Present-day Capitalism, the New International Trade Regime & Africa*

Peter Gibbon

This article contributes to the analysis of the effects of globalisation on Africa’s economy, on the basis of discussions of emerging trends in the industrial organisation of present-day capitalism, and in the nature of the international trade regime emerging from the Uruguay Round. On this basis, recent and current developments in the Africa clothing and horticulture sectors are described. The paper argues that certain aspects of the current international trade regime provide scope for Africa to play a heightened role in the global economy in these two sectors. However, the emergence of the global ‘contract manufacturing’ phenomenon, and the institutionalisation of process-based food safety standards, implies that the main winners in this scenario will be large-scale transnational enterprises.

Introduction

Has economic globalisation simply by-passed Africa, or is the emerging picture a more complex one? This paper argues that globalisation’s effects on Africa are best seen in terms of the generation of new forms of inclusion. At the same time however, the conditions under which inclusion occurs are much more demanding in character than those of the 1970s or 1980s, and are associated with intensified differentiation.

The new forms of inclusion in question arise on the basis of developments in global capitalism and in the international trade regime. They are most obviously evident in the cases of Africa’s traditional export crops, where conditions for participating in the more profitable segments of global commodity chains have become generally much more exacting – precisely in a period where Africa’s national public systems of coordination have often disintegrated (Raikes & Gibbon, 2000; Ponte, 2001; Fold, 2001). Of course, some of the outcomes of changes in these sectors can be easily read as supporting a ‘by-passing’ thesis. But there are other sectors where the new forms of inclusion have been associated with increases in Africa’s shares of world exports. This is the case in relationship both to clothing and fresh vegetables. The question of who are the main winners in these cases is of major interest.

The paper begins with an overview of the new dynamics and forms of economic inclusion in the global economy, which are common to a wide range of sectors and to different categories of developing countries. Particular attention is paid to the emergence of large-scale ‘contract manufacturing’ as a key node within the growing range of buyer-driven global commodity chains. Attention is also paid to the simultaneous tendencies in the new international trade regime for Africa as a geographical entity to be incorporated to a greater degree in certain rather dynamic branches of world trade, while conditions for corporate participation in these branches are tightened.
Corporate ‘Financialisation’ & Changes in Forms of Capitalist Competition in Industrial Countries

Two of the most profound differences between present-day capitalism and the capitalism of even two decades ago are the linked phenomena of corporate ‘financialisation’ and the doctrine of ‘shareholder value’. The emergence of these phenomena follows from the liberalisation of national and international financial markets, including equity markets. They coincide with the rise of institutional investors, such as pension funds and investment trusts, and a related broadening of popular participation in corporate shareholding. Various articles in the recent special edition of Economy & Society on the subject (see bibliography) cite data showing that corporate equity is now owned by 40 per cent plus of households both in the US and Britain, and that financial assets accounted for 61 per cent of total British household assets in 1995, as opposed to only 46 per cent in 1975. Corporate financialisation directly refers to the resulting tendency for huge increases in the market value of equities (especially in their value relative to those of total paid-up corporate capital – the so-called p/e ratio - and of total fixed corporate assets) and related high levels of volatility in the prices of individual equities (independent of many aspects of the performance of particular companies and sectors). The ‘shareholder value’ doctrine refers to the consequences of this for corporate behaviour.

While rapid growth of, and resulting price inflation in, equity markets expands the opportunities for listed companies to raise large amounts of capital in these markets, most make relatively little use of this possibility. Instead they prefer to finance investment by borrowing, or out of retained earnings. Thus, corporate behaviour should not be much affected by share values. But the costs of almost all types of borrowing are based upon credit ratings derived from share price performance. Thus equity comes to exercise control over the totality of corporate finance, and on this basis influences corporate behaviour in the direction of aiming to improve the share price. ‘Shareholder value’ is also promoted as a rationale through the almost universal trend for senior managers to be remunerated partly through equity and stock options.

