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**African Development in the Context of
New World Trade and Financial Regimes:
The Role of the WTO and Its Relationship
to the World Bank and the IMF**

by

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1. Introduction

The quest continues for the deep, sustained and equitable growth that will permit sub-Saharan Africa (hereafter Africa) to address its grave poverty and other social and economic development problems. Both African governments and the international development community increasingly perceive the need for new development strategies—broader than economic adjustment—in order to achieve such growth. At the same time, the rapid pace of globalization in international trade and finance, aided by tremendous progress in information technology, has started to affect Africa's macroeconomic and financial performance and policies. It is likely to have substantial impact on the course of Africa's development in the future. Globalization, all agree, presents Africa with both opportunities and risks.

Some see globalization as inherently beneficial for Africa—provided that its governments open up their economies, substantially reduce transaction costs and develop mechanisms for increasing the credibility of their policy reforms. They then see a brighter African future through the attraction of substantial private capital and the export of manufactures (e.g., Collier, 1997). Some are less sanguine about the African prospect and foresee continuing "marginalization" and instability.

Globalization and "deepening" international economic integration have brought increasing calls for improved institutions and modalities for global economic governance (e.g., Culpeper and Pestieau, 1996). In the wake of the Mexican and East Asian crises, these have been particularly forceful in the spheres of macroeconomic and financial management. In international trade and related issues, however, the inauguration in 1995 of a world-wide intergovernment organization—the World Trade Organization (WTO)—with a mandate to formalize, interpret and police earlier (General Agreement of Tariff and Trade, GATT) and prospective rules, already marked, in the view of some, an important and positive "watershed in the international economic system" (Henderson, 1998: 107; quoting Jackson, 1995: 25).

Others are more wary, both about the implications of globalization and about the potential role of international regimes. Ferrer (1997: 178–85), for instance, in a Latin American context, has noted the many "myths" behind "the fundamentalist view of globalization", e.g., that it has no historical precedent, that national economic space has dissolved into a purely global order, that the only viable policies are those of market deregulation, and that economic development and equitable distribution will look after themselves. With or without globalization or the WTO or other institutions of global governance, he argues, *national* policies are still "decisive for economic development" (p. 181). The UN Conference on Trade and Development (UNCTAD) has noted that, "While full integration into the global economy should be the ultimate objective of each and every economy, liberalization and deregulation need to be carefully and appropriately managed, phased and tailored to the level of economic development and the capacity of existing institutions and industries" (Ricupero, 1997: 3; see also UNCTAD, 1997; UNDP, 1997, chapter 5; and, in an African context, Helleiner, 1999).

Accession to the WTO certainly involves commitments on the part of national policy makers—in a very wide (and evidently still expanding) range of policies. It can have "profound implications" for strategies and policies for industrialization and development in that "it presents both opportunities and constraints" (Soludo, 1997: 16). A recent UNCTAD (1996: 25) report observes that

It is undeniable that the global economy is currently going through significant changes. The new trading regime under the WTO has reduced the scope for using some measures ... trade-related subsidies, lax enforcement of intellectual property rights, and strategic conditions imposed on foreign investments, which were integral parts of the East Asian development strategy. Certainly the more generalized protection which provided a backdrop for targeted policies in East Asia is no longer possible, and many of the export promotion policies no longer appear permissible. It may also be true that the changes will reduce the scope for policy manoeuvre for the developing countries which wish to pursue a strategy involving vigorous infant industry protection and export subsidies.

The International Monetary Fund and the World Bank have, of course, been around for much longer than the WTO. In the new global economy, both are searching for new—and central—roles in their respective spheres. The IMF aspires to an increased and important role in global macroeconomic and financial management. The World Bank seeks global intellectual leadership in development policy and a continued important role in the provision of long-term development finance to justify it. These international financial institutions (IFIs), unlike the WTO, have already had profound effects on African development and development policies. These effects have been the result of their advice, their finance, their "signalling" role for others (particularly aid donors), and—above all—the conditionality attached to their lending and associated pressure for policy reform.

While mindful of the potentially positive consequences of globalization for Africa, this paper posits that conscious policies are required to ensure that trade openness and increased private capital inflows lead to enhanced and sustained growth. Despite the pressures from external sources of essential finance and external policemen enforcing new global rules, African economic policy makers still have important options as they address the future of their countries' relationships with the world. They need not mindlessly submit to the forces of globalization by total abandonment of any role in the mediation of national links to the world economy.

We begin with a review, in Section 2, of the recent evolution of the world's trade and financial regimes from a primarily African perspective. In Section 3, we offer our perspective on the role of external sector policies—of various kinds—in African development. Section 4 provides a review of the African experience in the areas of trade and capital account policies in the context of the analytical framework of Section 3. This sets the stage for the analysis in Section 5, which explores the interactions between the WTO and the two Bretton Woods' institutions in the areas of trade and capital account policies, and draws potential implications for Africa's future development. This section attempts to set out some modalities for collaboration between the WTO, IMF and the World Bank that, in our view, could provide better multilateral institutional support for African development and calls attention to the real problems in achieving such useful cooperation/coordination between the three institutions. Section 6 concludes.

2. The new world trade and financial regimes

The ultimate impact of the new trade and financial regimes will depend, in large part, on the nature of the interactions among the existing multilateral institutions—especially the WTO, the World Bank and the IMF—and their capacities (as organizations) to fulfil their mandates.

In a recent analysis of the linkages between and the relative competencies of the three institutions, Vines (1998) argues that the prospects for formal cooperation between the WTO and the other two multilateral institutions depend on three organizational characteristics: the objectives these institutions were created to achieve, their relative competencies, and the future challenges/agendas they have to address.

The IMF, as an institution, has experienced a major evolution from an organization that administered the international monetary system according to specified rules (anchored around a fixed exchange rate regime) to an organization that provides short- to medium-term programme loans and policy advice to individual—primarily less developed—countries in a context of (policy-based) conditional lending. The IMF's considerable expertise and research capacity in macroeconomics give credibility to its policy advice and loan conditionality. Its lending generates the net income to finance the research and gives the institution its basic financial independence. According to Vines (1998: 65), the two core activities of policy advice and conditional lending in a relatively well-defined area comprise an "extraordinarily coherent package". The IMF's ability to bring these two features together may have made the IMF, in his view, "the most effective international organization in history".

The role of the IMF in Africa, and in the poorest developing countries elsewhere, has also changed significantly over the years. Until the 1970s, the IMF was relatively inactive as a source of balance of payments finance for these countries. During the 1970s and up until the debt crisis of the early 1980s, the IMF provided it to scarcely anyone else. The IMF plunged significantly into Africa for the first time in the early 1980s. From then on, while the IMF significantly increased the concessionality of its lending to Africa it basically just "rolled it over" rather than expanding it any further.

