

Dialogue on Globalization

CONFERENCE REPORT

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Reconciling Trade and Development in Southern Africa: Challenges for Trade Unions

FES/NALEDI Training Course on „Trade and Development" for Trade Unionists of SADC Countries

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Background: World trade is regulated by international trade agreements on multilateral, regional and bilateral levels. These legally binding and enforceable agreements go beyond mere trade regulations and have repercussions on various "non-trade" areas, such as environment, employment or human rights. Although these linkages are crucial to understand, they are difficult to analyze and anticipate. While trade agreements restrict per definition the available policy space, they need to provide for adequate flexibilities to not jeopardize the development prospects of developing countries.

The current negotiations on two sets of international trade agreements are crucial for the future economic development of sub-Saharan Africa, i.e. the Doha "Development" Round under the framework of the World Trade Organization (WTO) and the Economic Partnership Agreements (EPAs) between the European Union (EU) and the group of African, Caribbean and Pacific (ACP) states. Both negotiation rounds are taking place in parallel, depend on each other and pose huge challenges for the involved developing countries given their constraints in time, human resources and technical capacity.

The participation of civil society in trade policy formulation has been fairly limited. While a country's negotiation position is often dominated by business interests, serious consultations between the government and other stakeholders, such as non-governmental organizations (NGOs) or trade unions are rarely taking place. However, civil society views are important to assess comprehensively the impacts of trade agreements on the broader development strategies of the respective countries. Moreover, the bargaining power of governments is likely to increase if their positions are also supported by civil society groups.

Trade unions from various countries of the Southern African Development Community (SADC) often have an inadequate capacity and understanding of technical trade issues, which limits their possibilities to engage effectively in consultations. It was against this background that the training course on "Trade and Development" for trade unionists of SADC countries originated. It was jointly organized by the Geneva and South Africa Office of the Friedrich-Ebert-Stiftung (FES) in collaboration with the National Labour & Economic Development Institute (NALEDI).* The objectives were the following ones:

- to broaden the understanding of the linkages between trade, trade agreements and development;
- to explain how international trade agreements constrain the use of specific trade policy measures and where they provide for flexibilities;
- to discuss the arising development challenges for the agricultural, industrial and services sector; and
- to facilitate the exchange of views and experiences of trade unionists in the SADC region.

The training course was attended by 35 participants from 13 SADC countries, who worked as researchers, education officers or in a leadership position in their respective trade unions and trade union centres.

**The program and list of participants are available at www.fes-geneva.org*

1. How are trade and development linked?

There is a broad consensus that the overarching objective of every development strategy should be poverty reduction. While sustained economic growth is an important precondition, its "quality" determines the real development impact. Sub-Saharan Africa for instance experienced average growth rates of its gross domestic product (GDP) of almost 5 per cent annually since 2001. Nonetheless, it is the only region that is expected to fall short in fulfilling the first Millennium Development Goal, i.e. to half the proportion of people who live on less than 1 US dollar a day by 2015. The main reason is the persisting "job-less growth" dilemma, i.e. the inadequacy to provide a significant higher number of people with decent and productive employment opportunities, which is a key element of "pro-poor growth". The growth rates mainly result from the capital-intensive extraction and export of raw materials and primary commodities reinforced by their currently high world market prices.

Moreover, economic growth is only one element of the concept of "sustainable development", which comprises at least four other dimensions, i.e. the political, social, ecological and cultural one. Only if these different elements can be reconciled and form a "virtuous circle" a successful development path will be possible in the long term. The underlying principle should be "human development" in the sense of empowering people to improve their abilities and take advantage of economic opportunities. In his book "Development as Freedom" Nobel Laureate Amartya Sen described "the removal of major sources of unfreedom" as the precondition for development. A key determinant for success is a country's ownership, built on a joint vision, coherent strategy and common values that are shared by the majority of the society.

International trade can be an important driver of economic growth in particular for countries that are characterized by small domestic markets and a low level of domestic demand. Thus, there is an emerging consensus that trade liberalization is necessary, but has to be undertaken cautiously given the mixed results of past experiences.[1] In order to use trade successfully as an instrument for economic development and poverty reduction, each country has to find its own golden middle way between the extremes of premature trade liberalization on the one hand and long-term protection on the other. A "one-size-fits-all approach" is condemned to fail since trade policy has to fit smoothly (i.e. to be "mainstreamed") into the overall development strategy of a country. Sub-Saharan African countries need to explore their own development paths, taking into account their country-specific conditions as well as the challenges and opportunities of economic globalization. However, it is clear that they have to move out of their traditional position as provider of raw material, integrate into regional (and global) production networks with higher value-added goods and find their place as "latecomers" in the world economy.

While world trade has grown dynamically since 2002 by around 6 per cent yearly, Africa's share in world trade has dropped consistently from around 6 per cent in 1980 to less than 3 per cent in 2005. This low integration or rather marginalization of the region has internal reasons, such as supply-side constraints, low competitiveness of its products and infrastructural bottlenecks. However, the external constraints are the unbalanced rules of the multilateral trading system, which are still biased against the main export products of the African region.

