulas. The Norway proposal, which considers a non-linear formula with two coefficients, could have provided Members a certain degree of flexibility.

The third characteristic of the proposals is that the resulting level of reduction of the tariffs is going to be very high. This will then reduce the policy space for African countries. Besides, it is noteworthy that there is a continued lack of convergence in the modalities of the tariff reduction formula and the flexibilities to be accorded to some "sensitive" products.

Analytical work by the Economic Commission for Africa show that modalities resulting in a non-linear formula and which include two coefficients are in a better position to provide the necessary degree of flexibility in favour of developing countries. It is important to have modalities that combine flexibility for developing country members. The Economic Commission for Africa analyzed four tariff reduction scenarios, which are coherent and consistent with the July Package commitments (see Sadni-Jallab et al. 2005b). The first scenario (S1) tested the S&D negotiated in the July Package[5] and employed a Girard coefficient of 1 for both developed and developing countries. The other three scenarios differ in the way the S&D is taken into account. The second scenario (S2), which could be considered as a conservative scenario, differs with the first scenario only through application of a higher Girard coefficient of 3 but applied equally to both developed and developing countries. The S&D defined in the July Package was unchanged in this case. Scenarios 3 and 4 may be considered as ambitious. Scenario 3 (S3) applies the S&D as defined in the July Package but it also includes what we call an *implicit* S&D, i.e. a high Girard coefficient for the developing countries (B = 3) and low coefficient (B = 1) for developed countries. Clearly, a low coefficient has a stronger impact on tariff reduction. This scenario therefore gives the developing countries greater flexibility. Finally, Scenario 4 (S4) includes the S&D stated in the July Package except that it multiplied that S&D by two. Concretely, this excludes

4 The tariffs would be cut so that $t_1 = \dfrac{B \times t_a \times t_0}{B \times t_a + t_0}$, where t_1 is the final tariff, t_0 the initial one, t_a the initial national average and B the coefficient of the formula.

5 The SDT defined in the July Package proposes exclusion of 5% of tariff lines (or 5% of trade) from tariff reduction and 10% of tariff lines (or 10% of trade) to have tariff reductions of half the reduction given by the formula.

any tariff reduction in more than double the lines from the normal July Package S&D definition of tariffs lines exclusions.

Policy Space: A Real Concern for the African Economies

The results indicated that unless different values for the implicit S&D coefficient were applied, on average, the Girard formula would not significantly change the market access for the African economies to the Quad economies, meaning Japan, Usa, Canada and the EU and will not procure enough policy space for African countries. Two reasons can explain this phenomenon. The African countries usually enjoy preferential access to the Quad markets, and the preferential tariffs are not correlated to the Mfn ones. Furthermore, the tariffs on industrial imports to the Quad are low on average. On the contrary, the impact of the Girard formula could be significant on the tariff structure of the developed countries, and tackles a large proportion of the tariffs peaks that still hamper the African exports with a differentiated *implicit* Sdt coefficient. The tariffs on food products should thus decrease significantly[6].

To show the importance of these flexibilities, results are reproduced on the implications for African economies of the varying degrees of flexibilities (see *Table 3*). The consequences of the Nama agreement on the African economies appear to be mitigated and to a large extent depend on the nature of the implicit and explicit S&D. It appears that giving flexibility to developing countries could be done by a strong discrimination in the reduction rate but also by adding another coefficient directly related to the level of development. It appears that a pure Swiss formula could have irremediable consequences for many developing countries because they will suffer from a real adjustment cost (mainly strong revenue shortfall and also difficulties to defend some industries). The simulations using a general equilibrium model[7] showed that the welfare and the Gdp of Sub-Saharan Africa would slightly improve, while the welfare and Gdp of North Africa would significantly increase depending on the depth of special

Table 3: The implications of the nama negotiations on the african economies (minimum, maximum all scenarios[8])

	Sub-Saharan Africa	North Africa
Welfare (US$ million)	[337,543]	[2860,3545]
Gdp (% deviation from baseline)	[+0.21, +0.37]	[+1.28, +1.7]
Trade balance (US$ million)	[-748, -2796]	[-525, -1729]
Terms of trade (% deviation from baseline)	[-0.13, +0.22]	[-0.69, -0.25]

Source: Simulation from Gtap 6.0

[6] The tariffs on textile and clothing should also be reduced by the Doha round according to the Eca's calculations. Yet, the phasing out of the Multi Fibers Agreement will cancel all these improvements by cutting quotas on textile and clothing to zero.