At present, the enhanced structural adjustment facility (ESAF) is the IMF's primary instrument for providing finance to the poorest countries. Today's ESAF is a highly concessional loan facility, offering longer-term finance than the IMF has traditionally provided, and using both a broader range of conditionality and more cooperation with the World Bank (which has typically been much more intrusive into domestic policies) than was ever the norm in the past. After years of emphasis on its purely monetary role and steadfast unwillingness to consider itself a development institution, the IMF now finds itself offering medium-term finance at highly concessional rates, and involving itself in the "structural" problems of development.¹ Its primary orientation remains, however, both shorter-term and more geared to macroeconomic stabilization, particularly the reduction of inflation, than that of the World Bank. Moreover, in Africa, the IMF's principal role in the provision of finance has been indirect—signalling to aid donors (and Paris Club creditors), with much more finance to offer, that recipients can effectively use their assistance.

The World Bank has a much wider and more challenging set of objectives than the IMF.

¹Even now, the IMF often shows itself ambivalent about its new role and has difficulty explaining it. In his press conference after the 1996 annual meetings, for instance, the Managing Director stated: "What we are doing is not at all development financing. But what we are doing for developing countries is the job for which we were created—to provide our members with the necessary resources to face temporary payments crises *or deeply-rooted structural problems* [our italics] without resorting to measures destructive of national or international prosperity in the context of strong, solid, credible adjustment and reform programmes" (IMF Survey, 14 October 1996: 324.) Its trade liberalization objectives and experiences are analysed in a recent staff survey (IMF, 1998).

Again Vines (1998: 67–68) provides a succinct characterization: "the World Bank now owes its strength and distinctiveness to bringing together into one organization a number of activities. The core International Bank for Reconstruction and Development (IBRD) function bundles together lending, development research, and development assistance—all glued together by the Bank's ability to exercise conditionality. The International Development Association (IDA) function is similar except that the lending is 'concessional' and is effectively aid. The Bank is now best thought of as a multilateral organization that enables richer countries to assist with the development problems of the poorer countries without entering into direct bilateral political power relations with them; we might say that by doing this the Bank sustains what is an implicit 'global development policy' regime".

The role of the World Bank in Africa has been well described in the monumental (and independent) new history of the Bank (Kapur, Lewis and Webb, 1997). "The scale and scope of the Bank's engagement in sub-Saharan Africa over the past twenty-five years has been substantially different from that elsewhere" (Kapur et al., 1997: 684). "The period from 1980 onward witnessed economic decline in most of sub-Saharan Africa and unprecedented power being wielded by the Bretton Woods institutions" (ibid: 766). "By the mid-1980s, the Bank had established itself as the preeminent external actor in sub-Saharan Africa" (p. 751). Although the IMF retained its role as financial gatekeeper and senior partner in the preparation of "policy framework papers", it was "its dominance of the intellectual discourse that solidified the Bank's preeminent role.... Other multilaterals, even the IMF, were simply not in the same league as the Bank in terms of the sheer volume of analysis on the continent" (p.764).

By the mid 1990s, however, and not just in Africa, the World Bank's list of "programme priorities...had been stretched almost beyond recognition" (Kapur et al., 1997: 1215). It seemed to feel that "it was part of being the 'world's leading development promotion agency' to reach into one new field after another" (p. 1216). In Africa, the Bank was by now being led "into areas and issues where it had historically little competence or comparative advantage, a consequence of changing fashions and pressures from donor governments, Western NGOs and activist sections of its staff" (p. 800). Its management and owners, by this time, badly needed to develop their own "*policy* of self-restraint" (ibid.).

Relations between the IMF and the World Bank have been governed, broadly, by an agreed division of labour between them—as between the support of macroeconomic stabilization and the support of development. But, particularly in Africa, and as the range of conditions on IMF lending expanded, this division became increasingly blurred; differences over policy recommendations and conditionality sometimes followed. (Some of the differences between the IMF and Bank staff in the African context are reviewed by Kapur et al., 1997: 764; on IMF–Bank relations, see also Polak, 1994, and Feinberg, 1988.)

Finally, Vines (1998: 70) contrasts the mandate and objectives of the WTO with those of the IMF and the Bank:

Quite unlike the Fund, whose primary output is adjustment assistance (advice and loans) to individual countries, or the Bank, whose primary output is development assistance (advice and loans) to individual countries, the primary output of the WTO is rule writing and enforcement of an explicit global regime. It is an organization that writes rules and, in so doing, makes laws

with which its contracting parties agree to abide. Unlike the Fund and the Bank, whose effectiveness ultimately stems from a combination of an internal knowledge base and an ability to exert conditionality on individual countries, the effectiveness of the WTO rests upon its combination of a global forum in which rules can be brokered and a dispute settlement process in which they can be enforced.

Both the IMF and the Bank are vigorous in their promotion of more liberal and market-friendly approaches to development policy than have, until recently, been the norm in Africa. In this respect, their policy approaches are quite consistent with those implicit in the rules of the WTO.

The IMF and the World Bank are faced with major challenges that may force some changes in their modes of deploying conditionality, and perhaps also in their mandates. These challenges are, by and large, related to increased global capital market integration and the substantial rise in private capital flows to many middle-income countries. The IMF has increasingly been drawn into initiatives to enhance international macroeconomic policy coordination and crisis response, e.g., after the Mexican crisis in 1994 and the current East Asian crisis. However, the IMF may lack both the mandate and the relevant competencies to undertake this task: "there are deep problems as to agreement on appropriate policies, on monitoring, on enforcement, and on conditions" (Vines, 1998: 66). As for the Bank, there are two main challenges. First, high-growth middle-income countries have increasingly resorted to the private capital market as an alternative source of finance to the Bank's conditional lending.² Second, even in the case of concessional development finance (by IDA), as discussed below, the effectiveness of policy conditionality as an instrument for enhancing reform has come under increasing criticism (e.g., Collier, 1991, 1996; Helleiner, 1998a).

On the other hand, the WTO has just begun the process of addressing its agenda—with much less technical in-house capability than the other two organizations (Blackhurst, 1998). The WTO is, perhaps by design, still a fragile body—essentially a contract among governments—with limited research expertise or interpretive capacity. Its organizational structure was likely adequate for meeting the requirements of overseeing the originally-charted principles of its predecessor, the GATT: notably most favoured nation (MFN) and national treatment. However, the widening of the GATT agenda—and its formalization in the WTO mandate—to include a range of new areas (e.g., liberalization of financial services, intellectual property rights, anti-dumping, etc.) has stretched the WTO organization beyond the limits of its capacities (Vines, 1998).

To remain credible and effective, both the Bank and the IMF will need at least formally to cooperate with the WTO³ in a way that will allow them to enhance the quality and effectiveness of their policy conditionality. One hopes that such improvements may emerge within the more reciprocal and participatory context that the WTO can provide. On the other hand, the WTO would need enhanced research capabilities to be able to cooperate with these

²According to a recent World Bank policy review of activities, the IBRD was lending only at 55% of its capacity prior to the expansion of its lending in response to the crisis in East Asia ("Strategic Compact", 13 March 1997).

³This could build on the currently existing informal and formal arrangements between each of the World Bank and the IMF with the WTO (see World Trade Organization, 1996).

two institutions on a comparable, if not on equal, footing. Moreover, the IFIs will always retain the powers of their purses. These are therefore unlikely to be equal partnerships, and WTO influences over processes or policies may be fairly limited.

