The Politics of Trade in the Era of Hyperglobalisation

A Southern African Perspective

Rob Davies

SOUTH CENTRE

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The South Centre enjoys support and cooperation from the governments of the countries of the South and is in regular working contact with the Non-Aligned Movement and the Group of 77 and China. The Centre's studies and position papers are prepared by drawing on the technical and intellectual capacities existing within South governments and institutions and among individuals of the South. Through working group sessions and wide consultations, which involve experts from different parts of the South, and sometimes from the North, common problems of the South are studied and experience and knowledge are shared.

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I have prepared this work after more than a quarter century of engagement in issues of international trade and regional integration. In May 2019 I retired after a decade as South African Minister of Trade and Industry. For four years before that I was Deputy Minister in the same Portfolio, and in 1996 I began a nine-year term as Chairperson of the Parliamentary Portfolio committee on Trade and Industry. In one or other capacity, I attended every World Trade Organization Ministerial meeting since that in Seattle in 1999. Before entering Parliament in 1994, I was involved as an academic researcher in matters of regional economic integration, particularly in the Southern African Development Community (SADC) region. During my time in government, I was involved in many of the most important debates and discussions on African regional integration.

In preparing this study, I have benefitted from comments by colleagues I had the privilege to work with in government over the past quarter of a century. They include Faizel Ismail and Xavier Carim, two outstanding former South African Ambassadors to the World Trade Organization, their worthy successor and current Ambassador, Xolelwa Mlumbi Peter, Nimrod Zalk, who played a major role in developing South Africa's Industrial Policy, and Jeremy Cronin, a former Deputy Minister but more importantly one of South Africa's foremost strategic thinkers. I am grateful to each of them for their pertinent comments on earlier drafts. I have also had the privilege of engaging personally with, as well as reading works by, Nobel economics laureate, Joseph Stiglitz, and Richard Kozul Wright of the United Nations Conference on Trade and Development, two of the most important analysts and writers on issues raised here. I would like to acknowledge their intellectual influence. Richard Kozul Wright also took time to provide extremely valuable comments on an earlier draft of this work and I am certain it is a much better product for my having attempted to incorporate them. I would also like to acknowledge the love and support throughout my Ministerial career and now in my retirement of my wife, Grace. Discussions and debates over many years with my children Joe, Ellen and Matthew have been invaluable in sharpening my thinking and I am grateful to them for these.

Contents

CHAPTER 1
INTRODUCTION

Matters of international trade are increasingly widely recognised as major shapers of global politics. News bulletins are giving more and more coverage to matters like the so-called "trade wars" between the United States and China. These are, indeed, increasingly defining relations between the two largest economies in the world and could well underpin a multi-dimensional rivalry that could be a central feature of international relations for many years to come. Brexit is dominating and indeed re-shaping politics in the United Kingdom. By definition a rejection of a regional integration arrangement, Brexit has also revealed under-currents profoundly shaped by the outcome of a broader trade-driven process called "globalisation". Just as regional integration is weakening in Europe, African countries have taken decisions that could lead to the most profound and ambitious step forward in African regional integration – the establishment of an African Continental Free Trade Area (AfCFTA).

This study seeks to present an analysis of the political economy of trade negotiations over the past quarter century on two main fronts: the multi-lateral and those pertaining to regional integration on the African continent.

Cross-border trade has long been a critical issue in economic policy. In classical political economy, David Ricardo developed a theory of trade based on "comparative advantage"[1]. Climatic and other conditions in Portugal made it possible to produce wine there at a lower cost than it could be in England. Conditions in England (including its higher level of industrialisation) meant that textiles could be produced there more cheaply than they could be in Portugal. The relative costs of production made it economically rational for each

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[1] David Ricardo, *On the Principles of Political Economy and Taxation* (1817) published in 1951 in the compendium *The works and correspondence of David Ricardo* (Cambridge University Press).

country to concentrate on its "comparative advantage" and to engage in cross-border trade, in this case of Portuguese wine for English textiles. More recently, neo-classical economists argued that countries were not bound by their "static" comparative advantage, but could act to create "dynamic" competitive advantages in certain areas that would enable them to participate more widely in international trade.[2] But actual trade outcomes have never been shaped by rational considerations of relative advantage alone – whether comparative or competitive. Struggle and competition have always profoundly affected trade outcomes. Colonialism, after all, was about the use of force to obtain access to cheap resources in other countries, including in Ricardo's time - human resources in the form of slaves. Wars between major powers were also traceable to competition for access to resources by empires – and were hence described as imperial wars. Even relative advantage – competitive in particular – was profoundly shaped by domestic policy choices that affected positions taken on matters of international trade. Over time, and in the aftermath of the destruction unleashed by wars, trade outcomes have been delivered by way of negotiation. Since World War II, these have taken place within the framework of a multi-lateral rules-based system that was strengthened considerably in the 1990s.

In detail, multi-lateral trade negotiations have involved bargaining between state parties over the giving and taking of concessions on tariff levels as well as various policies or rules that impact on market access.

Tariffs are taxes imposed by governments on imports. They may be levied to raise revenue, but are also, more importantly, tools to support local industries. For example, if the price of a locally produced product in a domestic market is 10% higher than that of a competing import, in principle, the levying of an import tariff of more than 10% should give a price advantage to the local product over the import. "Trade remedies" is a term that covers actions taken by governments to defend their local producers against actions taken by others. They include "anti-dumping duties" imposed in cases where imported products are

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[2] See Michael Porter, *Competitive Advantage* (Free Press, 1985).

sold in another domestic market at a price below the market price in the country of origin. Dumping may be resorted to if the exporting country has surplus stock which, if sold at a price at least above marginal cost, makes a net contribution to revenue. Trade remedies also include "countervailing duties" imposed to neutralise the price advantage enjoyed by an imported product as a result of subsidies provided by the government of the producing country.

Market access may also be affected by what are called "non-tariff barriers" (NTBs). These include, but are not limited to, "technical barriers to trade" (TBTs), matters related to technical standards applied to industrial products. Sanitary and Phytosanitary Standards (SPS) regulations on agricultural products are another key issue. These are technical standards imposed on agricultural products in the name of animal, plant or human health, food safety, consumer or environmental protection, but which can also be applied to exclude competitive products from other producers. Other regulations affecting market access include localisation requirements for public and private procurement, rules on Intellectual Property (patents, copyright, trade marks) and on investment. Finally, there is the matter of the overall efficiency or otherwise in the issuing of permits and authorisation. If processes are cumbersome and onerous, these impact negatively on the ability of exporters to secure access for their products into particular markets. These issues are generally referred to as matters of "trade facilitation". International trade negotiations involve bargaining over all of these kinds of issues, with state parties typically seeking concessions from others "paid for" in the form of concessions to others on entry into their own markets.

All these matters are also the basis of various articles of multi-lateral rules. In 1948, in the aftermath of World War II, the General Agreement on Tariffs and Trade (GATT) was established with the aim of managing trade negotiations within a system of international rules. It was replaced in 1995 by the World Trade Organization (WTO). GATT, and later the WTO, operated on the basis of overriding framework principles. These include: "reciprocity" – meaning that any concessions received by a member or members would have to be paid for by concessions granted to other members; "non-discrimination" or "most-favoured nation" - meaning that members would have to apply the same terms and conditions to trade with all members; and "national treatment" – meaning that foreign owned enterprises would be provided with the same conditions in a particular market as domestic enterprises. These principles were however never absolute. They were qualified, in the first instance, by differentiation between members into developed, developing and least developed countries. "Less than full reciprocity" and "special and differential treatment" meant that the level of reciprocity required of developing and least developed countries was less than that of developed country members. "Flexibilities" of one sort or another also became part of trade rules. Finally, variation is permitted in regional or bilateral arrangements, subject to multi-lateral rules and reporting requirements.

Positions of national governments on all of these issues have been shaped primarily and fundamentally by the commercial interests of important domestic interest groups. Such interests may be offensive (seeking access to others' markets) or defensive (seeking to restrict access by others to one's home market) or are, more usually, a combination of the two. Often these are differentiated according to sector, meaning that the position of any particular country may be offensive in some sectors while being defensive in others. The outcome of detailed trade negotiations, not surprisingly, generally reflects the balance of power established between state parties. Power, in this context, is constituted at a number of levels. Market power (the size of one's market) and trade strength (the presence occupied in international trade both as exporter and importer) are key factors, which derive from the size and level of development of particular economies. But in addition, power is also shaped by other less direct factors. These include institutional strength and negotiating capacity mobilised by state parties in negotiating processes. Beyond this lies the ability to drive a narrative, based in part on the activities of lobby groups and in part on the abilities of various think tanks to produce often self-serving research inputs.

The interests of state parties reflect their overall level of development, as well as their own specific sectoral strengths and weaknesses. Industrialised countries are generally competitive in the production of industrial products and accordingly tend to adopt offensive positions on issues of "non-agricultural market access" (NAMA), although there are often important differences between them and areas where they are not so competitive and are therefore more defensive. Underdeveloped (or developing) countries generally export primary products (minerals or unprocessed agricultural products) and in some cases are more competitive than developed countries in the production of agricultural products. Some developing countries accordingly have become relatively offensive in agriculture, while a significant number of developed countries are defensive in varying degrees. This speaks to the important reality of uneven and unequal development in the global political economy, or what some have called the world system. This is, of course, a capitalist system, but one which has undergone, and is about to undergo even more, profound changes in the period under review – changes summed up in terms like "globalisation" and the "fourth industrial revolution". These have resulted in major shifts in power relations both between and within countries, which have significantly impacted on positions adopted in trade negotiations.

Theoretical frameworks or paradigms have, of course, emerged in various conjunctures and these have also influenced outcomes. Dominant in the period under review has been the narrative of neo-liberalism that has argued for the centrality of trade liberalisation in promoting economic growth and prosperity. It is not that this ever operated as a coherent set of principles or rules informing consistent behaviour by all parties. More often, it functioned as a tool in the hands of the powerful to cajole or persuade others to accede to specific demands put on them.

Positions on "free trade", in particular, are characterized by relativism. Heterodox economists and historians[3] have established the point that all countries that moved from being low income agrarian societies to become what we now call "developed countries" passed through a stage of industrialisation. During this stage, all industrialisers without exception nurtured, supported and indeed protected their nascent or emerging industries. Their position in international trade negotiations at that time was, accordingly, to defend the policy space they needed to support domestic industries against the calls by stronger economies

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[3] See Ha Joon Chang, *Kicking Away the Ladder* (Anthem Press, 2002); Erik Reinert, *How Rich Countries Got Rich…and Why Poor Countries Stay Poor* (Carroll and Graf, 2007).

for market opening. This was as true of the positions adopted by the US against the demands of Britain in the late nineteenth century as it was of positions taken by South Korea in the 1970s or by China in the 1980s. A saying common in the US in the nineteenth century in response to calls from Britain for the US to adopt "free trade" was "don't do as the English tell you to do, do as the English did"[4]. Often though defence of policy space went along with taking advantage of whatever market openings were available to support export growth. This was particularly evident in the case of Korean or Taiwanese industrialisation, where the Cold War inspired market access opportunities given by the US provided an important foothold for these so-called "newly industrialising economies" to develop.

As industrialisers later emerged as globally competitive producers, however, they began to shift to support "free trade" even to the point of seeking to deny others access to the very same policy tools deployed in their own industrialisation. Nineteenth century German economist, Friedrich List, called this "kicking away the ladder"[5].

But while the stage of development provides a general indicator of the likely overall stance of any particular country on the spectrum of free trade/policy space, positions are also shaped by sectoral relativism. To elaborate further on a point raised above, many of the northern developed countries are competitive in manufacturing but less so in certain agricultural products. Several "Southern Hemisphere" agricultural producers, including in developing countries, are actually or potentially more competitive than their counterparts in the north in a range of products. This has resulted in resort by developed countries to higher tariffs and a range of NTBs to limit or restrict entry of competitive agricultural products into their markets. But even within NAMA, while developed countries may be competitive in the production of many products, there are others (typically labour- intensive items like clothing and textiles) where they are not. This has led to resort to tariff peaks (individual tariffs much higher than the average) or tariff escalations (where higher value addition attracts higher

[4] Reinert, op cit, p 168.

[5] Friedrich List, *The National System of Political Economy* (1841). This is also the title of Ha Joon Chang's book cited in footnote 3.

tariffs). Such "relativism" has resulted in a high level of dissonance or even outright hypocrisy in trade narratives. As already indicated, what is preached is frequently not practised. But what is practiced is also often not preached. The US, for example, has extensive localisation requirements. The "Buy America Act" requires all inputs for railway company Amtrak to be produced in the US.[6] Localisation policies of this sort are, of course, not "recommended" by the US to countries in the developing world, which are rather "warned" not to close their markets to US imports. Another effect of the dissonance between paradigm and practice is that it has not infrequently seen victories at one level being belied in subsequent detailed negotiating processes. As we shall argue later, frequently developing countries have won the debate on the title of an agreement, or its declared purpose, only to find that the outcome of detailed processes is something quite different.

Trade negotiations, in short, have been driven by short-term self-interest, reflect power relations and are characterised by relativism. In this study, I will explore how these realities in the era of "globalisation" and "neo-liberalism" contributed to growing uneveness and increasing inequality both within and between countries. The new trade order driven by these processes did, however, have another result. China emerged first as a major producer and exporter of manufactured products and later as a serious innovator and competitor in the technologies of the 4th Industrial Revolution. This was responsible for the vast bulk of the lifting of billions out of poverty much trumpeted by neo-liberal praise singers. But it was not that China achieved this by conforming to the policy "advice" proffered to a host of other developing countries. It decidedly did not. Its progress was the product of a deliberate state led industrial policy. Like other industrialisers before it, it took advantage of export opportunities open to it, while

[6] See "FRA Buy America and Related Requirements-Federal Railroad" at https://www.fra.dot.gov.

carefully calibrating the opening up of its own economy[7]. Only recently in the face of threats to close export markets to its products has China become a proponent of "free trade". Its prudent strategic decision in the past few years to turn to domestic consumption as a driver of development and its energetic drive to become a significant player in the technologies of the "4th Industrial Revolution" have resulted in that country becoming the second largest economy in the world and a major competitor to the declining global hegemon. This, plus the growing political influence of "discontents" in the developed world, has dramatically changed the political economy of the global trade landscape. We are now at a point where the crisis of neo-liberalism, evident at least since the onset of the global great recession, has now become an existential crisis for the rules-based multilateral trading system itself. This we will trace in Part 1 of this study.

Regional integration in developing regions could and should be an important tool for developing countries, particularly those with small domestic economies, to drive economic diversification and industrialisation in an increasingly problematic global environment. In Part 2 we will examine the processes underway to promote regional integration on the African continent, culminating in the establishment of the African Continental Free Trade Area (AfCFTA). Here I will argue that, while these processes are broadly moving in the right direction, the "practical" discussions and debates shaping the processes actually mask a too little recognised paradigmatic incoherence that could result in African regional integration failing to achieve its full promise.

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[7] It is widely agreed that China's liberalisation "reforms" took place in phases starting under leadership of Deng Xiaoping in 1978. Local experimentation, the construction of Special Economic Zones and liberalisation of entry of foreign investment before trade liberalisation were all features of this process .China benefitted enormously from the process of phasing out of quotas under the Multi Fibre Arrangement that began with the establishment of the WTO in 1994 and was completed in 2005. This enabled Chinese clothing and textile products, initially produced in Special Economic Zones, to capture an increasing percentage of world markets providing thereby a major boost to the country's industrialisation. Serious trade liberalisation only really began after China joined the WTO in 2001. See among others Barry Naughton and Kellee S Tsai, eds, *State Capitalism, Institutional Adaptation, and the Chinese Miracle* (Cambridge University Press, 2015).

PART ONE
FROM NEO-LIBERAL TRIUMPHALISM TO CRISIS OF THE MULTI-LATERAL TRADING SYSTEM

CHAPTER 2
THE WORLD TRADE ORGANIZATION: RISE OF A BEHEMOTH

The vast bulk of international trade is now conducted within the framework of a multi-lateral, rules- based system. At the apex of this stands the World Trade Organization (WTO). The WTO came into existence with the ratification of the Marrakech Agreement in 1995. As of 2018, the WTO had 164 member territories with 23 others participating as observers or members in accession. Together these WTO members were responsible for 99,95% of global trade[1]. The Marrakech Agreement was the culmination of the 1987-1993 "Uruguay Round" of trade negotiations conducted under the auspices of the WTO's predecessor – the General Agreement on Tariffs and Trade (GATT). GATT was established at the end of World War II along with the International Monetary Fund (IMF) and World Bank (WB) as one of a trio of multi-lateral institutions charged with "managing" the world economy.