[7] The figures were obtained thanks to the Gtap model and the version 6.0 of the Gtap database. They are all extracted from the study undertaken by the Eca, "Le cycle de Doha peut-il bénéficier à l'industrie africaine ?" Eca, (2005).

[8] The figures inside the brackets indicate the range of results obtained with the different scenarios tested.

and differential treatment. Otherwise, the NAMA commitments as currently defined in the July Package would induce a systematic deterioration of the trade balance all over Africa, largely due to worse terms of trade.

The consequences of possible NAMA modalities on the African economies to a large extent depend on the nature of the implicit and explicit special and differential treatment.

In conclusion, a pro-development outcome from the NAMA negotiations needs to address the following:

- Greater level of flexibilities in the final formula. This could be achieved in the same formula or the modalities should be able to give an outcome that is a kin to two different formulas.
- Stronger special and differential treatment must be possible in the final modalities agreed. The final formula should be able to discriminate between developed and developing countries without any ambiguity.
- Should ensure the provision of policy space for developing countries to pursue the industrial development and diversification of their economies.

And in Services Africans Priorities could be Overshadowed by Shift of Negotiations Energies to the Question of Parallelism and Benchmarking

Annex C of the Hong Kong Ministerial Declaration has suggested forceful modalities in services, in line with the position that the EU has been taking on the issue of services negotiations. Whereas these modalities recognize differences between developed, developing and LDCs countries, they raise the stakes in that they are urging for mandatory commitments for services liberalisation. The complementary approaches as well as the qualitative and quantitative benchmarks proposed by the EU and which remained in Annex C of the Hong Kong text have the potential of focusing negotiations energies on these areas and failing to recognize that there is need for countries such as those in Africa to have flexibilities that would allow them open few sectors and then progressively extend the market access. In addition, as Annex I to this paper clearly indicates, the priorities of African countries in services negotiations did not influence significantly the Hong Kong Declaration, which to a greater extent addresses the issues as laid down by developed countries.

IV. Africa is going to Benefit Less even from an Ambitious Liberalisation

It is one thing to argue strongly for an ambitious liberalisation that would deliver significant gains for developing countries. But as has been pointed out in many studies and implied in the introductory part of this paper, Africa might benefit in an inequitable way compared to other developing countries and could actually benefit less than other developing countries. Many studies have shown that even as the gains from global trade reforms are invariably skewed, Africa has a tendency to receive the least of these gains. To illustrate this point, the results from recent work on unrestricted market access for LDCs is presented below.

LESS BENEFIT FOR AFRICA

It is important to recall that the Millennium Declaration on the MDGs has called on using trade to uplift the lives of the millions of poor people in the least developed countries.

This call has been translated into a call for action through submissions to the ongoing trade negotiations where LDCs argued for bound duty free quota free market access in developed countries. In a recent study, the Economic Commission for Africa looked at this point. Essentially, a scenario was built that includes a complete elimination of the QUAD tariffs on the LDCs exports with no reciprocation. These results are actually an update of previous work by the Economic Commission for Africa (ECA) on Unrestricted Market for Africa (UMA) (see Hammouda et al. 2005). The key difference is that in the results presented below (see *Table 4*), there is a disaggregation of other LDCs outside Africa, and the question is whether their gains are equal to those of Africa. What is clear is that the LDCs would all benefit from UMA, but African LDCs would benefit less than the others. The LDCs would enjoy significant growths of their exports to the QUAD. The South Eastern Asian LDCs would be the main beneficiaries of this growth of exports to the QUAD (USD 1.1 billion), while Bangladesh (+USD 0.9 billion) performances slightly exceed the performances of all the African LDCs (+USD 0.5 billion).

