

THE GLOBAL ECONOMY AND INTERNATIONAL DEVELOPMENT COOPERATION IN EMERGING COUNTRIES AND NEW MARKETS

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Several countries that in the past have been traditional beneficiaries of foreign aid and development cooperation are witnessing unprecedented processes of economic growth. The so called “African lions” or the countries of the “Emerging Africa”, India, Vietnam or Brazil are increasingly seen as attractive markets for foreign direct investments and the business community in general. Investors are competing to gain relevant positions within these markets, also as a way to compensate the crisis currently affecting traditional markets like Europe. Consequently, within these countries, new economic actors – companies, foundations, philanthro-capitalism, migrant entrepreneurs... - increasingly side or overlap with the traditional actors of international development cooperation. These processes poses relevant questions and challenges in terms of: *i*) the relationship between economic growth and social development, with particular focus on the issue of inclusiveness of the process of economic growth and accumulation; *ii*) the coherence between the initiatives of economic and development cooperation undertaken by national or local systems of cooperation; *iii*) innovation in the financing and implementing of development cooperation projects; *iv*) the relationship and the overlap between for profit and not for profit, between economic interests and international solidarity.

The papers presented during the panel addressed some of those issues. Alice Sindzingre’s analyses the factors behind the positive growth rates in Sub-Saharan African in the last ten years. Sindzingre shows how the processes of African growth mainly rely on structural imbalances, being generated by distorted export structures that are based on commodities, and therefore little sustainable in the long run. Lorenza Mola’s paper addresses the role and efficacy of trade preferences within development cooperation policies, focusing on emerging African countries, comparing the trade regime applied by the European Union with China’s policy in the region and highlighting critical points of the international trade regime that should be addressed within the debate on the post2015 global development agenda. Michele Boario and Emanuele Fantini’s paper take Ethiopia as a case study to assess the contribution of the private sector to African economic growth and the role that international cooperation should play in promoting such processes.

THE IMPACT OF EMERGING COUNTRIES ON SUB-SAHARAN AFRICAN ECONOMIES: FACTORS OF LONG-TERM GROWTH?

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ABSTRACT

Sub-Saharan African economies have exhibited positive growth rates since the mid-2000s, and the contribution of emerging countries to this growth is the matter of heated debates. The paper shows the complexity of causalities, which depend on: i) channels (trade, investment); ii) the emerging country (China having by far the strongest impact); and iii) African countries' market structures. On the one hand, this growth relies on structural imbalances: it is generated by distorted export structures that are based on commodities, and falls if international prices decline, which necessarily occurs due to the inherent volatility of prices - high prices are moreover driven by factors that may not last, i.e. the growth of emerging countries; this growth also increases the specialisation of African economies in commodities. On the other hand, emerging countries have positive impacts via their investments, notably in infrastructure, which foster industrialisation. Likewise, developed countries' aid, due to policy conditionality and its detrimental effects, induces greater asymmetries than does the aid of emerging countries.

INTRODUCTION¹

After the 'lost decades' of the 1980s and the 1990s, Sub-Saharan African economies have exhibited positive growth rates in the 2000s. This has led observers to conclude that, thanks to emerging countries – China, India, Brazil -, stagnation is now a thing of the past. The paper shows the complexity of causalities: these depend on: i) channels (trade, investment); ii) the emerging country (China having by far the strongest impact); and iii) African countries' market structures. On the one hand, this growth relies on structural asymmetries. It is generated by distorted export structures that are based on commodities. This growth falls if international prices decline, which necessarily occurs due to the inherent volatility of prices. High prices are moreover driven by the growth of emerging countries: the growth of African economies depends on factors that are external to them and will decelerate if demand in emerging countries decelerates. This growth increases the specialisation of African economies in commodities, while emerging countries consolidate their comparative advantage in manufacturing and threaten nascent African industrial sectors. As industrialisation is a key determinant of long-term growth, emerging countries may, in the long-term, erode their short-term positive impact on African economies.

On the other hand, emerging countries have positive impacts via their investments, especially in infrastructure, which foster industrialisation and the spill over effects of investments in commodity sectors. In addition, developed countries' aid, due to its conditionality on the reform of core policies and competences of African governments, and its detrimental effects, induces far greater asymmetries than does the aid of emerging countries.

The paper is structured as follows. Firstly, it underscores the structural asymmetries that characterise Sub-Saharan African export structures, i.e. their dependence on primary commodities and a growth that is driven by exports, and therefore factors that are external to African domestic policies. Secondly, it explores whether emerging countries, notably China, amplify these structural asymmetries. Likewise examined are their positive (via demand and high prices) and negative impacts (incentives to keep the specialisation in commodities), emerging countries here following patterns that were initiated by developed countries. Thirdly, it shows that foreign direct investment also has positive and negative effects and that the asymmetries it conveys are similar across emerging and developed countries. Fourthly, it argues that the strongest asymmetry may be found in the aid device and in developed countries' conditional assistance.

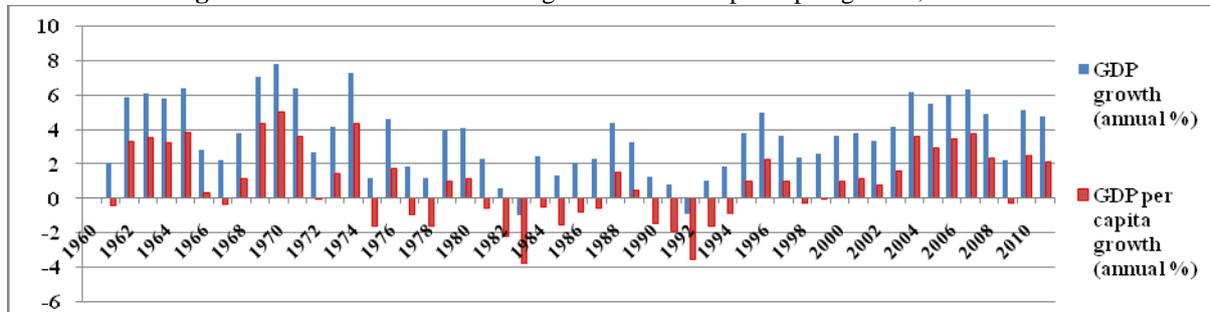
A GROWTH DRIVEN BY STRUCTURAL ASYMMETRIES: THE IMPORTANCE OF PRIMARY COMMODITIES IN EXPORTS

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An asymmetric integration in the global economy: commodity-based exports

Sub-Saharan African (SSA) economies have enjoyed high growth since the early-2000s, with output growing by 5.1% in 2012 [IMF, 2013]. Most development finance institutions thus argue that the region may be on the verge of structural transformation (fig.1).

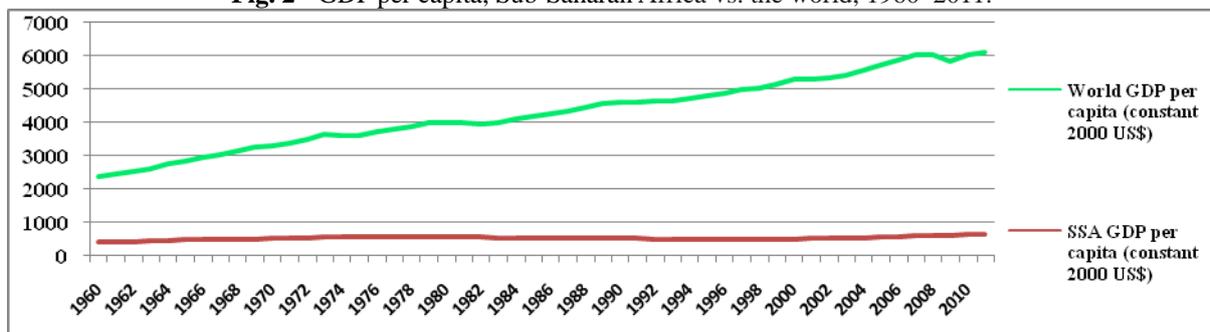
Fig. 1 - Sub-Saharan Africa: GDP growth and GDP per capita growth, 1960-2011.



Source: World Bank World Development Indicators, May 2013.

Underlying causalities and processes, however, are more complex. SSA growth performances must be put in a longer-term perspective, and the broad picture is that of a divergence vis-à-vis other regions (fig. 2).

Fig. 2 - GDP per capita, Sub-Saharan Africa vs. the world, 1960–2011.

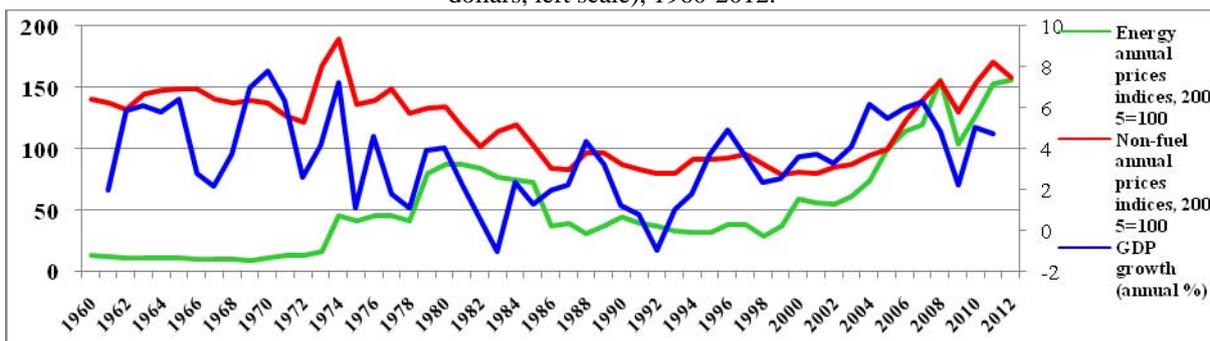


Source: World Bank World Development Indicators, May 2013.

Above all, SSA is characterised by a distorted export structure based on the dependence on primary commodities. It is this distorted structure that has been the main driver of growth in the 2000s, because of the dramatic increase in commodity prices since the early-2000s, both fuels and non-fuels prices.

Commodity dependence generates vulnerabilities because commodity prices are inherently volatile [Nissanke and Kuleshov, 2013; Sindzingre, 2012]. Price volatility has a negative impact on growth rates for countries whose exports and fiscal balances often depend only on one or two commodities, not only because prices may decline, but also because volatility *per se* is detrimental to long-term growth: commodity-dependent countries are exposed to repeated price shocks, and their domestic policies have little effect on their growth rates, which depend on the fluctuations of prices - determined by external forces -, on the growth and demand of other countries (e.g., the US, EU countries, China) and on the vagaries of the latter' domestic policies (fig.3).

Fig. 3 - Sub-Saharan Africa: growth rate (right scale) and commodity prices (annual price index, 2005=100, real 2005 dollars, left scale), 1960-2012.

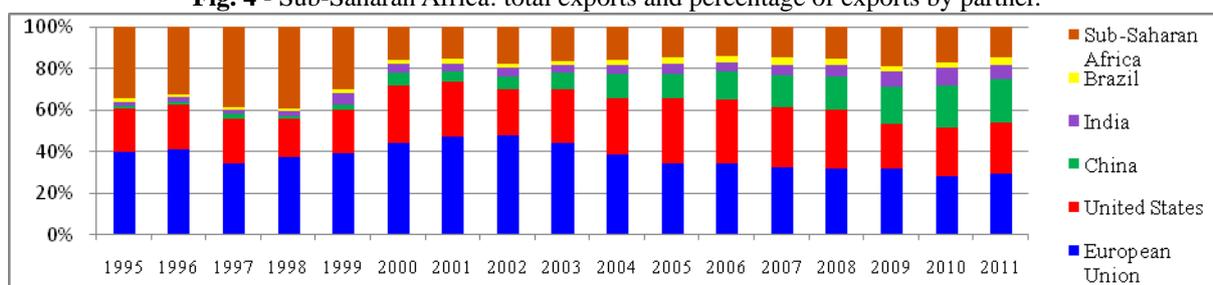


Source: World Bank Commodity Price Data and World Bank World Development Indicators, June 2013.

In addition, China’s demand has become a central driver of high prices in a significant number of commodities (Akyüz, 2012). High commodity prices represent a positive gain for SSA exporters of these commodities: an enhanced fiscal space and hence more space for investment, which is a key cause of long-term growth. China’s demand is especially strong for metals; it is the first energy consumer in the world, and its energy consumption is projected to triple by 2025 from its 2008 level [IMF, 2011a].