In 2006, WTO´s Director-General Pascal Lamy characterized the current multilateral trading system in the following way: "It is as if economic decolonization had had to wait 50 years after political decolonization". This description is especially true for sub-Saharan Africa. Five years before, the Doha "Development" Round was launched with the promise to address exactly this problem by rebalancing the multilateral trade rules in favor of developing countries. A level playing field is a precondition to allow developing countries to better integrate into the world economy and use trade as a tool for development. Given that the mercantilist negotiation logic and trade liberalization rush has dominated the talks again, it has become highly questionable if this objective can be achieved. It seems that development continues to be interpreted narrowly in the sense of "Special and Differential Treatment" (S&DT) for developing countries, such as longer implementation periods or exceptions and exemptions from WTO rules. Complementary to the Doha Agenda, the "Aid for Trade" initiative was launched in 2005 to assist developing countries to overcome their supply-side constraints. While it was criticized by civil society groups as a "carrot stick" to persuade developing countries to sign a Doha Round deal against their interests, it could have a significant impact if it is delivered efficiently and financed by additional resources of official development assistance.

Regional integration has become a complementary approach of trade liberalization. The rationale is that geographical proximity, a similar level of development and shared values foster intra-regional trade. Examples in Africa are the Southern African Development Community (SADC), the Southern African Customs Union (SACU) or the Common Market for Eastern and Southern Africa (COMESA). While the share of world trade under preferential schemes makes up for more than 45 per cent, intra-regional preferential trade in Africa still remains at low levels of around 10 per cent. The reasons are inadequate infrastructure and cumbersome customs procedures, strict rules of origin, but also similar structures of production and composition of exports. Remarkably, intra-regional trade is particularly

[1] An unprecedented success story experienced the "East Asian tigers" and recently China, which pursued heterodox trade and industrial policies, characterized by a strong "developmental state"; a proactive industrial policy combined with export promotion; and sequenced and strategic trade liberalization. In contrast, most Latin American and African countries that adhered rigidly to the orthodox policy prescriptions of the "Washington Consensus", which included unilateral, rushed and radical opening up to trade and financial markets, were confronted with mainly negative results.

important for land-locked countries and significantly higher in SACU due to the role of South Africa. However, for most African countries, trade relations with the EU, United States (US) and increasingly China and other Asian countries are still more important than intra-regional trade.

Thus, the negotiations on the Economic Partnership Agreements (EPAs) are most relevant for many African countries and have caused massive public protests recently. The talks began in 2002 to bring the non-reciprocal trade preferences that the EU grants its former colonies (ACP countries) under the Cotonou Agreement into compliance with WTO rules. The waiver, which has allowed these unilateral preferences hitherto, will expire in December 2007. The approach of the EU to pursue separate negotiations with six regional groups was accused of undermining regional integration rather than facilitating it. Moreover, the EU was criticized of sidelining the "development dimension" and not taking into account the capacity constraints of ACP countries adequately. The EU has been pushing towards "comprehensive EPAs", which include more issues than under the Doha Round, such as investment and government procurement, and require deeper commitments, such as the commitments in services. It is unrealistic that the EPAs with the four different African groupings will be concluded until the end of 2007 and speculations around the future and alternatives are flourishing. The 48 ACP countries that are Least Developed Countries (LDCs) will be eligible for EU´s "Everything But Arms" (EBA) initiative, which grants duty- and quota-free access to the EU market for almost all products. In contrast, the 31 non-LDC countries, including Kenya, Namibia and Swaziland, would be confronted with the less favorable tariffs that the EU grants all developing countries under its Generalized System of Preferences (GSP). The most realistic option will be to conclude an interim agreement on goods only by the end of the year and to continue the negotiations on the other issues afterwards. This would be in accordance with the WTO waiver, but would imply for the respective developing countries to open up their markets gradually on reciprocal terms to the much more competitive and often highly subsidized products of the EU. It was raised the concern that this might lead to high adjustment costs in the form of tariff revenue losses, increasing unemployment and even deindustrialization.

Trade and employment

Trade has a direct impact on the quantity and quality of employment. The interactions between trade, labour and social policies have been analyzed and acknowledged in the jointly conducted ILO/WTO study on trade and employment.[2] Trade liberalization leads to a restructuring of economic activity and thereby creates and destroys jobs at the same time. Remarkably, this employment reshuffling takes place across but also within sectors, which means that potentially all jobs are at risk. This makes it more difficult for policy-makers to deal with the arising challenges, which include facilitating the transition process between jobs by adequate labour market policies, implementing redistribution policies in the form of income or consumption taxes and providing for adequate social safety nets. The practical difficulty was illustrated by the example of Mauritius, where thousands of sugar farmers lost their jobs without the perspective of alternative employment. This underlined the importance of the right sequencing of trade liberalization. If countries have a large share of its working population in the agricultural sector and liberalize before having created alternative jobs in the manufacturing or services sector, severe employment problems will emerge. In the long term, workers will have to be much more flexible, which makes the improvement of the education system crucial. It will be more important to know how to learn than to know a specific issue ("lifelong learning").

Trade and human rights

Trade agreements have repercussions on human rights, such as the right to food, the right to health or the right to employment. Although the regimes of international trade and human rights have evolved in isolation, lawyers assure that there is no normative tension between them.[3] The challenge is rather to interpret existing regulations in a broad and coherent manner and to avoid contradictions in future agreements. A promising example that illustrates how WTO law can explicitly facilitate the fulfillment of human rights is the compatibility of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) with the right to protect public health. The TRIPS Agreement allows countries in situations of national emergency to override pharmaceutical patent rights and to au-

[2] See ILO/WTO: Trade and employment: Challenges for policy research, Geneva 2007.