In terms of output and welfare (see *Table 5*), the UMA appeared to be beneficial to all the LDCs. Bangladesh captures 41% of the total welfare gains created by UMA, versus

TABLE 4: BILATERAL TRADE IMPACT OF UMA FOR ALL LDCS (IN MILLION USD)

	Canada	EU	USA	Japan	S.A. LDCs	Bangladesh	African LDCs	ROW	Total
South Asian LDCs	61	–42	1,092	38	0	–3	–4	–479	663
Bangladesh	168	–685	1,450	–35	0	0	–7	–259	631
African LDCs	1	174	347	3	1	8	–27	–247	261
Canada	0	18	–13	4	3	20	15	30	76
EU	–37	–26	–257	–10	99	152	362	60	343
USA	33	327	0	48	55	80	105	579	1,226
Japan	–5	30	–36	0	64	69	30	75	227
Rest of the world	–158	19	–2,201	–72	894	1,095	368	–14	–69
Total	62	–184	382	–24	1,115	1,420	842	–255	3,357

Source: Simulation from GTAP 6.0

TABLE 5: WELFARE AND OUTPUT IMPLICATIONS OF UMA FOR ALL LDCS

	Welfare (USD million)	GDP Volume (%)	GDP Value (%)
Quad	–1,014	0	0
South East Asia	2,069	2.37	8.04
Bangladesh	2,627	4.99	11.7
SSA	1,237	0.58	1.32
Other developed	41	0	0
Other developing	–63	0	0
Total	4,897	0	0

Source: Simulation from GTAP 6.0

37% for the other Southern Asian LDCs, and 21% for the African LDCs. The output implications of the measure seem also uneven, with significant output creation in Bangladesh (+4.1%) and other Southern Asian LDCs (+2.2%), and a minor output increase in Africa (+0.53%). The gaps are even stronger when the price effect is taken into consideration, as the growth in the value of output of Bangladesh reaches 9.1%, versus 1.1% in Africa.

In terms of output structure, the UMA proposal should reinforce the specialization of LDCs in agriculture, textile and clothing. It should slightly affect the industrial potential[9] of Asian LDCs, but more notably leave unchanged the Sub-Saharan African industrial output as can be seen in *Table 6*. To reiterate the point, the results showed that unrestricted access to the QUAD markets for least developed countries would benefit all of these countries. However, African countries would gain significantly less[10] than Bangladesh and other South Asian countries.

WHY WOULD AFRICA BENEFIT LESS FROM GLOBAL TRADE REFORMS?

As intimated in the introduction of this paper, supply constraints and the low level of diversification hinder the continent's capacity to take advantage of opportunities provided by the trade reforms. Compared to other regions, Africa has remained the least diversified meaning that the exports mix from the continent as it stands today cannot allow for rapid high exports earnings even if the opportunities presented themselves. By

TABLE 6: ECONOMIC SPECIALIZATION CHANGES (PER CENT CHANGE FROM BASE)

	South East Asia LDCs	Bangladesh	SSA LDCs
Agriculture	0.1%	2.4%	0.5%
Textile clothing	15.6%	15.7%	6.6%
Industries	–0.2%	–1.1%	0.1%
Services	2.4%	5.1%	0.5%

Source: Simulation from GTAP 6.0

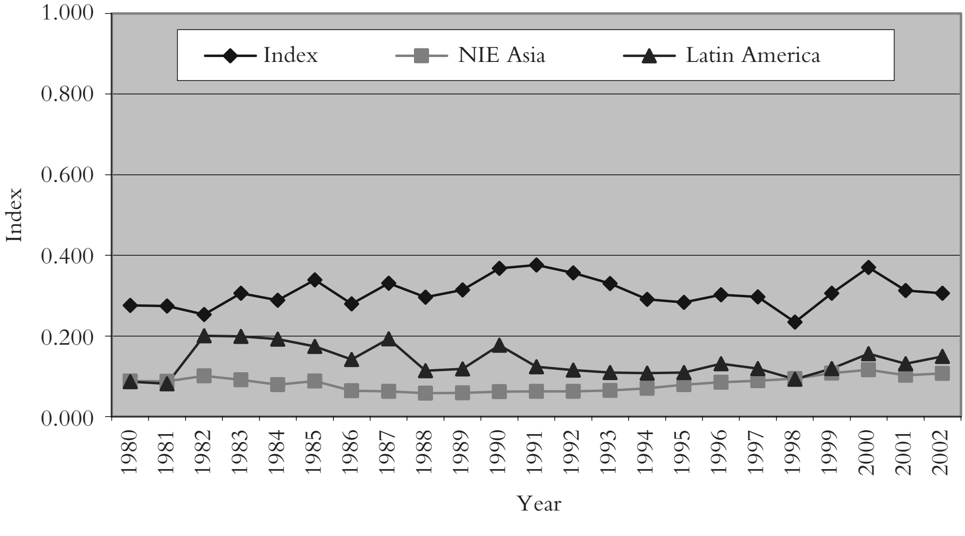
[9] Without taking into account the output of textile and clothing.