A further element in the emerging global regime for international trade and finance is the Multilateral Agreement on Investment (MAI) proposed by OECD. Although originally to be applicable only to OECD members and now, in any case, ground down in intra-OECD disputes, the draft MAI provides a clear indication of what many major powers want in the way of an international regime for foreign investment. The proposed agreement includes an all-encompassing definition of "investment" (including, for instance, intellectual property and portfolio capital), sweeping and legally binding restraints on government performance requirements, and the requirement of national treatment for foreign investors both before (which is radically new) and after establishment in the host nation; but no disciplines on government investment incentives or any of the many aspects of investor behaviour that were the subject of extensive (and ultimately unsuccessful) international negotiations on "codes of conduct" for TNCs in an earlier period (Correa, 1998; Ganesan, 1998). It is also quite clear that the pressure on developing countries to "restrain" their policies toward OECD property owners will be unrelenting, with or without an agreed new multilateral investment regime (which will still be sought in one forum or another). Apart from its substantive content, an MAI raises important new jurisdictional issues between the IMF, the WTO and any new investment-focused agreements or institutions.

3. External sector policies and African development

African governments make policies relating to their countries' economic relationships with the rest of the world in several different dimensions—notably in trade (and other current account) relationships; in the treatment of international capital flows; and in the overall management of their external balance of payments. As they do so, they not only interact bilaterally and directly with their trading partners and particular owners of foreign capital (both private and public), but they must also deal, as has been seen, with multilateral institutions that "govern" the global trading and financial systems—the IMF, the World Bank group, the WTO and possibly an eventual MAI. Additionally, their dependence on foreign capital (and general external friendliness and support) subjects African governments to policy conditionality on a wide range of other issues as well, including such highly political matters as the institutions of domestic governance and the role of the state.

It would be idle to pretend that there is universal agreement as to appropriate development strategy for all of the varied countries of Africa. (At this point, and throughout the rest of this paper, we assume that development strategy builds on a pre-existing situation of reasonable, or at least "normal", macroeconomic stability.) It is generally accepted, however, that in the pre-industrial phase of a country's development, industrial import substitution (IS), normally confined to non-durable consumer goods, can be both very rewarding and relatively easy to execute. Domestic production of such manufactures constitutes the first attempt at modernization that does not require high technical skills or complicated strategic state interventions to resolve the market coordination failures that normally characterize modern sector production. To support such import substitution, restrictive trade policy and hence more appreciated currencies (in real terms) are typically deployed. Apart from the industrial policy considerations behind trade (especially import) restrictions, high tariffs on imports and modest taxation of traditional exports are also the main sources of tax revenue at this early

stage of a country's development. The overall trade regime consistent with this first (easy) phase of the IS strategy is therefore essentially biased against exports. However, even in this phase, since traditional exports are the main source of foreign exchange for the economy, some minimum threshold of export performance has to be secured, to allow for the import of sufficient key intermediate and capital goods to support the strategy. Thus, even as IS is just getting under way some direct export promotion (EP) measures may be required to neutralize, at least partially, the deleterious incentive effects of direct export taxation and the indirect incidence of import taxation on exports.

In a small economy, the domestic market for non-durable consumer manufactures is inherently rather limited, and therefore the labour absorption capacity of the sector is also limited. This suggests that the easy phase of IS cannot be sustained for long. At some point it will be necessary consciously to switch into a strategy of EP of simple manufactures, based initially on the capacity for producing them that was created in the easy IS phase.

As far as trade policy issues are concerned, there is indeed already a remarkable consensus in Africa on the need for significantly improved export performance, and sufficient incentives and other supports to induce increased and sustained investment in export-oriented activities. The rationales for such "export promotion" vary. They include:

- The possibility of using existing productive capacity more fully and effectively.
- The purported productivity-enhancing effects and positive externalities from non-traditional export-oriented production.
- The potential for attracting fresh foreign investment to profitable exporting opportunities.
- The productivity-enhancing effects of the imports of capital goods, intermediate inputs and technology that the foreign exchange earned by exporting can finance.
- The sheer absence of plausible alternatives for profitable investment in small economies (Helleiner, 1995).

It would be wrong to think of export expansion and import substitution as necessarily mutually exclusive, but in small countries, after some point, exports are what must drive the process (Williamson, 1997a: 18).

The import liberalizing implications of such a switch towards an export-orientation strategy could eventually be substantial, but the move toward a *generally* more open trade regime may, and probably should, take some time. On the other hand, the immediate implications of such a shift in strategy for exchange rate policy are usually much more dramatic. Its inauguration has typically involved real currency depreciation (with subsequent stability) and direct support for exports (e.g., through rebate of tariffs levied on inputs to exports, or tariff exemptions for such inputs, or even direct subsidies). Only later, typically, is this followed by tariffification of QRs, and then reductions and rationalization of tariffs (Helleiner, 1995).

In order to overcome the initially limited capability for exporting manufactures—and sufficiently enough to stimulate new investment in export-oriented production—the real value of the currency may have to depreciate quite considerably, overshooting its eventual equilibrium value (Williamson, 1997a). It is likely to have to remain under-valued for several years, before sufficient productivity growth in the traded sector is generated to bring with it secular real currency appreciation (Balassa, 1964; Samuelson, 1964). In the current era of global capital market integration, the temptation to abandon (or the inability to maintain) this

real currency depreciation prematurely—before the economy is sufficiently developed to sustain real appreciation—has proved to be quite formidable in many developing countries. The recent Asian financial crisis makes clear that even the most successful developing countries may fall victim to this problem. The recent, and in our view premature, opening of capital accounts in many reforming African countries (mainly based on advice from the IMF) has resulted in a rise in (mainly short-term) private capital inflows to these countries and consequent real currency appreciation. Given the speculative and unsustainable nature of these capital flows and the likelihood of frequent occurrence of financial crisis, the real exchange rate (RER) can be expected to experience *major* swings (increased RER instability) around a more appreciated currency value. (Some degree of short-term variation around the "target zone" for the RER is, of course, inevitable.)⁴

An alternative strategy available to larger economies is to extend IS to consumer durables, intermediates and capital goods; but, to be sustainable, there must be continued incentives for profitable investment. Rodrik (1994) credits the successful coordination of investment demand (and associated booms of capital goods imports), rather than exports *per se*, for the phenomenal economic growth of Korea and Taiwan; this, in his view, facilitated even more remarkable export expansion as a by-product of the investment (and import-led) growth. However, even under this strategy (or interpretation of strategy) there is a clear recognition of the important role of exports, though "not necessarily as the critical vehicle for technology transfer but more significantly as the primary source for financing the indispensable bottleneck-breaking and technology-bearing imports, especially in the absence of adequate capital inflows" (Oyejide, 1997a: 7). A striking piece of evidence revealed in Rodrik's analysis is that despite the substantial and sustained export expansion in the two countries, the profitability of exports—as proxied by the RER—remained highly stable.