[3] See Robert Howse/Ruti G. Teitel: Beyond the Divide, FES Occasional Paper N° 30, Geneva 2007.

thorize the production of generic medicines under certain conditions ("compulsory licensing"). Emerging countries with manufacturing capacity, such as Brazil, India and Thailand could already make use of these flexibilities and provide many of their HIV/AIDS patients with affordable medicines. Given that poor developing countries lack production capacity, they were allowed by a WTO waiver, which was approved on 30 August 2003, to even import generic copies of patented drugs under certain conditions. Although the use of these flexibilities is WTO conform, the US in particular has pushed countries hard not to use them and pleased its strong pharmaceutical industry by including stricter regulations ("TRIPS Plus") in its bilateral trade agreements.

Trade and investment

Many African countries cannot use market access opportunities due to supply-side constraints, such as insufficient production capacity, inadequate export infrastructure as well as low levels of productivity and international competitiveness. While much more investment would be necessary to overcome these bottlenecks, most sub-Saharan African countries face a severe shortage in domestic financial resources. This gap has been partly bridged by the inflow of Foreign Direct Investment (FDI) to Africa, which has increased significantly in recent years. However, it also triggered a controversial discussion on the role of FDI for economic development. China for instance became one of the largest foreign investors in Africa, but most of its investment was directed towards capital-intensive extractive industries with few linkages to the domestic economy and no significant effects on employment creation or poverty reduction. Instead, it was raised the fear that China could simply take over the role that Europe played before in the search and exploitation of cheap raw material. FDI flows are highly volatile and the expected technological spillovers have rarely taken place. Nevertheless, to attract more FDI, governments even sign Bilateral Investment Agreements (BITs) that undermine national sovereignty much more than most trade agreements. Many BITs give foreign investors the right to challenge domestic policies of the host state at international courts. South Africa for example already faced a claim against its Black Economic Empowerment Act by a foreign investor. [4] Despite their importance, the proliferation of BITs has mainly taken place without much public awareness. Given that foreign investment could play a much more significant role in the economic development of countries, governments should try to regulate FDI in a stricter way to reap these benefits, engage in Public Private Partnerships (PPP) or find other flexible forms of cooperation. Moreover, the potential of local and regional investment should be better explored and actively supported. The Pan African Infrastructure Development Fund was mentioned as one example. WTO´s Aid for Trade initiative could also play an important role in the future.

2. Why is trade an issue for trade unionists?

Trade unions are typically concerned about employment, the quality of jobs, wages and working conditions, such as working hours, safety at work etc. While these factors were considered as national policy issues, international trade flows also influence these variables in various ways. Products that are imported and sold at lower prices at the market than the locally produced are good for the consumers but put at risk the local production at the same time. While export industries can create new jobs, the quality of these jobs varies greatly and the expected triggering effect by building up local production networks has often not occurred.

Trade liberalization increases the openness of an economy and thereby its degree of competition. This poses more pressure on workers and can aggravate working conditions in the form of lower wages, trade union repression, longer working hours or unsafe working places. Trade agreements clearly influence these conditions and are legally binding. They are often dominated by a business-driven agenda and narrowly focus on improved market access. This makes it necessary for trade unions to influence the content in the short term and fight for a different, development-friendly approach, based on a human development agenda in the longer term. Furthermore, it was criticized that trade liberalization has often happened at too fast speed, with a too broad coverage and without addressing properly the costs involved.

Many African countries have not very diversified economies and export structures, which makes them vulnerable and dependent on a few markets and world commodity prices. Tariff reduc-

[4] See Luke Eric Peterson: South Africa's Bilateral Investment Treaties. Implications for Development and Human Rights, FES Occasional Paper N° 26, Geneva 2006.

tions often lead to tariff revenue losses, which hardly can be compensated by a reformed tax system. However, the national budgets of many African countries are largely composed of tariff revenues and directed towards expenditures in social sectors, such as health and education.

The WTO controls and observes the commitments of its member states, which can be enforced by law and are extremely difficult to change again.[5] It builds on the principals of "Most-Favoured-Nation" (MFN) and "National Treatment". WTO law also provides for safeguards in the form of anti-dumping and countervailing measures. In the case of non-compliance with WTO rules, members can refer to the dispute settlement mechanism, which works in theory but recently faced problems in the final enforcement of its decisions.

The proposals under the current Doha Round include trade liberalization commitments in the areas of agriculture and Non-Agricultural Market Access (NAMA) that might lead to severe negative impacts on employment and industrial development. Non-tariff barriers constitute another problem in these areas. In contrast, the liberalization process of services under WTO is not that harmful since countries can influence the degree of opening up much more. In the context of probable tariff revenue losses, the EPA negotiations are posing a much greater challenge. Many proposed tariff reduction commitments are more ambitious than in the Doha Round and might jeopardize future industrial development, which is typically a long-term process.