The sustained demand for SSA commodities by large emerging countries represents a diversification of partners, which may attenuate the asymmetry in global trade that is associated with commodity-based exports. All SSA countries export a lower share of their products to their ‘traditional’ partners (the US and the EU countries) than in 1990, and a greater share to emerging countries, in particular China (fig. 4).

Fig. 4 - Sub-Saharan Africa: total exports and percentage of exports by partner.



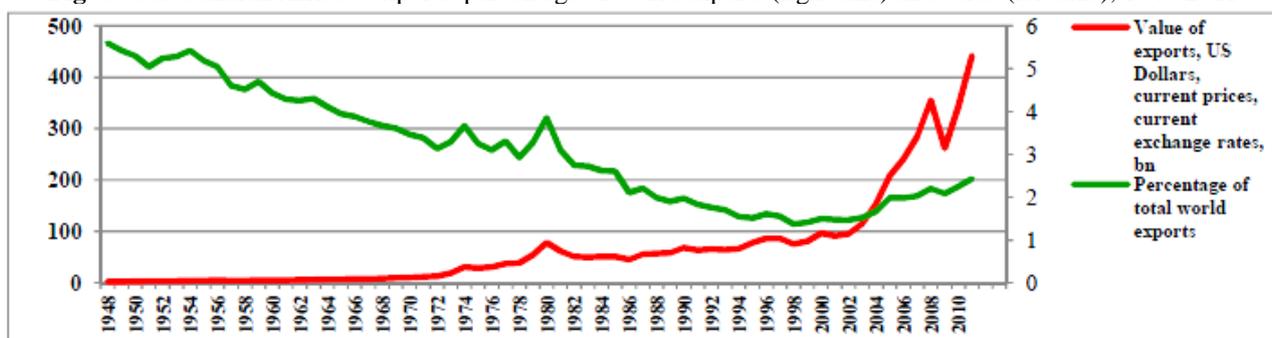
Source: <http://unctadstat.unctad.org>, author’s calculations.

The vulnerabilities induced by this distorted export structure

In 10 SSA countries, commodities exports represent more 75% of total exports [World Bank, 2012]. This distorted structure induces the dependence of fiscal revenues on commodities with volatile prices. In oil-rich countries government revenues from natural resources represented 60% of total government revenues in 2011 [World Bank, 2012]. This obviously makes fiscal earnings highly vulnerable to any external shock.

This distorted export structure also affects SSA trade over the long-term. In particular, it explains the diminution of the share of SSA in global exports, due to the increase of the trade of other countries, which trade goods with more value-added, despite the increase of SSA exports in absolute value (fig. 5).

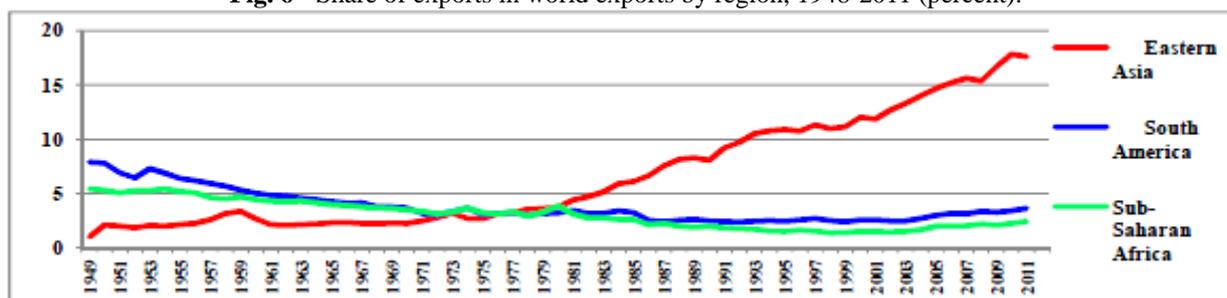
Fig. 5 - Sub-Saharan Africa’s exports: percentage of world exports (right axis) and value (left axis), 1948-2011.



Source: UNCTAD Statistics: <http://unctadstat.unctad.org>.

The long-term forces that undermine SSA external trade generate more divergence than convergence (fig. 6).

Fig. 6 - Share of exports in world exports by region, 1948-2011 (percent).



Source: UNCTAD Statistics: <http://unctadstat.unctad.org>.

STRUCTURAL ASYMMETRIES AMPLIFIED BY EMERGING COUNTRIES? POSITIVE AND NEGATIVE IMPACTS

Emerging countries have positive impacts on SSA economies via higher demand for products exported by SSA and high prices for some primary commodities that are exported by SSA, and they have negative impacts via the incentives, which their demand for commodities generates towards the strengthening of SSA countries' commodity-based structures.

Global trade's asymmetries: no 'exceptionalism' for emerging countries

Regarding trade and investment, emerging countries, including China, do not exhibit any 'exceptionalism'. Since the end of the 20th century there has been an increasing trend towards internationalisation of production – the global value chains and production networks [Baldwin, 2011]. These processes constitute the features of international trade and affect all countries - be they developed, emerging and developing.

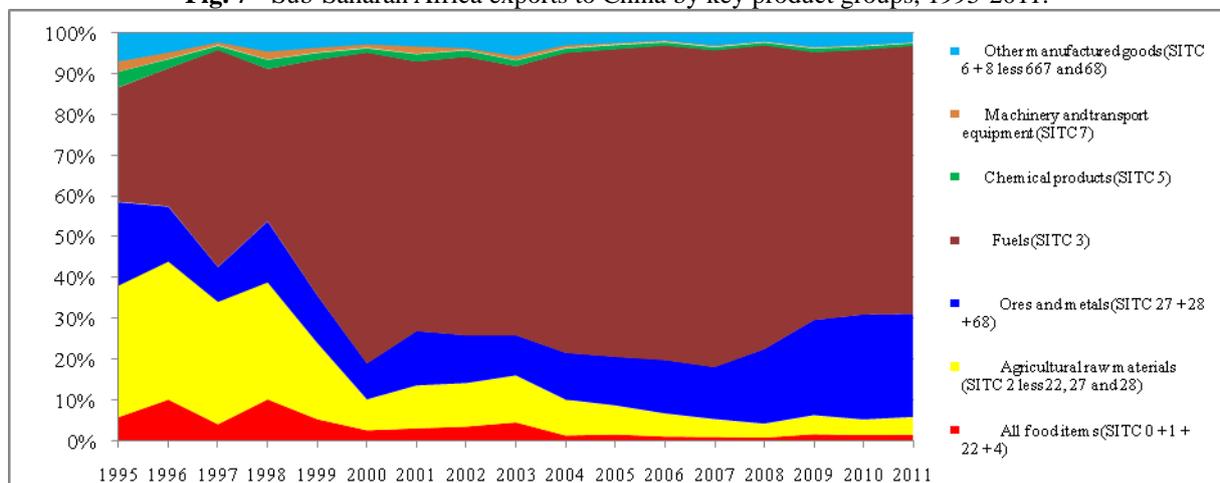
Equally, SSA structural asymmetries are generated by causes that characterise all its partner countries: SSA is dependent on forces that are external to its domestic policies, notably international commodities prices, and on external shocks, i.e. on prices, or on the growth of countries which trade and invest in SSA. Moreover, in a globalised world where all countries are put in competition for attracting investors, the asymmetries created by the obligation to devise attractive trade and investment policies affect all developing countries vis-à-vis all countries, developed and emerging ones.

In addition, if since the early-2000s, due to their spectacular growth and the stagnation of euro zone countries, emerging countries have been driving SSA trade, too much may be assigned them. China's growth may decelerate, which may have important impacts on the growth and exports of SSA and on the demand that China will have towards SSA products as inputs to its own growth –the growth of India and Brazil may also decelerate in the 2010s.

China trade relationships with Sub-Saharan Africa

SSA economies have diversified their trade and investment linkages in the direction of emerging countries, which reduces their vulnerability. SSA exports to emerging countries, however, are characterised by spectacular asymmetries: SSA exports mostly commodities, in particular fuels (fig.7).

Fig. 7 - Sub-Saharan Africa exports to China by key product groups, 1995-2011.

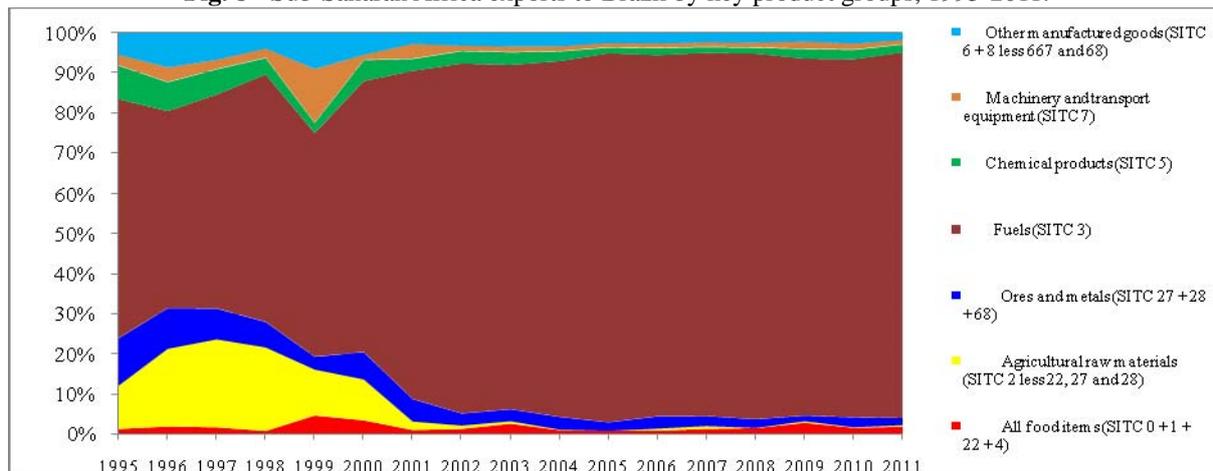


Source: UNCTAD Statistics: <http://unctadstat.unctad.org>; author's calculations.

China's exports to SSA are very different from its exports to developed countries, which is the second dimension of the asymmetry of trade between SSA and China. China exports low-end manufactured products, which threaten SSA manufacturing sectors and strengthen the specialisation in the export of commodities [Kaplinsky and Morris, 2008]. If China's growth rates continue, however, its demand for SSA products may be also directed towards low-end manufactured products no longer made in China due to increasing local factor costs, which may be a first step towards industrialisation, diversification and therefore long-term growth.

Other emerging countries exhibit even deeper asymmetries: SSA exports to Brazil are almost only made of fuels (fig. 8).

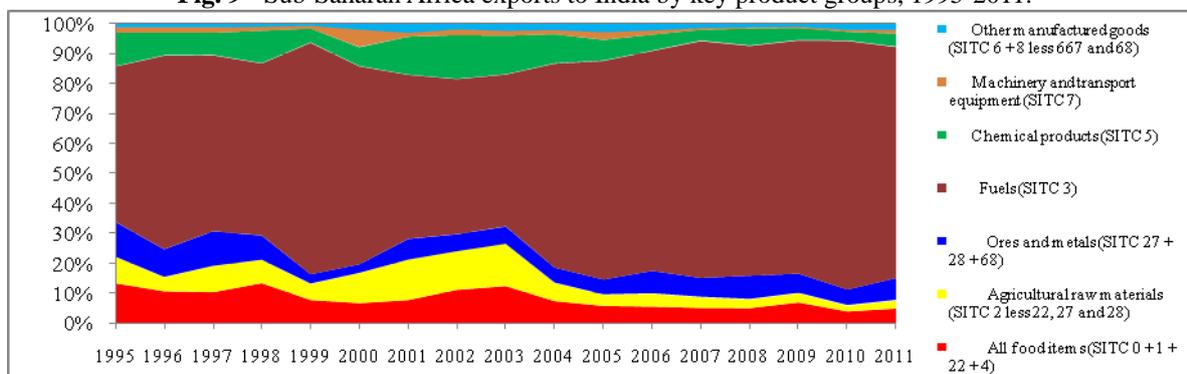
Fig. 8 - Sub-Saharan Africa exports to Brazil by key product groups, 1995-2011.