According to contributors to the Economy and Society special edition, the spread of the ‘shareholder value’ doctrine has led to a re-orientation of quoted corporations in the US and Britain (and to a lesser extent France, where financialisation is also extensive), away from increasing their share of product markets. Financial markets assess corporate performance primarily in terms of purely financial performance, that is, returns on capital employed. They have even evolved a market standard in relation to financial performance (13 per cent return on capital employed (ROCE)). Corporate ROCEs at or above this level are rewarded with higher market values for their equities, enabling ‘shareholder value’ to be realised when these equities are sold.

Although this standard is only infrequently attained in practice, it has acted as a stimulus for directors and managers to seek radical solutions to the problem of attaining/sustaining high levels of return on capital. According to these contributors, such levels of return can no longer be easily attained via innovations in production processes (due to technological maturity) or even by increasing sales (due to consumer market saturation). They are more likely to be attained by corporate restructuring and ‘downsizing’, usually in the form of concentrating on or acquiring new activities thought to have high ROCEs, while stripping out or selling off those thought to have low ones. High ROCE activities are typically thought to include product definition, design, marketing, retailing and lending for consumption. Low ‘ROCE’ activities are typically thought to include manufacturing, assembly and distribution.
The corporate ‘financialisation’/shareholder value argument captures an extremely important aspect of contemporary capitalist development. But, at least in the form presented by the British contributions to the *Economy & Society* collection, it almost certainly exaggerates the demise of competition in product markets and around process innovation. Capitalist competition is today indeed mainly around impressing financial markets, and restructuring is the most obvious way to do so. But companies’ ROCEs also reflect their performance in product markets and around process innovation, if only because functional restructuring is mostly a one-off exercise. The corporate financialisation argument thus needs to be accompanied by accounts of new forms of competition in product markets and around process innovation, and also by one of how the ‘shareholder value’ doctrine comes to affect the internal organisation of the ‘higher ROCE’ activities which leading corporations retain or acquire.

Space does not permit more than a few crude observations on each of these topics. With regard to competition in product markets, the main tendency appears to be a shift away from price competition on basic commodities (though this has far from disappeared) toward a blend of price and various types of non-price competition on more differentiated ones. While market saturation and/or inelasticity of demand indeed holds for basic consumer goods (except in ‘emerging markets’), it by no means holds for differentiated ones. While demand for specific differentiated commodities also becomes saturated over time (cf. the contraction in the mobile phone market), this can be compensated for by demand for new – or ‘customised’ – versions of existing ones. In developed country markets, these possibilities rest upon consumption patterns that are increasingly fragmented by income, age, gender, sexual and other ‘lifestyle’ orientations, etc., and which are regularly re-shaped by the evolution of new types of product standard or quality conventions. The latter incorporate aspects both of product appearance and performance (fashion), as well as of product safety, conformity to environmental and social prescriptions, etc.

With regard to competition around process innovation, a related shift can be noted from innovation in production processes themselves, such as those which characterised first the Fordist and later the ‘Toyotaist’ revolusions, to process innovations up- and/or downstream of production. An important recent site of process innovation, which has complemented and deepened the new forms of product market competition, has been in ‘logistics’. Here, innovations have allowed an increasing degree of integration of different transport forms, around technologically upgraded and radically up-sized multi-modal terminals. This has underpinned the shift of market competition towards product differentiation by allowing faster time-to-market speeds and thereby a level of capital velocity which compensates for shorter product life.

Increased competition around product differentiation has also been facilitated by the widespread introduction of IT business applications, particularly applications to collect, process and analyse more detailed sales information (including electronic point of sale information in retailing). This has allowed greater attention to market fragmentation and provided greater predictability in sales forecasting. Although currently its full potential is far from realised, a second important application has been virtual sourcing (B2B) and virtual retailing (B2C). The first of these should cheapen the costs of product innovation, while the second should enable an expansion of markets to levels where greater economies of scale can be generated.

Finally, the internal application of the ‘shareholder value’ doctrine to those areas of business activity with ‘essentially’ high ROCEs, has often had as substantial effects as
its application to diversified businesses. More complete and immediate market disciplines have been introduced 'even' to most components of retailing, from managing labour to managing inventory. In recent times, most attention has been paid to the latter – in the form of the application of the so-called 'lean retailing' business model.