The "Uruguay Round", whose agreements continue to form the basis of the multi-lateral trade rules to this day, took place at a specific conjuncture in the development of the world economy - a period of what was widely styled "globalisation", but which critics today call "hyper-globalisation"[2]. The United Nations Development Programme (UNDP) in the 1997 edition of its *Human Development Report*[3] argued that the term "globalisation", in vogue at the time, encapsulated "both a description and a prescription".

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[1] Wikipedia - World Trade Organization; https://www.wto.org - CBT course-Handbook on Accession to the WTO.

[2] This term was coined by Dani Rodrik in 2011. See *The Globalization Paradox* (W. W. Norton & Company). It has also been taken up by the United Nations Conference on Trade and Development (UNCTAD). See for example, *Trade and Development Reports* for 2017 and 2018 passim.

[3] New York, Oxford University Press, 1997, p 82.

As a description, globalisation spoke to the widespread opening of domestic economies to cross border trade and investment. This was driven by a series of profound, interconnected changes taking place in the world economy from the mid-1980s onwards. These included at least the following:

There was the rise to dominance of trans-national capital. Eric Hobsbawm[4] argued that the end of the twentieth century saw a shift from an "international" to a "trans-national" mode of operation of the world economy. While an international mode of operation involved increasing international trade and cross border investment from national state territories, trans-nationalisation involved the creation of a system of economic activities in which state territories and frontiers were no longer the basic framework for economic activity, but were often complicating factors. In every sense except retaining a "national identity" and a dependence on a national government for support and championing, by the early 1990s, trans-national capital had decisively "outgrown" the borders of national states. What trans-national capital sought and demanded was access to inputs from suppliers from several countries, the ability to locate and relocate production processes in different parts of the world, and the freedom to sell products in any market it chose across the globe.

Linked to this was what Manuel Castells[5] called the rise of "globally networked capitalism". The process of networking was linked to and facilitated by, but not reduced to, the rise of Information and Communications Technology (ICT). The ICT technological revolution (later called the "third industrial revolution") allowed the organisation and coordination of production, finance and distribution on an increasingly global scale. As Castells put it,

> "... strategically crucial activities and economic factors are networked around a globalised system of inputs and outputs, which conditions the fate of all economies and

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[4] See Eric Hobsbawm, *The Age of Extremes: The Short Twentieth Century 1914-1991* (London, Vintage books, 1994).

[5] Manuel Castells, *The Rise of the Network Society; The Power of Identity; End of Millennium* (Blackwell, 1996; 1997; 1998).

> most jobs. By 'strategically crucial economic activities' I mean, primarily, capital markets, science and technology, information, specialised labour, affluent consumer markets, multi-national networks of production and management in manufacturing (including industrialised farming), and advanced services, media communication (including the internet), entertainment (including sports) and - not to forget - global crime. New information and communication technologies, based on micro-electronics, telecommunications and network-oriented computer software, have provided the infrastructure for this new economy. While the internationalisation of economic activities is certainly not new, this technological infrastructure is. Network-oriented information and communication technologies allow for unprecedented speed and complexity in the management of the economy. Thus, economic transactions and production are able to increase their size dramatically without hampering their connectivity. They can operate in real time..."[6].

In terminology that became common in discussions within the WTO this process was described as resulting in the creation of "Global Value Chains" (GVCs). GVCs were seen as embracing interconnected value addition in several jurisdictions, with final products increasingly recognisable as "products of the world" rather than products of individual countries. Naturally, companies at the apex of GVCs wanted national state authorities to be open to receipt of imported intermediate products for further processing as well as imported finished goods.

A further feature of great relevance in understanding the later onset of the global "great recession" was financialisation. This is a massive and multi-faceted topic that will only briefly be touched on in this study. Gerald Epstein defined contemporary financialisation as "(t) he increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and

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[6] Manuel Castells, "Information Technology and Global Capitalism", in *On the Edge: Living with Global Capitalism,* W. Hutton and A. Giddens, eds (London, Vintage Books, 2001), p 52.

international economies".[7] Financialisation saw an explosion of financial trading, including in a myriad of new financial "products" (derivatives, securities and futures) traded across national borders through ICT technology. According to Epstein quoting statistics from the Bank of International Settlements, foreign exchange trades rose from $ 1,2 trillion per day in 2001 to $5,1 trillion per day by April 2016. This represented $ 6 of forex trading for every $ 1 spent on cross border trade in goods.[8] Financialisation radically changed the power relations between finance and industrial capital as well as altered business models and practices to prioritise financial tradability. Robert Brenner[9] also showed that this drove a major shift in the prevailing pattern of cross border investments away from longer term direct investments into short term portfolio investments managed and traded by ICT driven global networks.

These objective developments in the modus operandi of globalised capital were accompanied by what the UNDP called a "prescription". In the words of the UNDP,

> "The prescription is to liberalize national and global markets in the belief that free flows of trade, finance and information will produce the best outcome and growth for human welfare. All this is presented with an air of inevitability and overwhelming conviction. Not since the heyday of free trade in the 19th century has economic theory elicited such certainty"[10].

It was no accident that all of this coincided with the collapse of the Soviet Union and the end of the cold war. In an influential piece written at the time, Francis Fukuyama opined that these developments

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[7] "Financialization Has Turned the Global Economy into a House of Cards: An Interview with Gerald Epstein", Truthout, 23 July 2017. Available from https://truthout.org/articles/financialization-has-turned-the-global-economy-into-a-house-of-cards-an-interview-with-gerald-epstein/.

[8] Ibid. See also https://www.bis.org (Publications, April 2016) and Gerald Epstein, ed, *Financialization and the World Economy* (Edward Elgar Publishing, 2005).

[9] Robert Brenner, "The Economics of Global Turbulence", *New Left Review*, 229 Special Edition, May/June 1998.

[10] UNDP, op cit, p 82.

marked "the end of history"[11]. Fukuyama meant this in a Hegelian sense that the systemic conflict between socialism and capitalism was now over, and that US style liberal capitalism had emerged as the highest form of civilisation. The US was the only remaining superpower, the undisputed hegemon, and its systems and institutions represented the "gold standard" that all others should follow. The doctrine known as neo-liberalism[12], or by its adherents as the "Washington consensus", was heralded by a host of researchers, praise singers and pop commentators. One of the best known of the latter was Thomas Friedman, who published a much-read book titled, *The Lexus and the Olive Tree*[13]. Friedman coined the phrase "golden straitjacket" to describe the panoply of neo-liberal policy prescriptions. Donning the "golden straitjacket", Friedman argued, offered all countries across the world the prospect of inclusion into a global system of prosperity (the Lexus). Refusing to do so would confine them to lower level activities (the Olive Tree). Friedman went further to argue that a world shaped by US style consumption patterns would usher in a more peaceful world. To sustain this, he put forward the "golden arches" theory of world peace, arguing that no two countries that hosted McDonald fast food restaurants had ever engaged in armed conflict.

The Uruguay Round ushered in the most ambitious cuts in industrial tariffs in nearly a century. Their impact on many developing countries was profound and long lasting. In the case of South Africa their impact was exacerbated by the fact that the apartheid rulers who led the country's delegation in most of the engagements in the Uruguay Round declared the country to be "developed". This historical injustice meant that, with a few exceptions won in a last-minute phone call between the not yet President Nelson Mandela and President Bill Clinton, South Africa was obliged to implement industrial tariff cuts much deeper than those of comparable developing countries. The near

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[11] Francis Fukuyama, "The End of History", *The National Interest*, 1989, 3-18.

[12] For one of the most rigorous analyses of the intellectual history of neo-liberalism see Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neo-Liberalism.* Among other things, Slobodian argues neo-liberalism was less about shrinking government than about re-deploying regulation at global level with the aim of insulating market outcomes against the actions of national states.

[13] New York, Anchor Books, 2000.

consensus in South Africa now, though not at the time, is that these cuts contributed significantly to the premature de-industrialisation the country experienced in its early years of democracy.

The Uruguay Round also introduced a number of hitherto unprecedented "trade related" commitments. These included the Trade Related Intellectual Property measures (TRIPs) that entrenched a higher level than hitherto enforceable recognition of intellectual property rights (patents, copyrights, trade marks etc) and the Trade Related Investment Measures (TRIMs) that prohibited the imposition of localisation requirements on private investors. Significantly though the Uruguay Round did not establish any significant new disciplines on either agricultural trade or trade in services. These matters, rather, were left as part of a "built in agenda" for future negotiations.

The WTO that emerged from the Uruguay Round was a much more significant organisation than the GATT had ever been. In the doctrine of neo-liberalism trade liberalisation was one of the most fundamental "reforms" required of all countries and what was seen to be needed was an institution that would not merely oversee but drive these processes. The WTO sought to position itself, accordingly, as the main custodian and driver of trade liberalisation. But neo-liberal "reforms" were also reinforced by the actions of other bodies and a huge ideological onslaught. Governments around the world were persuaded/cajoled into allowing more "free movement" of capital and goods (but notably not of labour) across national borders. Implementing only "light touch" regulation of new financial sector products and processes was also part of a broader set of recommendations for states to withdraw from "distorting markets". What Joseph Stiglitz[14] called a "ready reckoner" of "reforms" that started with trade liberalisation but also included reducing budget deficits to less than 3% of gross domestic production (GDP), keeping inflation to single digit levels and withdrawing from direct intervention in the economy through privatisation and abandoning industrial policy was foisted on an increasing number of developing countries through "structural adjustment" programmes

[14] Joseph Stiglitz, *Globalization and its Discontents* (W. W. Norton & Company, 2002).

and conditionalities imposed by organisations like the International Monetary Fund and World Bank.

With the neo-liberal idea of any "trade distorting" policy being anathema, the WTO began to take on something of the character of a behemoth vis-a-vis other multi-lateral bodies. World Intellectual Property Organization (WIPO) processes and agreements became *de facto* subordinate to WTO TRIPs Council decisions. At one stage, International Labour Organization (ILO) conventions looked likely to suffer the same fate as a debate on labour standards in trade agreements loomed.

One of the notions central to the doctrine dominant in the WTO in its early years was what is known as the "bicycle theory". Using the analogy that in order to stay upright on a bicycle one needs to continue pedalling, this held that maintaining trade openness required constantly negotiating new liberalisation commitments. This was summed up in another widely used slogan that "to keep trade open required to keep opening trade".

Central to the decision-making process in the WTO are a series of Ministerial Conferences held approximately every two years[15]. The first of these was held in Singapore in 1996. This was notable for decisions tightening up the phasing out of the multi-fibre agreement leading to the liberalisation of global clothing and textile trade by 2005; and for the signalling by developed countries of their ambition to set global trade rules on matters like investment and competition, government procurement, trade facilitation and labour standards (later dubbed the "Singapore issues").

The second Ministerial Conference took place in Geneva in 1998 and agreed to submit to the next Conference proposals for a Work Programme to launch another "Round". Established practice involved Ministerial Conferences adopting a Work Programme providing a broad-based mandate for more detailed processes by permanent

[15] Declarations and other documents from Ministerial Conferences are available at https://www.wto.org.

delegations in Geneva. These would then be turned into "modalities", which would in turn be the basis of binding commitments by individual countries at the end of the Round. Negotiations were subject to a general principle of a "single undertaking" on all matters, also called "nothing is agreed until everything is agreed".

As delegates assembled in Seattle in December 1999, the expectation was that the third Ministerial Conference would launch a new Round. Some of the souvenirs given to delegates were dubbed "the Seattle Round". But this was not to be. The Ministerial Conference in Seattle is well known for the widespread demonstrations, dubbed by a Hollywood film the "Battle in Seattle". There were in fact two battles in Seattle. The first, involving demonstrations by mainly US anti-globalisation groups, succeeded in holding up the conference for a day and probably ensured that it would run out of time before any agreement could be reached. The other battle was inside the conference. The Uruguay Round had been conducted on the basis of a convention known as "principal supplier"[16]. The "principal suppliers" were the systemically significant economies responsible for the largest part of international trade. Negotiations prioritised seeking to crack a deal among these which would afterwards be "sold" to the rest of the membership. This meant that the most important meetings were those between the largest players drawn into small rooms (dubbed "Green Room" meetings after a room in Geneva, where such meetings commonly took place). Seattle saw a revolt against this kind of process. Developing countries complained that they were the majority of the membership but their views were marginalised in WTO proceedings. In one incident a group of delegates from several developing countries banged on the door of a "Green Room" meeting demanding to be let in. The Seattle meeting concluded with no agreement, no Ministerial Declaration and an admission by the Director-General, Michael Moore, that there was indeed a need for processes to be more inclusive and transparent.

[16] Faizel Ismail, "An Empirical Analysis of Apartheid South Africa's Ideas and Practices in the GATT: 1947 to 1994", thesis submitted to the University of Manchester for the degree of PhD Politics, 2015.

The fourth Ministerial Conference was held in 2001 in Doha, Qatar, just a few months after the 9/11 attacks in the US and just as the world economy was beginning to recover from the dot com collapse. Against the background of this unique moment and the fiasco in Seattle, the world's major powers declared themselves to be ready to accommodate some of the demands of the developing world. The result was the adoption of a Ministerial Declaration launching what became known as the "Doha Development Round" (DDR). As was often the case many of the main gains by developing countries were in the broad declaratory generalities. A much-cited clause proclaimed "(t)he majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration"[17]. Based on the Uruguay Round's built-in Agenda, priority was to be given to agriculture and services. In agriculture, the Work Programme envisaged "comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions of trade distorting domestic support"[18]. Service negotiations were to proceed through a process of request and offer. The Doha Ministerial Conference was also notable for the adoption of a Declaration on TRIPS and Public Health, which allowed flexibilities to developing countries allowing the acquisition of more affordable medicines without having to declare a formal public health emergency. But while Doha saw gains for developing countries in generalities and in some of the detailed proposals, there were still many devils in the detail. Subsidies in the developed world on agriculture were indeed a big issue. The total value of these in Organisation for Economic Co-operation and Development (OECD) member countries had consistently been more than the Gross National Product (GNP) of sub-Saharan Africa[19]. They were a major reason why many developing countries could not sell more of their competitive agricultural products in the

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[17] Ministerial Declaration adopted on 14 November 2001, paragraph 2 (https://www.wto.org).

[18] Ibid., paragraph 13.

[19] Actionaid put the total value of OECD subsidies at $ 300 bn in the mid-2000s and re-iterated that this exceeded the GNP of Sub-Saharan Africa. See Actionaid Media Briefing "Farmgate: The Developmental Impact of Agricultural Subsidies" (https://www.actionaid.org.za).

developed world, and indeed why so many products from developed countries were penetrating domestic markets in the developing world to the detriment of local farmers. But as we shall see later the qualification "trade distorting" (which in any case is a much narrower concept than "development distorting") provided much wiggle room.

The "devils in the details" were even more evident in the section of the Work Programme on Non-Agricultural Market Access (NAMA). The main critique of developed country industrial tariff schedules was that while the average tariff level was moderate, this concealed high tariffs on specific individual products where developing countries were competitive ("tariff peaks") or increased sharply when local processing added value to raw materials ("tariff escalations"). One effect of this was that US importers of products from a least developed country, Bangladesh, paid much more in customs duties than their counterparts importing products from France[20]. Developing countries accordingly argued that any agreement that led to reductions in average tariffs without addressing tariff peaks and escalations would be meaningless. The Doha Work Programme spoke of cutting tariff peaks, escalations and non-tariff barriers on products of export interest to developing countries, but the same section also spoke of cutting high tariffs generally. I was a very junior member of the South African delegation to the 4th Ministerial Conference, but saw the potential challenge this formulation could pose to South Africa and other developing countries. I represented the delegation in a small meeting finalizing this part of the text. There I tried to wrestle for the removal of this phrase arguing it was vague, took no account of the needs of developing countries for policy space and was against the overall spirit of the Declaration. To no avail. The large economies were wholly against, and our proposal had no traction. This requirement that the work programme address high tariffs generally was later to prove to be of considerable significance in the later failure to achieve agreement on the modalities to conclude the Doha Round – which it should, nevertheless, be noted

[20] This example was much cited at the turn of the millennium. Bangladesh exported textiles, which attracted the highest duties. Nearly two decades later this is still the case. See Drew Desilver, "US Tariffs vary a lot, but the highest duties tend to be on imported clothing", *Facttank: News in Numbers,* https://www.pewresearch.org.

remains the only mandated negotiation process regardless of the ambitions of most of the developed world now to abandon it.