Bilateral trade agreements usually include stronger commitments than multilateral ones, such as in the case of the TRIPS Agreement, and more areas, such as investment, competition policy and government procurement. These should be carefully dealt with. Trade unions claim that decent work principles, i.e. labour standards, social protection, productive employment and social dialogue should be included in such trade agreements.

The ILO/WTO study on trade and employment analyzes the theory and empirical results of the impact of trade policies on different aspects of employment, such as the level and structure, wages and wage differentials, incomes, labour market institutions etc. Remarkable findings from a trade union perspective are the following ones: Although the average income is likely to grow, this does not imply that every worker's wage will rise. In fact, trade is expected to lead to increasing wage inequality in many countries. Trade in general augments competition and trade openness increases the labour demand elasticity, which both reduces workers' bargaining power. Workers are threatened that production will be shifted to other locations or countries, where workers are less unionized and have more modest demands on wages. In an open economy, the power of governments to regulate is weaker. The adjustment costs of trade liberalization are dealt with differently: While industrialized countries have social protection systems and trade adjustment schemes combined with active labour market policies, many low and middle income countries lack these instruments at all or they are working inefficiently. The relationship between trade and the informal economy was not much highlighted in the study due to a lack of data. However, in many African countries the informal economy makes up a large part of the economy.

The challenge for trade unions is to build up technical knowledge, learn to speak the language of trade negotiators and to identify sensitive sectors and products in terms of employment and development. Two strategies might be suitable to follow: In the short term, it is important to "limit the damage" in the sense of influencing the negotiations of current trade agreements to reduce their possible negative effects. In the long term, trade unions should "fight for a change" of the logic behind these agreements. Since there is a lack of impact studies that analyze the effect of trade on the quality of employment, trade unions need to voice their views on these agreements to make sure that they do not contain too many restrictions and ensure the right protections. It was mentioned that especially in the case of the EPAs, not many trade unionists took up this issue yet. Although the Cotonou Agreement requires the consultation with civil society, this has not happened in a substantial way. Thus, the "Stop EPA" campaign became the main platform for many civil society groups to articulate their views on these agreements.

[5] When a country decides to change its WTO commitments, it has to negotiate with all WTO member countries that are affected and must compensate them for trade losses. Thus, countries that need to change commitments are likely to be worse off than before.

3. Agricultural development

The agricultural sector is at the heart of most sub-Saharan African economies in terms of its share in employment (often more than 60 per cent), its contribution to GDP (around 20 per cent) and to a lesser extent its share in exports (around 13 per cent). Moreover, agriculture plays a major role in guaranteeing food and livelihood security and to foster rural development. Many African countries depend on a few agricultural export crops, such as sugar, cotton, bananas or coffee beans, which are characterized by highly volatile world market prices. Furthermore, this vulnerability is reinforced by the fact that many countries depend on only a few export markets, where they are still granted non-reciprocal preferences, such as in the EU and US.

Despite its importance for sustainable development of many African countries, the agricultural sector faces huge problems in terms of low levels of productivity, inadequate or lacking infrastructure (transportation, telecommunication, finances, water, energy and irrigation), mismanaged land reforms and a high vulnerability to diseases and natural disasters. Moreover, most governments in the region spend only around 5 per cent of the national budget for farming support. The employment situation is characterized by generally poor working conditions and a high share of informal employment, subsistence farmers and casual workers, who are usually not members of a trade union. Concerning the export possibilities, a key challenge is to fulfill the standards and norms that are required by many developed countries. The minimum requirements are specified in the WTO Agreements on Application of Sanitary and Phytosanitary Measures (SPS) and on Technical Barriers to Trade (TBT). A lot of investment is needed to modernize production processes and to establish reliable testing institutes. While this is an internal reason for the lack of international competitiveness, the fundamental distortions of the world agricultural markets are the external factor. Rich trading blocks, such as the US and EU spend huge amounts of domestic support and export subsidies, which artificially lowers agricultural world market prices. This makes it very difficult for developing countries to compete, which was illustrated by the prominent example of the cotton-producing countries. At the same time, developed countries still protect their agricultural markets by high tariffs and tariff escalation, hindering developing countries to make use of their comparative advantages and to start exporting higher value-added products. These factors explain why the agricultural sector is an extremely political and highly sensitive area in trade negotiations.

The first multilateral agreement dealing explicitly with agriculture was agreed upon at the end of the WTO Uruguay Round in 1994, i.e. the Agreement on Agriculture. It regulates the areas of market access, domestic support and export subsidies. Although it tries to constrain the use of trade-distorting practices, it contains a lot of loopholes that have been used extensively by rich countries. Since the Doha Round was launched to correct global trade imbalances, agriculture is at the centre of the negotiations – and also their main stumbling block. While the US is reluctant to significantly reduce its maximum level of allowed domestic support, the EU is opposed to high tariff reduction commitments. At the WTO Hong Ministerial in 2005, it was already agreed to phase out export subsidies by 2013 and to guarantee LDCs duty- and quota-free market access for 97 per cent of their products to developed countries. Developing countries are trying to secure flexibilities to protect their agricultural markets against unfair competition. The proposals include the instrument of "special products", which would allow developing countries to shield a certain number of products from the full force of the general tariff reduction commitments. While the selection criteria are still being a contentious issue, African countries should already analyze which agricultural products contribute highly to their GDP, employment and export revenues. Moreover, the characteristics of a "special safeguard mechanism" are being discussed, which would permit developing countries to secure their markets temporarily against import surges that jeopardize food security and livelihood security or rural development.