This analysis suggests that through a combination of direct EP measures and real exchange rate policies, the overall structure of incentives should never be allowed to be *grossly* biased against exports. Moreover, experiences with IS elsewhere suggest that successful strategies (most notably in East Asia) have been characterized by two further important design features: first, the levels of protection were relatively moderate, to minimize adverse impacts on resource allocation; and second, protection was time-bound, so that the ultimate survival of an infant industry rested with its ability to compete effectively, in both the domestic and international markets (Oyejide, 1997a). Early across-the-board import liberalization was not typical of other developing countries' successful EP strategies. It is also clear from experience elsewhere that an appropriate and stable real exchange rate is of paramount importance to the encouragement of exports.

4. Trade, exchange rate and capital account policies in Africa

Trade and payments liberalization in recent experience

Prior to independence, African economies typically defended fixed nominal exchange rates and enjoyed fairly liberal trade (and payments) regimes. During the 1960s and 1970s, the efforts of newly independent governments to accelerate industrialization and development

⁴This discussion on the role of trade and exchange rate policy under an EP strategy of development can be schematized in terms of a simple "stages of development" real exchange rate model (adopted from Williamson, 1997a). This is presented in the Annex.

generated increasing tax burdens and more activist trade policies. As balance of payments pressures emerged, rather than adjusting exchange rates African governments typically introduced or tightened foreign exchange and import controls. By the mid 1970s, most African countries had acquired fairly closed trade regimes and over-valued currencies. Many had not only high import tariffs but also import prohibitions and quantitative restrictions, and exorbitant (explicit as well as implicit) export taxes.

In the 1970s in particular, trade policies were basically used as macroeconomic instruments in response to sustained adverse external shocks, for restoring public revenues or to stem current account deficits. Industrial policy considerations had little, if any, effect on African trade regimes during this period (Oyejide, 1997a).

In the 1980s substantial currency devaluations and trade liberalization reforms were effected in several African countries. These reforms helped shape Africa's trade and exchange regimes in a number of important ways:

- Exchange controls—especially in relation to current account transactions—were eliminated in most countries.
- Export taxes were eliminated or substantially reduced in almost all countries.
- Tariff rates were reduced and harmonized, and tariff policies became more transparent (Africa's average tariff rates declined from 30% in the early 1980s to 21% in the late 1980s).
- Non-tariff barriers were either eliminated or tariffed in many countries.
- By and large, trade policy was less frequently used to address balance of payments problems as exchange rates were freed or became more flexible.

While substantial reforms were implemented by many African countries in the 1980s, compared with other developing regions Africa's average tariff rates were still high in 1990. In terms of non-tariff measures, the gap between Africa and other regions was even wider (Rodrik, 1997: tables 4 and 5). Trade liberalization efforts in Africa were also often short-lived and lacking in credibility. In a recent comprehensive paper on trade policy and economic performance in Africa, Rodrik (1997: 5) provides the following evaluation: "successful instances like Botswana and Mauritius notwithstanding, trade reform in Africa has generally been erratic and marked by reversals and lack of credibility".

An important further fact about trade liberalization attempts in Africa is that they have been almost exclusively unilateral, mainly implemented in the context of the World Bank's structural adjustment programmes (SAPs) and their policy conditionality.⁵ African trade liberalization reforms were thus, by and large, implemented as parts of comprehensive macroeconomic reform packages. They were not part of binding and reciprocal liberalization processes such as characterized GATT/WTO negotiations. Actual tariff levels in Africa are typically much lower than the levels at which they are "bound" in the WTO, where they are bound at all. This suggests that there may be deeper considerations behind the erratic and apparently "incredible" record of trade liberalization in Africa than those traditionally highlighted in analyses of such policy reforms, such as the role of interest groups and lobbying in "public choice".

⁵The few exceptions are the relatively liberal trade regimes within the Southern African Customs Union (SACU) and short-lived episodes of liberalization following positive external shocks (Oyejide, 1997).

First, not the least of the problems of African adjustment programmes is now generally believed to be their frequently limited degree of national "ownership". The problem of ownership is highlighted in the most fundamental critiques of reform programmes tied to conditional lending, in which policy-based lending is seen as both ineffective and "incredible", not only in the area of trade liberalization but in other areas as well. According to Collier (1991, 1996) and Collier and Gunning (1993), for example, such lending cannot be an effective "agency of restraint" against policy reversals because it suffers from time inconsistency problems—lending is given before reforms are implemented. In addition, they argue, it is not credible because it is inherently "alien"—administered and monitored by outside institutions. Instead, they propose domestically-built agencies of restraint or more effective external collective threat-making mechanisms.

In particular, to the extent that further trade liberalization is required for Africa, these authors argue in favour of a reciprocal multilateral framework, such as that of the WTO, or a regional agreement that allows further reductions of tariffs to be tied, for example, to increased access to major Northern trading partners' markets. Liberalization within a framework of reciprocity and in the context of "open regionalism", they say, may be not simply complementary but actually preferable to further SAP-inspired unilateral trade liberalization in that:

- It would achieve as much as Africa can achieve from unilateral liberalization.
- It would establish credibility of trade reform.
- It would serve a defensive purpose, ensuring that Africa would not be left out of trade blocs if WTO rules were insufficiently enforced.
- It might be politically easier to achieve than unilateral reform.
- It might facilitate the adoption of useful institutions at the regional level.

Second, in terms of their substantive content, SAP-inspired trade liberalization attempts, like the control regimes before them, suffered from the fact that they were not explicitly and appropriately linked to an EP development strategy (Oyejide, 1997a). A vast body of literature, drawn from a variety of tradeliberalization experiences, suggests that strong prior export expansion—based on proactive export promotion policies—is critical for sustaining trade liberalization (Oyejide, 1997a; Lall, 1996; Helleiner, 1994, 1995). "Introducing other export policy reform shortly before, or at least at the same time as, import reforms permits an earlier export supply response and allows unification of the tariff structure to proceed without burdening exporters" (Nash, 1992: 63). This helps to address the "sharp distributional consequences of trade reform" that Rodrik (1997: p. 5), among others, emphasizes as "at the heart of the difficulties [of trade reform]". Rodrik has sensibly urged packaging and sequencing trade reforms with other reforms so as to offset or dilute the distributional consequences of trade liberalization, and proceeding in stages so that winners can emerge early and provide political support. Accordingly, export promotion and special export incentives should now be the top priority for African trade policy reform.