The 5th Ministerial Conference convened in Cancun, Mexico in 2003. This was notable for the sharp disagreements between the big subsidisers and several developing countries on the extent and level of ambition of the reform of agricultural trade. One of the main outcomes was the formation of the G20 group of developing countries. This is not to be confused with the G20 which emerged in the context of the global economic crisis and which still exists. The WTO G20 on agriculture was convened by Brazil and India and included a number of significant developing country agricultural producers – combining both competitive countries with offensive interests and a number of others with mainly defensive interests (the latter also represented by another group, the G33). The G20 emerged as a significant force, despite the extensive diplomatic pressure piled on to prevent its formation. NAMA was seen as a sideshow in Cancun. Again, as a junior member of the South African delegation, I was deployed to a number of engagements on NAMA at Cancun and reported back that the demands emerging from the developed world on industrial tariffs were way out of kilter with what was being offered in agriculture.

Cancun was followed by the 6th Ministerial Conference held in Hong Kong in 2005. This endorsed proposals on modalities adopted by delegations at the General Council in Geneva in July 2004. These modalities prescribed frameworks but not yet the numbers that would establish the level of ambition. On NAMA, the processes in Geneva had determined that meeting the mandate required the line by line application of a "harmonising formula" that would target high tariffs, albeit with a level of "special and differential" treatment applicable to developing countries. The mathematics of this was quite simple - the existing tariff was multiplied by a coefficient, and then divided by the sum of the existing tariff plus the coefficient. The formula cut high tariffs more than low, and the lower the number in the coefficient the deeper the cut. These cuts were supposed to be effected in equal steps over ten years to reach the number determined by the formula. Least developed countries (LDCs) would be exempted, and developing countries that had not yet bound their rates would be required to do just that. Others would have a higher coefficient than developed countries. Although there was as yet no agreement on the coefficients that would be applied, at Hong Kong several delegations became aware of the implications that this could have for vulnerable sectors. South Africa was one of those affected, having been regarded as a "developed country" during the Uruguay Round and thus having even less room between its bound (legal maximum) and applied rates than comparable countries. At Hong Kong several like-minded countries came together to form a new group, called the NAMA 11 group. This group included Argentina, Brazil, Egypt, India, Indonesia, Namibia, Pakistan and the Philippines among others. South Africa was invited to serve as convenor.

Other significant outcomes of the Hong Kong conference were agreements on the timeframe for the removal of export subsidies and some elements of a "package" for Least Developed Countries. The debate in the Green Room on removing what everyone acknowledged were "distorting" subsidies on exports was long and torturous. The European Union (EU) insisted that any cuts must include the "less overt" subsidization of public trading companies by countries like Australia and New Zealand, as well as its own "more overt" payments. When text was prepared to accommodate this point, the EU Commissioner indicated that he had no mandate to agree to a phase out by the long-established target date of 2010. He was then challenged to indicate when, according to the EU's own time frame this would be achieved. He came back and reported it would be the end of 2013. That then became the target date but was subject to the important proviso that it depended on "the single undertaking" that "nothing is agreed until everything is agreed". Subject to the same proviso, the Hong Kong meeting indicated that the demands of cotton producers in African LDCs, whose livelihoods were under pressure from subsidized producers in the developed world, be prioritized, and that an "aid for trade" package be developed.

The period after Hong Kong was supposed to finalise the "deal" for the DDR. The G20 took a strategic decision not to "shoot for the moon" in its proposals on agriculture but rather calibrate these in relation to its estimation of a realistic "landing zone". The text on agriculture developed in the Geneva process (which went through 4 revisions) was long and detailed with moderate targets for cuts in "trade distorting domestic support" (production subsidies) and tariffs (market access) well within declared "reform" plans of the majors. Many carve outs for specific "sensitivities" in individual developed countries were also built in. The NAMA document, by contrast, was much shorter, proposing a "one size fits all" approach within each broad category. A "Swiss formula" would be applied to both developed and developing countries that had accepted significant bindings during the Uruguay Round (LDCs were exempt, and other developing countries would be required to bind). There would be a lower coefficient for developed countries than for formula-taking developing countries. There would also be "sectorals" in specified areas, where it would be expected that participants would cut tariffs on products in specific sectors below the levels arrived at by the application of the formula. A huge debate later emerged as to whether these "sectorals" would be purely voluntary or compulsory.

In various formal and informal meetings intended to prepare for the 7th Ministerial Conference, delegate after delegate from the developing world argued that the emerging deal was imbalanced and unfair. In particular, many argued that there was a profound imbalance between the respective Chairs' draft texts on Agriculture and NAMA, with a number arguing that since Agriculture was the "locomotive" of the Round it ought to set the level of ambition for all else. Our own analysis in the South African delegation led us to conclude that South Africa would have emerged as a net payer in a Round supposed to be about development. Only one tariff line in agriculture (in Japan) was identified as creating any commercially meaningful new market access for South Africa, while the cuts in NAMA would definitely impact negatively on vulnerable sectors. The trade union movement in South Africa at the time had been using a story of the chicken and the pig to illustrate their stance on calls for wage "moderation". The story went as follows: both a chicken and a pig need to make a sacrifice in order to produce a bacon and egg breakfast, but their sacrifices are not of the same magnitude. I adapted this story in a meeting of the WTO General Council to argue that South Africa could not be expected to "make the pig's sacrifice to obtain chicken feed".

The NAMA negotiating group for most of the time was headed by the Canadian ambassador, Don Stephenson. We engaged him arguing that it was unfair to impose the formula on South Africa without considering (1) that, through the Southern African Customs Union (SACU), it would apply to 3 developing countries (Botswana, Namibia and Swaziland/Eswatini) and an LDC (Lesotho) that would not otherwise have to take formula cuts, and (2) that South Africa had been subject to a "historical injustice" in being considered a "developed country" during the years of apartheid rule. The Chair totally rejected the SACU argument saying there were many "fake" Customs Unions and we could create a precedent to let others slip out. But he could not so easily dismiss the second argument. He arranged an interaction with a number of "key players", including the US, EU and Mexico where South Africa made its case. In the text presented at the Ministerial in Geneva in 2008, a limited carve out was offered even though we judged it would not be enough.

Director-General Pascal Lamy convened a Ministerial meeting in Geneva in July 2008 with the intention of concluding the Round[21]. The meeting was characterized by fraught exchanges, particularly between the US and the EU, on the one hand, and China and India, on the other. The US, in particular, facing growing competition from Chinese industrial goods insisted that China participate in at least two NAMA sectorals of its (the US's) choice. Similar demands were placed on India and other "emerging economies". With the regular ministerial meeting divided, Director- General Pascal Lamy called a small group of seven (the US, EU, Japan, Canada, Brazil, China and India) to "strike the deal". The so-called "Lamy package" would have cut the ceiling for domestic support in agriculture by relatively large percentages, but would still have allowed the US, for example, to deploy US $ 14,5 bn a year in what were acknowledged to be "trade distorting" subsidies – an amount in fact higher than what was then being spent. In NAMA the draft deal proposed a co-efficient in the Swiss formula of 8 for developed and between 20 and 25 for developing countries (depending on the degree to which they accessed limited "flexibilities"). Although the coefficients were clearly differentiated, there was still something of a conjuring trick behind them. To give an example,

[21] For a detailed critical analysis of the processes leading up to this Ministerial see Faizel Ismail, *Reforming the World Trade Organisation: Developing Countries in the Doha Round* (CUTS International and Friedrich Ebert Stiftung, 2009).

a coefficient of 20 would have taken the bound tariff in the highly sensitive South African clothing sector from the bound rate of 45 per cent to 14 per cent over ten years. A coefficient of 8 would take a 45% tariff in a developed country to 8 %. While this is clearly a lower number than 14%, it conceals the fact that both levels would have taken the sectors in question from "protected" to "vulnerable". Moreover, in the case of South Africa the "carve out" of additional flexibilities provided in recognition of the unfair higher cuts undertaken due to its mis-classification in the Uruguay Round would not have allowed the shielding even of this vulnerable sector as a whole, let alone leave space to cover others.

In the end, the July 2008 Ministerial collapsed, inaugurating a long period of stalemate and impasse in the WTO. The proximate reason for this was an unbridgeable disagreement on a specific issue: that of access to a Special Safeguard Mechanism on agriculture by developing countries. But behind this was a deeper sense that the emerging deal was unfair and imbalanced. Too much had been demanded in return for too little. The promise held out in Doha of some rebalancing of the global trading system to the benefit of developing countries had in the detailed negotiating processes been turned into its antithesis – an attempt further to rebalance the global trading system in favour of the rich and the powerful.

CHAPTER 3
FROM GLOBAL ECONOMIC CRISIS TO CLASH OF PARADIGMS

The period after the collapse of the July 2008 Ministerial saw numerous efforts to revive the process. Not surprisingly, many of these were spearheaded by Director-General Pascal Lamy, who also became prominent in lobbying Summits of the G20 to get Heads of States to "instruct" their ministers to conclude the Doha Round.

This, however, overlapped with, and was increasingly impacted on by, what was fast becoming the biggest issue in the world economy - the onset of what was later dubbed the "Great Recession".

The epi-centre of the first wave of the worst global economic crisis at any time since the 1930s was the financial centre of the developed world – the US. Among its earliest iconic events was the collapse of Lehman Brothers in September 2008 followed by a host of other prominent financial institutions, up to then regarded as pinnacles of stability and power. The fact that the crisis began in the financial sector led to it being dubbed "the global financial crisis", even though it rapidly became much more than that.

According to the neo-liberal text book, this was a crisis that should never have happened. Globalisation, after all, had been presented as having the ability to "overcome" cycles of boom and bust[1]. Nor was the expansion of financial instruments way beyond the growth

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[1] See, for example, Steven Weber, "The End of the Business Cycle?", *Foreign Affairs*, Vol 76 No 4, July-August 1997.

of productive sectors seen as a source of concern[2]. Rather it was portrayed as a natural outcome of a move to a "post-industrial" world where services had become more important than productive sectors[3]. What had been ignored in this narrative was that capitalism even in its globalised and financialised form had retained the atomised and anarchic character that made it impossible for the system to develop except in cycles of boom and bust. It remained a system in its essence no more coordinated or planned than it had been in past centuries. In the 21st century as before, it depended on the actions of individual actors pursuing private profit regardless of its impact on the system as a whole. During periods of boom capital accumulates at an ever-gathering pace. The "roaring nineties"[4] were just such a period of boom. While governments could in principle act to dampen "irrational exuberance", they seldom do and, reinforced by notions that cycles were a thing of the past, did not do so in this case.

Eventually the point is reached where, from a systemic point of view, capital "over accumulates" and there is overproduction of capital. Put colloquially, the bubble bursts. This may be reflected (as it was many times in the past) in overproduction of capital in the form of unsaleable goods, but it may equally also involve overproduction of capital existing in its money form. Such "overproduction" is of course not in relation to social need. In that sense in a world of poverty there is always underproduction. But in relation to the possibilities of its profitable investment a point is reached in the cycle where too much

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[2] Earlier more localised financial crises such as that in Mexico in 1994 and East Asia in 1997-8 were not seen as indicating any structural problem in the globalised financial system. Then chairperson of the Federal Reserve, Alan Greenspan, told a sub-committee of the US Senate meeting on the Asian crisis that "(t)his burgeoning global (financial) system has been demonstrated to be a highly efficient structure that has significantly facilitated cross-border trade in goods and services and, accordingly, has made a substantial contribution to standards of living worldwide". Insofar as it had any impact on the Asian and earlier Mexican crises, it was because "(i)ts efficiency exposes and punishes underlying economic imprudence swiftly and decisively". See The Federal Reserve Board Testimony of Chairman Alan Greenspan "The Current Asian Crisis", 3 March 1998 (https://www.federalreserve.gov).

[3] See, for example, Larry Hirschhorn, "The Post Industrial Economy: Labour Skills and the New Mode of Production", *The Service Industries Journal*, Volume 8, Issue 1 (1988).

[4] See Joseph Stiglitz, *The Roaring Nineties* (Penguin, 2004).

capital is created for it all to be profitably invested. When this point is reached what unfolds is a competitive struggle to decide which capital is going to undergo the destruction necessary for the system to reconstitute itself for the next cycle of expansion.

The crisis that began in 2008/9, whose effects have still not fully disappeared by the time of writing, had all the hallmarks of a regular cyclical capitalist crisis. But it also had features specific to the circumstances in which it unfolded that made its impact far more devastating. It occurred in a highly globalised and financialised world economy. Hyman Minsky[5] theorised that "speculative investment bubbles" were endogenous to financial markets. During prosperous times corporate cash flows expand into a "speculative euphoria" that eventually expands beyond what borrowers can pay. Certainly 2008/9 had many of the features of a "Minsky moment". Most analysts also agree now, but did not then, that the prescripts of neo-liberalism had led public authorities to apply inappropriately "light touch" regulation over trading in the new financial "products" appearing in the era of globalisation - particularly securities and derivatives. In the US under-regulated "securitization" fuelled a speculative boom of enormous proportions that eventually engulfed even the pillars of the financial establishment. This was most immediately evident in the creation of volumes of "toxic" mortgage securities. Through securitization home loan mortgage providers could extend mortgages to clients without bothering too much whether or not they would be able to repay. By repackaging and on-selling securities that essentially provided buyers with rights to receive mortgage payments, the risk was simply transferred to the purchasers. Financial traders, private and public fund managers and individuals, across the world, including in many so-called world-class institutions, bought into what were dubbed US property securities (as well as other types of similar products) on a massive scale. Internet trading meant that transactions could take place across the globe at literally the press of a button. It was a huge pyramid scheme with some end buyers of property securities probably unaware that what they bought gave them no right to the underlying real estate. The ballooning "financial economy" created by derivative and securities trading

[5] Hyman Minsky, *Stabilising an Unstable Economy* (1986).

no doubt delayed the onset of the underlying emerging crisis of overproduction of capital. The expanding bubble provided a cushion that allowed investors across the world to continue for some time to extract profits from financial products, even when these were not supported by underlying value in the real economy. But the very same factors also ensured that the inevitable crash, when it came, would be more intense and widespread than would otherwise be the case.

The filing for bankruptcy by Lehman Brothers was followed in quick succession by the collapse of mortgage providers Fannie Mae and Freddie Mac, and a host of other supposedly reputable institutions. These events revealed a situation in which many of the major pillars of the financial establishment across the world were in fact awash with "toxic debt" (debt that had no chance of being repaid). The emperor was exposed with no clothes, and there was a very real possibility of a collapse of the entire financial system in several countries, with the actual collapse in at least one, Iceland. Faced with this, the governments of the developed world began ditching of several of the erstwhile pillars of the Washington consensus. Banks deemed "too big to fail" were not allowed to go bankrupt (even though this was supposed to be the market's self- correcting mechanism). Instead they were bailed out with huge sums of public money, amid a tacit recognition that markets had actually got prices wrong. The impact of bail outs on budget numbers was also ignored amidst the panic to "save the financial system". Ironically the first major bail out in the US was approved while "free marketeer" George W Bush was still President of the United States. Another early casualty in the Washington consensus tool box was inflation targeting, and tight monetary policy. These erstwhile canons of economic management were rapidly replaced by neo-Keynesian "quantitative easing" (the release of money in the hope of stimulating faltering growth). Then British Prime Minister, Gordon Brown, undertook an initiative to coordinate such actions globally by "summitising" a Ministerial grouping that operated in the IMF. The result was the establishment of the Group of 20 (the G20) encompassing major developed, and some developing "emerging" economies.

All of this exacerbated and added a new dimension to an incipient crisis of neo-liberalism evident for some time. Since about the turn of the millennium an increasing number of what Joseph Stiglitz called "discontents"[6] had been emerging first in the developing and later also in the developed world. Initially discontent had focussed on outcomes – structural adjustment programmes had undermined productive capacity, inappropriate and over-ambitious liberalisation had resulted in factory closures and job losses, migration to new jobs was proving difficult for many working people etc. But the onset of crisis added another important dimension. Neo-liberal experts and gurus were being shown to have got things massively wrong and to have no answers to the question of what to do to get out of the crisis. IMF staffers started writing self-critical papers discarding hitherto sacrosanct "policy advice" as inappropriate and in some cases advising countries to do exactly the opposite of what they had been insisting on only months before. Even once respected neo-classical academic economists found themselves on the defensive. Queen Elizabeth of Britain famously asked during a visit to the London School of Economics, "(i)f you are so clever, how come you failed to predict the crisis or produce any answers to it?" When a panel of supposed academic luminaries was asked to respond to the same question during a panel discussion at the World Economic Forum in Davos in 2010, one answered that neo-classical economics provided a brilliant model, but had failed to take account of some important aspects of reality; drawing a riposte from the chairperson, Martin Wolfe of the Financial Times, "(w)e've all heard of banks too big to fail, is it now also a case of neo-classicism being too brilliant to be true?" While such self-critical modesty proved to be something of a flash in the pan soon to be discarded, the crisis did have a longer-term impact in reducing respect for establishment expertise – something that later became of considerable significance politically.