Source: UNCTAD Statistics: <http://unctadstat.unctad.org>; author's calculations.

Exports of SSA to India are similarly mostly made of fuels (fig. 9).

Fig. 9 - Sub-Saharan Africa exports to India by key product groups, 1995-2011.



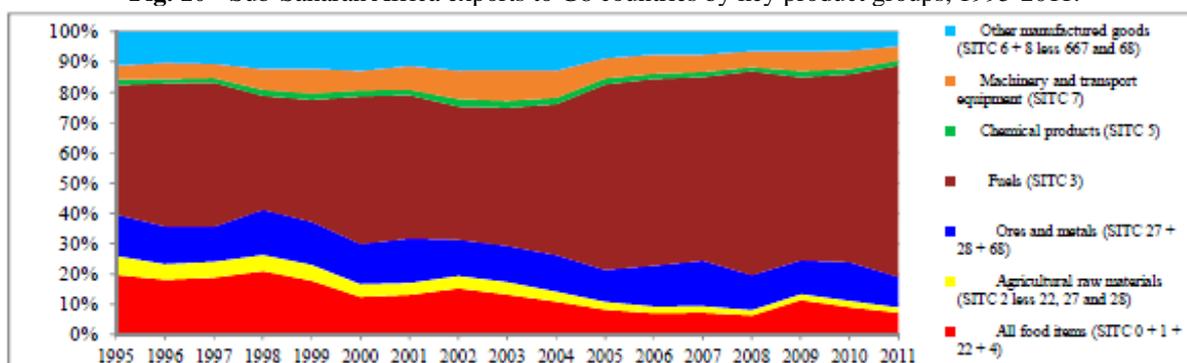
Source: UNCTAD Statistics: <http://unctadstat.unctad.org>; author's calculations.

As industrialisation is a key determinant of long-term growth, emerging countries may, in the long-term, erode their short-term positive impact on SSA economies.

Do developed countries do better? The similarity of emerging and developed countries trade structures

Since the colonial period Western countries' trade patterns still broadly follow the model of the 'small colonial open economy' - exporting commodities, importing manufactured products (fig. 10).

Fig. 10 - Sub-Saharan Africa exports to G8 countries by key product groups, 1995-2011.



Source: UNCTAD Statistics: <http://unctadstat.unctad.org>; author's calculations.

FOREIGN DIRECT INVESTMENT: COMPLEX EFFECTS, SIMILAR ASYMMETRIES

China's investment in Sub-Saharan Africa

Emerging countries, and China in particular, constitute important drivers of foreign direct investment (FDI) in SSA. Chinese FDI to SSA as a share of total FDI to the region climbed from less than 1% in 2003 to 16% by 2008 (IMF, 2011). China's FDI in SSA does not represent an important part of total Chinese outward investment, but for SSA it represents a rising share of its total inward FDI. This is a dimension of asymmetry between the two regions.

A great share of FDI is made by China multinationals, often backed by the state, and directed towards the resource sectors (oil, mines). It often consists in a contractual package that 'exchange' commodities for investment financing by Chinese firms, generally in infrastructure – the so-called 'Angola model' [Corkin, 2011]. These deals imply a risk of lock-in SSA structure in the exporting of commodities. The FDI of other emerging countries, Brazil and India, is more limited and more diversified. Likewise, developed countries' investors invest in the resource sector: for example, in Angola, the United States is by far the leading investor in the oil sector [GAO, 2013].

Emerging countries as promoters of structural change for Sub-Saharan African economies?

Emerging countries, however, have the potential of reducing these asymmetries. They mean more players and more capital inflows towards SSA. Also, the growth of emerging countries implies increasing wages and costs in these countries, hence windows of opportunities for SSA countries, where FDI can outsource activities of the low-end segments of production networks.

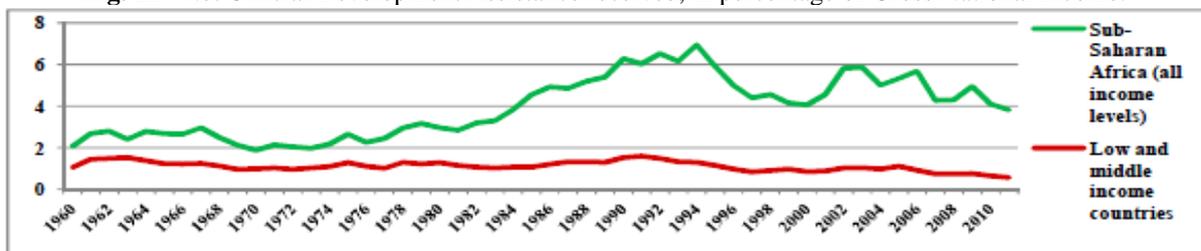
Moreover, emerging countries invest in SSA industrial sectors, e.g., manufacturing, construction, finance, agriculture, services, which is an opportunity for structural change since industrialisation is a key determinant of long-term growth [Rodrik, 2009]. Chinese manufacturers increasingly invest in SSA in order to benefit from preferential trade tariffs and lower labour costs [Dinh et al., 2012]. China established several Special Economic Zones in SSA with the aim of promoting manufacturing. An increasing number of private medium and small enterprises from China operate in SSA in the sectors of manufacturing, infrastructure, agriculture and services [Shen, 2013; Gu, 2009]. In addition, emerging countries invest in infrastructure, and the enhancing of infrastructure by investors from China and other emerging countries is undoubtedly beneficial for SSA countries' growth [Calderon and Serven, 2010].

AN IMPORTANT DIFFERENCE: CONDITIONALITY IN DEVELOPMENT COOPERATION

A key cause of asymmetry: Sub-Saharan African countries' dependence on foreign aid

Some SSA countries are excessively dependent on aid, e.g., for budgets, investment, maintenance, infrastructure, health, education. Net Official Development Assistance (ODA) to SSA represented \$20 per capita in 2000 or 4.1% of Gross National Income (GNI); \$54 per capita and 4.3% of GNI in 2010. In 2000, ODA represented 23.1% of gross capital formation, and 18.8% in 2010. In 2000, ODA represented 11% of imports of goods, services and income; in 2010, 9.9% [World Bank World Development Indicators, 2012]. Despite important variations within SSA, besides the small-island economies of Oceania, SSA is the region of the world that is the most dependent on aid, and much above the average of low-income and middle-income countries (fig. 11).

Fig. 11 - Net Official Development Assistance received, in percentage of Gross National Income.



Source: World Bank World Development Indicators online, May 2013.

Aid dependence induce well-known negative effects, e.g. Dutch disease, negative effects of volatility - as aid is very volatile (Bulir and Hamann, 2008) -, and the undermining of institutions, in particular tax institutions [Moss et al., 2006].

China's specific mode of development cooperation: a trade-aid-investment-nexus

China's aid is not easy to compute: loans are difficult to distinguish from export credits, and Chinese statistics do

not use the OECD Development Assistance Committee criteria². China's financial resources provided for aid fall into three types: grants (aid gratis), interest-free loans and concessional loans [Chinese Government, 2011]. The first two types come from China's state finances, while concessional loans are provided by the Exim Bank. This demonstrates the close links between trade, investment and aid. Chinese aid to Africa is much less important than Exim Bank export credits, despite a clear increase [Brautigam, 2009; Mlachila and Takebe, 2011].

In contrast with developed countries' donors, Chinese financing is largely focused on infrastructure investments; part of export credits and other financing for infrastructure investments are linked to extraction of natural resources through 'infrastructure for natural resources' deals. China's aid also differs from 'traditional' donors by its close ties with the state banks and state enterprises, often involved in the implementation of China's foreign policy vis-à-vis SSA [Christensen, 2010]. In addition, Chinese aid has not suffered from volatility in amounts, paradigms and fads that have characterised Western aid [Brautigam, 2009].

A key point is that this mode of development cooperation made of a nexus of aid, trade and investment does not include conditionalities on particular policies - economic or political. This is a major difference with western aid, multilateral or bilateral. Whether it is made of loans or grants, the development assistance of OECD-DAC countries, of international financial institutions or of a major donor such as the European Commission is conditional to economic reform that affect the entirety of a country's macro- and microeconomic policies (as in the IMF and World Bank programmes) - and often, to political reforms.

In contrast, China's aid is more a development cooperation driven by diplomatic and political economy relationships, which go back to the period of independence of SSA countries in the late 1950s-early 1960s and Cold War context, and its motives are broader than strictly economic ones, as they explicitly include the support of Chinese firms [Brautigam, 2009]. China's conditions therefore relates to contractual issues, and not to a government entire macroeconomic policy. China's claims non-interference with recipient countries domestic affairs and its cooperation therefore deals with all regimes, be they illiberal democracies or even 'pariah' regimes [Alden, 2007]. Chinese aid is therefore often criticised for supporting dictatorships and corrupt regimes.

Developed countries aid as based on conditionality: the most detrimental asymmetry?

Many dimensions of developed countries' ODA, however, convey aspects that do not compare positively with China, particularly the fact that developed countries' financial assistance is conditional on recipient countries' domestic reforms. The latter may be very intrusive and prescribe drastic changes in recipient countries economic and political equilibria. Given their asymmetric position - the 'donor'- 'recipient' relationship - aid-dependent low-income countries have little possibility to refuse these reforms.

There is no doubt that the absence of conditionality on financing may induce many problems, e.g., the support of certain types of political regimes, opaque deals, corruption and the like. Developed countries' conditional aid - multilateral or bilateral - , also includes these problems, in addition to other negative effects that are inherent to conditionality itself, i.e. committing aid ex ante and making aid conditional on reform. They have long been demonstrated since the first programmes of stabilisation and structural adjustment prescribed from the 1980s onwards to SSA governments by the international financial institutions - the IMF and the World Bank. Loans were conditional on government policy and institutional reforms in the borrower country, aid here being a lever to encourage policy reform. As SSA countries' performance did not improve, the IFIs reacted in augmenting their conditionalities in the 1990s. The latter became increasingly structural and extended to non-economic issues, e.g., 'governance'.

The effectiveness of conditionality is obviously mediated by the recipient government's willingness to accept the conditions. Conditionalities, however, by definition express the existence of tensions, imply a limitation of sovereignty and trigger resistance. Conditionality inherently induces policy reversals (stemming from the 'exchange of reform for financing', the 'buying of reform'). It paves the way of the 'aid game'. The persistent failure of conditional IMF stabilisation programmes has led, on the donors' side, to a repetition of lending since the 1980s onwards, and on the recipients side, to the continuation of dependence on donor lending. Another reaction of IFIs has been to add 'selectivity' to conditionality, where donors lend to governments that already have good policies and institutions: conditionalities appear to be effective mostly in countries that reform.

Conditionality indeed demonstrates the inherent divergence of interests and asymmetry between the aid-providing IFI and an aid-receiving government, including domestic interest groups. These divergences between donors and recipients, which are intrinsic to the mechanisms of conditionality, entail negative effects. Donors may impose conditions on unwilling recipients, while recipients may be willing but unable to implement conditions. Aid is typically affected by the 'Samaritan dilemma'. For example, if the recipient government knows that donors condition their aid on a reduction of poverty, it has little incentives to exert high effort toward this objective, as in doing so it will receive less aid in the future; and the 'Samaritan's dilemma' is aggravated by moral hazard: the donor can never know if a poor outcome is the result of low effort ('bad policies') or 'bad luck' [Svensson, 2005]. Conditional aid indeed inherently exhibits important coordination failures (including information problems on other donors' aid).

On their side, donors did not enforce the conditions, due to their own institutional incentives to lend. The device of conditionality has therefore contributed to the erosion of the credibility of the IMF vis-à-vis borrowing countries

² See Brautigam's very informative and relevant blog: <http://www.chinaafricarealstory.com>.

[Marchesi and Sabani, 2007]. In being non-conditional, China's aid avoids these pitfalls.

In addition, aid – be it conditional or not – is a dimension of the foreign policy of developed economies [Alesina and Dollar, 2000]. Aid delivered by developed countries' donors has also allowed for the maintenance in power of autocratic or corrupt regimes [Easterly and Williamson, 2011], which use aid as a rent and for redistribution to clienteles and manipulate donors' conditions as instruments for their own domestic politics, or a strategy using donors as 'scapegoats' [Vreeland, 1999]. All this is an obvious cause of aid failures.