Private capital flows and the capital account

Africa has not as yet been fully integrated into the newly globalized markets for capital. This is mainly because borrowers from this region, whether sovereign or private, have been considered poor credit risks by bankers and bond markets. Moreover, if anything, the poor economic performance of most of Africa has worsened perceptions of creditworthiness, even

for good performers, due to the contagion effect of their "bad" neighbourhood. In particular, as long as the perceptions about the region remain, foreign direct investment will not be forthcoming, even for countries that undertook economic and political reforms some considerable time ago, except in highly profitable sectors, e.g., mining and petroleum, and in "protected" circumstances. The region's reputation causes investors to attach a high weight to the possibility of policy (or political) reversals, and therefore leads them to exercise the option to wait. This creates a sort of market coordination failure that may require some strategic external intervention to resolve.⁶ Given the substantial exodus of capital from Africa during the 1970s and 1980s, Africa should attempt at least to repatriate its lost capital.⁷

Most of the current capital inflows to Africa—and those in the foreseeable future—are likely to be short-term and of a somewhat speculative nature. Such flows are responsive to high domestic interest rates, which are themselves very much linked to national fiscal and monetary policies. Large capital inflows to some African countries in recent years (e.g., Ghana, Kenya, Uganda, Zambia and Zimbabwe, among others) were mainly triggered by sharp rises in real interest rates brought about by IMF-inspired policies of severe macroeconomic restraint together with financial liberalization when the fiscal positions were still weak (Asea and Reinhart, 1995; Kasekende and Martin, 1995). Such surges of private capital, wherever they occur, result in real appreciation of the currency, and associated problems both for short-term macroeconomic management and for longer-term development (particularly of exports and import substitutes) (Helleiner, 1997, 1998b). Analysis of real exchange rate experience in Africa and elsewhere attributes significant misalignment (real currency over-valuation) to unsustainable capital inflows in Ghana (1994–1995) and, to a lesser degree, in Mauritius (1994–1995) and Tanzania (1995) (Elbadawi, 1998). Thus despite the currently low levels of capital inflow, African governments need to develop suitable approaches to global financial markets and, in particular, to consider the capital account effects of domestic fiscal and monetary policies.

In small open economies, such as are typical of Africa, the most important single "price" is generally acknowledged to be the relative price of tradeables to non-tradeables, or the real exchange rate (RER). Economies that are vulnerable to exogenous long-term influences and short-term shocks, e.g., in the terms of external trade, external capital flows, weather, etc., can expect to experience significant exogenously-determined changes (or pressure towards changes) in the RER, over the longer run and in the short run, respectively, regardless of national economic policies. As the underlying "fundamentals" of RER determination change, the RER must avoid undue "misalignment" or risk serious resource misallocation, macroeconomic imbalance and resulting social costs. At the same time, reasonable RER

⁶For example, Elbadawi (1996) suggests that one form of intervention could involve substantial external debt relief—as a strong signal from the international development community in support of reforms. On the other hand, again Collier (1996) recommends several domestic and external "agencies of restraint" for resolving this coordination problem. According to Collier, reforming African governments could choose to build credible domestic, or commit to external, agencies of restraint as "lock-in" mechanisms, and therefore "shorten the time they have to live down their history" of policy reversals and political instability.

⁷Collier and Pattillo (1997) estimate that between 1970 and 1992 about 70% of African private wealth came to be held outside the sub-Continent. Also according to estimates of Collier and Gunning (1997), the ratio of capital flight to wealth during this period was 0.37—compared with 0.29 for the Middle East, 0.17 for Latin America, 0.04 for South Asia and 0.03 for East Asia. This contrasts sharply with the average capital per worker in Africa, at only \$1,560, compared with other regions (\$10,844 for the Middle East, \$9,157 for South Asia, \$13,018 for East Asia).

stability is required to avoid disruption and uncertainty in the economic signalling system. Appropriate RER policy, based on appropriate balance of payments management (including the capital account) and macroeconomic policy, is therefore critically important to African development prospects.

Trade policies—import or export taxes, subsidies or controls—themselves influence the "equilibrium" RER; other things being equal, restraining imports will raise the real value of the currency (and thus implicitly tax exports). But trade policies have typically been much more stable than RERs, and their effects have been relatively smaller. In any case, there has been significant, though some would say still not enough, trade liberalization in Africa in recent years. Export and development prospects in Africa now seem much more likely to be influenced by the RER and the macroeconomic policies that influence it than by trade policies narrowly defined.

In recent years African central banks have typically been concerned primarily with the control of price inflation. Where they have lost such control, as in Ghana, Uganda and Tanzania, the consequences were dire; their principal objective was, properly, to restore some stability to the value of the currency. Monetary restraint has typically been their main policy instrument with the exchange rate left, except in the Franc Zone, to find its own level in the market. Central bank intervention in foreign exchange markets, outside the Franc Zone, has typically been limited, and more directed toward the support of the national currency (albeit with limited reserves for the purpose) than to the modification of its appreciation. Only in a few cases has there been debate about the potential desirability of intervention for purposes of moderating movements in the real exchange rate; in Uganda, for example, where this has been addressed, there have been doubts expressed about its practical feasibility.

African investment and export prospects thus depend greatly upon the maintenance of stable and appropriate real exchange rates at the national level. Volatile short-term capital flows, through their exchange rate effects, seriously threaten Africa's development. It follows that advice to open up the capital account *totally*, such as often flows from the IMF, needs to be carefully weighed against the counter-arguments. International financial integration poses major risks for small countries with fragile domestic banking and financial systems. While on the one hand, it may increase the efficiency of the financial services sector and diversify its overall portfolio and thus its risks (though perhaps via external ownership and control), it also increases vulnerability to the turbulence of foreign financial markets and constrains the potential for independent monetary and exchange rate policies. Further, there may be serious difficulties in the transition from a controlled system to an open capital account. Marrying a very thin, immature and therefore volatile set of domestic financial markets to the notoriously volatile (and huge) global financial and exchange rate system may be foolhardy.

There are thus powerful arguments for the use of capital controls, direct or indirect or both, over both inflows and outflows, as part of the armoury of African macroeconomic and/or development (notably fiscal) policy instruments. At a minimum, they can "buy time", like reserves, for the deployment of other more fundamental policy instruments.

Of course, restrictions and controls—whether direct or indirect—also involve social (as well as private) costs: notably the costs of the administrative systems they require, microeconomic/allocative "distortions", and increasing resort to illegal or informal financial transactions. It is well known that controls over the external capital account or cross-border

payments taxes are difficult to police and that the new technologies in international financial markets have probably increased the difficulties. The efficacy of such controls or taxes also probably declines over time as market participants find new avenues for evasion. But it does *not* follow that they therefore cannot work *at all* and/or that they need immediately to be eliminated and governments forever foresworn against their future use.⁸

Securing the competitiveness of the economy via conscious real exchange rate policy need not be at the expense of adequate integration into the global capital market. In this connection the experience of Chile offers potentially important lessons for Africa. This country has successfully influenced the overall size and type of private capital inflows, mainly through indirect measures (notably reserve requirements against foreign deposits and other liabilities)—and it has done so in the context of an essentially open capital account regime. Long-term capital was encouraged while short-term and speculative capital was discouraged and aggregate capital inflows were kept close to sustainable levels consistent with real exchange rate competitiveness (Le Fort and Budnevich, 1998). On the other hand, many now attribute the current difficulties of East Asian countries, at least in part, to their premature liberalization of the external capital account (e.g., Sachs and Radelet, 1998); certainly the recent financial and exchange rate crises had their macroeconomic genesis in appreciated and over-valued currencies.

Chile's capital account policies assisted it to maintain a competitive real exchange rate in support of rapid growth and diversification of exports, and to avoid financial crisis despite the potential for massive private capital flows. Obviously, the efficacy of alternative instruments of control over (or other policy response to) unwelcome surges of capital, in or out, needs to be studied in the context of specific African situations. When formal financial institutions are simple and few, there may be considerable macroeconomic policy mileage in the deployment of some direct controls as well.