During the early 1990s this model became US retailers' paradigmatic response to the problems of managing the increased levels of inventory holding which appeared to be entailed by increased product differentiation, and therefore product proliferation. It was also designed to address two related problems, namely forced markdowns to clear unsold goods, and 'stock-outs' (running out of stock for popular items). The model assumes the availability of (IT applications to generate) accurate sales forecasts. On the basis of linking sales forecast data to wider systems for electronic data interchange, new inventory control methods can be introduced that are based on lower and later initial orders, selective later replenishments and increasingly frequent introduction of new items – provided that suppliers will accept responsibility for inventory management. This in turn paves the way for retailers to replace their warehouses by distribution centres (DCs) where goods are moved on without being stored, and for suppliers to be required to undertake highly detailed bar-coding and preparation of goods to floor-ready standards, and to conform to new standards regarding shipping. According to some commentators, 'lean retailing' is easiest applied to basic consumer goods rather than to differentiated products, since the former present the best opportunities for forecasting demand. However, it can also be applied to the latter if their production is physically close enough to the main end markets.

Recent Changes in Industrial Organisation

Combining insights from Gereffi's (1994) Global Commodity Chain analysis and recent work at the Industrial Performance Centre at MIT, reported in Sturgeon (2000), it can be argued that a new model of industrial organisation is emerging across a wide range of sectors in the US, Britain and northern Europe, and with global consequences. The major focus of this model is on achieving external economies through out-sourcing, as opposed to earlier models that focused heavily on internal scale economies, themselves often brought about through vertical integration. Sturgeon's explanation of the rise of the new model is that it is a generalised US response to (Asian) competition, although its consistency with the 'shareholder value' doctrine is actually more compelling.

'Lead firms' in different sectors generate external economies by undertaking vertical disintegration. These firms restructure by retaining control over product definition and marketing, but externalise manufacturing and production services to contractors (with or – more usually – in the absence of written contracts). As a result, they become 'manufacturers without factories' and thereby gain the possibility of costlessly shifting production up and down in scale. In addition, they can reduce their costs by decreasing their number of suppliers and utilising their enhanced buying power over each of them to exercise a downward pressure on prices.

Of course, out-sourcing is not a new phenomenon. As Wallerstein (1974) has pointed out, its extent during capitalism's history has varied directly with the latter's long-term cycle of upturns and downturns. More recently, as much of the literature on the 'Third Italy' pointed out, it was widespread in the small and medium-sized enterprise sectors in a number of developed countries in the 1970s. Out-sourcing was also an
important component of 'Toyotaism'. But in none of these cases was out-sourcing of core production a feature. Furthermore, both in the 'Third Italy' and in the Toyota system of 'lean production' and Just-In-Time (JIT) delivery/inventory management, sub-contracting was articulated on the basis of long-term, trust-based relations that involved considerable investments (tangible and intangible) by lead enterprises themselves. In contrast with this, in the new model of industrial organisation, outsourcing networks are overwhelmingly commercial in their articulation. Long-term trust based relations at best carry less weight, and at worst become treated as costly 'rigidities'.

According to Sturgeon (2000), whereas in the 1980s the new model of industrial organisation was found mainly in clothing (and perhaps also in pharmaceuticals), it is now also found in most of the 'big ticket' ones. It is well established in computers and semi-conductors, and is becoming of heightened importance even in autos. In each case, the resulting impersonalised, non-trust based outsourcing networks have been characterised by a qualitatively new category of supplier. This development is the other key characteristic of the new model of industrial organisation. As lead firms have increasingly redefined themselves as specialists in retailing, branding and marketing, so certain of their suppliers have chosen to strategically specialise in manufacturing and the provision of related production services. Their strategies have had two main prongs: developing manufacturing competences over a range of similar products that can be manufactured for competing retailers, and taking a 'full-service' approach. Where involvement in final product development was once quite widespread amongst suppliers in this sector, and development of own brands was also at least a common ambition, this is no longer the case and capacities to fulfil these roles have been run down. Usually, it has been replaced by development of capacity in the area of 'supply-chain management', that is in coordination/management of the entire upstream commodity chain from sourcing of raw materials and sub-components up to 'call-off' delivery of the final product.