The EU remains the main trading partner for most African countries and its agricultural policy influences African economies in especially three ways[6]: First, trade liberalization at the multilateral level brings down overall tariffs, which leads to a shrinking margin of the difference between these MFN tariffs and the preferential tariffs for ACP countries ("preference erosion"). Second, the internal reform of EU´s Common Agricultural Policy (CAP) is ongoing since the mid 1990s and affects directly African countries' exports. It foresees to lower intervention prices to gradually

[6] See ECDPM, InBrief N° 13C, April 2007.

close the gap between the higher EU internal prices and world market prices, and to compensate the farmers by decoupled aid, independent from price levels and quantities produced. This increases the competitiveness of EU products and allows the EU to lower tariffs and reduce export subsidies. Third, the reform of the Sugar Protocol, which guarantees African exporters not only quota-based access to the EU market but also the internal price level, which is higher than the world market level. Given that the European internal sugar price is planned to be reduced by 36 per cent, this will affect export revenues of ACP countries negatively. Countries, such as Zimbabwe, Swaziland or Mauritius, which highly depend on sugar exports, will face severe adjustment costs and local production might be at risk. This effect is intensified by the expected reduction of world market prices and increased competition due to regional trade liberalization. In this regard, it was mentioned that Africa's largest food retailer Shoprite from South Africa already dominates the regional markets and offers products at much lower prices than the ones that are produced locally. This has destroyed local markets and various local producers gave up their production that was no longer profitable.

Sub-Saharan African countries face various challenges in the agricultural sector in order to make it a tool for development. The following issues were mentioned: First, in the negotiations under the Doha Round and on EPAs, African countries should call for improved market access for their major export products, which includes an end to tariff escalation and high tariffs in developed countries as well as transparent, predictable and less restrictive rules of origin. They should call for a substantial reduction or abolition of domestic support and export subsidies by developed countries, before committing themselves to opening up their own markets. They should insist on being allowed to shield their "special products" from trade liberalization and to apply the "special safeguard mechanism". Moreover, they should also be granted adequate development assistance to deal with the expected adjustment costs, to increase their production capacities and to comply with product standards.

Second, most countries must improve the quality of their exports to meet the high product standards in developed countries. Moreover, they need to increase their competitiveness in order to cope with the challenge of increased import competition from regional and global exporters. In this context, it is required that local markets are improved; tailor-made credits to farmers are provided; a set of harmonized standards at regional level is established; and new forms of production are found, which could include the use of "old seeds" with less dependence on fertilizers or the cultivation of organic products. Another challenge is how to reconcile the asymmetries between commercial agriculture, which is often the heart of the economy, and subsistence farming at its periphery.

Third, an enabling environment must be created, characterized by macroeconomic stability, better infrastructure and an improved human capital base. Given the importance of agriculture, intersectoral linkages with the industrial and services sector should be fostered, since the provision of effective services is crucial and the development of agro-based industries contains great potential to provide for more and better paid jobs.

Fourth, the agricultural sector faces a specific employment challenge, since the farm workers are usually the most vulnerable ones. The question was raised what elements "decent work" would comprise for farm workers in subsistence agriculture. It was also cautioned that increased competition must not result in precarious working conditions.

4. Industrial development

According to most economic theories, industrial development is the key driver for economic development, because it is considered as the solution to overcome the commodity dependence. By investing in higher value-added manufacturing, and restructuring and diversifying production in favour of dynamic activities, new and better paid jobs are created for semi-skilled workers. However, it has been debated controversially whether this process should be driven mainly by the private sector or a strong "developmental state". Here again, each country has to find the right balance between the power of market forces and private initiative on the one hand and the obligation of governments to provide for an enabling framework and to intervene in favour of the public interest on the other.

Many African countries have pursued industrial policies with the objective of structural transformation away from primary commodity dependency towards building up a basic manufacturing sector. Despite the abundance of natural resources and some promising attempts, only few sub-Saharan African countries have achieved to establish a meaningful industrial sector. This was partly due to premature unilateral trade liberalization, which was required as a conditionality of IMF/World Bank structural adjustment programs. This process often lacked ownership and was not a strategic market opening in terms of reflecting the increasing competitiveness of the industry. Moreover, countries that could initially build up a textiles and clothing industry came under severe pressure since 2005, when the WTO Agreement on Textiles and Clothing expired and cheap imports from China, but also other Asian countries, flooded African markets. As an immediate reaction, some countries put into force safeguard measures, which, however, could only be used temporarily. Given that the pure reliance on market forces, liberalization and privatization has not delivered, the calls for a strong "developmental state" have become louder again. While in the 1960s and 1970s, the "East Asian tigers" applied successfully active industrial and export promotion policies, many of those instruments are restricted by WTO law as well as regional and bilateral agreements ("shrinked policy space"). Nevertheless, there still remains enough flexibility to pursue industrial policies that favour economic development. The constraint is rather the lacking willingness or capacity to implement them.