CONCLUSION

This paper has examined the structural asymmetries that characterise SSA export structures. It has shown that emerging countries, and particularly China, follow the patterns that have been initiated by developed countries, and that emerging countries' trade and foreign direct investment have complex effects, positive and negative [Sindzingre, 2013]. The paper has also shown firstly that more than trade or investment, aid relationships convey the greatest differences between developed and emerging countries, notably China. Secondly, despite the recurrent critiques of unconditional aid in the literature, it has revealed that that developed countries' aid may be among the strongest determinants of asymmetry between Sub-Saharan Africa and other countries, because of the mechanism of conditional financing.

ACRONYMS

FDI	Foreign Direct Investment
GNI	Gross National Income
ODA	Official Development Assistance
SSA	Sub-Saharan Africa

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GENERALIZED TARIFF PREFERENCES FOR DEVELOPMENT AND EMERGING COUNTRIES: ASSESSMENT AND PERSPECTIVES

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ABSTRACT

The paper addresses the role and efficacy of trade preferences within development cooperation policies. It does so from a legal perspective, in relation to past, current and prospective frameworks of trade preferences for developing countries, and takes into account the role of private business as major actors of development in beneficiary countries, given that the trade (and investment) component of development policies relies on firms for successful implementation. Moreover, it looks at emerging countries, particularly African ones, as significant examples of the evolving relevance of trade preferences to processes and actors involved in promoting development. Accordingly, the main problematic issues will be outlined with regard to the traditional trade instrument designed to foster development, i.e. the Generalized System of Preferences adopted since the 70s by developed countries to extend preferential duties on imports of products originating from developing countries (Section 2). The legal arrangements backing such trade regime up with respect to resource-seeking and export-oriented investments by foreign firms into beneficiary countries, on the one hand, and the recent trend to raise export restrictions on raw materials and mineral products by some governments, on the other hand, will also be introduced into the discussion (Section 3). The challenges thus identified will be described in relation to the Sub-Saharan emerging countries throughout the evolving trade regime applied by the European Union for the last decade, that is also informed by World Trade Organization-compatibility, as compared with China's policy in the region (Section 4). In conclusion, some critical considerations will be drawn as regards the post-2015 development cooperation strategies and the increasing role attributed to trade therein, in light of recent academic contributions to their formulation by the EU.

PREFERENTIAL TRADE AS A COMPONENT OF DEVELOPMENT COOPERATION POLICIES

Focusing on trade within international development cooperation prompts some general observations. In particular, it is clear that any effort on enhancing trade performance of developing countries ultimately relies on private, for-profit actors' responses to the policies designed to that effect, thus strengthening the relevance of such actors with respect to public institutions and not-for-profit sectors. This, in turn, calls for carefully crafted incentives and guarantees for (both domestic and foreign) investments in the sectors envisaged by 'trade and development' strategies. The other general observation concerns the instruments through which the trade pillar of development policies is implemented. The traditional trade tool for development, i.e. unilateral concessions by developed countries of preferential tariffs upon the importation of goods originating from beneficiary developing countries, has attracted many studies and controversial assessment as to its effectiveness. The reasoning coming into play in the discussion concerns both the structural elements characterizing these arrangements – as will be outlined in Section 2 – and the general trend towards the erosion of the margins for preferences available to developing, beneficiary countries (following successive rounds of multilateral trade liberalization and the widespread conclusion of free trade agreements). Preferential trade with developing countries aims at boosting their exports thus promoting the industrialization and diversification of their economy, and contributing to economic growth. However, this rationale is hampered by the fact that developing countries acceding liberalized international markets may not have or develop sufficient capacity for coping with such integration.

These observations suffice to underline the point for a critical assessment of the recourse to trade preferences for development alone. Indeed, several other trade or trade-related policy interventions such as regulating non-tariff barriers to trade, offering aid for trade, promoting and protecting investment, guaranteeing protection and enforcement of intellectual property rights, extending loans and guarantees to private actors investing in strategic sectors, assisting developing countries to improve the domestic business environment and, enhancing corporate social responsibility have increasingly appeared as necessary to foster development. Thus, other instruments alongside or instead of tariff preferences are envisaged by countries interested in a 'modern' 'trade and development' strategy.

Imagining however that this dynamic is inherent to the evolution of 'trade for development' strategies without taking into account the broad international legal environment of international exchanges as well as the changes that occurred in the world economy over the last decades would be misconceived and unrealistic. In particular, the multilateral trade rules set through the GATT and the WTO agreements, and the stagnation of the Doha Round of

negotiations since 2000, have influenced the strategies of States. Also, the problematic economic growth of emerging countries like the BRICS and several other countries has played a significant role in the revision of the existing 'trade for development' instruments, such as the unilateral tariff preference arrangements. The several instances in which these two factors have impacted on the undergoing changes of the trade component of development policies will be outlined in Sections 2 and 3.

The purpose of this paper is to assess the legal frameworks of these policy developments and to discuss the critical aspects they involve in relation to emerging countries. It should be noted that the paper concentrates on trade in goods, although the services sector has been growing in importance in trade relations with the developing world and especially with the emerging countries. Section 4 of the paper elects Sub-Saharan countries among emerging countries as particularly suitable to describe what is analysed in general and theoretical terms in the previous sections. There are several reasons for this choice: the potential effects of the shift from auto-selection to objective indicators of developing needs for eligibility to tariff preferences; the trade-related approach to sustainable development and eradication of poverty followed by the EU within the general evolution of EU-ACP relations, which owes its specificity to historical ties; the major influence played by WTO rules and the claims of third States within the WTO; the way other emerging countries, in particular China, approach developing countries and how this may affect developed countries' trade arrangements with the region.

THE GENERALIZED SYSTEM OF PREFERENCES: ITS RATIONALE AND STRUCTURE (TAKING THE EU AS AN EXAMPLE)

The idea of tariff preferences for development represents an application of the principle of dualism of rules applying to countries with different levels of developments, that was claimed by the "New International Economic Order" and characterizes the right to development [1]. It emerged at the first UNCTAD conference in 1964 and received unanimous support at its second conference four years later, when Resolution 21 (II) was adopted. The text called for the establishment of a "generalized, non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least advanced countries". The objectives of the Generalized System of Preferences (GSP) were encapsulated in the title of the Resolution ("Expansion and Diversification of Exports of Manufactures and Semi-Manufactures of developing countries") and were stated in the following terms: "(a) To increase their export earnings; (b) To promote their industrialization; (c) To accelerate their rates of economic growth" [2]. Thus, at least on the surface, the basic elements of such a preferential arrangement consist of its unilateral adoption, general application, non-discrimination (apart for the most preferential treatment for least developed countries), lack of reciprocity, and focus on manufactured goods as the main beneficiary products in order to reduce reliance of developing countries on export of primary products. Indeed, absence of across-the-board preferences in terms of product coverage implies a kind of *de facto* discrimination across beneficiaries in favour of those countries having "greater capacity to produce the manufactured goods that are designed for preferential treatment" [3].

Such an arrangement represents a departure from the 'most-favoured-nation' (MFN) rule expressing the non-discrimination principle on which the post-world war II multilateral legal trade regime is founded, and it cannot be justified under the regional integration exception. Art. I GATT provides the MFN treatment according to which any GATT Party (now, any WTO Member) shall receive the best treatment accorded to any third country as regards customs duties primarily and among other issues. This clause is unconditional, meaning that the MFN treatment extends to all other parties automatically without any advantage in return. The only exception admitted to this rule in the original framework of GATT 1947 refers to the creation of customs unions or free trade areas (Art. XXIV GATT). This recognizes the potential benefits of closer integration of the economies of the parties to international trade, provided that certain conditions are met to assure that these preferential arrangements work as 'building blocks' rather than 'stumbling blocks' for exchanges with third parties. In particular, among other conditions, this means that tariff preferences are accepted under GATT law by means of international agreements, in so far as they consist of the elimination of duties or other restrictive regulations of commerce on substantially all the trade (in terms of product coverage and volumes of trade) between the constituent parties.

The acceptance of the GSP within the GATT was premised on the introduction of Part IV on Trade and Development in 1964, which laid down non-binding commitments in favour of developing countries. The embodiment of the GSP arrangement was firstly realized on a 10 year basis by means of a Decision adopted in 1971 [4] and permanently in 1979 through the Decision generally referred to as 'Enabling Clause' [5]. Based on it, contracting parties may accord differential and more favourable treatment to developing countries as regards tariffs levied on imported products in accordance with the GSP. Thus, the general features of the arrangement conceived at UNCTAD apply. The Decision also states that the preferential treatment "shall [...] be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries".

An authoritative source of interpretation of several conditions attached to the GSP arrangement came later in 2004 from the WTO Appellate Body (AB)'s report on the *EC-Tariff Preferences* dispute brought by India [6]. The AB considered the Enabling Clause as an exception to the MFN rule. It specified that the requirements on the "generalized, non reciprocal and non discriminatory" nature of the preferential arrangement for developing countries (set out at

footnote 3 of the Enabling Clause) are binding (paras. 146-147). It also clarified that the requirement of "generalized" preferences refers both to the entire category of developing countries (i.e., not only to former colonies - para. 155) and to product coverage. It interpreted the "non-discrimination" requirement in the sense that donor countries are not prevented from according differential treatment among developing countries provided that this is based on differences in their "development, financial and trade needs", to be assessed on objective grounds, and responds positively to such needs (paras. 163-164). On this point, the AB outlawed the Panel's findings (at para. 193) [7].

Central to the issue of emerging countries, the system builds in a 'graduation clause'. Para. 7 of the Enabling Clause *calls* less-developed countries to "participate more fully in the framework of rights and obligations" under the GATT, as their economies progressively develop and thus differently, according to the achieved degree of economic development. In the WTO era, the approach changed. The system now *aims* at eliminating discrimination and integrating developing countries into the general regime, as stated in the Ministerial Declaration adopted at the first WTO Ministerial Conference, 1996 (para. 6) [8]. Another main element concerning development needs within the WTO legal framework relates to Least Developed Countries (LDCs - i.e., countries falling in the category officially recognized in 1971 by the UN General Assembly) [9], which are granted privileged status across the whole system of rules [10]. With respect to commitments and concessions, this is affirmed by Art. XI, para. 2 WTO Agreement.

The GSP did not result in a common arrangement implemented by developed countries, which, on the contrary, separately adopted their own GSPs. There are currently eleven donor countries, namely Australia, Belarus (a non-WTO member in the process of negotiating accession, at the same time being a GSP beneficiary under some other donors' arrangements), Canada, the EU, Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the United States [11].

Against this background, the EU's and the US's GSP arrangements, in particular, share some peculiar features which are of particular interest for the purposes of this paper focusing on emerging countries. These consist of mechanisms of eligibility, country and product graduation, tariff modulation, safeguards, differentiation, and conditionality. Their main implications for the treatment of emerging countries by GSP donors will be now outlined, taking the EU's GSP as an example.

The EU adopted its GSP arrangement in 1971 [12]. Since then, general schemes were renewed on 10-year cycles, each adapted to the evolution of international trade every year, and more recently every three years [13]. Since the Nineties, the EU combined the original objectives of the system inherent to the link between "trade and development" with specific objectives on the promotion of and respect for the environment, labour rights, human rights and good governance in the beneficiary countries. The currently-in-force Regulation (EC) No. 732/2008 [14] will be superseded by Regulation (EU) No. 978/2012 (the 'new Regulation' or the 'new EU GSP') [15] on 1 January 2014, to be applied for an extended period of ten years until 2023 for purposes of legal certainty and stability [16]. These two schemes are designed to take account of the above-mentioned AB's decision, which indeed dealt with the WTO compatibility of the special regime to combat drug under the EU GSP previously in force.

Under the current and the new EU GSP schemes, preferential treatment is granted according to three regimes: the general regime, the incentive arrangement for sustainable development and good governance ('GSP+'), and a special arrangement for the LDCs which offers duty-free market access into the EU ('Everything but Arms', or EBA). The new EU GSP scheme is designed with a view to taking more into account the diversity of the developing countries and the purpose is to focus on helping the less advanced among them (whereas 7)[15]. In a nutshell, it is premised on the assumption that because of global tariff erosion (see Section 3 below) maintaining tariff preferences for the more advanced developing countries would imply too high competitive pressure on poorer countries [16]. And, as is evident in the language of the preamble part of the Regulation, this approach is meant to abide by the non-discrimination requirement for generalized tariff preferences set by WTO law as interpreted by the AB in the *EC-Preferences* decision (whereas 9) [15].