Having the ability to produce a range of similar products, and development of the capacity to take on the role of 'full-service' provider allows these suppliers to market themselves to lead firms as 'contract manufacturers', or - to use a phrase common in the clothing sector - 'full-package suppliers'. Lead firms can enter relations with them in the confidence that they can reduce transaction costs, both because they can be supplied not simply with one but with a range of products and because the suppliers concerned are prepared to take on at least part of lead firms' inventory management functions. At the same time, becoming a 'contract manufacturer' allows a supplier (at least potentially) to diversify its customer portfolio, particularly for products where manufacturing processes tend to have a common technological base across brands. This is in contrast to the 'captive' supply relationship typical of Toyotaism (a relationship justified by Toyota in terms of the investment necessary in order to bring suppliers 'up to speed').

Leading contract manufacturers, like Ace, SCI and IBM (all US-based) in the computer sector and Winbond (Taiwan) and Tower (Israel) in semi-conductors, have a global presence, but one that lacks clear geographical boundaries. This represents an additional difference between the new out-sourcing networks and those characteristic of earlier ones. In both the 'Third Italy' and Toyotaist models a high premium was attached to the physical proximity of suppliers to the companies sourcing from them, either because the latter was considered to be an important pre-condition of maintaining long-term personal trust relations or because of the contemporary demands of JIT. A consequence was that when Toyota (or any other 'Toyotaist'
enterprise) shifted production to another part of the globe, its ‘captive’ suppliers were also expected to move. Partly because they do not involve ‘captive’ relations, and partly because manufacturing as a totality has now been contracted out, the new networks can now have a much more systematic global reach.

The ‘contract manufacture’ model provides an industrial organisation-based solution not only to the new imperatives of competition following from the institutionalisation of the ‘shareholder value’ doctrine, but also potentially to the imperatives which follow from heightened competition around product differentiation and the adoption of the ‘lean retailing’ paradigm. Large-scale specialist manufacturers with an interest in, and the capacity to produce a range of products can fulfil lead firms’ needs for product proliferation while at the same time having the resources to undertake ‘supplier-managed inventory’. Furthermore, insofar as they are organised globally, they can combine flexible production with short lead times close to major end markets with low-cost production of long runs of basic products in remoter and significantly cheaper locations.

**Differentiation in Africa’s Clothing & Fresh Vegetable Sectors**

On some grounds the growing importance of these models should be neutral for Africa. As indicated, price remains a very important aspect of capitalist competition, especially – but not only – for basic commodities. By this token, organising production in low-cost countries remains a crucial part of the strategies both of ‘lead firms’ and contract manufacturers. Furthermore, while the constraint of proximity to end-markets has increased generally, for some agro-commodities production geographies are not alterable and for others distance to market can be compensated for by access to improved logistical networks.

Where either of the latter two conditions apply, one might expect to see an increase in Africa’s share of world exports. While this has not been the case for most of Africa’s traditional export crops, it has been for fresh vegetables, and it is in the process of becoming for clothing. At the same time however, these models contribute to more differentiated and selective forms of inclusion than have been experienced hitherto. This is a result of their implied escalation in entry barriers, at least to the more remunerative and sustainable ‘first division’ of global trade, that is, the trade-based production networks led by internationally leading firms. To qualify for ‘contract manufacturer’ status, developing country-based enterprises have to be price competitive, produce a mixture of basic and differentiated products in conformity with ever-enhanced norms of product appearance and performance and in conformity with new ‘meta-standards’, plus offer a full range of services. In most sectors, possessing these qualities implies a presence in more than one developing country.

Two case studies will be presented here illustrating the changing nature of involvement, and related changes in entry barriers in African export sectors, and their effects with respect to differentiation. The first concerns the clothing sector in Mauritius, the second the fresh vegetable sector in Kenya. While these studies confirm the contention of the International Financial Institutions that these are sectors where African participation is likely to increase, the story they tell is that the main winners from this process are drawn from an increasingly narrow group.