The WTO Agreement on Trade-Related Investment Measures (TRIMs) prohibits the use of local content requirements, trade balancing measures and other performance requirements as conditions for FDI inflows. These instruments were used to foster linkages with local producers and to promote exports. However, it is still possible for governments to find ways to trigger technology transfer and to support their ancillary industry in order to make it more competitive and attractive for foreign investors. The TRIPS Agreement seeks to protect intellectual property rights and forbids "reverse engineering" and copying. These were common instruments of many developed and developing countries in their technological catch-up process. While these practices are no longer allowed, LDCs are not required to implement the TRIPS Agreement until 2016. The Agreement on Subsidies and Countervailing Measures limits the possibilities of using export and production subsidies. However, some instruments are still feasible, such as certain tax incentives; subsidies for research and development; and support for small and medium enterprises.

The current Doha Round negotiations on Non-Agricultural Market Access (NAMA) focus on the reduction of industrial tariffs by the so-called Swiss formula, which harmonizes tariffs by cutting higher tariffs deeper than lower ones. On the one hand, this would put an end to tariff escalation and high tariffs and open new export possibilities into the markets of developed countries. On the other hand, it would constrain the possibilities for developing countries to use high tariffs to protect their industries that are still in the process of building up ("infant industry protection"). High adjustment costs are feared in the form of tariff revenue losses, unemployment and even deindustrialization. The flexibilities for developing countries are considered as too low to mitigate these negative effects. Thus, the NAMA-11 negotiating group of ten developing countries, including South Africa and Namibia, is pushing hard for lower tariff reductions and greater flexibilities for developing countries. The NAMA area has recently become the most contentious one in the Doha Round. The EPA negotiations require ACP countries to even go beyond the NAMA commitments, although longer implementation periods seem to be possible.

The example of South Africa has shown how a country changed its industrial policy from a strategy of import substitution towards the approach of reintegration into the world economy. The latter was pursued by substantial tariff liberalization, a gradual restructuring of economic activity with a focus on diversification and attempts to increase international competitiveness. Apart from the active membership in the GATT/WTO, South Africa entered in the SADC (and pushed towards the finalization of the SADC Free Trade Agreement in 2000) and SACU, concluded a bilateral trade agreement with the EU and is negotiating with other key trading partners, such as India, China and Nigeria. The main purpose is to secure market access for the country's exports of intermediate manufacturing products and services. The current industrial policy aims at diversifying the economy away from the traditional reliance on minerals and mineral-processing activities towards engaging in higher value production; establishing technological leadership in selected technologies; applying sector-specific strategies; and promoting labour-intensive manufacturing and broad-based industrial growth, which includes historically disadvantaged groups and marginalized regions. However, it has been recognized that it will be difficult to compete with China or India in labour-intensive industries, given that products of these countries are comparable in quality and can even jump tariff walls. Since this poses great challenges to the local production, the future for South African industrial products was seen in the upper niche market.

The example of Mozambique has illustrated the challenges of a country that had to start from the very beginning after the end of a long and devastating war that besides social suffering had distorted all economic activity. The government pursued the "Programme of Economic Recovery", which focused on agricultural development, the reconstruction of an industrial base with an initial focus on the textiles and footwear sector, and included the privatization of state-owned enterprises. While the economy recovered due to both the agricultural and industrial sector development, the economic growth did not translate into the benefits of the majority of the population. Currently, the competition with regional and Chinese products poses huge challenges for the local industrial production, which is characterized by comparatively low quality and the need for modernization and restructuring.

Given its importance for economic development, the establishment and upgrading of the industrial sector remains a key challenge for many African countries. The following points were raised: First, in the negotiations under the Doha Round and EPAs, developing countries should retain as much flexibility ("policy space") as possible in their tariff structure, which is necessary for countries that are still at early stages of industrialization. However, given the progressive trade liberalization at global level, countries will not be able any more to rely on tariffs as their main trade policy instrument. Thus, instead of following long-term defensive strategies they should rather pursue a policy of sequenced and strategic trade liberalization with prior impact assessments. They need to be creative and innovative and should support their world market integration by export promotion strategies to find their place as "latecomers" in the global economy.

Second, there is the challenge to overcome the commodity-dependence by restructuring and diversifying economic activity, to invest in labour-intensive and higher value-added production and to increase the export competitiveness. In this context, the transfer of foreign technologies and its adaptation to local conditions will play an important role. While the possibilities to force foreign investors to build up linkages with the local industry are limited, incentives schemes and active support for small and medium enterprises could become viable strategies.

Third, while the role of governments has been discussed controversially, there is consensus that they need to provide for the general policy framework in which the private sector operates. While most governments also apply active industrial policies, elements of a successful industrial policy should include: [7] technological spillovers and assimilation of foreign technologies; investment in physical export infrastructure; creation of inter-sectoral linkages with the services and agricultural sector; high level political support for industrial policy; information exchange and co-operation between government and businesses; transparency and accountability; incentives for the diversification of the economy and generating "competitive advantages"; and strong institutions and bureaucratic competence to purse industrial policy.

Fourth, there is still a lot of potential for regional integration and increased intra-regional trade, such as under SACU and SADC. Many African countries export manufactured goods much more to the region than to the rest of the world. Thus, a higher share of intra-regional trade could trigger the upgrading, modernizing and diversifying of industrial production, which gradually increases competitiveness. In this context, most important is to build up an efficient transportation system that serves the intra-regional needs. The current transport system is still colonial and directed towards the EU and US markets.

