1 INTRODUCTION

THE OBJECTIVE OF THIS STUDY IS TO EXAMINE THE WORLD Trade Organization (WTO) – its enforcement mechanism; its broadened mandate, illustrated by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); agriculture in the Doha Round of the WTO; the WTO's pursuit of additional agreements; and its endeavor to streamline assistance to developing countries through an "Aid for Trade" scheme – all in the context of Africa.

Before the WTO was established in 1995, few people knew there was an international organization that set trade rules. However, the WTO was preceded by and is a product of the General Agreement on Tariffs and Trade (GATT), in operation since 1948. The WTO has gained exposure and notoriety primarily from demonstrations against it at the WTO Ministerial meetings. These demonstrations are usually well orchestrated and manage to draw much media attention, often eclipsing the agenda items of the Ministerial meetings. Many trade economists who are usually quite comfortable with their theories have been put on the defensive as a result of the growing negative publicity that the WTO and globalization have received. Among them is the renowned Jagdish Bhagwati, who has published a book solely defending globalization (Bhagwati, 2004).

However, criticism of the WTO is not necessarily a campaign against trade and globalization. The criticism is often targeted at the expanding mandate of the WTO, in terms of enforcement, its broadening coverage, and the glaring asymmetry (in terms of the capacity to negotiate) between developing and developed countries.

Nonetheless, before discussing the WTO, it is important to offer a few words about trade. There are opportunity costs for producing anything and, therefore, societies are constantly working out how best to use their scarce resources. Trade is one of the most important mechanisms through which countries can allocate their resources efficiently in a way that allows them to consume more than what they can produce domestically. For example, the United States is the largest consumer of coffee in the world, consuming about 20 percent of the world's supply. However, the United States does not produce any coffee, even though it has the technology to produce it. Because it does not have a comparative advantage in the production of coffee, the United States finds it is cheaper to import coffee from miles away – from Brazil, Colombia, East Africa, and even Vietnam – than to produce it itself. The resources that would have been used to produce coffee in greenhouses are instead used to produce other goods and services. While the hypothetical example of producing coffee in the United States may be dismissed as absurd, it is not entirely different from the reality of the United States subsidizing domestic producers of sugar at a cost two to three times the price of importing it under free market conditions – a clearly inefficient allocation of resources.

Trade, by its very nature, causes a reallocation of resources. Notwithstanding what trade theory postulates, resources are never perfectly mobile between industries or geographical locations. No matter how beneficial trade might be to the society as a whole, and perhaps even to everyone in the society in the long run, it always creates short-run losses for some. Therefore, it should not be surprising that in every country, there will always be people who will be against the trade of at least some goods or services.

Goods and services are produced in various countries as well as under different labor, health, intellectual property, and environmental laws and regulations. Although these differences contribute additional opportunities for trade, they are also sources of opposition to trade.

Moreover, international trade involves countries that are large and small, high-skilled and low-skilled, rich and poor, democratic and authoritarian, land-locked and coastal, and so on. This diversity creates different approaches to trade, different impacts of trade, and different sensitivities to trade, adding yet another layer of complexity and potential for disagreement about trade rules.

In addition, poor countries are often described by activist groups as unable to compete and, thus, as exploited – still another reason for voices against trade. The idea that poor countries cannot compete, however, is often the result of confusion between absolute advantage and comparative advantage. Consider the simple illustration below.

Even if a country does not have an absolute advantage in producing anything, it will still have a comparative advantage in producing some products. A country has an absolute advantage in producing a product if it can produce it at a lower absolute cost than its trading partners. Suppose on average a farmer in Senegal can produce 5 tons of cotton or 4 tons of peanuts, and on average a farmer in the United States can produce 10 tons of cotton or 15 tons of peanuts. In this hypothetical example, the United States has an absolute advantage in producing both products. Senegal, however, has a comparative advantage in the production of cotton.

Comparative advantage refers to lower opportunity cost than that of competitors. Producers in one country have a comparative advantage if their opportunity cost in producing the product is lower, for whatever reason, than that of producers in another country. In the example above, the opportunity cost of producing a ton of cotton in Senegal is 0.8 tons of peanuts, whereas the opportunity cost of producing a ton of cotton in the United States. is 1.5 tons of peanuts. If Senegal and the United States traded according to their comparative advantage, that is, Senegal exported cotton to the United States while the United States exported peanuts to Senegal, both countries would benefit. When producing goods or services according to their comparative advantage, both countries use their resources more efficiently. In other words, specialization on the basis of comparative advantage increases productivity and, therefore, the gains from trade.

By steering countries toward an efficient use of resources, an infusion of new technologies, and greater competition, trade is an important tool for economic growth. Of course, economic growth is not automatic, considering that other factors, such as macroeconomic instability, civil war, or health pandemics, can drag the economy down. Even when trade leads to economic growth, it does not necessarily translate into real economic development, that is, improvement in people's standard of living in terms of access to basic needs and social services. Trade is sometimes even blamed for a lack of development in some countries, as if trade were to have been a "magic bullet." The reality is that trade must be complemented by other policies, including effective education and health policies, for economic growth to bring about development.