This overall approach is evident in the criteria adopted for benefitting developing countries of trade preferences under the general regime. Hereunder, tariff reductions are granted on the products covered by the unilateral arrangement instead of the MFN duty applied by the EU. To benefit from this regime, GSP eligible countries shall not have been classified by the World Bank as high-income or upper-middle income countries during three consecutive years immediately preceding the update of the list of beneficiary countries. Accordingly, and subject to annual revision, eight countries recently classified as high-income countries and fourteen upper-income countries will no longer benefit from EU GSP trade preferences from January 2014; among these, Brazil figures prominently [17]. They nonetheless remain eligible countries under the EU GSP, in order to benefit from the ordinary tariff preferences again, in case their classification downgrades. It is quite interesting to note that the new system will depart from the current one, abandoning the additional consideration for the diversification of exports of potential beneficiary countries - a criterion that has maintained Brazil among beneficiary countries so far [16].

However, even for those countries which remain eligible for tariff preferences under the general regime, a product graduation mechanism is foreseen in order to exclude certain products originating in a specific country when they have become competitive enough, as reflected by the fact that their exportation exceeds a certain threshold of all GSP imports of the same products into the EU. The new EU GSP will increase the threshold percentages determining such graduation (textiles products being subject to a lower percentage and to other specific provisions aimed at safeguarding the EU production). The new GSP legislation will make graduation more targeted on narrower product sectors. It will also strengthen the devices construed so as to avoid graduation in case of non-diversification of a beneficiary's exports -

an occurrence which could disrupt its economy. As a result of these new rules, two BRICS will be denied tariff preferences for more product sectors than they currently are, China for precisely twenty-seven sectors in total (six more than under the current regime, including several 'sensitive' products as will be outlined next) and India for six (five more); also Costa Rica, Ecuador, Indonesia, Nigeria, Thailand and Ukraine are concerned with one or two sectors each [18] [16]. The graduation list is to be reviewed on a three-year basis.

Although the EU GSP scheme has a wide product coverage, it differentiates between 'non-sensitive' products, on which duties are suspended, and 'sensitive' products, on which duties are fixed at a specified lower rate than the MFN duty. The new EU GSP widens the scope of free market access granted to products originating from beneficiary developing countries, as it introduces new products or moves previously sensitive products into the category of non-sensitive products. 'Sensitivity' is defined in order to take account of the situation of the sectors manufacturing the same products in the Union. For example, most mineral products covered by the new EU GSP scheme are considered non-sensitive products, while the majority of textiles and machinery products are sensitive, with a more balanced split of metals between sensitive and non-sensitive products (Annex V) [15]. This is of a certain importance when assessing the effective pursuance by the GSP scheme of its overall objective of fostering the development of beneficiary countries through export-led industrialization and diversification.

Safeguards are also foreseen in the form of the reintroduction of the normal Common Customs Tariff duties. This procedure is managed by the Commission and initiated upon request by Member States, EU producers or on its own. It may take place when a product originating in a beneficiary country is imported in volumes and/or at prices which cause, or threaten to cause, serious difficulties to Union producers of like or directly competing products.

Another relevant mechanism provided by the EU GSP scheme, in combination with the new EU GSP origin rules [19], concerns origin cumulation. Products can be imported into the EU under the GSP tariff preferences only if they originate from beneficiary countries according to the specific rules of origin unilaterally set by the EU. Although this is a highly technical issue [20] [16], it is worth pointing out that the new EU rules aim at facilitating the acquisition of origin for purposes of GSP preferential treatment and also favour regional economic integration by allowing products produced in several countries to satisfy the applicable criteria conferring origin on a cumulative basis. Thus, the EU has elected four regional groups of countries for purposes of regional cumulation [19].

Lastly, both positive and negative conditionality mechanisms are put in place. The former subjects the extension of additional tariff preferences to a beneficiary country's respect for human rights, environmental protection and good governance. The special incentive arrangement (GSP+) is aimed at those eligible countries which abide by the condition of having ratified and implemented certain conventions on the environment, labour and human rights and good governance. This is intended as an objective condition for discriminating between eligible countries, as required by the WTO AB's interpretation of the non-discrimination requirement under the Enabling Clause. In fact, additional preferences should address the special burdens and responsibilities resulting from conventional commitments undertaken by vulnerable countries suffering from a lack of diversification and insufficient integration within the international trading system. Thus, this mechanism is driven by the general objective of the scheme too. The negative conditionality mechanism provides the temporary withdrawal of the preferential treatment, under whatever regime, upon the occurrence of systematic violations of core human and labour rights, shortcomings of customs controls, and also for "serious and systematic unfair trading practices including those affecting the supply of raw materials, which have an adverse effect on the Union industry and which have not been addressed by the beneficiary country", among other conditions (art. 19, para. 1 (d)) [15].

TRADE PREFERENCES IN CONTEXT: THEIR EFFECTIVE IMPACT AND THEIR INTERACTION WITH FOREIGN INVESTMENT AND WITH EXPORT RESTRICTIONS

Whether and how trade preferences (have) effectively work(ed) for the development of developing countries is a matter of debate. The most evident point is that the margin of preference is eroded by successive multilateral tariff negotiations and by the continuing expansion of free trade agreements. Many of the mechanisms described above have also been criticized [21] [22] [23].

It has been suggested that criteria for eligibility, graduation, product coverage, tariff modulation and safeguards would rather meet the needs of preference granting countries for preserving imports pressure and surges in sensitive industrial domestic sectors [3]. Conversely, in the political rationale and legal texts of the (EU) GSP, at least the first two mechanisms are justified in light of the general objective to differentiate among developing countries according to their development needs on the basis of the non-discrimination requirement, in line with the interpretation of the Enabling Clause in the *EC-Preferences* case. Indeed, this should be the authentic spirit behind the inclusion in the Enabling Clause of the provision according to which "such treatment accorded by developed contracting parties to developing countries be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries". At the same time, however, safeguards from import surges at least cannot be outlawed from a unilateral, voluntary, non-reciprocal preferential arrangement, and this was already embodied in the GSP envisioned by UNCTAD [3].

The non-reciprocity requirement applying to the GSP arrangement has also been challenged, with reference to those GSP schemes which indeed make the granting of preferences conditional on some specific behavior of the

beneficiary country. Moreover, a relevant point relates to the selection of objective criteria for granting preferences and differentiating among beneficiary countries (due to the lack of a common regime and to the unilateral, "*octroyée*" or "gift" nature of the arrangement, each donor country sets its own criteria according to its internal process, although it has the burden of proving their compatibility with the requirements set by the Enabling Clause) [24]. It has also been suggested, and rejected, that reciprocity (legally conveyed by treaties) would ensure greater market access concessions by developed States [25].

As has been seen, both forms of preferential trade treatment depart from multilateral trade rules based on non-discrimination but, as almost all countries in the world are WTO-members, unilateral or conventional arrangements have also to abide by the requirements and limitations provided by WTO law - and may be challenged before the WTO dispute settlement system. All aim at and rely on private business as the drivers of development. GSP and free trade area success depends on their final users, i.e. firms. Therefore, one may argue that they should be coupled with policies leading investment strategies by firms from donor countries into beneficiaries countries as well as by domestic firms therein. In both cases, investments are export-driven, that is, they do not seek to access the local market but are aimed at sourcing donor countries' industries and markets with resources and manufactured goods.

Preferential arrangements - and resource-seeking investments in GSP beneficiary countries - are confronted with a recently increasing phenomenon, that is, the introduction of export restraints of raw materials and mineral products by certain developing countries. Quantitative restrictions on exports are prohibited under GATT Art. XI, unless "temporarily applied to prevent or relieve critical shortages of foodstuffs or other products *essential* to the exporting contracting party". But the violation of such provision may seek justification under the GATT general exceptions, which provide for the conservation of exhaustible natural resources among other justifications. Other forms of export restraints may be put in place too, such as export duties (which are not prohibited *per se* under WTO law).

A recent instance concerns Chinese measures restraining exports of raw materials and of rare earths, which have been challenged by the EU and other countries within the WTO. It appears from the decisions adopted so far [26] [27], development considerations may come into relevance under two opposite perspectives. On the one hand, the implications of export restraints of natural resources for the export performance of other developing countries can easily be derived from the observations made by the claimants. Export restraints not only produce scarcity and cause higher prices in global markets, but they also advantage domestic industry by ensuring it sufficient supply, and lower and more stable prices for the materials concerned. On the other hand, China claimed that under Art. XI interpreted in light of the 'trade and development' provisions of the GATT (Art. XXXVI in Part IV), a developing country may adopt export quotas on 'primary products' which have a role in "securing economic diversification through the development of domestic processing industries" (para. 7.265) [26]. However, the panel and the AB ruled that Art. XI does not hold a different meaning or should not be applied differently for developing countries (para. 7.280) [26]. China also evoked the customary norm in international law of sovereignty over natural resources as "developed in recognition of the 'essential' role that natural resources play in the progress and development of states that possess those resources" (para. 7.265) [26]. How can these points be connected and their relevance to preferential tariff arrangements for developing countries assessed? Although both sides of the legal dispute make suggestive arguments, it seems that under WTO law none of them relevantly apply to GSP schemes. Countries are 'enabled' but not obliged to extend tariff preferences to developing countries and it is generally understood that Part IV of the GATT enounces non-binding commitments in favour of developing countries; any country, independent of its level of development, may challenge another WTO member's measures nullifying or impairing the benefits accruing to it from WTO law. Moreover, beneficiary countries, and economic operators, are not bound to accept or apply the preferential duty accorded under an importing country's GSP, and they are not prevented from adopting export restraints in WTO-compatible forms counterbalancing that tariff advantage.

THE CASE OF AFRICAN EMERGING COUNTRIES: THEIR PLACE WITHIN THE EU'S POLICY TOWARDS THE ACP COUNTRIES AND OTHER APPROACHES

Against these scenarios, the African continent is a significant setting for analysis as regards the dynamics involved in the economic relations with emerging economies. The phenomenon of "African lions" [28] and other African emerging countries witnessing higher export and/or GDP growth rates than the global rates [29] triggers policy responses by both developed and emerging countries (such as China and India) [30]. The policy approaches differ among trading partners, and this has stimulated a debate in development studies, although it has so far received less focused attention in the legal literature as compared with other disciplines. For example, a recent contribution "assesses the 'competitive pressure' that China's growing presence in Africa exerts on the European development policy regime" by focusing on Ethiopia [31]. The following analysis shows that the EU approach to African, Sub-Saharan emerging countries is to be framed within the EU-ACP relations and explains the set of legal instruments deployed accordingly. It also compares these instruments to those involved in China's approach to the region.

The Sub-Saharan countries including South Africa comprise the African component of the ACP Group of States [32]. As a result of historical ties, ACP States have always enjoyed a privileged position in their trade relations with the EEC/EU compared to other developing countries [33]. Throughout the Yaoundé I-II and the Lomé I-IV conventions, and still under the Cotonou Agreement on a temporary basis until the end of 2007, the EU granted ACP countries more

non-reciprocal, preferential tariff treatment than the preferential treatment given to other developing countries under the EU GSP. This privileged regime was challenged before the WTO dispute settlement bodies, which ultimately ruled against its compatibility with WTO law [33]. The trade provisions encapsulated in the Cotonou Agreement (the new general framework for EU-ACP partnership signed in 2000) was aimed at bringing EU-ACP trade relations into conformity with WTO law while at the same time preserving their more preferential character (arts. 34-37) [34]. Thus, a waiver from WTO obligations was obtained according to Art. XXV, para. 5 GATT for a transitory period until the end of 2007 [35]. Meanwhile, the Cotonou agreement provided for negotiations on a regional basis of reciprocal, free trade agreements within the Economic and Partnership Agreements (EPAs). Up to 2007 and indeed now, these are far from being concluded homogeneously, on the ACP side, among regions and within each region (the Caribbean, the Pacific and four African regions).