5. Implications of the new trade and financial regimes

The possibilities for new approaches

New approaches to trade and financial regimes arise from the evolving roles of the World Bank and the WTO in the area of trade and the relationships among the Bank, the IMF and the WTO in the area of capital account policies.

The new trade regime: The World Bank and the WTO

The influence of the World Bank in opening up economies of developing countries has come both from its role as an intellectual leader in the development debate and from its policy conditionality. Unilateral trade liberalization has been a major policy thrust within World

⁸At the least, policies must be tailored to the specifics of local conditions, as shown in a comparison of recent Ugandan and Zambian policy reforms. Exchange controls were previously so ineffective in Uganda that their complete liberalization probably had very little practical effect. Where, however, they were still to some degree binding upon would-be capital exporters, as in Zambia in 1992–1993, liberalization permitted significant substitution out of the local currency and thus losses in a seigniorage for an already fiscally stressed Zambian government (Adam, 1995). In many African countries, the liberalization of *bureaux de change* and of private foreign currency deposits in commercial banks has already gone some way towards de facto capital account liberalization.

Bank supported structural adjustment programmes (SAPs), in both Africa and elsewhere. (Some World Bank insiders argue that trade issues should assume even more prominence in future Bank research and policy interventions [Nogues, 1998].) The Bank seeks to remain active in the area of trade—when the WTO is emerging as a major player on trade issues—first, to ensure that trade policy remains linked to a development context, and second, to further enhance its current "informal" collaborative relationship with the WTO.

The Bank and the IMF are in full agreement on the desirability of further trade liberalization in Africa. Such liberalization is likely to lead to some import and export expansion, but by itself it will not necessarily increase overall economic growth (Rodrik, 1997). In our view, further trade liberalization is usually *not* now a top priority for most African countries seeking to improve their policies for more rapid, sustainable and equitable development (though, as always, there is great variety in recent experiences and current policy priorities). Indeed a thorough stocktaking of trade barriers would uncover ongoing difficulties and complexity (and controversy) in the implementation of current import regimes, e.g., the extensive use of *ad hoc* tax concessions on imports of intermediate inputs and capital goods as "sweeteners" for foreign investors and NGOs, widespread tax evasion and corruption in the collection of customs duties, instances of significant negative effective protection in some sectors, and continuing heavy fiscal dependence on taxes on trade. A review of such issues should certainly precede any national-level plunge into further import liberalization.

As argued above, once macroeconomic stabilization has been attained, as far as trade and related policies are concerned, priority should more typically be assigned instead to (1) the achievement and maintenance of an appropriate and broadly stable real exchange rate; (2) special incentives and supports for investment in export-oriented productive activities, particularly by local firms; and (3) full domestic development, management and "ownership" of development programmes. These priorities are not those at present typically espoused in the WTO, IMF and World Bank, or in the proposed MAI, in all of which the push for across-the-board liberalization in all spheres and completely level playing fields remains in vogue, and "tight leash" conditionality remains its principal supportive instrument.

Indeed, strategic interventions for resolving market failures or building technological capabilities, the so-called "second generation" trade issues, are specifically targeted for elimination (or "standardization") and international surveillance under the WTO. Some strategic (and selective) interventions, particularly, in support of investment in export activities and by local firms, are likely to be helpful in Africa, given the prevalence of market failures, the disadvantages of "late starters", and the structure of African industry—among other adverse factors. (For a recent review of these issues, see Soludo, 1997.) Some analysts in the World Bank appear to support—at least at the intellectual level—some flexibility to allow countries to adopt different development policies, including policies of intervention. In particular, the current Chief Economist of the Bank argues persuasively that the East Asian countries, despite their current financial crisis, offer a viable development model that other developing and transition countries might seek judiciously to replicate (Stiglitz, 1998). As is well known, some of the policies that are to be discouraged and subjected to tight surveillance by the WTO are credited by others for the phenomenal economic transformation of East Asia over the last 30 years.

In our view, significant further trade liberalization is likely to be beneficial for Africa's long-term development only if certain conditions are met. First and foremost, it must be part of a

carefully sequenced and balanced programme for the sustained expansion of exports, through new investment, and for development more generally. Exchange rate policy must be particularly closely linked to efforts at trade liberalization. Our review of trade policy reform experiences suggests that the absence or weakness of explicit export promotion policies in Africa has a lot to do with the lack of sustainability and credibility of these reforms. The Bank could play a much more important supporting role in the design of better policy interventions to help African countries to realize the promise of improved access to developed countries' markets.

Second, for such an appropriately sequenced and balanced approach to export promotion, liberalization and development to be sustainable, it must be fully developed, and broadly understood and supported at the national level. With increasing democratization and public sector transparency in Africa, governments must be more accountable to parliaments, electorates and local pressure groups (including powerful private foreign investors). The days in which African governments negotiated their policy reforms primarily with the IMF, the World Bank and key bilateral donors, rather than within their own political systems, are rapidly coming to an end. Three further issues are important to raise in this connection.

First, to ensure that trade policy is anchored to a viable and consistent development strategy, the World Bank should design its supports so as pragmatically to assist African countries to retain and effectively use relevant (and WTO-permissible) development policy instruments, rather than crudely pushing, on the basis of theoretical principles, ideology or majority shareholder interests, for their dismantling. In particular, given the important provision under the WTO's Agreement on Subsidies and Countervailing Measures for least developed countries (or those with per capita GDP less than \$1,000), which allows these countries to subsidize exports, the Bank should, where appropriate, explicitly incorporate subsidy-based export promotion strategies in future trade reforms prescribed for these countries in Africa. Generally, it should assist African members of the WTO to take full advantage of their rights therein and to defend themselves against the assaults of more powerful members. For example, the WTO could help introduce some discipline and transparency to the likely increasing role of sanitary standards as a rationale for banning or restricting exports from developing countries imposed by major Northern trading partners, as in the case of fish products exported from East Africa (e.g., Muga and Mweya, 1998).

Second, high priority should be assigned within Africa to regional approaches to trade policy, including exchanges of information and experience, liberalization initiatives (including WTO negotiations), and integration. Non-discriminatory and universal trade liberalization may, in some circumstances, greatly benefit regional trade—even disproportionately so—but it may be politically difficult to move as far as one might like with it, and it could therefore be a long time coming. Discrimination in favour of only some Northern trading partners risks retaliation by others and is politically even less appealing. Given the problems with the sustainability and credibility of unilateral (non-discriminatory) trade liberalization in Africa, and the great promise that joint bargaining and reciprocal multilateral trade liberalization offer, the Bank should rethink its approaches in this area so as to encourage regional approaches to trade policy, including liberalization, perhaps via *ex post* conditional lending. Despite periodic rhetorical support for regional integration in Africa, the Bank has so far done relatively little to foster it (Kapur et al., 1997: 762–64).

Third, to mitigate the possible adverse fiscal implications of trade liberalization, both IMF

and World Bank interventions could be more consciously and carefully designed to enhance the fiscal positions of liberalizing African countries, in step with the progress of other reforms. Revenue-neutrality should be the minimum fiscal target in adjustment programmes.