Globalisation meant that virtually no country was immune from the impact of the crisis. But its effects were uneven, impacting on different countries or groups of countries in different ways and striking in successive waves. The financial crisis became a fiscal crisis for a number of countries, several of whom were forced into stark austerity. The "commodity super cycle" that had allowed mineral producing countries to benefit from higher prices ended in the mid-2010s as demand

[6] *Globalization and its Discontents*, op cit.

declined. This was followed by a "global glut of steel" – a classic symptom of still existent overproduction of capital. Throughout global growth rates remained depressed as global demand languished, state budget spending was curtailed and profits were used increasingly to boost share prices and dividends rather than for investment.

Like every other institution, the WTO was obliged to reflect on what all this meant for its work and how it should respond to the new reality. One of the biggest fears of the WTO leadership was that the new circumstances could provoke "regression" into protectionism. Several studies produced at the time argued that what propelled the world into the Great Depression of the 1930s was not so much the 1929 Wall Street crash as the protectionist resort to tariff increases in the years that followed[7]. Commitments against protectionism were sought at meeting after meeting as the organisation began to monitor trends. Like sin, protectionism became something everyone said they were against. But this concealed different views about what this term meant. Several of us in the developing world argued that raising tariffs in the space between applied and bound rates was the legitimate use of hard-won policy space and should not be considered protectionism. The term should rather be restricted to any breaking of WTO bindings. For others fighting protectionism meant renouncing any kind of tariff increase whatsoever. Again, as with the renunciation of sin, some found new ways to continue their transgressions. Director-General Pascal Lamy began to say that the biggest barriers to trade were fast becoming public and private standards – a point that found resonance with many agricultural exporters in the developing world who found themselves having to spend increasing sums to meet a rising bar of SPS requirements in countries of the developed world. In the end, of course, there was no major regression into protectionism – at least until the Trump administration launched its "trade wars" a decade later. Trade remained open even though there was not much opening of trade.

[7] See for example "Protectionism is on the Rise", 14 February 2009 (https://www.voxeu.org). See also Paul Krugman's critique of this type of view arguing protectionism was an effect not a cause of the Great Depression: https://krugman.blogs.nytimes.com (30 November 2009).

The last point spoke to another reality the WTO had to grapple with. The onset of the crisis had sharply reduced the appetite of many members for any kind of high ambition multi-lateral Round, whatever its content. For some this was a wariness about any kind of major trade opening agreement. For the majors it was because their attention was increasingly shifting away from the multi-lateral towards mega-regionals. Faced with this, the leadership began to suggest that credibility for the multi-lateral system, and its trade negotiation pillar, in particular, be re-built by de facto suspending efforts to conclude the Doha Round in favour of pursuing the negotiation of "small packages". These, by definition, were to be on issues where there was likely to be a relatively high degree of consensus and where obligations would not to be too onerous. Implied in this was also the suspension of the "single undertaking" in favour of an approach of building undertakings piece by piece in specific agreements.

After a four year impasse embracing two low-key Ministerial Conferences restricted to "stock taking", the 7th and 8th held in Geneva in 2009 and 2011 respectively, expectations for the harvesting of the first "small package" centred on the 9th Ministerial Conference held in Bali, Indonesia in 2013. By this time, Roberto Azevedo had taken over from Pascal Lamy as Director-General and Bali was his first Ministerial Conference as Director-General. The "small package" presented at Bali centered on "trade facilitation" – matters of customs administration and border control procedures. In the run up to Bali, numerous studies emerged suggesting that a multi-lateral Trade Facilitation Agreement would unlock trillions of dollars of value (between $1 and 3,6 trillion[8]), a significant part of which would benefit developing countries. Pushed to the background were all the similar calculations that had been made about the gains from even a moderate "reform" of agricultural trade. Also prominent in the run up to Bali was the extensive lobbying by global logistics companies, which began to appear as the major voice of "business" in such groups as the G20's business group, the B20. The negotiating text prepared for Bali in fact required little or no change in the established procedures by either developed countries or several "larger" developing countries. Even South Africa

[8] The $ 1 trillion was the "official" estimate of the WTO, OECD and World Bank.

found that it was already compliant with most of the provisions. The change for such countries would be that such provisions would now be legally binding and any change in them would now be subject to "transparency" requirements, meaning that these would have to be reported to the WTO and demonstrate that they were the product of adequate consultation with affected parties, including importers and logistics companies. For other developing countries, however, compliance would require costly investments to establish systems they did not have, failing which they could find themselves subject to challenge at the WTO. Many developing countries argued that a Trade Facilitation Agreement (TFA) would not be "self-balancing". Even in accepting the (in fact debatable) proposition that all would benefit from a TFA, there was unevenness, meaning that the bigger and stronger would be better able to take advantage of any trade facilitation improvements. Besides there was the question of how poorer countries were to pay for the changes required of them. From this it was argued that the "Bali package" needed to include some other balancing issues, including "something in agriculture" and "something for LDCs", as well as address the issue of financing the changes required by the TFA. The "Bali package" in fact included text on nine subjects. Apart from that on Trade Facilitation, these involved only "best endeavour" undertakings or undertakings to pursue the matter in later Work Programmes. Many delegations, developing as well as developed, came to Bali with a sense that any failure to reach agreement would mark the death knell of the WTO and the multi-lateral trading system. This view of a need for a deal at all costs, limited the extent to which it was possible to make any improvements at the Ministerial Conference although some small adjustments were made. In particular, intervention at the Ministerial Conference led to some reference in the Declaration to the effect that the post-Bali work programme would prioritise turning "best endeavour" undertakings into time bound, concrete commitments.

One issue that could have derailed Bali was that of rules on "public food stockholdings". These are programmes operated by some developing countries, where public entities bought food from small farmers for supply to low income communities. The Uruguay Round had set monetary caps for such programmes. India and other members of the G33 group came to Bali arguing that these programmes were of critical strategic importance to their anti-poverty strategies and that the food purchased did not find its way to global markets. They said they would not be able to agree to the Bali package unless there was agreement to renewal of existing exemptions and more realistic monetary caps. The undertaking given in Bali was that this matter would be resolved by the 11th Ministerial Conference (which eventually convened in Buenos Aires in 2017) and that there would be a "peace clause" in terms of which the US and others interested in "disciplining" these programmes would take no action until then.

Years later, with the Trade Facilitation Agreement now in force, developing countries have yet to see the trillions of dollars of value that it was supposed to have unleashed. The poor cotton farmers of the Sahel (represented by the Cotton 4) have yet to see any meaningful delivery on the concerns that they were once again promised at Bali would receive priority attention, and the Public stockholding issue remains still unresolved even after the deadline for its completion has long expired.

The 10th Ministerial Conference, the first to be held in Africa, was convened in Nairobi, Kenya in 2015. It took place against the background of continued impasse in the Doha Round and the fact that the Obama administration in its second term had begun to pursue an ambitious pluri-lateral trade negotiation agenda. This focussed on consolidating a number of what became called "mega-regionals". These included the Trans-Pacific Partnership (TPP, between the US and several Asian countries, concluded in October 2015) and the Transatlantic Trade and Investment Partnership (TTIP, between the US and the EU). Apart from the extent of participation, and the evident intention to outflank China, these "mega-regionals" were noted for being touted as qualitatively distinct from earlier trade agreements – indeed, as new "high quality" agreements dealing with such "21st Century issues" as investment protection, competition, labour, the environment, Intellectual Property and innovation, electronic commerce, and financial flows as well as placing trade in services on a par with trade in goods commitments. Along with this emerged a narrative that the world had "moved on" since Doha and that if the multi-lateral system was to remain relevant it too needed to move "beyond" the Doha mandate. At some point between Bali and Nairobi, the US stopped associating itself with the ritualistic commitments to conclude the DDR and by the time of Nairobi had convinced a number of its allies to do likewise. At the extreme, some even began suggesting that Doha had polluted the trade mandate by bringing in "development" and that development had no place in trade negotiations. On the other hand, most developing countries and the vast majority of the membership came to Nairobi seeking to advance the agenda of Doha, at least a little. Many, though, arrived fearing that that the WTO and the multi-lateral trading system was under threat of being eclipsed by the mega-regionals and were persuaded that any "failure" at Nairobi could place the very existence of a rules based, multi-lateral trading system at risk.

Discussions ahead of Nairobi explored the possibility of lowering the level of ambition of what were now being styled "Doha issues". For the "majors", the idea here was clearly to bring these matters to an early conclusion to allow the WTO Work Programme to "move on" to deal with issues of greater interest to them. While this saw signs of a welcome willingness to drop the Swiss formula in the NAMA dossier, it also revealed that neither the US nor the EU were willing to undertake any significant cuts in agricultural domestic support. The US, in particular, insisted that it was no longer willing to use the "Rev 4" text that had been developed ahead of the 2008 Ministerial as the basis for negotiations. "Rev 4" had focussed on cuts in what were termed "Aggregate Measure of Support" – subsidy programmes in the so-called "amber box" (that were subject to financial limits) and in the "blue box" (that were not subject to financial caps provided that beneficiaries were subject to a production limiting rule). Subsidy programmes in each of these "boxes" were acknowledged to be trade-distorting, but remained perfectly legal under the Marrakech agreement provided they operated within prescribed limits. "Rev 4" would have provided for bigger cuts by developed than those relatively few developing countries that had registered and were entitled to AMS programmes. Another key factor underpinning the US position on "Rev 4" was that it exempted China on the grounds that as a "recently acceded member" China had taken on significant commitments as part of its accession agreement. Also exempt from any commitments in terms of "Rev 4" were the *de minimis* entitlements of most developing countries. The US argued that the net effect of these flexibilities was that "Rev 4" exempted programmes of countries like China and India, whom it alleged were in fact large subsidisers. It insisted that any cuts expected of developed country subsidisers (which were in fact the main impediments to fairer trade access by potentially competitive developing country producers) would have to be matched by cuts in programmes undertaken by large developing countries, whether these were in AMS or *de minimis* programmes. This effectively amounted to revisiting the differentiation between developed and developing countries and was also seen by several developing countries as potentially undermining the limited support they provided to their poor farmers. The stand-off on this issue meant that in the end there was not sufficient agreement to go to Nairobi with any proposal that could be regarded as a credible conclusion of the Doha Round/ Doha issues.

That being the case, efforts were once again focussed on developing a "small package" for Nairobi. This did in fact result in one important outcome in Nairobi. The Conference managed to finally agree on the phase out of direct subsidies on exports of agricultural products (euphemistically called "export competition"). The Nairobi Declaration stated that these programmes – already by then *de facto* terminated by both the EU and the US - would be phased out in different categories with different timeframes, the last ending in 2022. As was noted above, this was supposed to have happened in 2010, and was then postponed at the Hong Kong Ministerial until 2013, meaning that those benefitting from export subsidies had in fact managed to squeeze out nearly a decade more.

A feature of the Nairobi Declaration was the absence of any routine genuflection towards the Doha mandate of the type that featured in previous Declarations. As indicated above, there were serious disagreements between a number of developed countries and the vast majority of the membership on the continued relevance of the Doha mandate. Much diplomacy was expended on trying to find a formulation that would square this circle. What emerged in the end was a purely factual statement that read,

> "We recognise that many Members reaffirm the Doha Development Agenda, and the Declarations and Decisions adopted at Doha and the Ministerial Conferences held since then, and reaffirm their full commitment to conclude the DDA on that basis. Other Members do

> not reaffirm the Doha mandates, as they believe new approaches are needed to achieve meaningful outcomes in multilateral negotiations. Members have different views on how to address the negotiations."[9]

Although this was seen at the time as preserving all positions, it clearly also pointed to a major clash of paradigms that would contribute to the later paralysis of the WTO.

[9] Nairobi Ministerial Declaration adopted on 19 December 2015, paragraph 30 in https://www.wto.org.

CHAPTER 4
TRUMP, THE FOURTH INDUSTRIAL REVOLUTION AND THE CRISIS OF MULTI-LATERALISM

Two new developments were, meanwhile, unfolding in the world political economy. The first was the increasingly evident discontent with neo-liberalism emerging among social forces in the developed world - whose most immediate political expression was the rise of nationalistic populism. The difference between the two editions of Joseph Stiglitz's classic, *Globalization and its Discontents,* starkly underscored this. In the first edition published in 2002, the discontents were predominantly in the developing world. A significant part of the revised edition published in 2017 dealt with discontent in the developed world[1]. The objective basis for this was the increasingly evident growing inequality, with "winner takes most" outcomes producing a small number of fabulously rich "superstars" at one pole (the top 100 or so who owned more wealth than the poorest half of the world's population) and an increasingly economically insecure working class and middle class at the other. The donning of "the golden straitjacket" that was supposed to deliver "win-win" outcomes was, in reality, producing losers as well as winners. A 2019 study by the OECD found that,

> "Middle incomes have indeed barely grown, in both relative and absolute terms in most OECD countries. Overall, over the past 30 years, median incomes increased a third less than the average income of the richest 10%. In parallel, the cost of essential parts of the middle-class lifestyle have increased faster than inflation…This happened in the context of rising job insecurity in fast transforming labour markets"[2].

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[1] Joseph Stiglitz, *Globalization and its Discontents Revisited* (Penguin Books, 2017).
[2] OECD, *Under Pressure: The Squeezed Middle Class Overview and Main Findings* (Paris, OECD Publishing, 2019), p 13.

An earlier study on income inequality in the US by IMF staffers found that:

> "While in the 1970-2000 more of the middle income households moved into high- rather than low- income ranks, since 2000, only one quarter of one per cent of households have moved up to high income ranks, compared to an astonishing 3 1/4 per cent of households that have moved down the income ladder (from middle to low income ranks)"[3].

Several dinners held during informal WTO mini-ministerials, restricted to members of trade ministers' "family", were devoted to "frank discussions" on how to respond to the growing "backlash against trade" evident amongst electorates across the world. No one could deny the reality of widening inequality coupled with increasing economic insecurity, nor that the same phenomena were also resulting in different forms of discontent in the developing world. For some, the "solution" lay in better explaining the "benefits of trade" to their populations – but this was confronting the reality of a diminishing respect for establishment expertise. For others it was to acknowledge the reality of inequality and insecurity, but blame it not on trade liberalisation, but on another new development in the world economy - the 4th Industrial Revolution[4].

One of the ways that capitalism seeks to exit a crisis is through technological change. The computer and the internet, as we have seen, were significant enablers of "globalisation", but the years of the crisis saw digital technology advance in new directions and in ways that were set to bring about not just quantitative but qualitative change. Digital technologies began to advance into the realm of 'big data" management, mining and application. In 2016, Klaus Schwab of the

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[3] Ali Alichi, Kory Kantenga, Juan Sole, "Income Polarisation in the United States", IMF Working Paper WP/16/121, June 2016, p 5.

[4] This "trade versus technology" debate was critiqued by UNCTAD in the Chapter 2 of the 2017 *Trade and Development Report - Beyond Austerity: Towards a Global New Deal* (Geneva, 2017). The Report argued that neither could be isolated from issues of power and politics both within and between countries.

World Economic Forum argued that the world was on the cusp of a "technology revolution…unlike anything humankind has experienced before"[5] and that this was set to bring about "disruptive change" in practically all sectors of all economies. Among the new technologies that the Fourth Industrial Revolution, also known as Digital Industrial Revolution, would introduce were the Internet of Things, where machines would pass on instructions to other machines via the internet; Additive Manufacturing or 3D printing that could be combined into global networks via the internet; autonomous vehicles; nano-technology and the greater application of robotics and Artificial Intelligence. All of this would be enabled by the introduction of 5G networks – where 5 gigabytes of data could be transmitted per second. While many of these technologies had the potential to increase human welfare by increasing overall productivity as well as offering innovative solutions to a host of developmental challenge, they also had within them the potential to widen inequalities through exacerbating "winner takes most" outcomes. Brynjolfsson and McAfee[6] explained this with an example. In the nineteenth century only a few hundred people could have attended performances by the best opera singer. This meant there was a market for the ninth, tenth, eleventh best. In the case of ICT apps, however, global networks provided access for the vast majority of consumers to the best, meaning there was no market for the "also rans". The implication of this was that "winners" began to receive extraordinary rewards, while "runners up" got little or nothing.