On the EU side, in order to comply with WTO law, the so called 'Market Access Regulation' was adopted in 2007 to unilaterally apply the conventional trade arrangements with those ACP countries having already concluded an EPA or an interim, goods-only trade agreement which however had not entered into force yet as of 1 January 2008 with the EU. Since then, lack of this conclusion, or the undertaking of the necessary steps to ratify the already concluded agreements, on the part of ACP countries, the EU applies its GSP scheme, thus equating trade preferences to the ACP countries concerned to the other eligible developing countries [36].

As a result, the picture of EU-ACP trade rules is one of great fragmentation and diversification, even among Sub-Saharan emerging countries [37]. As for African ACP countries, only the Seychelles, Zimbabwe, Mauritius and Madagascar within the Eastern and Southern African region are covered by the Market Access Regulation and thus their exports towards the EU benefit from duty-free access on all products except arms [38]. Conversely, Comoros and Zambia within the same region and other countries from the other African regions having concluded an interim agreement or a full EPA with the EU have recently been moved from the Market Access Regulation. They are thus treated under the EU GSP scheme together with the other African ACP countries which have not concluded any agreement with the EU so far. This implies that, as in the case of Nigeria mentioned above, they are subject to the product graduation mechanism or, if and as soon as their economic growth evolves to reach upper-income or high income status for three consecutive years, they are excluded from the GSP general regime, thus being treated on a MFN basis. This would put competitive pressure on them in comparison with the other ACP countries, with the developing countries having concluded a free trade agreement with the EU (such as the North-African countries or Central-American countries), with those developing countries that, although a beneficiary of the EU GSP arrangement, have seen some products graduated out of it, or even with developed countries having concluded free trade agreements with the EU, such as Singapore.

Under the overall political and institutional framework of the Cotonou Agreement, interim EPAs would establish free trade areas and comprehensive EPAs would extend trade rules to matters such as agricultural products, services, intellectual property rights, competition, and accompanying measures on development cooperation. As regards foreign direct investment by the EU, the Cotonou Agreement calls for the conclusion of agreements and for the introduction of general principles in EPAs as regards investment promotion and protection (art. 78) [34]. Therefore, bilateral investment treaties (BITs) between single African countries and EU Member States still feature as the main legal instruments in this subject field.

This 'model' significantly differs from other forms of economic cooperation proposed to African countries from outside the region. China and India have recently developed their own Africa Policy [30]. Focusing on China, there are no preferential trade agreements in force with any African country [39]. LDCs African countries benefit from the duty-free treatment for LDCs, which China extends to a few other countries in the Asian continent [40]. On the contrary, BITs have been concluded between China and many African countries in the last fifteen years [41]. Because of China's interests in outward foreign investment towards Africa and because BITs are reciprocal by nature, these treaties partly follow the more liberal approach to international investment regulation adopted by China since the late Nineties [42]. This notwithstanding, China resists pressure from developed negotiating partners to align to the global tendency towards comprehensive, trade and investment liberalization agreements on a bilateral or regional basis [43]. Such legal landscape concerning China-Africa relations does not seem to be subject to changes for the near future [44]. Another difference between the EU's and China's approach to development linked to trade is that China premises it on the principle of non-interference and rejects conditionality, while the EU stresses the importance of ownership and respect for human rights (being an 'essential element' of the partnership; art. 9) [34]. Overall, China's economic cooperation policy is not considered as being framed within international development strategies [31].

CONCLUDING REMARKS ON THE TRADE ASPECTS OF THE FUTURE DEVELOPMENT STRATEGY DESIGNED BY THE EU

In the light of the above analysis, some brief concluding comments are outlined. There is an unresolved tension between the overall objectives of the GSP arrangement - that is, to respond positively to the economic, financial and development needs of developing countries through preferential tariff treatment - and the policy limitations and conditions at which developed countries consent to grant such treatment. With a view to integrating developing countries into the world trading system, tariff preferences risk not effectively pursuing their development objectives if

they are not coupled with other sound trade-related and investment policies. At the same time, different legal frameworks for trade relations applying between the EU and Sub-Saharan African countries show that emerging countries have different positions and preferences towards preferential trade arrangements with major trading partners. If trade emerges as a central driver of development, it must be intended in broader terms than the traditional instrument of trade preferences, because of the pitfalls, ambiguities and doubts on their efficacy.

The academic world has recognized this shift in developing strategies towards more focused preferential trade arrangements and more comprehensive trade policies. Indeed, the EU seems to favour this direction. In so doing, it both addresses initiatives on private business (in the form of credit, loans and guarantees) and on public institutions (through regulatory engagements but also institution-building and trade facilitation). Recent designs of development cooperation policies by European actors emphasize the role of trade as compared with other components of international development cooperation, mainly official development assistance. In a recent contribution to the debate on a post-2015 global framework to succeed the Millennium Development Goals (MDGs), three independent European research institutes identify trade as a key driver of development provided that trade policies are designed to tackle the problems of marginalized and vulnerable economies by promoting economic and trade diversification and by creating productive jobs [45]. In its documents on the future of EU development policy [46], the European Commission builds the new EU's 'trade and development' goals upon the acknowledgment that "trade-driven development is possible and that open markets can play a major role in generating growth" [47].

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NOMENCLATURE

AB	Appellate Body
ACP	African, Caribbean and Pacific
BIT	Bilateral Investment Treaty
BRICS	Brazil, Russia, India, China, South Africa
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
LDC	Least Developed Countries
MDG	Millennium Development Goals
OJ	Official Journal (of the European Communities/European Union)
UNCTAD	United Nation Conference on Trade and Development
WTO	World Trade Organization

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CROWDING IN THE PRIVATE SECTOR UNDER A DEVELOPMENTAL STATE: WHICH ROLE FOR INTERNATIONAL COOPERATION IN ETHIOPIA?

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ABSTRACT

The article revisits Ethiopia's impressive performance in terms of economic growth during the last ten years, highlighting its shortcomings and discussing the scope of the private sector development in addressing such issues. Particular focus is devoted to the role that international cooperation could play in supporting private sector development in Ethiopia.

Over the past decade, Ethiopia has achieved strong results in terms of economic growth, averaging 10.7 percent per year and human development, getting on track to reach the UN Millennium Development Goals (MDGs) with the exception of the target on maternal mortality. In 2012, Ethiopia became the 12th fastest growing economy in the World. If the country can continue its historically impressive growth performance, it could potentially reach the middle income status by 2025 as foreseen by the Ethiopian government in the Growth and Transformation Plan (GTP) [1].

The Ethiopian government, led by the Ethiopian People's Revolutionary Democratic Front (EPRDF) – in power since 1991 after defeating the military regime of the *Derg* at the end of a sixteen years long civil war – has achieved these results by adopting a development model based on a strong developmental state, driving and dominating the national economy. In the 1990s the EPRDF strategy opposing structural adjustments and economic liberalization policies had been perceived as heretical by international financial institutions. Nowadays, however, Ethiopia has been presented as a success story and praised by international organizations and donors as a model for the whole continent. The Ethiopian developmental state appears in line with the shift in the official discourse of the international development apparatus, rethinking the role of the state in least developed countries and rediscovering the importance of public institutions for the promotion of economic growth and development in Africa [2].

With the GTP the Ethiopian government operated a radical shift in its development strategies. EPRDF has abandoned its traditional focus on household agriculture to achieve food security and fight rural poverty, in order to embrace neoliberal strategies to create wealth and employment through the promotion of micro and small enterprises, as well as market led agriculture production. While the Ethiopian developmental state still plays a major role in orienting and promoting these processes, the GTP has foreseen an increased role for private sector's investments and capacities to mobilise the resources needed to achieve its goals.

Until now, however, the government's efforts to "create an enabling environment for private sector investment growth" have proved little effective, particularly in attracting foreign investors. Ethiopia's position in the World Bank's Doing Business ranking did not significantly improved in the last years, languishing around the middle of the regional average [3]. The Ethiopian market is still perceived as an environment dominated by state owned enterprises and private companies affiliated to the ruling party coalition, hostile to the competition by outsiders. These difficulties raise concerns about the sustainability of the whole process of economic growth, and about its inclusiveness and equity in terms of access to and management of resources. This broadly questions the legitimacy of the Ethiopian government and its development policies.

The article addresses this debate, by exploring the potential of private sector development for the achievement of Ethiopian government's development targets, as well as the role of international development cooperation in supporting this process. The thesis we wish to defend is that in order to ensure sustainability and inclusiveness of the process of economic growth – and ultimately its political legitimacy – the Ethiopian government should promote an enabling and expanded environment for the private sector in the economy. This has been acknowledged by the Ethiopian government itself within the GTP [4], but until now little implemented. The process can be facilitated by the international cooperation streamlining private sector development initiatives across all programmes, replicating successful experiences and exploring innovative approaches to engage with local and international private sector.

The first section of the article revisits the tale of Ethiopia as "African Lion", highlights the risks and the bottlenecks implicit in the current process of economic growth and transformation. The second section recalls main economic theories on the scope and contribution of private sector in order to tackle the issues described before. The third section assesses the current situation of the private sector in Ethiopia. The final session discusses the role of international cooperation in support of private sector development.

Revisiting Ethiopia's economic performance

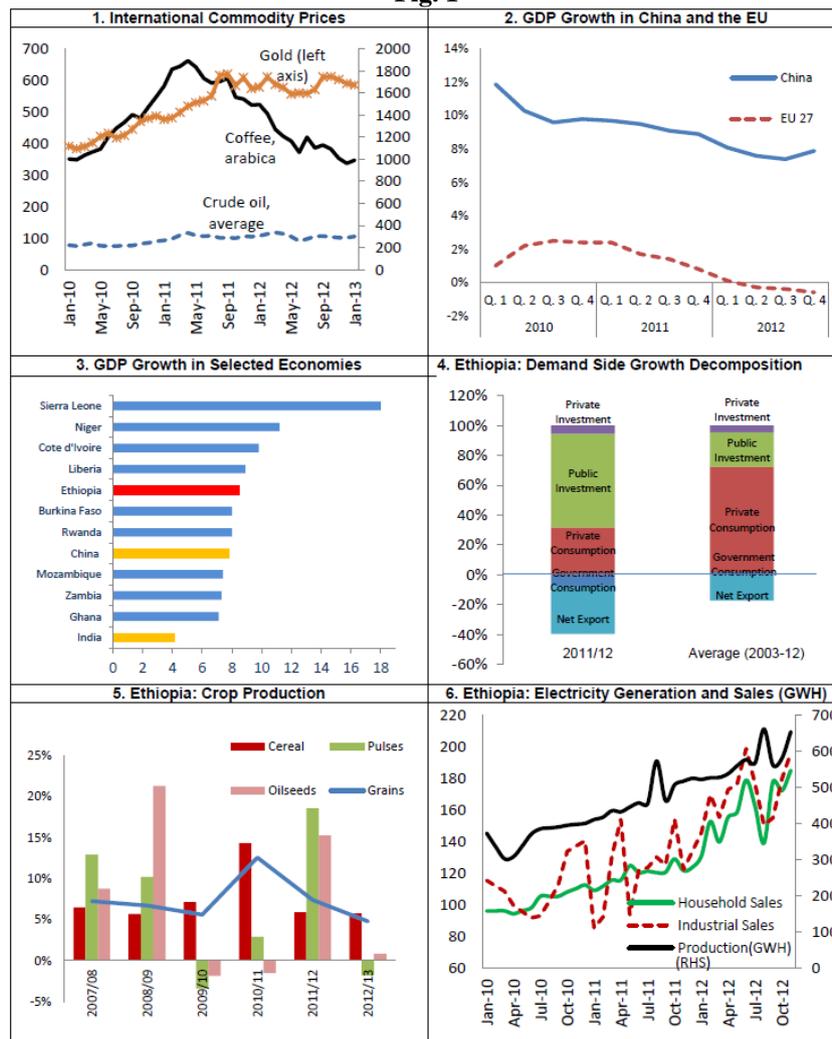
The peculiarity of the Ethiopian case lies in the fact that the process of economic growth is not driven by natural resources extraction, like Angola or Chad, neither on private sector development, like in Kenya. On the contrary, the rise of Ethiopian GDP in the last years results from public capital investments (infrastructures like roads, dams and power plants, housing projects,...).