[10] Of particular significance though is the overall result that the extension of unrestricted market access from African countries only to all LDCs does not seem to alter the benefits Africa could draw from it.

all accounts, there has been limited diversification of exports by the African economies and the little diversification that has occurred has been both fragile and volatile. To put the diversification concerns in context, *Figure 1* shows the trends of the diversification indices for three regions: NIE Asia, Latin America and Africa. There are many measures of diversification. For the purposes of comparing between different countries and regions, the normalized-Hirschmann[11] index is a good basis for such a comparison.

The diversification indices of the three regions indicate firstly that at the beginning of the 1980s, both Latin America and the new industrialized economies (NIE) of Asia had the same level of diversification. Secondly, Africa was at a less diversified position in comparison to the other two regions and has remained so to date. The NIE Asia economies have managed to maintain their highly diversified nature. The Latin American region, like Africa was significantly affected by the economic crises of the 1980s. The diversification index for Latin America indicates loss of diversification gains up to 1987. But unlike Africa, the Latin America economies managed to reverse the trend towards exports concentration. For the period 1987 to 1999, the diversification index for the Latin American economies show a move towards becoming more

Figure 1
Normalized-Hirschman Index: Africa, Latin America and NIE Asia



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[11] The Normalised-Hirschman index is a relative measure of diversification whose value lies between 0 and 1 according to the following formula:

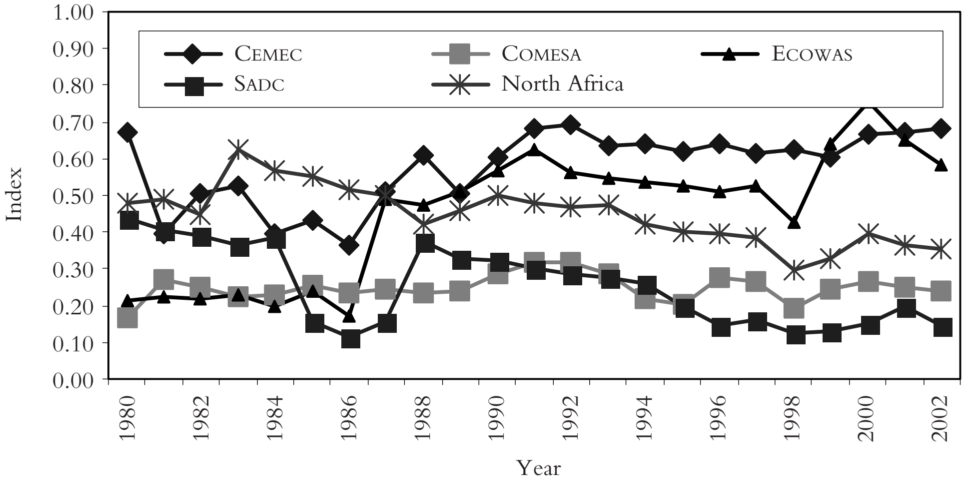
$$\text{N–H}_1 = \sqrt{\frac{\sqrt{\sum_i^N P_i^2} - \sqrt{\frac{1}{N}}}{1 - \sqrt{\frac{1}{N}}}}$$

where $P_i = \frac{x_i}{X}$, x_i is the value of exports of commodity i, $X = \sum_1^N x_i$, and N is the number of products. The value closer to 1 represents the most extreme concentration. Likewise, a low value of this index indicates lower exports concentration or a relatively diversified economy.

diversified. It is worth noting that by 1998, the Latin America and NIE Asia economies had the same level of diversification again. Although for the remaining period to 2002 the Latin American economies were left behind again by NIE Asia. But the important result from this comparative analysis of the indices is that the NIE Asia and Latin America economies have managed to achieve positive results from their diversification efforts while Africa's effort have not been sustainable. Whether this could be attributed to higher variability in policy timelines is an important issue worth exploring. It is also reasonable to postulate that the main determining factor of the impact the economic crises had on the different regions appears to be the nature of response. The NIE Asia from the early years of the crises resorted to a dynamic response. But in Africa, it appears that the region became defensive and its response was one of more concentration on a few commodities. This is especially the case with the oil factor that has dominated the exports of the Central and Western African region. Rather than exploiting the oil exports towards more dynamism in exports, the African countries became more concentrated. This defensive reaction that perpetuated the status quo in some instances was worsened by the oil factor, which eroded earlier gains in such countries as Sudan, Nigeria and Gabon. Overall, the African economies appear to have responded differently to the challenges posed by the economic crises of the early 1980s as opposed to the kind of response that the Asian economies adopted. The African economies, rather than adopting a dynamic response similar to that by the Asian countries, in most instances appear to have become defensive.