For manufacturing, potential "disruptive changes" looked set to be confined not just to what happens within each domestic economy, but to impact also on the location of industries around the world. Additive manufacturing networked through the Internet of Things looked poised to replace large assembly lines with smaller scale processes located closer to the site of consumption. The potential implication of this was exemplified in 2017 when Adidas announced that it was relocating some of its production from Bangladesh to Germany on the grounds that a combination of 3D printing and robotics had lowered

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[5] Klaus Schwab, *The Fourth Industrial Revolution* (Crown Business; World Economic Forum, 2016), p 1.

[6] Erik Brynjolfsson and Andrew McAfee, *The Second Machine Age: Work, Progress and Prosperity in a Time of Brilliant Technologies* (W.W.Norton & Company, 2014).

production costs far below those that could be obtained by paying low wages in Asia[7].

But "disruptive changes" would go even further. They would impact on mining and agriculture, on financial services, legal services, the practising of medicine, on education and a host of other public and private services. An early mover would be wholesale and retail trade. Electronic commerce, both in intermediate products and in sales to final consumers was taking off rapidly, with digitisation of processes within physical shops reducing demand for till clerks and other less skilled personnel.

A further major implication would be the radical re-organisation of Global Value Chains (GVCs). For years, the evident coming into existence of GVCs had been used to try to persuade or cajole developing countries into accepting the notion that prosperity meant "integration" into GVCs and that this required, inter alia, being more open to imports through unilateral autonomous tariff liberalisation. The response of some of us was that the issue was not fundamentally about being in or out, but about the place occupied in GVCs. It was not that developing countries were not integrated into GVCs. They were, but had been drawn in during colonialism as producers and exporters to the developed world of primary products. Many still occupied this place in the global division of labour, but it was the least lucrative place and was becoming even less so. Not only was the value of the raw material the smallest part of the final value of most products, but in the age of globalisation and digitisation it was becoming an ever-diminishing part[8]. An example is that of African, Asian and Latin American coffee producers who receive only 7% of the final value of roasted coffee sold in supermarkets abroad – in a case where the level of real further industrial processing is modest[9]. This and similar examples were

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7 See Dan Axle (https://www.neweurope.eu, 11/4/2017).

8 See YouTube video by Dani Rodrick at https://www.youtube.com/watch?v=fBX4EMFCfkc. Rodrick outlines research pointing to the introduction of new technologies through participation in GVCs generating very little employment in developing countries.

9 Roman Grynberg, "African coffee isn't worth a bean", *Mail & Guardian,* 10 May 2013.

cited to argue that the real challenge for Africa and the developing world was not to get into GVCs *per se*, but to change their colonially determined location in them through moving into higher value added activities, including by beneficiating the raw materials endowed on them by nature. As to the idea that the route to this was autonomous general liberalisation, several pointed out that many developing country tariff regimes provided for zero duties or rebates on the import of intermediate products that would be subject to further processing in their jurisdictions.

Parminder Jeet Singh described the radical reorganisation that the 4th Industrial Revolution was bringing to GVCs as follows:

> "As industrialisation placed machine power at the centre of the economy, digitalisation makes digital intelligence its new fulcrum. The factory as the site of mechanised production was the central economic institution of the Industrial Age. For the Digital Age, it is sectoral platforms that reorganise entire economic activities in any sector based on digital intelligence from data."[10]

A further reality was that the digital platforms emerging at the apex of digitally reorganising networks were exhibiting an exceptionally high degree of concentration and centralisation. According to UNCTAD, the top 1% of technology, software and IT services companies globally increased their share of market capitalisation in the sector from 27% in the period 1996-2000 to 52% in 2009-15. Over the same period, their share of revenues rose from 31 to 43%, of physical assets from 31 to 47%, while their share of employment remained flat at 27% compared to 25% in the earlier period[11]. Dominating the top 1% are five companies collectively known as the GAFAA (Google, Amazon, Facebook, Apple and Alibaba). Four of these are US companies reflecting US dominance in the initial development of the new technologies. But there is also a challenger – from China. This is implicit in one

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[10] Parminder Jeet Singh, "Digital Industrialisation in Developing Countries - A Review of the Business and Policy Landscape" (Commonwealth Secretariat, 2017), p 4.
[11] UNCTAD, *Trade and Development Report 2018: Power, Platforms and the Free Trade Delusion,* p 80.

of the As in the GAFAA being a Chinese company, Alibaba. Alibaba operated on a very different business model to its US competitor Amazon. Unlike Amazon, Alibaba did not itself purchase the goods offered on its e-commerce web sites. Rather it ran a network in which sellers, for a fee and subject to Alibaba verification procedures, offered their own products for sale. Sellers also had access to associated services such as Ali Pay and a network of logistics providers. This model appealed to small businesses first in China and later in many other parts of the world. Alibaba founder, Jack Ma, became a prominent visitor to the developing world where he came to be looked on as something of an entrepreneurial superstar. But Chinese prowess in the technologies of the 4th Industrial Revolution was not confined to Alibaba. Around 2010 China announced that it would turn to domestic consumption and innovation as the main drivers of its economic growth strategy for the decade ahead. Part of this involved developing and pursuing a highly successful digital Industrial Policy. This saw the emergence of several highly competitive digital technology companies. While one of these was Alibaba, another was Huawei. Not only is Huawei now a highly competitive supplier of smart phones to markets around the world, it has also developed a serious competitive advantage (some say a two-year lead) in the development of some of the technology necessary to roll out 5G networks.

The Trump administration came to office as a direct consequence of the first, and in the context of the second, of the above described developments. Donald Trump epitomised the trend towards right wing nationalistic populism (with strong racist and xenophobic characteristics) that had been gathering pace in the developed world as a response to the crisis of neo-liberalism. Anti-global and anti-regional in its essence, this also found expression in the Brexit vote in the UK as well as in the rise in several countries of racist, Islamaphobic, anti-immigrant parties. One key theme uniting all such expressions was that outside forces – ranging from migrants to imported products - were undermining “once great” nation states. Trump himself was an outsider, with no prior experience of political office. During his campaign he developed a narrative that those with experience in government had the wrong experience. They had succumbed to “internationalism” and failed to put “America first” resulting in a series of “disastrous agreements” that had undermined American leadership in the world.

"Making America Great Again" required revisiting all of these. Trump also spoke directly to concerns of workers in "rustbelt" communities that had lost jobs. He berated previous administrations for having allowed jobs to be "shipped to" China and Mexico and promised to reverse this, including by re-introducing tariff protection. Once in office, Trump haughtily rejected establishment advice (if indeed he ever read it) in favour of decisions taken based on commentaries on Fox News and announced in tweets. The US had entered the "post truth" era of "alt facts" – one of which was that the US had been disadvantaged in the WTO and multi-lateral trading system. Advisers on trade included Robert Lighthizer (later appointed US Trade Representative - USTR) and Peter Navarro, the White House trade policy adviser. Lighthizer was a seasoned trade lawyer, who had worked for government in the Reagan administration. More recently, he had been advising the US steel industry in its lobbying for tariffs against steel imports, particularly but not only from China. Lighthizer was reportedly author of the proposition that "…if the United States freed itself from the shackles of international trade rules, it could use the power of its large market to force other countries to bend to its will"[12]. Navarro had been noted as the co-author of a book entitled *Death by China*[13], which argued that China was "a cheat" in international trade and should never have been allowed to enter the WTO or accorded a pathway to "market economy" status[14]. Among the early decisions of the Trump administration on trade were its withdrawal from the TPP and from further participation in the negotiations towards TTIP. It also demanded a re-negotiation of the "disastrous" North American Free Trade Agreement

[12] Edward Alden, "Trump Hired Robert Lighthizer to Win a Trade War. He Lost," *Foreign Policy*, 2 August 2019. Available from https://foreignpolicy.com/2019/08/02/trump-hired-robert-lighthizer-to-win-a-trade-war-he-lost/.

[13] Peter Navarro and Greg Autry, *Death by China: Confronting the Dragon-A Global Call to Action* (Pearson Prentice Hall, 2011).

[14] Under the terms of its accession to the WTO in 2001 China was given 15 years to implement "reforms" necessary to be regarded as a "market economy". The significance of "market economy" status is that it would restrict the application of a more punitive methodology in calculating anti-dumping and countervailing duties imposed against it. Many countries bilaterally recognised China as a market economy from the early 2000s, including a number of OECD member countries. This did not include the EU. China then launched a dispute against the EU at the WTO, but withdrew its case in June 2019 after the US joined the EU in this action. See https://www.reuters.com (17/6/2019).

(NAFTA). More generally, the administration signalled its preference for bilateral rather than regional or multi-lateral deals.

Donald Trump took the oath of office as President in January 2017, on the day of the regular WTO Mini-Ministerial held on the fringes of the annual World Economic Forum gathering in Davos. Trepidation as to what was coming was palpable among many of the Ministers attending. The WTO at the time was preparing for its 11th Ministerial Conference (MC11) scheduled to take place in Buenos Aires at the end of 2017. The new US administration was in no hurry to finalise its appointments to Geneva and was quite stand offish in its approach to the various preparatory meetings for MC11. Sometimes ministerial meetings were attended by junior officials, who just read statements and did not engage further. Such statements expressed scepticism about the WTO both in the present and the past and suggested that if it were to remain relevant it needed to undergo "reform". Other developed country delegations tended to act as though it was "business as usual". Privately some of them suggested that if Buenos Aires was "a success" they could persuade the US to come on board.

In the narrative dominant at the time, it was suggested that a "balanced outcome" in Buenos Aires needed to deliver "something" on the "Doha issues" and "something" on the "issues" of interest to developed countries. The EU signalled that domestic support could be on the table, but again it became clear that this would not be on the basis of the "Rev 4" text. Rather it would have to include cuts in *de minimis* entitlements by "large" developing countries. A feature of discussions at Buenos Aires was that these saw several members of the Cairns group (which included important agricultural exporters like Australia and New Zealand as well as developing countries) being for the first time willing to entertain such an approach. The public food stock issue was also due to be concluded and the WTO was expected to deliver on one of the United Nations Sustainable Development Goals in the form of an agreement to curb subsidies on Illegal, Unreported and Unregulated (IUU) fishing. A proposal that drew the largest support among the membership, but which was marginalised at Buenos Aires, was that by the G90 developing countries on clarifying and improving formulations on "Special and Differential Treatment" in existing rules.

Other proposals for Buenos Aires included mandating negotiations on "investment facilitation" and on "Medium, Small and Micro-Enterprises". But the big prize for the "majors" was electronic commerce. Here demandeurs sought authorisation to begin text-based negotiations on multi-lateral rules as well as a permanent moratorium on any customs duties on electronic transactions to replace the temporary moratorium that would expire at MC11. On this issue, the Africa group, India and a few others took a strong stand against such a position. The template for multi-lateral rules was the so-called "Digital two dozen" – a series of principles and provisions that had also formed the basis of the digital chapters of the "mega-regionals". This had many echoes of the "light touch" regulation of the financial sector in the years before the recession. Most of the digital two dozen were about abstaining from regulation or intervention. They included maintaining a "free flow of data"; refraining from taxing electronic transactions; not imposing any localisation requirements and refraining from demanding access to source codes. All of this was touted as "keeping the internet open". Those wary of accepting such commitments argued that their reticence did not derive from lack of understanding of the critical importance of the changes being ushered in by the 4th Industrial Revolution, but because the proposals on the table amounted to entrenching early mover advantage and could result in renouncing potentially important policy tools in the development of digital industrial policy. Countries like Rwanda and India were already discussing policy on "data sovereignty" that would have to be renounced if digital two dozen-type rules came into force. Others less advanced in their own thinking had learnt from past experience that making commitments based on the fact that something was not current practice risked disabling policy tools that may be important in the future. A long term view was needed and multi-lateral rules setting was premature at this time in what was actually a highly fluid environment. This was highlighted by the fact that new and unforeseen issues were emerging leading to different views on regulatory response even among some of the major proponents of multi-lateral e-commerce rules. Big data "mining" from things such as "likes" in social media were being used to develop targeted messages to "micro constituencies" in political campaigns as well as in commercial advertising. Regulation around issues of privacy and misuse of data was coming to be regarded as essential in, for example, the EU. Anti-competitive behaviour and tax avoidance by major digital companies were also seen as requiring a regulatory response. Beyond this was the overriding imperative for countries around the world, particularly developing countries, to develop digital industrial policy in the face both of the impending "disruptive changes" and the huge digital divide. Moreover, while refraining from imposing customs duties on digital transactions might appear to be a marginal issue now, it could in the future, as additive manufacturing and the Internet of Things advance, mean providing duty free access for a host of final products and components with implications for local industries. At Buenos Aires some argued that a permanent moratorium on customs duties on electronic transactions amounted to providing "Special and Differential Treatment" (in the form of duty free, quota free market access) not to the smaller and weaker but to the most powerful companies at the apex of digital value chains.

MC11 ended with no agreement on anything except a further two year extension on the existing moratorium – which several delegations signalled would be the last they would agree to. In the closing plenary I suggested that the impasse reflected a "clash of paradigms" and the fact that too many issues, with too little consensus, had been tabled at a Ministerial meeting. This meant the meeting had lost focus and become unable to conclude agreement even on the one issue it could have – that of IUU fisheries subsidies. US Trade Representative, Robert Lighthizer, delivered his country statement early in the proceedings and then left. He was not present when an attempt was made to cobble together a face-saving minimalist draft Ministerial Declaration. The relatively junior official then leading the US delegation informed the drafting group that the US would not even be able to associate with generalities about the importance of a multi-lateral rules-based system. Frustrated by the total failure of MC11, several delegations announced that they would be launching "pluri-laterals" on a range of issues tabled at Buenos Aires, including notably on e-commerce.

Ahead even of MC11 was another development of considerable importance. The Trump administration signalled that it would withhold consent from appointments to the Appellate Body of the Dispute Settlement Mechanism of the WTO. With several incumbents set to step down at the end of their fixed terms, and appointments made by consensus, this threatened to render the body inoperative – something now looking probable by the end of 2019. Since the vast majority of disputes end up being appealed, such a move threatened to disable the enforcement of WTO rules. The stated reason for this move was that there had been "judicial overreach" by the Appellate Body resulting in rulings taking the US beyond the commitments it had made during the Uruguay Round. The specific issue cited was a rather technical ruling against "zeroing" – the methodology used by the US in calculating its Anti-Dumping Duties. This ruling, of course, came in a broader context where the US had won many cases in the Appellate Body. Moreover, the fact that the US failed to engage in any substantial way with the many proposals made to address its stated concerns suggested there was more at stake. This was confirmed when USTR Lighthizer told the Senate Finance Committee in March 2019 that he knew "… of no other way to push for WTO reform than to use the only leverage available to the United States by blocking the appointment of Appellate Body members".[15]

Shortly after MC 11, the opening shots were fired in what later became known as the "trade wars". In March 2018, the US imposed punitive tariffs of 10% on steel and 25% on aluminium products coming from China and a number of other countries. These were imposed in terms of Section 232 of its domestic trade law (the Trade Expansion Act of 1962) which allowed such measures to be deployed for reasons of "national security". The tariffs levied on steel and aluminium breached its WTO bindings, as well as levels provided for in other trade arrangements. They also violated the WTO's "most favoured nation" principle in that they were applied to some countries, while exempting others in very similar circumstances. "National security" exceptions were allowed for in WTO rules, but were little used and the circumstances under which they could be accessed were not clear in WTO rules making the 232 vulnerable to a challenge and possibly judicial interpretation. The steel and aluminium tariffs were followed by the launch of an investigation into the imposition of similar 232 duties on automotive products. Further punitive tariffs were also levied specifically on other Chinese products. As is well known this led to a

[15] Kelley Drye & Warren LLP, "Senate Finance Committee Asks Lighthizer: What is the Future of the WTO?", Trade and Manufacturing Monitor, 13 March 2019 (https://www.lexology.com).

"tit for tat" levying by China of duties on US imports – the first round being carefully targeted to affect goods coming from states that had voted for Trump - followed by further duties on Chinese goods levied by the US.

At an event held in South Africa in early 2018, Klaus Schwab suggested that the "trade wars" were ultimately about establishing "mastery" over the 4th Industrial Revolution. The perceptiveness of Schwab's remark was borne out by subsequent events. In December 2018, Meng Wanzhou, the Chief Financial Officer and daughter of the founder and CEO of Huawei, Ren Zhengfei, was arrested in Canada on a warrant from the United States. In March 2019 national security concerns were invoked to prohibit Huawei from supplying technology for the construction of 5G networks in the US. Thereafter the US lobbied its allies to follow suit - with varying results. While specific measures by the Trump administration elicited criticism from important voices and interest groups in the US, it also appeared that the broader notion of "tackling China" rather than accepting its competitive challenge commanded broad support within the US establishment – both old and new. Republican Presidential contender, Marco Rubio, for example, argued that the issue at stake with China went far beyond the trade balance and would not be solvable through undertakings by China to buy more US soya. For him the fundamental issue was whether his children would have to depend on Chinese rather than US companies to the supply the technologies of the future[16]. Thomas Friedman, the author of *The Lexus and the Olive Tree* argued that while Trump may not be the President America deserved, he supported him in taking on China, including on the Huawei issue[17]. In such circumstances, it is difficult to see any early resolution of these issues. Battles in the trade wars may go various ways, but in one form or another a new cold war to establish mastery over the 4th Industrial Revolution looks set to continue to have a major impact on international politics for years to come. Nor does it look likely in such circumstances that the US will agree any time soon to submit its "national security" measures to potential adjudication by a multi-lateral body.