For how long a country can count on public investments to support growth? There is no easy answer to this question. The empirical evidence in Ethiopia shows that during the last ten years this policy worked effectively. However the last economic data cast some doubts on the possibility to continue on the same path at the same pace. According to a recent World Bank analysis [5], inflation has been brought down to single digits, as a result of tighter monetary policy and a drop in imported inflation. However, financial intermediation and monetization are declining, with important negative implications for private sector development and savings. Financial and human resources are highly absorbed by State Owned Enterprises' investment activities. The external current account deficit is widening as import grows, driven by public capital imports that outpace sluggish export growth.

The relative slowdown in economic activity compared to previous years can be explained by lower crop production. Agriculture, which accounts for close to half of output, experienced a markedly lower growth rate in 2011/12 of 4.9 percent, compared to 9.0 percent in 2010/11. This was explained by a decline in crop production growth from 10.3 to 5.0 percent (Figure 1.5). Despite the emphasis in the GTP on agricultural commercialization, very limited financial resources are available for private initiatives and productivity enhancement.

A difficult external environment also took its toll on growth. Economic activity declined among trading partners, including the EU, China and neighbouring countries (Figure 1.1). International prices for coffee, Ethiopia's biggest traditional export crop, declined by about a third. Only gold prices remained high and stable in the first half of the fiscal year, though prices have dropped recently (Figure 1.2). As a result, the positive growth impulse from net exports in the two previous years converted into a drag on growth in 2011/12.

Fig. 1

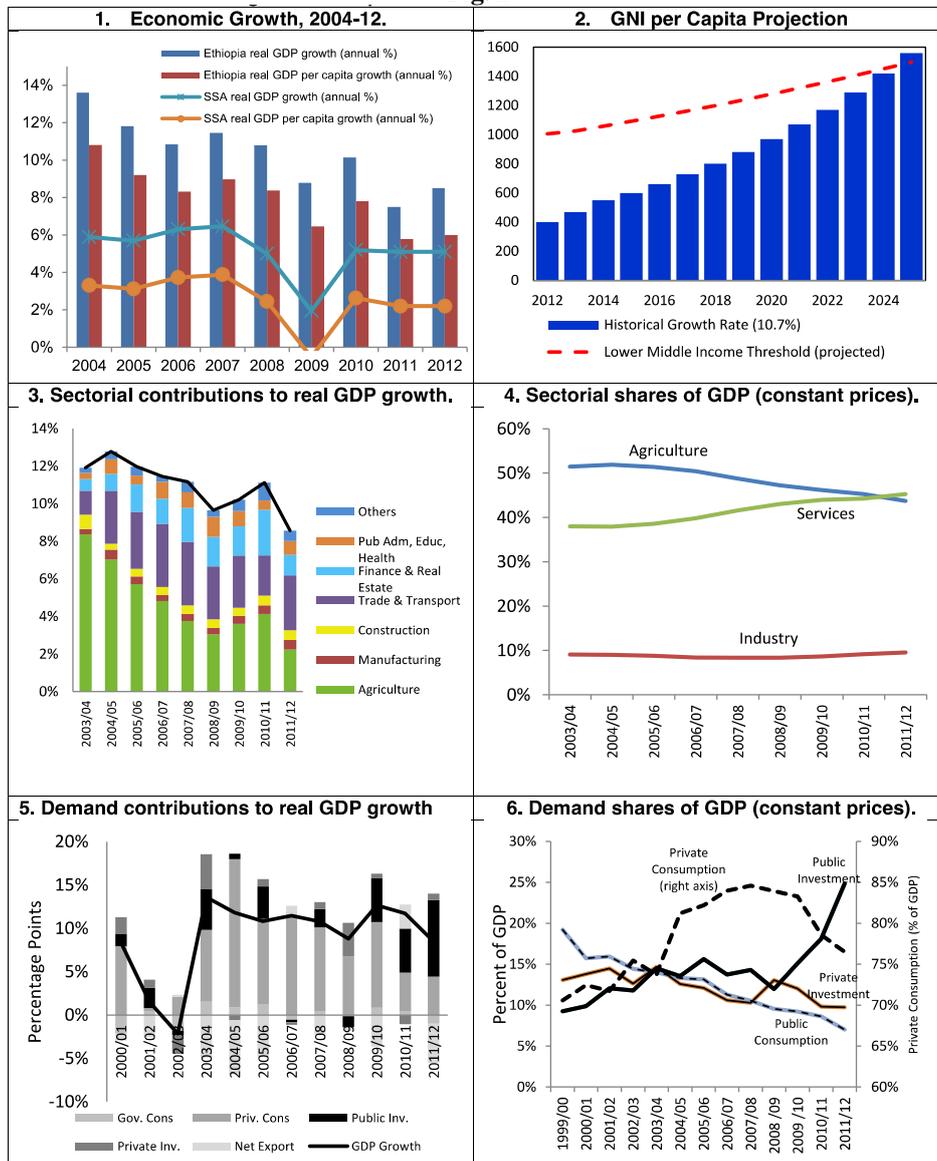


Source: 1.1: World Bank (2013), 1.2: Calculations based on MOFED data. 1.3: EUROSTAT. 1.4: World Bank. 1.5: CSA. 1.6: EEPKO. Note: Demand side decomposition uses GDP deflator for individual items. Note: Figure 1.2 prices are quoted in dollars/barrel (oil), cents/kg (coffee, Arabica), and US\$ per troy ounce (gold).

Beyond the short term macroeconomic analysis previously discussed, the examination of the economic growth sources shows a declining role of both private consumption and investment, while public investments are on the rise (Figure 2.5 and 2.6). Between 2007/08 and 2011/12, public investment increased from 14 to 25 percent of GDP. Private consumption, on the other hand, declined from 85 to 77 percent of GDP. Public consumption fell from 11 to 7 percent of GDP; while private investment fell from 13 to 10 percent of GDP with the residual being explained by net exports. Such trends might hamper the Ethiopian aspiration to become a middle income country by 2025 (figure 2.2). The next sections explore the reasons why those trends should be reverted and what role should be played by the international and bilateral cooperation to support the private sector development.

To conclude this section is worth noting that Ethiopian economic growth data are highly debated. While the government projects growth to remain above 11% annually, the IMF expects the annual growth to decelerate to 6.5% in the medium term due to limited opportunities for the private sector to leverage the large public investment, crowding out of private sector credit, and entrenched inflation expectations. The debate involves also the data gathering and the methodology to calculate the GDP and other macroeconomic variables. The accounting data used for macroeconomic purposes are considered unreliable by several international observers. The methodology used to aggregate data in the service sector is flawed by numerous duplications. The mechanism for collecting socio-economic data is altered by propaganda, the need to attract foreign investment and over-reporting to please supervisors. In the case of agricultural production, for example, the growth is systematically inflated. The phenomenon is evident when growth is checked with data on the use of fertilizers and weather conditions. Finally, in a strong inflationary context, public officials and members of the government suffer often of 'monetary illusion' and confuse 'face value' and 'real' results. Should we therefore conclude that actually Ethiopia is not growing at all? Absolutely not, we simply suggest handling official data with care and conservative attitude.

Fig. 2



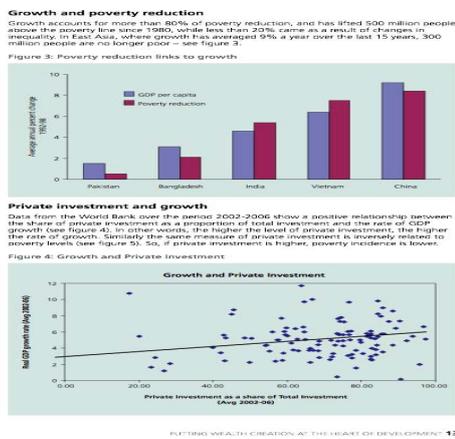
Source: 2.1: MOFED and IMF. 2.2: WB data. 2.3-2.6 WB calculations based on MOFED data. Note: The demand composition of GDP growth is based on WB estimates using the GDP deflator for individual demand components.

The scope for private sector

The Growth and Transformation Plan sets clear and ambitious targets to be reached by Ethiopia in a short period of time. As mentioned before, the country aims to achieve middle income status by 2025, through accelerated growth and sustainable development. This goal cannot be achieved without an adjustment in economic policy to phase in the private sector as an additional engine of growth. Moreover, Ethiopia needs to make progress in enhancing domestic savings, and, resolving the bottlenecks of the trade logistics system.

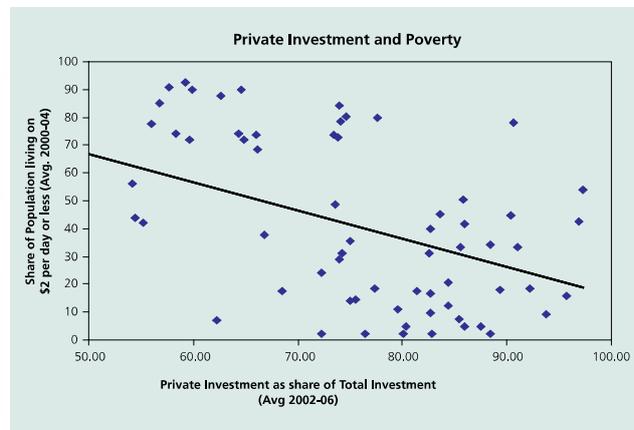
Economic growth will require that the productivity of existing activities is increased, including a more efficient and profitable agriculture sector, and that new and diversified economic activities are developed. Both lines of effort require investments by the private sector. Evidence clearly shows a positive relationship between the share of private investment as a proportion of total investment and the rate of GDP growth (figure 3). In other words, the higher the level of private investment, the higher the rate of growth (for example Haiti, Argentina and Sri Lanka have low level of private investment and low rate of growth, while Korea, Singapore and Brazil have a high level of private investment and high rate of growth). Similarly the measure of private investment is inversely related to poverty levels (figure 4). So, if private investment is higher, poverty incidence is lower.

Fig. 3



Source: World Bank.

Fig. 4



Source: World Bank.

Nine out of ten jobs in the developing world are in the private sector. More accessible and competitive markets enable poor people, including youth and women, to find their own way out of poverty by providing more real choices and opportunities. Markets that function well have wider economic benefits too. They encourage firms to innovate, bring and disseminate new technologies, reduce costs and provide better quality jobs, goods and services to more people. According to the last Africa Economic Outlook [6], given the continent strong population growth and the necessary downsizing of the public sector in many countries, a vigorous private sector is the most important source of jobs for the young.

Moreover exports generated by the private sector expand forex earnings needed to buy inputs for building infrastructure. Similarly, the taxes that private companies and individuals pay fund core government functions such as delivering health and education services. Effective tax collection from companies and individuals builds capacity and accountability on the revenue side of public finance, as well as provides resources for public expenditure.

The structural transformation envisaged by the GTP includes a more professional and value-added agriculture sector and a progressive reduction of agriculture to the benefit of industry. These changes will be inevitably accompanied by a process of urbanization. Only the expansion of the private sector might absorb the large number of workers that are expected moving from the Ethiopian countryside to the growing towns.

For poor men and women, the private sector might offer empowerment. The poor live in the private sector – they buy and sell labour, goods and services in private informal markets. To the extent that international labour standards are applied and civil rights guaranteed, poor people who create or join an enterprise gain voice and dignity. When they earn higher incomes they increase their ability to exercise choices and reduce their vulnerability.

The private sector is not a ‘sector’ in the way we refer to transport or education. Private companies are part of the fabric of society and operate in all the areas important to the lives of the poor. Also, private companies, not affected by cronyism, which is actually a relevant problem in Ethiopia, can have a different performance culture to government agencies. They are often subject to competitive pressures in markets, and their owners, management and staff are rewarded according to their ability to generate profit. Since profit is an easily measured indicator of performance, it can be used to make rapid adjustments to the deployment of resources in relation to achievements. And, inevitably, companies that do not make profits go out of business. This simple feedback process is the reason why private companies are generally more efficient and innovative than their local counterparts in government service.