Even while Africa's diversification experience lags that of other regions, it is significant that within the continent itself there are major differences. *Figure 2* gives the

Figure 2
Normalized-Hirschman Index: Africa's Sub-Regions



Source: Author's estimations from UNCTAD statistics situation at the sub-regional level and it compares five sub-regions defined around some of the regional economic communities. In 1980, the most diversified sub-regions were the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS). The least diversified was the Communaute Economique et Monetaire en Afrique Centrale (CEMAC) with the Southern African Development Community (SADC) and North Africa in-between. By 2002, the diversification gains at the sub-regional level had changed. The most significant gains have been made by SADC, which is now the most diversified region in the continent. It is followed by COMESA and North Africa. CEMAC has remained as the least diversified sub-region.

In summary, Africa's exports diversification efforts can be characterized by the following conclusions:

- The results at regional and sub-regional levels indicate that the efforts towards diversification in the 1970 and early 1980s had positive results in that for most countries, the indices for diversification were in general trending downwards, showing movements towards some diversification.
- The diversification gains were however not sustainable as they could not withstand the pressures of the economic crisis and the attendant adjustment policies that needed to be instituted to deal with the crises. The gains made when this happened remained low and the diversification results were more reminiscent of volatility and fragility. Africa has been unable to sustain a strong foundation of diversified economies. Yet, other regions such as Latin America and Asia came under similar pressures but managed to protect and even deepen their diversification gains.
- Overall, the African economies appear to have responded differently to the challenges posed by the economic crises of the early 1980s as opposed to the kind of response that the Asian economies adopted. But it is important to point out that there have been clear differences between sub-regions and between countries in the same sub-regions. In spite of between and within sub-regions differences, it is clear that the African economies were on the whole less dynamic compared to the Asian countries kind of response to diversification challenges. The policy mix in the various African countries ranging from macroeconomic factors to institutional issues could have played a major part in determining the trend that depicts each of the African country.

V. CONCLUSION

This paper aimed at answering the question whether Africa benefited from Hong Kong. The paper recalled the original Doha Spirit of aiming to have a development outcome from the Doha Round. It also recalled the concerns of African countries in the current Round of trade negotiations. The paper noted that while there was some loss of momentum along the way, the July Package of 2004 re-ignited the hopes that the Doha Round might after all be concluded with the possibility that development concerns being addressed in accordance to the original commitment. An ambitious outcome from the Hong Kong meeting this paper notes was expected to be a major step and indication that the Doha Round would achieve its objectives. The paper, after taking assessment of the text of the Hong Kong Ministerial meeting and the proposals on modalities in its annexes, and relying on empirical work that has been undertaken in the Economic Commission for Africa in the last 2 years comes to a critical conclusion that Africa did not benefit as it would have liked to see from the Hong Kong meeting. The paper notes the following conclusions as reasons for arriving at this broad conclusion.

Firstly, current modalities proposals in agriculture and NAMA do not adequately address Africa's concerns. Secondly, the low levels of ambition in important elements of the negotiations erode any potential benefits that could accrue from any ambitious elements. The paper gave the example of how ambition in tariff reduction could be eroded by lack of ambition in the designation of the sensitive products in agriculture. Thirdly, the paper noted that special and differential treatment and flexibilities are currently weak especially in NAMA and agriculture. In the case of NAMA, the paper has highlighted that there is a clear political shift on the issue of flexibilities and differentiation since the modalities proposals converge on a formula that inhibits abilities to introduce flexibilities. Indeed, the paper suggests that current modalities proposals in agriculture and NAMA may in fact end up eroding the remaining policy space that African countries could be enjoying. Lastly, the paper using the example of the sharing of gains likely to accrue from unrestricted market access to all LDCs shows that Africa will benefit less. Leading to the paper to suggest that it is a high time that the supply constraints and the low diversification bedeviling African economies were addressed in a meaningful way. Having a broad definition of development in the ongoing negotiations as suggested in the paper, might be a good start in tackling these difficulties since such broadly defined development dimensions could integrate capacity building in the final modalities that will come out of Doha Round.

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