5. Services development

The services sector accounts for the largest share of GDP and is the fastest growing sector in many developing countries. In most SADC countries, it creates more new jobs than the agricultural or industrial sector. Services exert a multiplier effect on the rest of the economy due to their importance in the production and distribution process. Transportation, financial and telecommunication services are among the preconditions for economic growth and significantly determine a country's trade capacity. The improvement of the efficiency of services in terms of delivery and quality is key to increase the international competitiveness of products.

[7] See e.g. Dani Rodrik: Industrial Policy for the Twenty-First Century, John F. Kennedy School of Government (paper prepared for UNIDO), Cambridge, MA 2004.

In many African countries, inadequacies in key services are among the main bottlenecks for economic growth. In 1996, SADC countries signed a trade protocol that includes the objective of liberalizing services. It came into force in 2000, but the efforts since then have mainly concentrated on the coordination rather than liberalization of services in the region. The establishment and extension of regional transport corridors in all sub-sectors (air, maritime, rail and road) could facilitate trade fundamentally and become a main driver of economic growth. It was cautioned that if the regional integration process took too long, there would be the danger that it becomes irrelevant and the pressure to liberalize at inter-regional and multilateral level increases.

Governments have the responsibility to guarantee the access to affordable basic public services, such as health and education for all people and in particular for the poor, who highly depend on them. Therefore, these areas are normally excluded from liberalization commitments. However, governments often lack capacity and funds to cope with the huge challenges of HIV/AIDS or to provide the adequate education systems that are responsive to labour markets. Thus, there is the need for a comprehensive approach, which could also include the careful opening up of some targeted areas to the private sector, e.g. in the form of Public Private Partnerships (PPP). However, to guarantee that basic services can be delivered to the poor, a strong regulatory framework needs to be in place that provides for a balanced incentive system. This became obvious after the mixed results of the privatization of the water sector for instance.

The WTO General Agreement on Trade in Services (GATS) provides the multilateral framework of principles and rules for international trade in services. It differentiates between four different modes of services delivery: "Cross-border supply" (Mode 1), "consumption abroad" (Mode 2), "commercial presence" (Mode 3) and "presence of natural persons" (Mode 4). Contrary to the negotiations on agriculture and industrial goods, where tariff bindings and reductions are discussed, the talks in the services sector are about specific commitments that countries want to offer in terms of market access. The services negotiations apply the most development-friendly approach, since each country can decide in which sectors in wants to open up and to which extend ("positive list approach"). Services liberalization is closely linked to domestic regulation and national institutions. There is a broad consensus that an efficient regulation system must be in place before opening up to reap the benefits of services liberalization. At the same time, many African countries still lack efficient institutions and the necessary regulatory capacity.

The single most important sector, where many sub-Saharan African countries have offensive interests, is Mode 4, given their labour surplus. However, the GATS negotiations narrowly focus on the cross-border movement of high-qualified workers, neglecting the much greater need to also regulate market access for "unqualified" workers. Moreover, the main destinations, such as the US and EU consider this area as security issue and further hinder market access by complicated and excessive visa requirements. Thus, the EPAs are unlikely to offer more opportunities in this area. While remittances from overseas workers have become the most important capital inflows for many countries and boost local consumption, the negative impact of emigration is "brain drain". Many African countries faced the problem of leaving doctors and teachers, which pose a great challenge for the education and health system. Mechanisms should be found to reverse "brain drain" into "brain gain" and "brain circulation", which would benefit the individuals, receiving countries and sending countries. To ensure this, the right incentive schemes must be established.

While most African countries do not have much to loose in the GATS negotiations, the EPAs are much more demanding. Since preferential trade agreements have to include "substantially all trade", the EU is pushing hard to open up a variety of services in ACP countries, including investment and government procurement, i.e. issues that were excluded from the Doha Agenda after the failed WTO Cancún Ministerial in 2003. In this context concerns were raised of the negative impacts that can be expected when competitive European service suppliers will enter the African markets. While foreign providers might help to improve the delivery of certain services, it was mentioned that public services, such as health and education should be strictly excluded from liberalization commitments.

In the case of Mauritius, the establishment of call centres and the augmenting number of tourists had a positive impact on the national economy. The government provided the infrastructure of international telecommunication centres and cyber towers. Call centres work very well and create employment for semi-skilled workers. Although these jobs are often low paid, they are an opportunity for countries, which are still dominated by an agricultural-based economy, and are considered as a stepping stone for further upgrading. However, it was cautioned that the government should not sell such sectors that are working well to multinational enterprises.

The services sector exerts a multiplier effect for economic development and faces the following challenges:[8] First, countries should establish a strong regulatory framework before opening up services. They should be careful and sequence their liberalization process in a way that starts with opening up certain sectors unilaterally before committing to bind these regulations multilaterally, which can hardly be changed again. Moreover, countries need to be careful in deciding which sector they want to open up and to which extend. This needs a lot of technical capacity and foresight.