Given the benefits of trade and, at the same time, the potential for arbitrary trade barriers, an international organization like the WTO can play a critical role in promoting fair and predictable trade rules and advocating for developing countries. Nonetheless, the WTO will always be a controversial organization and an easy target, no matter how constructive it might be, due to the diversity and multitude of trade issues and self-interests represented by various countries and groups.

In addition, the debate over the WTO is often distorted by exaggeration and, sometimes, by pure noise and empty diplomatic gestures. It has become increasingly difficult to distinguish genuine trade issues from propaganda and purely ideological stances. This book attempts to uncover and analyze some of the real issues pertinent to African countries.

Introduction

African countries have an ambivalent relationship with the WTO, of which they are a part. They understand the benefits of trade and the need for international agreements that guide and enforce trade rules. They appreciate the economies of scale of negotiating these agreements at the multilateral level. In addition, they are keenly aware of the financial and technical assistance and preferential treatment they receive as a result of the WTO initiatives.

Despite these benefits, however, some elements of the WTO make African countries guarded or even resentful. Pressure, political maneuvering, and, at times, paternalism on the part of developed countries toward African countries seem to be salient features of the WTO. When the WTO was established, many African countries signed agreements without fully understanding them or their long-term potential impact. Of course, those agreements were softened by exceptions, extensions, and assistance for developing countries. Another source of skepticism has been the (perceived) small size of assistance and the unpredictable disbursement of the promised assistance. African countries are also concerned that the WTO coverage is increasingly having a more direct and broader impact on trade policies in Africa, thus reducing their domestic policy space.

A SHORT HISTORY OF GATT AND THE WTO[1]

At the end of the Second World War, nations made efforts to establish international institutions that would address political and economic issues in the world. The United Nations was founded in 1945 to promote peace and international cooperation. The International Bank for Reconstruction and Development (the World Bank) and the International Monetary Fund (IMF) were also established in 1945 to provide long-term and short-term loans, respectively.

[1] The discussion for this section is drawn from Mshomba (2000).

GATT was established in 1947 (and became operational in 1948) with the mission to liberalize world trade.

GATT was formed from parts of the International Trade Organization (ITO), a proposed specialized agency of the United Nations. It was established with minimal institutional arrangements to expedite its approval because it was supposed to be temporary. Its functions were ultimately to be assumed by the ITO. However, the ITO never came into existence because the U.S. Congress refused to ratify it, claiming it would undermine its national sovereignty in trade policy. Opposition in the United States was so strong that President Truman did not even bother to send the proposal to the Congress.

Twenty-three countries signed the original treaty establishing GATT in 1947.[2] In addition, participation in GATT was extended to colonies of GATT members, under Article XXVI:5 of GATT. GATT contracting countries applied this provision to all their colonies in Africa, with one exception. France did not apply this provision to sponsor Morocco to participate in GATT (Tomz et al., 2005). Thus, by extension, nearly all African countries were part of GATT from its very inception.[3] To the extent that colonialism was fundamentally an exploitative political and economic system, the extension of GATT's rights and obligations to the colonies was also seen as a means for exploitation. This history has contributed to the suspicion and skepticism with which African countries came to accept GATT and its successor, the WTO.

[2] Governments that signed to establish or join GATT were officially known as contracting countries (parties). Signatories of the WTO are known as WTO members. The twenty-three founding countries of GATT were Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, South Africa, Southern Rhodesia, Syria, United Kingdom and the United States. http://www.wto.org/english/thewto_e/minist_e/min96_e/chrono.htm

[3] South Africa and Southern Rhodesia (Zimbabwe) were among the original contracting countries of GATT. However, these countries were under minority White rule that was notoriously repressive of Africans.

A colony to which GATT benefits and obligations were applied had three options when it achieved independence: (a) join GATT immediately as a full contracting party; (b) establish *de facto* participation status while deciding about its future domestic trade policy; or (c) simply end its participation in GATT. As of December 31, 1993, there were 114 fully contracting parties plus 19 *de facto* participants in GATT (U.S. International Trade Commission, 1994: 41).

While GATT was technically only a provisional treaty throughout its 48 years of existence, over time it actually amounted to an increasing number of complex agreements, administered and enforced by its operating body. These agreements were designed to reduce barriers to trade. There were eight rounds of multilateral trade negotiations under GATT, including the Uruguay Round (1986–1993), from which the WTO was born. The first seven rounds of negotiations were held as follows: (1) in Geneva in 1947; (2) in Annecy, France, in 1949; (3) in Torquay, England, in 1950–1951; and (4) through (7) in Geneva, in 1955–1956, 1961–1962 (the Dillon Round), 1964–1967 (the Kennedy Round), and 1973–1979 (the Tokyo Round), respectively (Raj, 1990). Each round of negotiations sought and accomplished, to varying degrees, a reduction of trade barriers among members.