[16] YouTube, CNBC Television, 14/5/2019.
[17] YouTube, CNBC Television, 15/5/2019.

The impasse over the Appellate Body appointments has created what is widely acknowledged to be an existential crisis for the WTO. The search for interim solutions such as agreements in advance to take any disputes over rulings to mediation, cannot mask the reality that if enforcement of WTO rules is weakened, the rules themselves will have diminishing relevance. More recently, the US has come forward to spell out what it says is an essential agenda for ”reform” – without explicitly saying that, if agreed, it would then back down on the Appellate Body issue. This is outlined in several submissions to the General Council[18]. It is not that the US is alone in this. Several submissions have been co-signed or supported by the EU, Japan and other developed countries. The main underlying theme of these is that Special and Differential Treatment provisions have been "abused" to allow "bigger developing countries", with China foremost among them, to wiggle out of obligations and not submit to rules. Addressing this, it is contended, requires ending the existing arrangement where countries self-designate their status as developing countries and withdrawing access to Special and Differential Treatment for several of them[19] – or, in some versions, allowing application for it on a case by case basis. Who this would apply to has now also been spelt out. It would include any country responsible for more than 1% of world trade and/or any country that is a member of the OECD or G20. In addition to China – the obvious first prize - this would apply to Brazil, India, Indonesia, Argentina, Turkey, Mexico and South Africa among others. Nor would its scope be limited only to "larger developing countries". In its submission to the General Council the US stated that "(n)othing… precludes reaching agreement that in sector-specific negotiations other

[18] "An Undifferentiated WTO: Self-Declared Development Status Risks Institutional Irrelevance", WT/GC/W/757 (16/1/2019); "Draft General Council Decision: Procedures to Strengthen the Negotiating Function of the WTO", WT/GC/W/764 (15/2/2019); "Memorandum on Reforming Developing-Country Status in the World Trade Organisation", July 26, 2019.
[19] On July 26, 2019, President Trump issued a directive to the US Trade Representative to end "unfair benefits" deriving from Special and Differential Treatment within 90 days. See statement from USTR at https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-robert-lighthizer-statement.

Members are also ineligible for special and differential treatment".[20] In addition to this has been a demand that rules on "industrial subsidies" and on state owned companies be tightened. Loopholes in these, it is alleged, had been exploited by China, and to some extent other developing countries, to engage in unfair practices with respect to companies from other countries, including forced technology transfers. Although some countries have been forthright in rejecting this agenda outright, a significant part of the membership appear, in varying degrees, willing to accept some elements as "the necessary reform" required to "save" the WTO and the multi-lateral rules based trading system. The question this raises is what kind of WTO and multi-lateral trading system is it that would be saved by acceding to such demands? One where the rules apply to the weaker and poorer, but where the rich and powerful are free to set their own rules on matters they deem as crucial to their national security? One where policy tools essential to industrialisation and development are further eroded? One where developing countries are further marginalised in international trade and where the existing global division of labour is entrenched against potential disruptive intrusions of upstart newcomers ?

We have argued in this study that the crisis of the multi-lateral trading system long pre-dates the machinations of the Trump administration, even though these have added an important new dimension, and now pose an immediate existential challenge to the once powerful behemoth - the WTO. Trade negotiations have been reduced in their substance to successive rounds of bazaar-type haggling over the short term demands of vested interest groups. This has inevitably delivered (where they have delivered at all) outcomes favouring the rich and the powerful and rendered the system incapable of addressing broader strategic challenges. Strategic challenges have often found expression only in titles or broad declarations, but have not become any kind of litmus test for detailed processes or outcomes thereafter. Even where specific cases have been acknowledged as legitimate, they have not been followed through, as one issue after another is side-lined or marginalised in the face of sectional demands of powerful vested interests.

[20] "Draft General Council Decision: Procedures to Strengthen the Negotiating Function of the WTO", WT/GC/W/764 (15/2/2019).

The case of the Cotton 4 is a telling example. The concerns about the detrimental effects of subsidies in the developed world on large numbers of people living in the cotton-growing regions of the Sahel[21] have repeatedly been acknowledged as real and legitimate. But providing any kind of respite to many thousands of the poorest people in the world has not been forthcoming because it has been resisted by a few hundred cotton farmers in the developed world, who are not strategically important to the economies of their home countries but are active lobbyists and important campaign contributors.

Should the concerns of more recent "discontents" in the developed world (working class and middle-class people facing increasing insecurity) expect any better treatment in the WTO as it currently operates? Experience suggests not. Their concerns are real and legitimate, but so too are those of the far larger number of poorer and less secure people in the developing world as are those also of people who have recently climbed out of poverty and are looking forward to a future of "moderate prosperity". None of these will find a solution in ultra-nationalistic populism nor by seeking to hobble the progress of China or other developing countries.

China is a rival of substance unlikely to be easily rolled over in a trade war. It has become the world's second largest economy through the most far reaching and rapid process of development ever. Its rival is a powerful but diminishing imperialist hegemon. It is extremely unlikely that China will succumb to demands that place its future progress in jeopardy[22]. But China has now also climbed the ladder. A critical question as the world looks set to enter a prolonged period of enhanced rivalry is: will China's defence be confined to its immediate interests or will it embrace the lessons of its own growth path for others to follow? Another critical question that arises in the context

[21] Between 1995 and 2012 the U.S. spent $32,9 billion to support a few hundred cotton farmers, lowering world prices and reducing incomes for farmers in the Cotton 4 countries. See Reuters, "Developing Countries blast rich-world farm subsidies at Rome talks" (https://www.reuters.com, 6/10/2014).

[22] This point was explicitly made in a June 2019 paper by the State Council Information Office of the People's Republic of China, "China's Position on the China-US Economic and Trade Consultations". See in particular Section III part IV "No Challenge will hold back China's development".

of a war over "mastery" of the 4th Industrial Revolution is, will the rest of the world simply be confined to choosing one side or another rather than striving for an equitable development and roll out of new technologies in a world without masters[23]?

Globalisation, we suggested above, is more than the ideology of neo-liberalism – even though the latter helped drive the hyper-globalisation of the 1990s. This means there is now an objective reality of digitally-connected networks, of GVCs and of much more significant cross border economic activity generally. The 4th Industrial Revolution, likewise, is an emerging reality that will not go away – one that could be harnessed for broad human progress across many fronts, but one that could also exacerbate existing inequalities. Which of these scenarios unfolds is of great importance to the future of humanity.

Given that many of the challenges arising from these realities will need global responses, the existence of a multi-lateral trading system in crisis with no easy resolution in sight suggests both the imperative and an opportunity to intensify a progressive struggle for a new type of multi-lateralism. This would be a multi-lateralism that explicitly sets out to promote inclusivity and development. It would prioritise a long-term focus on genuine strategic cooperation to promote these ends over the kind of short-term mercantilist haggling that has passed for trade negotiation up to now. It would be sensitive to needs and interests of actual or potential losers and not brush these aside with ideological myths about adjustment. It would recognise that lasting prosperity needs to be broad based and sustainable and that it is in the interests of all not to allow significant numbers to fall behind. It would resist the pressures of vested interests to prevent new-comers from emerging and entrenching their monopolies or first mover advantages. When trade-offs are required, it would ask how many will gain, how many will lose and who are the winners and losers in each

[23] In a number of inputs (e.g. at BRICS (Brazil, Russia, India, China and South Africa) industry ministers' meeting 2018), I argued that developing countries needed to work towards an equitable and inclusive roll-out of digital technologies in a world without masters. Parminder Jeet Singh has called for "digital non-alignment". See his article "Unpacking the Huawei Case: U.S., China and the Need for Digital Non-Alignment" (https://www.alainet.org, 11 July 2019).

case? From this, it would seek to strike agreements that explicitly seek the widest spread of benefits along with measures to deal with the legitimate concerns of those who may lose. It would recognise the right and imperative of countries to develop and to have access to the policy tools others had in promoting their own development. It would promote a new kind of research to inform such processes. Not the kind of ideological self-interested narratives that have sought to persuade and cajole participation in one or other agreement with exaggerated estimates of gains, but rather serious research identifying all the issues at stake and their differentiated implications honestly assessed.

The debate on "reform" of the WTO could offer an early point of entry for such a struggle. This would need to start by recognising that defence of a rules-based multi-lateral trading system decidedly does not mean defence of the status quo. This remains unbalanced and uneven and has manifestly shown itself unable to progress. But neither does it mean accepting, under the rubric of "the necessary reform", measures that would skew an already unbalanced system even more. An informal meeting of ministers from developing countries held in Delhi in May 2019 called explicitly for "reform for development and inclusion"[24]. However, the fact that a number of delegations from developing countries attending could not sign on to the Declaration shows what an uphill climb still lies ahead.

The struggle for a more progressive, inclusive and developmental multi-lateral trading system is urgent. If such a project does not advance, multi-lateralism will be eclipsed by pluri-lateral and unilateral processes driven by and for the rich and the powerful. Regional integration in developing country regions, and in particularly the African continent, could in the meantime potentially offer an important bulwark in an increasingly challenging world order. It is to this matter that we turn in the next chapter.

[24] "Outcome of the WTO Ministerial Meeting of Developing Countries: Working collectively to strengthening the WTO to promote development and inclusivity", Press Information Bureau, Government of India, Ministry of Commerce and Industry, 14 May 2019.

PART TWO

CHAPTER 5
REGIONAL INTEGRATION IN AFRICA: A TOOL FOR INDUSTRIALISATION AND DEVELOPMENT?

> *"Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist"*[1].
>
> John Maynard Keynes

Regional integration, like good health, is something almost everyone on the African continent agrees is a good thing. The idea of integrating the balkanised countries and economies emerging from colonialism into larger regional entities dates back to the pioneers of Pan-Africanism and was embraced by the leaders of the first wave of decolonisation of the African continent. More recently, under the auspices of the African Union, an African Continental Free Trade Area (AfCFTA) agreement has come into force and is now being "operationalised".

This takes place against a background where intra-African trade remains low compared to that in other regions. According to the of the Executive Secretary of the United Nations Economic Commission for Africa, intra-African exports as a percentage of the continent's total exports rose from 10 per cent in 1995 to around 17 per cent in 2017. But this compares to intra-regional exports of 31 per cent of the total in North America, 59 per cent in Asia and 69 per cent in Europe.[2]

In this chapter, we will argue that while moving broadly in the right direction, the practical discussions by ministers, officials and heads of state on African regional integration have concealed a too

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1 This famous quote is from Keynes' seminal work, *The General Theory of Employment, Interest and Money.*

2 Vera Songwe, "Intra-African trade: A path to economic diversification and inclusion", Brookings Institution, January 2019.

unselfconscious contention between different and competing paradigms. While appreciating the concerns at leadership level to see implementation of practical decisions, we will argue that which of the paradigms eventually shapes the continental integration process will impact on the degree to which it is able to serve to support economic diversification, industrialisation and development, and even perhaps on the pace at which it advances.

Regional integration needs to be understood as a process of merging national economies or markets into larger regional units. It is conceptually distinct from "cooperation", where countries may act together to pursue a common objective, or from "coordination" where national policies or programmes on some or other issue are harmonised.

In conventional *trade integration theory,* regional integration is understood as a process through which participating partners climb in linear succession a "ladder" of institutionalised trade arrangements.

The first rung of the ladder is a *Preferential Trade Area (PTA)*. Participants in a PTA grant each other some preferences in the form of reduced or zero tariffs on agreed tariff lines, while leaving the tariffs previously charged in place on other lines.

This is followed by a *Free Trade Area (FTA).* An FTA is an arrangement where tariffs are removed on either literally all (or in WTO rules "substantially all") tariff lines among the cooperating partners, but in which each party continues to set its own tariffs towards the rest of the world.

In the next rung, a *Customs Union*, participating partners apply free trade among themselves and adopt a Common External Tariff (CET) towards the rest of the world. This means all members of the customs union apply the same tariff on products from third parties.

Next on the ladder is a *Common Market*, where there is all the above plus free movement of capital and of labour. This normally includes the right of citizens from any participating country to move to another to conduct economic activity, including seeking employment.

This is followed by an *Economic Union*, where there is also broader harmonisation of policy and regulation and possibly monetary union or adoption of a single currency. Finally, this may culminate in a *Political Union* or Federation.

It can be seen from the above that climbing the ladder of integration proceeds initially through successive waves of tariff liberalisation between participating state parties with cooperation and coordination emerging only at later stages – in a Common Market and Economic Union. Broadly speaking this can identified as the path followed in European integration, describing the steps in the creation of what is today the European Union.

In a work that shaped much neo-classical thinking on the subject, Jacob Viner[3] argued that regional integration would add to net economic welfare only if it resulted in more "trade creation" than "trade diversion". "Trade creation" occurs where one partner replaces less efficient domestic production with imports from other more efficient producers within the region. "Trade diversion" occurs when imports from more efficient producers from outside the region are replaced by those from less efficient producers inside. Roughly speaking, trade creation is seen as more likely to exceed trade diversion in circumstances where the economies of participating partners are diversified and complementary - in other words, where each of the participating countries has the capacity to develop a regional specialisation based on production of a range of products consumed in the larger regional market. Such conditions were considered more likely in regions of the developed rather than the developing world, and for many years this led neo-classical economists to be wary of regional integration among developing countries.

Within the developing world, "practical" expressions informed by narrow trade integration perspectives have tended to focus on institutional form and see the adoption of one or other institutional arrangement (and sometimes even just a name) "higher" up the ladder as signifying greater integration. In other words, something called a

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3 Jacob Viner, *The Customs Union Issue* (1950).

customs union or a common market would by definition be seen as "more advanced" than something called a free trade area regardless of the degree to which the former had actually deepened cross-border economic activities or created conditions for the emergence of new regional value chains. Often such perspectives have informed calls for ultra-ambitious time frames for moving towards new "higher level" arrangements regardless of the reality on the ground. Such approaches can be seen as *de facto* prioritising institutional form over real economy substance.

An important variant of the conventional trade integration perspective emerged under the influence of neo-liberalism. This was called *open regionalism*[4] and resulted in the replacement of earlier scepticism by orthodox economists with conditional support for regional integration in the developing world. This was now seen as potentially "beneficial", but only if it "assisted" in deepening the integration of the region into the world economy at large through reducing overall tariff levels. This meant regional preferences would need to be accompanied by, or at the very least be a step towards, simultaneously lowering the region's average tariff levels towards third parties. Theoretically this was argued for through an assertion than any wide margin of preference to regional suppliers over those from the rest of the world would likely promote "trade diversion" at the expense of "trade creation". Operationally, this would be achieved by insisting that regional arrangements reported to the WTO under Article 24 demonstrate that they had resulted in a net reduction in average tariff levels compared to those in force previously. With regard to Customs Unions, these would be seen as "beneficial" if the Common External Tariff led to cuts in tariffs towards the world at large.

[4] See C.Fred Bergsten, "Open Regionalism", Institute for International Economics Working Paper 97-3, January 1997.

An alternative paradigm that emerged in more heterodox literature was termed *development integration*[5]. This held that a narrow trade integration approach based on the "ladder" was Euro-centric and ignored the fact that in developing regions the major barriers to increasing intra-regional trade were not fundamentally tariff regimes but rather real economy constraints. These included under-developed production structures and inadequate infrastructure. Put simply if one under-developed country's trade profile is dominated by the export of some or other primary product (and it does little processing in its domestic economy), it has little to trade with its neighbour whose specialisation is also as an exporter of primary raw materials. If the road and rail connection between the two is inadequate that further impedes trade between them. From this, proponents of "development integration" argued that trade integration needed to be seen as only part of a broader integration strategy, which would also need to include cooperation to overcome infrastructure backlogs and explicitly to promote economic diversification, including industrial development. Unlike the conventional trade integration "ladder", development integration thus envisages cooperation and coordination at an early stage. The specific trade integration pillar, moreover, would need to be calibrated to the concrete conditions in the real economy and not driven by *a priori* or ideological considerations.