Second, the improvement of infrastructure services should be a high priority. SADC countries need to improve their transport services in all sub-sectors and explore possibilities of including the private sector. The establishment of development corridors, such as between South Africa, Botswana and Namibia or between South Africa and Mozambique is a promising approach and should be intensified and extended. While the SADC region has significant reserves of coal, petroleum and natural gas, energy services are still insufficient. This leads to high costs and unreliability, which hamper a competitive business climate. A regulatory framework is particularly important for the telecommunications sector, which is still not very much liberalized and dominated by monopoly positions. While tourism services are already generally open, the promotion of intra-regional movement of visitors has still a lot of potential to explore. In this context, South Africa plays a leading role and has both offensive and defensive interests. It is mostly a receiving country of foreign labour from the region but also sends workers abroad usually to developed countries.

Third, the involvement of the private sector can improve the efficiency of services in terms of better management and maintenance. However, a strong regulatory framework needs to be in place to prevent anti-competitive and monopolistic practices as well as to guarantee that private services are supportive for development. Increased competition in SADC countries could also have positive effects on the quality and delivery of services. From a labour perspective, however, increasing competition has often resulted in worse working conditions.

6. Strategies for trade unions on how to successfully influence trade policy

The involvement of civil society in trade policy formulation has been fairly limited, although the process and engagement varies greatly among different countries. The negotiation position of many governments is typically dominated by offensive business interests, while serious consultations with civil society have rarely taken place. Trade unions are often accused of opposing trade liberalization per se, narrowly seeking the protection of existing jobs instead of employment in general, and thereby hindering the restructuring of economies, which might be necessary for a successful long-term development strategy. Even as some of these points cannot be dismissed, governments have the obligation to distribute information adequately and provide for regular consultations with interested stakeholders to guarantee a legitimate, participatory and transparent – i.e. a democratic – process. This is particularly necessary since international trade and investment agreements increasingly include "behind the border measures", such as employment, services and human rights.

Preconditions for a meaningful participation of trade unions in trade policy formulation are the combination of analytical capacity, negotiating skills and public campaigning. One example where trade unions successfully triggered the imposition of a trade measure was South Africa. After China's WTO accession in the end of 2001, cheap Chinese products flooded the South African market. Since the end of the WTO Agreement on Textiles and Clothing on 1 January 2005, the situation aggravated. It was estimated that almost one third of the jobs in the textiles, clothing and footwear sector were lost. Trade unions (SACTWU) were alarmed and collected data on the volume of Chinese imports and their negative effects on production and employment. These data allowed the South African government to negotiate with China on the imposition of safeguard measures, such as quotas or higher

[8] See Nkululeko Khumalo: Services Trade in Southern Africa. A Literature Survey and Overview, SAIIA Trade Policy Report N° 10, Johannesburg 2006.

tariffs for a certain period. Finally, these measures came into force in January 2007 and are valid until the end of the year 2008.

In the current negotiations on the Doha Round and EPAs, the stakeholders that are opposing the talks completely, risk to become irrelevant. Once a government took the decision to start negotiations it might be better to engage constructively. During the different phases of the Doha Round, trade unions sometimes played a significant role and influenced the talks. A recent example was the area of NAMA, where trade unions supported the defensive NAMA-11 position and contributed to the successful asserting of this standing despite increasing pressures. In contrast, many African trade unions have not put the EPA negotiations on their agenda yet or taken action until lately. Given the importance of the EPAs on the future development of the concerned countries, it is necessary to engage much more actively. This is especially important for non-LDCs, such as Namibia or Swaziland, which run the risk of being faced with higher tariffs under EU's GSP system in the worst case.

Trade unions need to intensify their participation in trade policy formulation and face the following challenges: First, they should guarantee that they receive accurate, detailed and timely information on a regular basis on trade and investment issues that affect employment and development. It was mentioned that in many countries only senior officials of governments know about these areas and are reluctant to share this information. While the International Trade Union Confederation (ITUC) among others already distributes important information, this cannot replace the exchange of regional and national information. While the precondition is the existence of efficient networks, the point was also raised that sharing information is sometimes difficult for trade unions themselves. It has to be assured that information reaches the right people. Leaders need to be well informed to play proactive roles.

Second, information is only useful if it is combined with analytical capacity, which some national trade union centers already built up. This is necessary to translate general information into the country context and identify real policy implications on the national level. The next step would be to agree on common strategies and start public campaigning, which requires strong organizational capacity.

Third, trade unions should actively engage in a regular dialogue with the government and business. They should call for institutionalizing such a tripartite dialogue at national level. Transparency and mutual understanding of the respective positions is a precondition for finding compromises that serve national development. It was mentioned that trade unions face more difficulties in negotiating with employers in the private sector than in the public sector. Concerning the participation in WTO ministerial conferences, governments can decide themselves on how to equip their delegations. Some countries decided that their interests should be represented in the form of tripartite delegations, including the government, business and trade unions.

In trade negotiations, the position of a country contains both a defensive and offensive component. While the offensive element is usually business-driven, the defensive one could be supported by trade unions as well as enterprises. The challenge is to find the right balance between both positions. Trade unions have an important role to play in indicating the employment implications of international trade agreements. They should try to assure that such agreements avoid negative effects or at least provide for mechanisms to mitigate them. This would help that trade agreements facilitate rather than constrain the possibilities that trade works as a tool for achieving the broader development strategy, which should be dominated by the concept of sustainable human development.

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