This is not to say that there is not an important role for a developmental state, which has already been proved effective in Ethiopia. We would like just to encourage the forging of an effective relationship between the state and private organizations based on comparative advantages in order to provide a sound foundation for successful development. The capability of the state underpins political and economic stability and helps ensure that human rights, personal safety and the security of property are respected. And the state is generally primarily responsible for the provision and regulation of infrastructure, health and education. The state also plays a critical role in providing the institutions required for private companies to grow. It sets the climate for investment and commerce through trade policy, competition policy, regulation of utilities, commercial justice systems, taxation, land reforms, labour codes and environmental management. Markets themselves can be seen as institutions with their own ‘rules of the game’ that are set by historical, political and cultural factors. It is the role of the state to arbitrate between competing claims on resources and to maintain stability.

The state plays an important role to overcome market failures. It cannot be assumed that conventional economic policies such as market liberalisation will automatically reduce poverty through a ‘trickle-down’ process. On the contrary, it is now widely accepted that specific measures are needed to ensure that the poor participate. Growth needs to be made available to all in order to address rising inequality, and provide opportunities and the capability to participate in markets. It is justifiable for donors to support government interventions in markets where there are significant failures and inefficiencies which limit private sector growth and prevent the participation of poor men and women, such as in the following remarkable cases:

- monopoly or imperfect competition. If a few producers gain sufficient market power, they can exclude potential competitors, restrict supply and charge higher prices. This is the case in many developing country markets, especially where investment costs are high. Where competition is limited or distorted, it is usually the weak and poor who lose the most.
- Asymmetrical information. Instead of all buyers and sellers having access to the same knowledge, some producers or consumers may lack information, allowing others to exploit their ignorance. Poor information may prevent producers meeting the needs of consumers, and be partly to blame for the failure of financial markets to lend to the poor, and for suppliers of consumer goods failing to meet the needs of the poor.
- Social exclusion. Markets where specific social groups such as women, ethnic minorities or castes face discriminatory barriers that prevent or discourage market participation.
- Incomplete markets. Markets in some developing countries can be either non-existent or too ‘thin’ to function properly. Because of problems such as high risks, high transaction costs, high transport costs and short time horizons of investors, markets only provide for the needs of the wealthier few. Consequently, the reach of the market is limited.
- Coordination failures. For markets to work, they often need complementary markets and functions to develop with them (for instance, rice and the supply of rice processing machinery). Where price signals fail to cause the complementary market to develop, a co-ordination failure occurs, preventing the growth of the market or causing it to be incomplete.
- Externalities and public goods. Some activities produce positive or negative effects that are not reflected in the market price. For example, the costs of pollution are not reflected in the costs of the producer. This means that the market over or under supplies some products. ‘Public goods’, such as basic health and clean air, are non-excludable and non-rivalrous. In these cases often the state can better regulate production and consumption than the market.

Having acknowledged the key role of the state to support development - we would like to stress that vibrant, competitive markets populated by dynamic private companies offer the most effective way to create wealth, productive jobs and prosperity for all on a sustained basis. Wealth creation is at the heart of development. The evidence is clear – increasing incomes amongst the poor leads to better educated and healthier poor people. The involvement of poor people in economic growth is the best way to get people out of poverty and represents the exit strategy for aid.

The state of private sector in Ethiopia

The GoE is right in asserting that Ethiopia’s private sector is weak. The years under the communist Derg, with its policy of almost total state ownership, and the constant civil war, ensured that the private sector died during that period. The best entrepreneurs fled abroad. In recent years, parts of the Ethiopian diaspora have returned but the level of entrepreneurship remains low. Data from the World Bank shows that the rate of formal enterprise creation in Ethiopia is amongst the lowest in SSA.

The World Bank Enterprise database [7] shows that only a limited number of limited liability companies are registered. Taking into account other types of business does not change the view that entrepreneurship is low. The annual rate of business registration of less than 7,000 in Ethiopia contrasts with Ghana where over 45,000 businesses are registered annually. Ghana’s population is about a third of Ethiopia’s. Even when account is taken of the informal sector, the level of entrepreneurship remains low. The Ministry of Trade estimates the number of informal businesses amounting to 1.5 million. This contrasts with nearly 7 million in Nigeria, a country with less than double of Ethiopia’s

population.

Private corporations, which represent the formal private sector, generate just 27% of GDP. Much of private sector GDP (80%) comes from the informal economy, especially informal agriculture. These corporations employ just 5.8% of the workforce. The vast majority of the work force, some 88%, is informally employed. In 2011, the World Bank estimated [8] that private gross fixed capital formation accounted for just 4.1% of GDP in Ethiopia. This is well below the Sub Saharan African (SSA) average of 13.4% of GDP and less than a fourth of the 20% achieved in the Far Eastern countries (such as China, Korea, and Singapore) that GoE seeks to emulate. The low level of domestic private investment is reinforced by one of the lowest rates of net foreign direct investment (FDI) in the world. According to the IMF, FDI represents just 2.5% of GDP in 2012 [9].

There are few large domestically grown businesses in the country. Moreover, what the literature traditionally identify as 'genuine private sector', has been dwarfed by the activities of two large blocs: the Midroc 'empire' owned by Sheikh Mohammed Alamoudi, and the so-called 'party-associated' enterprises, belonging to the conglomerate EFFORT. The Endowment Fund for the Rehabilitation of Tigray, EFFORT, was established by the TPLF as a means of co-ordinating the effective developmental use of the material and cash resource in the possession of the at the end of the war with the Derg. Under the umbrella of the foundation, and sister organisations in other EPRDF-administered regions, a range of commercial enterprises and factories were established, dealing in trade, agriculture, fertilizer, cement production, textiles and garmenting, livestock and leather, ground transport, mining, engineering, and finance. Together these represent an enormously influential and strategically integrated bloc, dominating key sectors of the economy [10].

There is state monopoly or state dominance in sectors such as telecommunications, power, banking, insurance, air transport, shipping, and sugar. State-owned enterprises have considerable advantages over private firms, particularly in the realm of Ethiopia's regulatory and bureaucratic environment, including ease of access to credit and speedier customs clearance. Local business owners as well as foreign investors complain of the lack of a level playing field when it comes to state-owned and party-owned businesses. While there are no conclusive reports of credit preference for to these entities, there are indications that they receive incentives such as priority foreign exchange allocation, preferences in government tenders, and marketing assistance.

Beside these large actors, the vast majority of businesses are small, sole proprietorships. In Ethiopia, even amongst limited liability companies, the vast majority are micro and small enterprises employing less than 50 persons and with capital employed not exceeding \$300,000. There is a missing middle of medium scale enterprises [11] with a consequent limited potential to create new jobs.

Clearly, historical factors have restricted entrepreneurship and private investment. But there are constraints at present, well known from the government side, that are limiting entrepreneurship and private investment. In the occasion of the Prime Minister Investor Conference in 2012, the public private consultative forum, has identified a number of specific problems to be urgently addressed: sudden changes in regulations without any grace period, unclear and inconsistent application of regulations, inadequate coordination between Government implementing agencies, business licensing/registration problems (length of time taken to obtain a licence, requirement to obtain a licence for each specific business activity, requirement to renew it annually, no permission to manage more than one business), tax system issues (double taxation, retroactive implementation), and rise of corruption.

Responsibility and ownership for the facilitation of private sector investment remains fragmented and unclear, particularly in the agriculture sector where numerous ministries and agencies appear to have interest and/or mandates to improve investment. The Parliament has approved a new investment law in November 2012, which, however, fails in clearly outlining roles and responsibilities of the numerous ministries and government entities involved in trade and investment.

In addition to all constraints to private sector development examined so far, a cultural issue is worth to be explored in order to understand why after 20 years from the restoration of the rule of law and the market economy, entrepreneurship and private investment are still so low. Economic success in Ethiopia is regarded with suspicion. In particular among the orthodox believers (45% of the population) is still deeply rooted the idea that "making money" lies in the realm of devil's affairs. Among EPRDF politicians and top government officers, a similar suspicion stems from their ideological background in Marxism and command economy. The two phenomena magnify when combined. As a result, beyond official statements in favour of the market economy, the executive choices of the government and the attitude of the society are often not favourable towards private small and medium entrepreneurs. A clear example can be identified in recent unjustified entrepreneurs imprisonments based on sector estimation of taxes due regardless of the actual profit generated by the specific business. Unsurprisingly the culture of entrepreneurship remains poorly developed in Ethiopia.

A new role for the development cooperation

For a long period of time the development cooperation in Ethiopia has focused on social sectors such as health, education and food security. Those sectors are important, but they are not enough to face the challenges and contradictions analysed above. Currently only 2% of ODA is allocated to private sector development [12]. More should be done and development cooperation in Ethiopia has to evolve to find no-distortive and sustainable ways to support the economic growth of the country.

PSD approaches have evolved over the years. Earlier programmes in the 1980s focused on providing finance and

support services to individual businesses – often with an implicit or explicit subsidy. Aid was commonly tied to the purchase of goods and services from donor countries' companies. While this enabled some businesses to grow, it did little to promote wider market development in either financial services, or in business support services. In the 1990s, as concerns about the importance of poverty reduction increased, the attention of PSD programmes shifted towards small and medium enterprises and microfinance.

More recent PSD thinking has focused on the market system as a whole and on the overall environment for business. This has led to programmes that support the improvement of the business climate, regulatory reform and enhancing market development. Despite these trends, donor support for PSD in Ethiopia remains fragmented. There is plenty of innovation but only few mechanisms that enable co-ordination and learning, among them the PSD Sector Working Group, bringing together the Government and the donors is one of the most effective. A promising additional initiative is a Multi Donor Trust Fund proposed by the Italian Cooperation and led by the International Finance Corporation (IFC), articulated in two main pillars (investment climate and access to finance) meant to bring on board and coordinate as many donors as possible. However the problem remains, given that incentives facing different donors vary widely. Bilateral donors are influenced by political priorities, while multilateral lending agencies face the need to develop and expand their loan portfolios.

Looking at the broader picture, as commercial interest in developing countries has grown, there has been a significant rise in private financial flows in the form of remittances and investment. These are now bigger than official Overseas Development Assistance (ODA) in general [13], and potentially relevant for Ethiopia. The rise of the 'BRICS' (Brazil, Russia, India, China and South Africa) reveals a shifting world order in which former recipients of aid become donors themselves. New donors, including China and India, take very different approaches. Other new entrants include private 'philanthro-capitalists' such as the Gates and Google foundations and the vertical 'single issue' global funds.

Within this environment, development partners need to address a number of key issues if they are to effectively support private sector development in Ethiopia. These include:

- forging and disseminating an entrepreneurship culture at all level in the society.
- Making the best use of an emerging common interest in sustainable development between private companies and development agencies. An example is the New Alliance for Food Security and Nutrition committed between the Government and the G8 to working together to generate greater private investment in agricultural development, scale innovation, achieve sustainable food security outcomes, reduce poverty and end hunger.
- Attracting more private sector participation in both the financing and provision of key development-related services such as infrastructure and some health services.
- Ensuring that the rapidly evolving and integrating global trade and financial systems work for the benefit of people and companies in Ethiopia.
- Increasing the private sector development performance of international agencies.
- Engaging with new and emerging donors such as China and India who are making significant trade-related PSD investments in Ethiopia or the vertical funds.
- Improving knowledge management of private sector development impacts to disseminate best practice more effectively.

Supporting PSD could lead to a substantial positive impact on development results for all the reasons that have been set out. But this will require that donors and their staff begin to think about how to incorporate PSD in all the appropriate areas of their work. For example, livelihoods advisers already look at markets and links with the livelihood opportunities for the poor. Infrastructure advisers should expand their work on private sector participation in the financing and delivery of infrastructure services. Other advisers could explore how markets and innovative public-private partnerships could improve the delivery of other core services to the poor – including health, education and environment. Labour experts should seek strong co-operation with the private sector to understand employers needs and create opportunities for young people in the form of apprenticeships and internships. Governance advisers could further examine how the state operates to improve the business' performance and behaviour.

Particular attention should be paid by the international community in all the initiatives at firm level support. Not only to avoid market distortion, but also the risk to increase the privileges of the 'cronies' above mentioned and jeopardize other initiatives for the creation of a level playing field. In this view a simple stock taking exercise of the existing support at firm level may significantly help.

Finally, the donors' strategy should build on areas that have already proven successful in PSD, such as improving access to the financial sector, market development, infrastructure financing and investment climate reform. But the strategy should also foresee continued innovation and experimentation, such as the use of challenge funds, venture capital, transparency initiatives and other facilities for developing partnerships with private firms and foundations.

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