The new capital account policies: The IMF, the WTO (and the World Bank)

The IMF has been the main player in the area of exchange rate and capital account policies. Despite the interest of the World Bank in these policies from the perspectives of their effect on, or their links to, trade performance and the health of the financial and banking sectors, the World Bank, at least at a formal level, has typically played only a supporting role. With the expected ratification of the Agreement on Financial Services, the WTO will become another major potential player in capital account policies, although its liberal orientations are broadly consistent with those of the IMF.

IMF approaches to exchange rate policy have always emphasized the anti-inflationary anchoring role of the nominal exchange rate to a greater degree than has been the norm in the more development-oriented World Bank. Now there is risk of new, and potentially deleterious, influences on exchange rate policy emanating from the IMF.

The IMF Board is currently considering a proposed amendment to its articles to mandate it to promote capital account liberalization in addition to the current account liberalization it already supports. More controversially, it is also discussing expanding its jurisdiction to transactions in the capital account, which, if done, will raise problems of overlap with the WTO (and an MAI) (Polak, 1998). At a minimum, the IMF will have to cooperate closely with the WTO on international banking, insurance and financial market issues, particularly in times of crisis (Cornford and Bradford, 1998). How the potential jurisdictional overlaps are resolved must await specific case experiences. Like the Bank, however, the IMF may be able to augment its competencies by collaborating with the WTO; again, one can hope that the more reciprocal and participatory WTO processes (in this case in the Financial Services Agreement) may be combined effectively with the research and operational competencies of the IMF.

The proposed new IMF mandate in the capital account, if not handled judiciously (and the record of the IFIs in the trade account is not entirely encouraging) has the potential to be harmful to Africa's development. As we argued earlier, reforming African countries risk losing, under IMF pressure, the option of engineering the sequencing and extent of capital account liberalization so as to be consistent with the maintenance of a stable and broadly appropriate real exchange rate, the development of local financial markets, institutional and regulatory capacities, etc. If pushed to full currency convertibility, as some already have been, they could easily fall prey to destabilizing financial crises and real over-valuation episodes,⁹ even when they are still at a very early stage of their development process. Clearly, the potential adverse implications of the new capital account policies for sensible real exchange rate policies and the health of financial institutions could have grave consequences for Africa's development prospects. In our view, whatever the eventual IMF mandate, it will

⁹In a recent article revisiting his earlier and widely quoted paper on the "Washington Consensus", Williamson (1997b) notes that the exchange rate policy component of the Consensus—which reflects the IMF intellectual and operational position—has never been explicitly linked to a long-term strategy of export expansion through real exchange rate competitiveness.

be for the World Bank to espouse balanced and development-oriented approaches to the capital account in the African context. It may be time for the Bank to take more independent positions from those of the IMF on such key matters of development strategy as exchange rate policy and capital account regimes.¹⁰

The harsh realities

Cooperation/coordination among the three multilateral institutions (the WTO, IMF and World Bank) and reforms of some of their approaches and conditions, as proposed above, could be helpful to African development. But are they likely? And would they be enough?

In their relationships with these (and other external) institutions, developing countries have traditionally been concerned:

- To preserve maximum freedom for domestic policy—against the pressures of powerful external actors who seek to advance their own political, economic or ideological agendas (or, in some instances, what they genuinely believe to be morally or economically "correct" policies).
- To gain explicit recognition, reflected in the existence of ODA, and "special and differential treatment" at the international level for their different, and disadvantageous, initial conditions.

In recent years, the latter concern has been increasingly disregarded as aid flows decline, "special and differential treatment" erodes, and "single undertakings" are initiated. The new world of the "level playing field" is obviously one in which the potential advantages of the economically and politically powerful, now freer to threaten and bully the weak without rules that constrain them to recognize some of their disadvantageous conditions, are enhanced. For the weak, some rules are likely to be better than no rules; but some rules/systems—particularly those that offer fair and "unequal" treatment to "unequals" and/or otherwise reflect the concerns of the weak—are better than others. The recent trends have not been favourable to the developing countries. These issues, as they relate to the WTO, are addressed by Oyejide (1997b).

In this changing context, it is not surprising that there is concern in many developing countries over the increasing exercise of external power and influence over domestic economic and other policies—what many see as a major "downside" of globalization. As noted above, some analysts (though rarely those working within developing countries) welcome, indeed actively seek to engineer, increases in the power of external "agencies of restraint" in the belief that developing countries cannot otherwise make "credible" policy commitments. The latter group typically seeks to *tighten* external discipline over developing countries' policies rather than to loosen it (albeit via ostensibly "voluntary" agreements by African governments to these ends). Such advocates are unlikely to be very sympathetic to the concerns raised in this part of our paper—over inappropriate issue linkages, undesirable cross-conditionality and undue exercise of policy leverage by external institutions.

¹⁰Recently, in the context of a wider debate surrounding the current East Asian financial crisis, the Chief Economist of the World Bank strongly and publicly criticized IMF strategy for stabilization and restructuring financial and banking institutions in the region.

The issue linkage problem

The problem raised for developing countries by "issue linkage" is the undesired extension of conditions and disciplines to spheres beyond those within which voluntary commitments are totally acceptable, and without which the gains from the "core" agreements cannot be realized. A prime recent example of this phenomenon was the negotiation of the General Agreement on Trade in Services, and disciplines over Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Trade-Related Investment Measures (TRIMs), none of which were on the developing countries' agenda of "unfinished business" during the Uruguay Round of GATT negotiations, and which were "offered" to developing countries in the "single undertaking" on a "take it or leave it" basis. (A "positive spin" can be put on this by the frequently heard observation that such extensions of coverage make it easier to distribute gains to all—even the richest and least observant of the existing rules!—and thus to achieve some kind of agreement.)

The most obvious and important issue linkage is that between the provision of finance and domestic policies in the recipient country—aid and IFI loan conditionality. As seen above, increasing concern has been expressed about the prospective extension of conditionality to developing countries on policies relating to the capital account of the balance of payments (via a proposed amendment to the Articles of Agreement of the IMF), foreign direct investment (via the MAI and/or WTO), "governance" (via the World Bank), and on and on.¹¹ There are also now three multilateral agreements on non-trade matters that authorize trade sanctions (typically non-MFN treatment) against non-cooperators—the Montreal Protocol (on CFCs), the Basle Convention (on hazardous waste) and CITES, the convention on trade in endangered species. Efforts to link trading rights to issues of labour rights and the environment raise major further potential problems for developing country exporters.

In some instances, where developing countries have potential power, they might be able to "link issues" in reverse, e.g., by relaxing their greenhouse gas controls in retaliation for bad treatment of their trade; but the weakest invariably wind up as the biggest losers from such "tit for tat" exchanges with the strong.

Cross-conditionality

There are basically two kinds of problems (for developing countries) raised in traditional discussion of cross-conditionality in the provision of finance (e.g., Commonwealth Secretariat, 1986; Junguito, 1996):

- Inconsistency of the various conditions, e.g., when the World Bank (and now the WTO) presses for tariff reductions at the same time that the IMF presses for preserving current duties so as to protect government revenues; or when the World Bank adopts a longer-term approach to exchange rate policy and structural reform than the IMF, with its emphasis on immediate stabilization.