In an excellent paper specifically advocating the adoption of a "developmental regionalism" in the construction of the African

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[5] See R Davies , "Promoting Regional Integration in Africa: An Analysis of Prospects and Problems from a South African Perspective", *African Security Review,* Vol 5 no 5 (1996); S Adejumobi and Z Kreiter, "The Theory and Discourse on Developmental Regionalism", paper prepared for the Regional Forum on Developmental Regionalism, Peace and Economic Transformation in Southern Africa, organised by ECA-SRO-SA and APN-SSRC together with SADC Secretariat, Swaziland, 28-30 September 2016; UNCTAD, *Economic Development in Africa Report 2013.* This report "..recommends that African Governments should promote intra-African trade in the context of developmental regionalism. In particular, it stresses the need for a shift from a linear and process based approach, which focuses on elimination of trade barriers, to a more development-based approach to integration, which pays as much attention to the building of productive capacities…". See also Faizel Ismail, "A 'Developmental Regionalism' Approach to the AfCFTA", Trade and Industrial Policy Strategies, Working Paper in celebration of the 90th birthday of Chief Olu Akinkugbe CFR CON, Tshwane, 5 December 2018.

Continental Free Trade Area, Faizel Ismail[6] outlines four pillars that would need to underpin such an approach. These are:

– Asymmetrical trade integration to cater for the uneven development of the countries of the continent;
– Structural transformation and transformative industrialisation, including creation of regional value chains to build a robust regional market to unlock the continent's manufacturing potential;
– Cooperation on cross-border infrastructure investment (and trade facilitation); and
– Cooperation to promote democracy, good governance and peace and security.

The journey culminating in the establishment of the African Continental Free Trade Area no doubt proceeded along multiple pathways. I am not familiar with all of these, but will outline that followed by the countries in the Southern African Development Community (SADC) which sharply highlights the paradigmatic issues being raised in this chapter.

SADC launched its Free Trade Area in 2008. This was the product of negotiations conducted in terms of the SADC Trade Protocol adopted in 1996[7]. The SADC trade protocol negotiations had been based on principles of asymmetry and differentiation. These meant that the larger and stronger economies would make deeper cuts more quickly than the smaller and weaker. As the largest and strongest economy, South Africa (actually all of SACU) fulfilled its tariff phase down obligations by 2005, and by 2008 other participants had completed their less onerous phase downs as well.

Even before the formal launch of the SADC FTA , a debate had unfolded over the next steps to promote integration within SADC. In 2003 the SADC Summit adopted a Regional Indicative Strategic Development Plan (RISDP) for the period 2005-2020[8]. Among other things this envisaged the establishment of a SADC-wide Customs

6 "A 'Developmental Regionalism' Approach to the AfCFTA", op cit.
7 See Protocol on Trade (1996) at https://www.sadc.int.
8 See Regional Indicative Strategic Development Plan, 2003 at https://www.sadc.int.

Union by 2010, a Common Market by 2015 and monetary union by 2016. Participants in a Ministerial Task Force on Regional Integration were tasked with overseeing the implementation of milestones to deliver on this timetable through a process largely driven by the organization's Secretariat. As the RISDP had been adopted at a summit, Ministers were told they had no powers to amend timeframes, even though several expressed serious reservations both about their desirability and their realism. Two consultant reports were commissioned to provide "technical guidance" to these discussions. The first[9] was by a consortium of mainly South African researchers. It argued, quite correctly, that a move to a Customs Union would provide no additional gains for intra-regional trade over those in the already existing under the FTA. Strongly influenced by "open regionalism", it nevertheless argued in favour of a move to a Customs Union on the grounds that this would allow a reduction in tariffs towards the rest of the world and thus further integrate the region into the world economy. Some spurious calculation suggested the region would derive hundreds of million dollars as a result. On the basis of this, the report then made proposals on the structure of the CET. This would be a "simple" four band schedule, with tariffs in each band significantly lower than those in force at the time. The other study was by a Tanzanian consortium. This also proposed a "simple" four band tariff structure. However, in contrast to the other study it proposed that a SADC CET would significantly increase average tariffs compared to existing applied rates – to an extent that would almost certainly have led to it being challenged in the WTO. Another feature of the second proposal was that it also proposed a redistributive sharing of the revenue raised from tariffs weighted in favour of smaller economies.

The contradictory nature of the technical advice contributed to the already evident stalemate in the debate on the SADC Customs Union. Several of us argued explicitly that the debate was being driven by the wrong paradigms. There was no developmental case for adopting a CET at that time – none that could show this would advance intra-regional trade or assist the region to industrialise. The

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[9] Development Network Africa, *Evaluation of an Appropriate Model for a SADC Customs Union* Section H (2007). Available from https://www.dnaeconomics.com.

proposals on a few "simple" tariff bands (whether higher or lower) would, moreover, remove the flexibility required to adjust tariffs and effectively disable an important tool of industrial policy. Others, meanwhile, began to question the emphasis on trade integration at the expense of real economy cooperation, to promote industrialisation in particular. Out of this began to emerge the idea that the next phase of African integration should prioritize broadening integration at FTA level beyond existing Regional Economic Communities (RECs) rather than seeking to deepen integration within RECs.

As things turned out there were good real economy reasons for adopting such a view. At the time, several of the larger emerging economies were adapting their own growth and development strategies to the changing circumstances of the post global crisis world. China which had before the onset of the global economic crisis based its own industrialisation strategy on exports of products to the advanced industrialised countries began to turn to its own domestic market as the main driver of its next phase of growth and development. As indicated in earlier chapters, domestic market growth became the strategic choice of other dynamic emerging economies as well. Most of those making this shift, China and India in particular, had large domestic populations. In the case of Africa, colonialism had divided the continent into 54 different countries. No individual country had either the population size or the level of domestic demand to sustain deep economic diversification and industrialisation in its own domestic market. Even within established RECs the agglomeration effects were modest. SADC, for example, had a combined population of 277 million and a combined GDP of $ 575,5 billion in 2010[10]. But amalgamating several RECs gave numbers suggesting a potential market size that could sustain deeper diversification and support the emergence of regional value chains. The 26 countries of SADC, the East African Community (EAC) and the Common Market of Eastern and Southern Africa (Comesa), for example, had a combined population of 626 million and a combined GDP of USD 1,2 trillion[11]. At the level of the continent as

[10] See SADC Facts and Figures at https://www.sadc.int.
[11] Republic of South Africa, Department of Trade and Industry (the dti), "Ratification of COMESA-EAC-SADC Tripartite Free Trade Area (TFTA)", presentation to Portfolio Committee on Trade and Industry, 13/6/2018.

a whole, the numbers looked even more promising - 1,2 billion people and a combined GDP of USD 3,4 trillion[12].

Southern Africa's move towards prioritisation of broadening integration across RECs was in the end not really an outcome of intellectual debates within ministerial task teams. It began as an almost incidental consequence of overlapping Customs Union processes in both SADC and Comesa. Many members of SADC were also members of Comesa and one, Tanzania, was also a member of the EAC. In the early 2000s, Comesa announced its intention to establish a Customs Union by 2008, even though its membership included several members of the EAC and one, Eswatini (then Swaziland), was a member of SACU. The question of "overlapping membership" of separate RECs each supposedly on track to establish Customs Unions (which by definition no one country can be part of more than one) led to the calling of a Tri-partite SADC, Comesa, EAC summit in Kampala in 2009. That summit resolved to "rationalize" the integration efforts of the three RECs. Specifically, it agreed to work towards the negotiation of a Tri-partite FTA embracing countries in the three RECs and also the eventual merger of the three RECs into a single organization embracing all members – dubbed a "super REC"[13].

The second Tri-partite summit was held in South Africa in 2011. This had as its main objective the launch of the negotiations to establish the Tri-partite (SADC-Comesa-EAC) Free Trade Area (TFTA). The Declaration adopted at the second Summit explicitly committed to "development integration", saying that move towards the FTA would be complemented by work in infrastructure and industrial development pillars. The FTA negotiations themselves would be member state driven, not delegated to "experts". Phase one of FTA would focus on trade in goods, while trade in services would be a Phase two priority. Promoting free movement of business persons would be placed on a

[12] https://www.au.int/en/ti/cfta/about

[13] "Communique of the 1st COMESA-EAC-SADC Tripartite Summit", 22 October 2008. Available from https://www.eac.int.

separate but parallel negotiating track in phase one. The summit determined that phase one be completed within three years[14].

When the third Tri-partite summit convened in Sharm El Sheik, Egypt, in June 2015, the negotiations of the FTA had not only not been concluded but were far behind schedule. Significant progress had, however, been made in developing a framework agreement for phase one, and this was opened for signature at the Summit. Several annexes to the agreement had, however, not been legally "scrubbed". The framework set an overall ambition of reduction of duties on 85% of tariff lines to zero. Importantly, it specified that the TFTA would not re-open the FTAs already in existence within the three RECs but rather would focus on negotiations between those members of the broader Tri-partite region that did not have preferential arrangements between them. Little progress was reported on the industrial development pillar or on the protocol on movement of business people. Some advance in the "North-South Corridor" road and rail programme (the infrastructure leg of the Tri-partite) was, however, recorded.

The African Union (AU), meanwhile, had drawn the evident conclusion from the Tri-partite process viz that the rest of the continent needed to be drawn into a similar exercise. Within days of the 2015 Tri-partite summit, an AU summit held in South Africa agreed to launch negotiations for the establishment of an African Continental Free Trade Area (AfCFTA).

The diminishing momentum of the TFTA, coupled with the energy and drive mobilised towards the AfCFTA, have led to the TFTA in many respects being eclipsed. There were, in fact, a number of reasons behind the TFTA's slowing progress. Part of it was that the external funding on which negotiating sessions depended began to dry up once the AfCFTA was announced. But there were also deeper issues that the AfCFTA will no doubt confront once it moves into operationalisation. The exchange of commercially meaningful detailed commitments raised real issues of direct interest to domestic interest groups. Calibrating these in ways

[14] "Communique of the second COMESA-EAC-SADC Tripartite Summit", 13 June 2011. Available from https://www.gov.za/communiqu%C3%A9-second-comesa-eac-sadc-tripartite-summit-sandton-convention-centre-johannesburg-south.

that would be seen to lead to credible "win-win" outcomes necessarily involved consultations with domestic stakeholders as well as technical assessments of offers and requests. These take time, particularly when relatively larger and more significant trading partners are involved. Countries with smaller economies and little current involvement in trade with parties beyond their immediate neighbours also needed to be persuaded to deploy personnel to participate in meetings. Both these issues were evident in the fact that it was only in May 2019 that officials concluded tariff schedule negotiations under the TFTA between SACU and the EAC – a development which nevertheless represents a significant breakthrough for African regional integration at operational level.

The drive and energy propelling the AfCFTA, whilst clearly welcome in moving the process forward, has, however, also tended to elide over real issues and could if replicated in operationalisation processes lead to decisions being taken without adequate consideration of their implications. Huge diplomatic pressure was put on countries to sign framework agreements that were still incomplete. Before the special AU summit held in Kigali in 2018 the list of those countries who said they could not then sign, either for this reason or because domestic processes had not been concluded, was whittled down in the actual signing ceremony amid a fanfare of cheers for those who then signed on.

Unlike the TFTA, the AfCFTA does not explicitly commit to development integration. This, in itself, is not necessarily fatal. The AU has a well established infrastructure development programme – the Programme for Infrastructure Development in Africa (PIDA). There is also a Committee of African Ministers of Industry (CAMI). CAMI, however, has become virtually moribund in recent years. This highlights a particular weakness of all regional integration programmes in Africa, at whatever level. The TFTA, as already indicated, has not advanced any work in its industrial cooperation pillar. Even within SADC, which has stated that this is a priority, the programme has yet to move beyond consultancy-driven scoping exercises despite two summits adopting a "Strategy and Roadmap" and "Action Plan" respectively.

The AfCFTA is only slightly asymmetrical and is not differentiated. All parties are expected to implement the same high ambition removal of tariffs on 90% of imports of goods from other parties within five years (in the case of developing countries) or 10 years (in the case of Least Developed Countries)[15]. Unlike the TFTA, the AfCFTA includes Trade in Services in phase one, but here the approach is more measured – involving a "positive list" in five priority sectors[16]. With respect to Trade in Goods, a self-designated group of seven countries that indicated they could accept only 85% is recognised but this is not based on any objective criteria and includes, for example, both a few Least Developed Countries (LDCs) and several that definitely are not. Besides its numbers are being whittled down by diplomatic pressure on individual countries to "fall into line". The very high level of ambition is also evident in decisions taken on the remaining 10%. At the Nouakchott Summit held in March 2018, the designated driver of the AfCFTA, President Mahamadou Issoufou of Niger, proposed that the Summit agree that there be no exclusions at all – only a slower pace in phase down of duties to zero. This would have resulted in an absolutely unprecedented 100% duty free trade regime, leading several delegations to resist. The decision now is that for the remaining 10% of tariffs, state parties will be able to subject 7% to a slower phase down to zero and exclude from the phase downs products covered by only 3% of tariff lines[17]. With respect to the 7% slower phase downs, LDCs will have 15 years and the others 10 years. This again represents a very high level of ambition. In part this has been informed by a study by the United Nations Economic Commission for Africa (UNECA) which argued that an exclusion of even 1% would allow several countries to exclude all their existing intra-African trade[18]. Static in approach in that it focuses on existing patterns of trade rather than looking dynamically at that which could emerge from the creation of new value chains, the influence of such studies, in my view, points

[15] See AfCFTA FAQs at https://www.tralac.org.
[16] See tralacBlog "AfCFTA: What next for services trade", https://www.tralac.org. The priority sectors on which initial commitments will be made are business services, communications services, financial services, tourism and travel, and transport.
[17] See *Report on the African Continental Free Trade Area (AfCFTA) by H.E. Mahamadou Issoufou, President of the Republic of Niger and Leader of the AfCFTA,* Assembly/AU/4(XXXII). The phase downs of the 7% sensitive products does include an element of asymmetry. After a five year transitional period, developing countries will have 10 years and Least Developed Countries 13 years to phase these down to zero.
[18] UNECA, *African Continental Free Trade Area: Towards the finalization of modalities on goods* (Addis Ababa, 2018).

to the importance of clarifying the paradigm to guide the continental integration process.

It remains to be seen what the combination of extreme haste and high ambition will mean for the development of Rules of Origin (RoO). Thus far the line has been held in insisting on a product specific process driven by member states. But pressure exists to adopt a simplified one size fits all formulaic approach. Weak RoO could, of course, provide a point of entry for an influx of extra-regional imports masquerading, through screw-driver type operations in the territories of state parties, as locally manufactured products. Several delegations have repeatedly indicated that they would not be able to support an arrangement that allowed extra-regional imports to piggy back on regional preferences. Any such outcome would, of course, be at the expense of the emergence of new regional value chains supporting higher value added activities across the continent that several have argued is the real prize to be won from regional integration.

Further, longstanding ambitions to make unrealistic "great leaps" up the formal ladder of integration had not quite disappeared. In his report to the Summit held in Addis Ababa in February 2019, President Issoufou drew attention to long standing ambitions to establish a continental Customs Union by 2019 with a Common Market following by 2023. He proposed that the Summit instructs ministers to produce a plan to implement these goals. This was "watered down" in the final decision to a request to the Commission, with the assistance of technical partners "…to undertake an assessment of the requirements for the establishment of a future common market"[19].

All of these matters will be tested out in processes of operationalisation. Having to make concrete commitments and testing these in consultation with stakeholders could provide an important reality check and lead to more flexible and accommodative decisions. Subjecting operational issues to undue political and diplomatic pressure to conform to unrealistic rigid norms could result in formal commitments

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[19] See *Key Decisions of the 32nd Ordinary Session of the Assembly of the African Union (January 2019),* at http://www.au.int.

not being implemented in practice or being implemented by some but not by others. If this were to materialise it would, of course, weaken the potential real economy value of the AfCFTA.

We have argued in this chapter that the move towards the AfCFTA was both correct and an appropriate next step in advancing regional integration on the continent. The fact that it is now at a point of practical implementation is also a significant achievement taking it beyond the formal declaratory stage at which many earlier initiatives became stuck. Potentially the AfCFTA holds out great promise as an element of a broader transformation of African economies towards higher value-added production. It could also provide the continent with a bulwark against unpropitious trends in the multi-lateral trading system and in the world economy. The real prize from continental integration, we have suggested, is not limited to the possibility of increasing intra-regional trade – although that is part of it. If it unfolds appropriately, the AfCFTA could facilitate the emergence of regional value chains that allow the continent as a whole to move to a higher level of value-added production. These would arise if its preferences facilitate the emergence of higher value-added productive activities in a number of countries producing components for an increasing range of "products of the African continent" supplied to consumers on the continent, as well as eventually also exported. Progress in this regard would be reflected, *inter alia*, in intra-regional trade taking on new forms, including involving more trade in intermediate products (which is both the largest and fastest growing part of world trade). This would of course depend not just on a tariff regime but on programmes addressing the other barriers identified in the development integration paradigm – inadequate infrastructure and more effective cooperation to promote industrial development.