It is estimated that the first six rounds of negotiations reduced average tariffs in developed countries from about 40 percent to about 8 percent (Laird and Yeats, 1990). The seventh round, the Tokyo Round, was relatively farther reaching in scope. In addition to reducing tariffs, it also reduced non-tariff barriers. These included government procurement requirements, restrictive licensing procedures, and health and safety standards which created unnecessary obstacles to international trade. This achievement was important because as average tariff rates in industrial nations decreased, the propensity to use non-tariff barriers increased. Under the Tokyo Round, industrial countries also reduced their tariffs by a weighted average of 36 percent over a period of 8 years, bringing their average tariff to about 5 percent.

Like the rounds preceding it, however, the Tokyo Round of negotiations failed to integrate textiles and apparel and agriculture into GATT. Inclusion of these areas was not to come until the last round of multilateral trade negotiations under GATT, the Uruguay Round. The Uruguay Round was launched in 1986 and concluded on December 15, 1993. A new international organization, the WTO, was established through the Uruguay Round to replace GATT.

The WTO went into effect on January 1, 1995. The WTO facilitates the implementation, administration, and operation of agreements. It also brings all rules and agreements reached under GATT into a single body of operation. Under the WTO, member countries subscribe to all of its rules and agreements. This is an important departure from the old system under GATT, whereby members could pick and choose the agreements to which they wanted to subscribe. "Whereas, in the past, countries could take an *à la carte* approach to the agreements, membership of the WTO implied membership of all its multilateral agreements" (Raby, 1994: 13). Actually, four plurilateral agreements remained when the WTO came into existence – the Agreement on Government Procurement, the Agreement on Trade in Civil Aircraft, the International Dairy Agreement, and the International Bovine Meat Agreement. The last two were terminated in 1997, because matters relating to those areas could be dealt with by the Agreements on Agriculture and on Sanitary and Phytosanitary.[4] Nonetheless, countries were under pressure to sign all other agreements. This pressure was felt more acutely by developing countries because the WTO agreements included

4 Unlike a multilateral agreement which is binding on the entire membership of GATT/WTO, a plurilateral agreement is binding only on those countries that have decided to be signatories of the agreement.

intellectual property and trade in services, areas in which developed countries have comparative advantage. Another significant change under the WTO was that the dispute settlement procedures were streamlined and unified. The procedures restrain nations from taking unilateral actions in addressing disputes, as discussed in Chapter 2.

A basic principle of the WTO and its predecessor, GATT, is non-differentiated treatment, commonly called the *most favored nation* (MFN) principle. The MFN principle means a member country must treat all other members equally in respect to trade policy. If a member country lowers the tariff rate on a commodity entering from one member country, for example, it must likewise lower the tariff rate on that commodity from all other member countries. Exceptions to the MFN rule are made for preferential tariff treatment for developing and least-developed countries, and for free trade areas and other levels of economic integration.

AFRICAN COUNTRIES' MEMBERSHIP IN THE WTO AND VARIOUS COALITIONS

As of December 2007, the WTO had 152 members, including 42 African countries. In addition, there were 31 observer governments, including nine African countries. Only two African countries – Eritrea and Somalia – had neither membership nor observer status. *De facto* participation is not an option under the WTO.

African countries in the WTO have formed a coalition called the African Group. Many of them also belong to several other coalitions, including the African, Caribbean, and Pacific Countries (ACP) Group, the Least-Developed Countries (LDC) Group, the G77, and the G33 (the latter two are discussed below), as shown in Tables 1.1 and 1.2. The African Group, the ACP Group, and the LDC Group also coordinate under an umbrella group called the G90.

TABLE 1.1 African Countries' Membership in the WTO, ACP Group, LDC Group, and G33: December 2007

Country	WTO Member (x) Observer (o)	ACP	LDC	G33
Algeria	o			
Angola	x	x	x	
Benin	x	x	x	x
Botswana	x	x		x
Burkina Faso	x	x	x	
Burundi	x	x	x	
Cameroon	x	x		
Cape Verde	x	x	x	
Central African Republic	x	x	x	
Chad	x	x	x	
Comoros	o	x	x	
Congo, Dem. Rep. of	x	x	x	x
Congo, Rep. of	x	x		
Côte d'Ivoire	x	x		x
Djibouti	x	x	x	
Egypt	x			
Equatorial Guinea	o	x	x	
Eritrea		x	x	
Ethiopia	o	x	x	
Gabon	x	x		
Gambia	x	x	x	
Ghana	x	x		
Guinea	x	x	x	
Guinea-Bissau	x	x	x	
Kenya	x	x		x
Lesotho	x	x	x	
Liberia	o	x	x	
Libya	o			
Madagascar	x	x	x	x
Malawi	x	x	x	
Mali	x	x	x	