¹¹An extreme example of where this can lead is provided by the exclusions, under US law, from the list of beneficiaries of its general system of preferences (GSP) scheme, which have included: Communist countries, members of commodity cartels, countries offering preferences to other industrial countries, countries that have nationalized US assets without adequate compensation, countries not cooperating sufficiently in the control of illegal trade in drugs, and still others *at the discretion of the President!*

- The "ganging up" phenomenon—the increase in the strength of external pressure via the presentation of a collective front vis -a-vis the country upon which various conditions are imposed.

The first problem has at times been an important source of confusion and difficulty, but is inherently little more than a (usually temporary) nuisance. Indeed, public disagreement and debate between IMF and Bank analysts—as in the case of the recent East Asian crisis—is likely to be socially beneficial. Certainly it is far preferable to the "back-room" dispensation of contradictory advice and conditions, and the surreptitious competition for influence that accompanies it, that has sometimes characterized Fund/Bank relationships with borrowers elsewhere.

In the African context, in which bilateral aid donors and UN agencies are also major sources of external finance, the potential for mutual inconsistency of advice and conditions is multiplied. Some European donors have not always bothered to conceal their distaste for IMF/Bank conditionality. In this context, problems often arise at a more micro level—in the prioritization of aid-financed projects, many of which are trade-related—as well as in macro issues of stabilization and development policy. Despite much attractive rhetoric about the need for African leadership (and ownership) and donor coordination, and the numerous meetings of consultative groups, round tables, global coalitions, donors and the like, the reality of ill-coordinated, but externally-driven programmemes, remains (Helleiner, 1998a).

The second cross-conditionality problem raises larger problems—the problems of achieving genuine local ownership, the problems of the weak in a world of the strong. Concentrated external pressure for reform can, in many circumstances, be socially useful—when it assists in overcoming *egregious* policy errors. But, beyond such basics as the need to overcome severe macroeconomic mismanagement, knowledge of what development policies are likely to be "best" for individual (national) economic, social and political circumstances is always a little uncertain, let alone the speed and sequencing of their introduction. Powerful external actors—often sources of finance, rule-makers and police, all rolled into one—attempt to constrain African policy makers. And they do so most effectively when they act together in their collective interest. In the 1980s and 1990s African governments were subjected to a unique degree of external bullying. "The donor community and the Bank ... applied to sub-Saharan Africa a different standard tha[t] would have been unacceptable elsewhere.... But then Africa was on its knees and dependent..." (Kapur et al., 1997: 801). This is not to suggest that external pressures were always effective; they frequently were not, and this usually led either to further external pressure or to a donor search for new (often non-government) allies with which to work.

External leverage is obviously strongest when there is maximum "ganging up" on the part of potential external sources of influence—involving both full agreement on the conditions and full participation. Aid recipients have therefore sometimes sought to diversify their aid sources (even in the post Cold War period) so as to increase their options; this has usually meant significantly increased transaction costs and has not always fulfilled the objectives. Overlapping jurisdictions (as between the IMF and the Bank, or the IMF and the WTO) are sometimes useful to developing countries. Whereas they may cause inefficiencies and confusion, they may also increase the prospect of a weak developing country playing one institution off against another in the interest of its own policy flexibility and "ownership".

There is great risk, however, that external financing—from the IMF, the World Bank or aid donors—will in future be conditioned, explicitly or implicitly, on total compliance with the provisions of the WTO and MAI, in addition to other matters.

African "ownership", and hence sustainable development, would be furthered if, beyond certain macroeconomic basics, the aid donors and *all* of the multilateral institutions (IMF, World Bank and WTO) "backed off" and gave African governments more policy "room". These so-called external "agencies of restraint" themselves need to be restrained. Genuinely locally-owned policies, warts and all, are more likely eventually to lead to sustainable African development than efforts to enforce external visions of policy perfection. Domestic policy debate is more likely to be productive than external policy dialogue (particularly when the latter so easily degenerates into a monologue of the powerful).

6. Conclusions

The new trade and financial regimes for the increasingly "globalized" world economy fall far short of what is truly required for effective global economic governance. The WTO, IMF and World Bank are still fairly insignificant actors in the overall scheme of things. Such power and influence as they possess are likely to be relatively more important to the weaker members of the international community of nations than to the strong. Certainly the practices and rules of these multilateral institutions can matter for African development.

Of course, development depends primarily upon events within the African countries themselves; and African governments retain some room for manoeuvre. Development policies pursued by African governments may nonetheless be significantly influenced or constrained by the activities of the WTO, IMF and World Bank. This paper has offered some suggestions for improving African development prospects through improved functioning of these institutions.

We have emphasized that domestic incentive structures are fundamentally important to the nature of the evolution and development of particular national economies and, more particularly, to sustained export expansion. When incentives are inappropriate or unstable or both, development prospects are invariably seriously weakened. By far the most important element in the incentive structure is an appropriate and stable real exchange rate. To the extent that trade policies matter, the rights of poor countries to use export subsidies seem more likely to be important, and subject to international controversy, than the import liberalization issues that most trade analysts emphasize. In short, to the extent that international regimes and advice matter to the evolution of domestic incentive structures, the IMF and the World Bank, with their macroeconomic policy advice and conditionality, are likely to matter far more to Africa than the WTO.

We distinguish between the potential roles of the IMF and the World Bank in support of Africa's development. It is important to note that the exchange rate policy component of the "Washington Consensus"—which reflects the IMF intellectual and operational position—has never been explicitly linked to a long-term strategy of export expansion through real-exchange rate competitiveness. Thus we argue that the World Bank, rather than the IMF, should take the lead role in Africa in the future, given that it is more likely to be concerned about longer-term development, especially export-oriented growth. We also argue that the Bank may not be effective in fulfilling this role without systematically taking positions

independent from those of the IMF on such key matters of development strategy as exchange rate policy and capital account regimes.

It is obviously not enough simply to have broadly appropriate and stable incentives; there must also be capacity to respond to them—in the form of skills, infrastructure, institutions and a reasonable investment rate. As far as these other requisites for export expansion and development are concerned, it will be aid donors, the World Bank and transnational corporations that matter to Africa, much more than the WTO. The WTO's principal contribution to Africa's development prospects is likely to be its achievement of a greater degree of market access for African (as well as all other) exports abroad rather than any contribution it may make to African trade policy.

We have argued that in any case, WTO "disciplines" should be flexibly applied to the low-income African countries to permit them to construct their own pragmatic development programmes, as others have done before them, and to build the capacity for sustained and competitive export performance and development. Stronger WTO members should refrain from making unreasonable demands on the weakest ones. The WTO system is still sufficiently weak (and flexible) that, provided its more powerful members show reasonable restraint, African governments probably have little to fear from an overeager WTO secretariat. On the historical record, they may have more reason for concern about premature and ideologically-driven pressures toward trade and capital account liberalization from the international financial institutions than from the WTO. Aggressive application of IMF and World Bank conditionality to "enforce" WTO or IMF (or eventually MAI) disciplines upon developing countries is a real potential hazard in the emerging world trade and financial regime, and it will have to be resisted.

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