But this is not the only possible outcome of processes currently underway. Several scenarios seem possible reflecting to a large degree the unselfconscious but very real contestation between different paradigms. One scenario is that the AfCFTA becomes reduced to a conventional trade integration arrangement. If that were to materialise it would very likely entrench the competitive advantages, and polarisation in favour of the very few countries currently having significant capacity to export finished goods to the rest of the continent – South

Africa, Egypt, Morocco and to a lesser extent Kenya. This, of itself, would likely provoke others to push for weak Rules of Origin that could lead to a proliferation of low value-added, screw-driver type industries emerging in other countries, which we suggested above would amount to a new form of third country import penetration to the detriment of any real move to higher value addition. Such an outcome would be difficult to measure and would likely be masked by statistics recording a higher volume of possibly seemingly less polarised intra-regional trade.

Then there is the issue of how the AfCFTA will be viewed in relation to potential third party FTAs. The Nouakchott summit agreed to a recommendation from President Issoufou that there be a moratorium on negotiating third country agreements until the AfCFTA is in place. Some push back against this decision led to it being watered down to a decision that "member states wishing to enter into partnerships with third parties should inform the Assembly with assurance that those efforts will not undermine the African Union vision of creating one African market."[20] It is clear that there is a line-up of potential parties looking to the AfCFTA as a stepping stone towards their own FTA ambitions. They include the strong pressure within the US to replace the African Growth and Opportunity Act (AGOA) non-reciprocal preferences with reciprocal FTAs when the current AGOA ends in 2025. A discussion paper issued by the Obama administration indicated that while this could potentially take various forms, the then administration's preference was for a TPP-type "high quality" agreement[21]. In August 2019, officials from the Trump administration told delegates attending the AGOA forum in the Ivory Coast that the USMCA (the US-Mexico-Canada agreement that replaced NAFTA) represented their "gold standard" of an ultimate model. This clearly implies something close to full reciprocity in tariff reduction commitments and an array of WTO plus rules on matters like investment, government procurement, Intellectual Property Rules and digital trade. China's "One Belt One Road" (OBOR) also envisages the negotiation of FTAs with partners, although this is not strongly pushed in the Forum of China

[20] African Union, *Key Decisions of the 32nd Session of the Assembly,* op cit.
[21] Office of the U.S. Trade Representative, *Beyond AGOA: Looking to the Future of U.S.-Africa Trade and Investment* (September 2016).

Africa Cooperation (Focac). All of these plus the unfinished process of negotiating Economic Partnership Agreements (EPAs) with the EU raise a question not currently answerable: will the AfCFTA become merely a stepping stone towards "open regionalism". Any such outcome would likely be at the expense of the necessary nurturing of nascent African industries and the emergence of regional value chains.

Finally, there is the question of the approach to trade related issues envisaged for phase two of the AfCFTA process. These include intellectual property, competition and investment policy[22]. The list has a remarkable resemblance to the "trade related" issues included in "mega regionals", like the TPP. That again is not necessarily fatal, if it results in Africa dealing with these important matters in ways that respond to its own concrete needs rather than merely imitating provisions in allegedly "high quality" trade agreements from elsewhere. Nor should the selection of issues be at the expense of other matters likely to be even more important priorities for African development. These might include considering what policies and measures need to be adopted to promote a higher level of beneficiation before export of mineral commodities and policies and regulations to support digital industrial policy.

If the AfCFTA is to fulfil its promise as a tool for inclusive development, industrialisation and diversification it needs to embrace more of the perspectives of a development integration programme. This is not to suggest that the continent pauses to engage in a theoretical debate between paradigms. Even if this were desirable, which it is not, it could result merely in the formal adoption of wording in documents. What is needed as the AfCFTA moves into operationalisation is that practical implementation processes become more firmly rooted in addressing concrete development challenges and providing more opportunities for the continent to move towards higher value added production. The insignificant progress recorded in industrial cooperation, whether at REC or AU level, should be a matter of concern. Industrial development cooperation needs to rise above the kind of consultancy-heavy scoping exercises that have dominated the work in formal

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[22] Draft legal texts on these issues are due to be submitted to the AU Assembly in January 2021. See African Union, *Key Decisions of the 32nd Session of the Assembly,* op cit.

bodies up to now and deliver forward thinking proposals for sectorally specific "win-win" outcomes taking into account the AfCFTA. Ongoing work involving private sector players and some governments to produce an African "Auto Pact"[23] is perhaps a pointer in this regard. This is addressing itself to the evident ambition of several countries to move into automotive assembly starting with "semi-knock down" (SKD) assembly. Rather than letting this lead to destructive competition between small scale operations that could see the continent's few completely knock down kit (CKD) manufacturers lose markets, this aims to find a "win-win" outcome that allows more of the activities of the latter to move towards the production of components to support SKD operations elsewhere, rather than these depending on components from extra-regional suppliers. Similar strategies are also being envisaged in railway equipment manufacturing as well.

[23] See "An industry pact is key to Africa's auto ambitions – Alec Erwin", NAACAM in the News (https://www.naacam.co.za).

CHAPTER 6
CONCLUSION: TRADE AND DEVELOPMENT

A fundamental issue underlying everything discussed in this study is the relationship between trade and development.

Development needs to be understood in two interconnected senses. First, it means human development – an improvement in the human condition. Every year since 1997, the United Nations Development Programme (UNDP) has compiled a "Human Development Index" (HDI) using a number of indicators – including per capita Gross National Income (GNI/capita), life expectancy, income distribution, employment, health, gender equity, education levels[1]. The HDI listings record significant cases of deviation from the ranking based on per capita income alone. Countries that have prioritised public health programmes, education, gender equity etc. have significantly raised their HDI ranking above that based on per capita income alone. In 2018 Cuba, for example, was ranked 41 places higher on its HDI than on its per capita income. South Africa, by contrast, with its high levels of unemployment and inequality, is ranked 23 places lower than its GNP/capita ranking. Countries with large resource endowments and small populations – oil producers among them - have also been able to generate high per capita incomes and use resource rents to support human development programmes. Several of these score high HDI rankings, generally in line with their GNP/capita rankings. But, with these exceptions, there is a strong correlation between ranking on the HDI index and the level of development of the forces of production – the second sense in which the term "development" needs to be understood. Apart from the oil producers, all countries in the UNDP's "Very High Human Development" category are industrialised, developed countries.

[1] See United Nations Development Programme, *Human Development Indices: 2018 Statistical Update* at http://hdr.undp.org/

The strong correlation between human development and the level of development of productive forces points to a major lesson of economic history referred to in the introductory chapter. The vast majority of countries that have transitioned from low to high income, or from underdeveloped to developed, have passed through a stage of economic diversification involving a shift to higher value-added production. In other words, they have industrialised. Poor countries have stayed poor because they have remained trapped in the much lower value-added production and export of some primary product or products - agricultural or mineral. Most of these countries were at some stage in their history colonised. Several were subject to colonial laws explicitly preventing their development of industries – particularly those that could compete against industries in the "mother country". [2]

Those few underdeveloped countries that have more recently emerged as high income or "moderately prosperous" countries have all followed the same path as earlier industrialisers. Whether they were the East Asian Newly Industrialising Economies in the 1960s and 1970s (South Korea, Taiwan) or, more recently, China, their governments intervened to actively promote, nurture and protect nascent industries. The industrialisation they experienced not only resulted in greater output and higher incomes for those directly involved in manufacturing, it also supported a host of related service activities that created higher quality, better remunerated and higher quality jobs than those that existed before. All of this created a generalised improvement in productivity that raised incomes throughout diversifying economies. Erik Reinert[3] argues that the reason luggage handlers, bus drivers, hotel personnel, barbers and shop attendants in Peru are paid less than their counterparts in Norway has nothing to do with lesser abilities or the nature of the work they perform. Both do the same job, and indeed those in Peru probably work longer hours than their counterparts in Norway. The reason for their different incomes lies in the fact that industrialisation in Norway generated an overall increase in incomes in that country.

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[2] See Reinert, op cit.

[3] Ibid., pp 1-2.

The goal of economic policy has long been understood as improving human development. Depending on the specific circumstances in each country, this means the adoption of policy and programmes targeting a reduction of poverty through raising incomes, a reduction in unemployment by creating decent work and a reduction in inequality by promoting redistribution. Again depending on the specific circumstances of each country, economic policy needs to aim to develop the forces of production. In developing countries and least developed countries, this means setting them on a path towards higher value-added activities.

Trade, or more precisely engagement in international trade is, or should be, one among several potential policy tools to achieve these goals. At its most basic and mercantilist level, increasing exports means earning more foreign exchange. As industrial diversification and development unfold, an increasing proportion of foreign exchange earned would be expected to be deployed not on imports of finished consumer goods but on the acquisition of inputs needed to support higher value-added activities. This would imply a change in the mix of the import basket, as the proportion of means of production and intermediate goods increases. Beyond this, increasing exports of value-added products generates higher productivity and learning. It allows production beyond the limits of the domestic market and thereby supports a concentration on a particular range of value-added products where competitive advantage can be acquired.

All countries that have made this transition have done so through the adoption of an asymmetrical trade policy with a phased approach to import liberalisation driven by and informed by industrial policy. As nascent industries are nurtured and supported in their development, they need to be shielded and protected against imports of competing finished goods. As these industries begin to "outgrow" their domestic markets, developmental states need to take advantage of any opportunities available to promote exports. In the age of colonialism control of colonies provided colonisers with both access to cheap raw materials and captive markets for their finished goods – at the expense of development of local industries. In the post-World War II period, cold war considerations allowed "Newly Industrialising Economies", like South Korea and Taiwan, to benefit from access to the US markets provided without their having to reciprocate. Local nascent industries could thus be protected in the local market while exports of their products were progressively built up in the major consumer markets of the developed world. From the 1980s onwards, China was able to navigate a complex terrain involving taking advantage of the overall liberalisation of export markets in the era of globalisation (notably initially by seizing the opportunities for clothing and textile exports arising from the end of the Multi-Fibre Agreement), while carefully calibrating a strategic and selective "opening up" of its own markets, beginning with "Special Economic Zones" (that were in fact initially opened to investments and imports of means of production, rather than of finished goods)[4]. Later, as indicated earlier, as industrialisers became more competitive they came to be more open to freer trade – often becoming proponents of "free trade" to the point of seeking to deny others access to the same policy tools they themselves deployed in their own development. But, as also indicated earlier, this adoption of "free trade" was never consistent. The embrace of free trade was stronger in areas where proponents were competitive than in areas where they are not – notably for many of the current developed countries in agriculture. As circumstances have changed, moreover, so too have the relativities within "free trade" perspectives. This is reflected in the shift in western neo-liberal narrative on China, which has gone from a success story of globalisation to a disruptive upstart that succeeded by cheating and now needs to be curtailed.

What neo-liberal discourse did was to introduce an inversion into the rather conventional narrative outlined above. "Trade" became no longer a means to an end, but an end in itself. This was actually based on a conceptual elision. What was meant was not trade *per se,* but "free trade" – and beyond that perhaps even an agenda of free movement of capital in or out of any economy it chose. Against the evidence of economic history, neo-liberalism presented trade liberalisation as good for all regardless of their stage of development. This proposition had several incarnations. In the heyday of neo-liberalism, "trade" reduced to trade liberalisation (or even more precisely to import liberalisation) was held out as the route to "integration" into the world economy and, through this, as the royal road to development and prosperity. Freer

[4] See footnote 7 in Introductory Chapter.

trade became a proxy for progress and development. This led to many *post hoc ergo propter hoc* (after this therefore because of this) logical fallacies. Because hundreds of millions of people had been lifted out of poverty during a period that saw widespread trade liberalisation, more trade liberalisation was touted as the route to raise living standards of yet more poor people. This, of course, missed the point that most of those hundreds of millions were in China, which achieved its industrialisation by following a route more akin to that pursued by earlier industrialisers than that recommended by neo-liberalism to developing countries generally.

Trade ministers were presumed, by definition, to be in favour of trade. But with the reduction of "trade" to "trade liberalisation", many were cajoled or persuaded that this meant their main task was to promote and support trade liberalisation – held to be as good for the poor and weak as it was for the rich and strong. For ministers from developing countries, the ability to cite examples of autonomous liberalisation in their own countries became a "badge of respectability", and the way to be invited to assume a role in WTO Ministerial Conferences. Several were persuaded that their role on the domestic front was to become a champion for trade (read trade liberalisation) and sell its "benefits" to sceptical domestic constituencies. Whenever a new issue arose, the first presumption was that it needed to be responded to with a new multi-lateral rule - whose main content would be liberalisation. The narrative of GVCs, thus, sought to persuade trade ministers that their task was not just to promote exports but now also to actively work to unlock domestic barriers to imports, and support trade facilitation. The rise of e-commerce and the digital economy was likewise seen as requiring not so much programmes to address the digital divide and promote inclusivity, as new trade rules to entrench digital "free trade". Through all of this, policy space was progressively reduced through a combination of ever tightening rules and pressure for autonomous action. When this point was made, it was sometimes met with a paternalistic reply that what was being curtailed was space for "bad policy". With the rise of nationalistic populism further steps to limit policy space are no longer being demanded in the name of being good for all, but in pursuit of an openly partisan agenda of rebalancing the system to the advantage of a declining hegemon in its competitive struggle against a disruptive upstart.

In 2007, Joseph Stiglitz and Andrew Charlton[5] argued that "to date not one successful developing country has pursued a purely free market approach to development". In their book titled *Fair Trade for All,* they argued that a fair multi-lateral rules-based trading system required:

- that the bigger and stronger economies open up their markets to products from poorer countries;
- that policy space be created to allow developing countries to support developmental transformation; and
- that restrictive Intellectual Property rules be amended to allow greater access to knowledge and technology.

In 2017 UNCTAD[6] called for a "global new deal" to promote inclusive growth in the era of digitisation based on, *inter alia,* the following elements:

- Ending austerity, enhancing public investment, finding new ways to raise government revenue and closing tax loopholes;
- Providing a stronger voice for organised labour and other constituencies to counterbalance corporate power;
- Taming financial capital and reining in corporate rentierism;
- Significantly increasing multi-lateral financial resources for development, and
- Respecting policy space for developing countries, including by revisiting restrictive Intellectual Property and Investment provisions in bi-lateral and multi-lateral arrangements.

Themes common to both are asymmetry and respect for policy space. Without these in an era of widening inequality and impending disruptive technological change, poorer countries will find making the transition to more diversified and higher value-added activity increasingly difficult. Continuing to be just producers and exporters of primary products will not provide a sustainable pathway to raise living

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[5] Joseph E Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development* (Oxford University Press, 2007).

[6] *UNCTAD Trade and Development Report 2017* chapters II and VII. See also *Trade and Development Report 2018.*

standards of the world's poor. Nor is it for the rich and powerful to prescribe to poorer countries what use of policy space is good or bad. That should be a matter of democratic accountability by governments to their electorates. Besides, the advice of the rich and the powerful, shaped as it is by corporate interest groups, is never disinterested. While some of the policy space that needs to be reclaimed will permit more effective action by national governments, some will also be necessary to support more effective developmental regionalism. Without this the African continent's ambition to industrialise based on the creation of regional value chains will fall short of its potential.

While the circumstances of neo-liberal multi-lateralism in crisis may be dominated for the moment by Gramscian "morbid symptoms" of aggressive power-based unilateral mercantalism, the contours of a progressive, inclusive and developmental alternative are clear enough. It is a matter now of political will to ensure that the new is born.

Matters of international trade are increasingly widely recognised as major shapers of global politics. News bulletins are giving more and more coverage to matters like the so-called “trade wars” between the United States and China. These are, indeed, increasingly defining relations between the two largest economies in the world and could well underpin a multi-dimensional rivalry that could be a central feature of international relations for many years to come. Brexit is dominating and indeed re-shaping politics in the United Kingdom. By definition a rejection of a regional integration arrangement, Brexit has also revealed under-currents profoundly shaped by the outcome of a broader trade-driven process called “globalisation”. Just as regional integration is weakening in Europe, African countries have taken decisions that could lead to the most profound and ambitious step forward in African regional integration – the establishment of an African Continental Free Trade Area (AfCFTA).
This study seeks to present an analysis of the political economy of trade negotiations over the past quarter century on two main fronts: the multi-lateral and those pertaining to regional integration on the African continent.

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