**Clothing:** Mauritius was probably the main African country to reap significant medium-term benefits for its clothing industry, from both the Lomé Convention and
the Multifibre Arrangement (MFA). Within a few years of becoming established in the early 1980s, exports grew by 1989 to US$485mn. These were produced by 359 enterprises employing a total of 75,000 workers. The sector fell into two segments, and remained divided along these lines henceforth. The smaller and more concentrated segment was mainly owned by Hong Kong and Singaporean expatriates and produced exclusively for the US market. The larger and less concentrated segment was almost wholly Mauritian-owned and produced exclusively for the EU market. Elements of the export profiles of these two segments were similar however. Both prominently featured ‘commodity’ items in cotton, such as boxer shorts. The EU segment also featured highly labour-intensive woollens, particularly sweaters. For both segments the main end customers were mass-market retailers: US, French and UK supermarkets and French mail-order houses; both sourced via domestically and locally-based agents, and to a certain extent direct from larger enterprises who in turn sub-contracted part of their production to smaller local ‘cut, make and trim’ (CMT) assemblers. At this time, Mauritius’s comparative advantage lay in its MFA quota availability, its zero-tariff status under the Lomé Convention and its relatively cheap and abundant labour-force.

With the attainment of full employment in the early 1990s, Mauritius’s lost its cheap labour status and became increasingly uncompetitive for the types of clothing it had traditionally produced. Buyers for these clothing types moved offshore to cheaper, Far Eastern locations. However, this movement was compensated for by increased interest from US and EU mid-market chain stores and brands (Gap and Tommy Hilfiger from the US; Next, Arcadia and Debenhams from the UK, etc.), which were interested in semi-differentiated basics from 100 per cent cotton. For these types of clothing, whose labour content was lower and whose quality requirements higher, Mauritian wage levels were still competitive. These lead firms transferred their sourcing of these products to Mauritius from nearer to home, on cost grounds. UK import data for the period shows Mauritius taking market share from Greece, Portugal and Ireland for t-shirts, men’s shirts and men’s trousers.

The increased interest of brands and chain stores was associated with an upgrading of entry barriers and a rationalisation of both the sector’s segments. The big US brands/chains (to which Eddie Bauer and Land’s End were soon added) had massive capacity demands that only the largest enterprises could satisfy. They also preferred to deal with branches of companies from whom they already sourced elsewhere, partly because such companies could make up shortfalls in supply from their plants in other locations if problems arose in Mauritius, and partly because they were more familiar with their requirements in areas like into-US delivery procedures. The result was a sharp concentration in Mauritian exports to the US, both in terms of numbers of suppliers and the range of garment types exported. By 1998, two suppliers (Esquel and Crystal, both Hong Kong-owned global contract manufacturers for the US market) accounted for 54 per cent of all exports to the US, while three product categories came to account for two-thirds of exports. While expanding their assembly operations in Mauritius, companies supplying the US market made little or no contribution to the sector’s industrial upgrading. They did not integrate backwards into cloth or fabric production and they made little or no use of Mauritian-made cloth or fabric. This was because this conferred no advantages as far as duty or tariff levels were concerned, and secondly because US buyers typically nominated global cloth and fabric manufacturers irrespective of the country in which manufacture was undertaken.
The mid-market EU brands and chains that became identified with Mauritius in this period were not as demanding as the US ones in terms of levels of production capacity, but they demanded a much broader range of services. Besides customer-dedicated merchandising and account management, which exporters to the US market were also obliged to provide, these included independent fabric and component sourcing, styling and design interpretation and independent organisation of clearing and forwarding. This also gave rise to a sharp concentration in Mauritian suppliers to the EU, although not in the range of garment types. By 1998 the largest five EU-oriented groups (Novel, Floréal/Aquarelle, Compagnie Mauricienne de Textile, Palmar and Bonair) accounted for half of all exports, and the largest ten accounted for 62 per cent. Novel was Hong Kong-owned, while the others were owned by Mauritian (in two cases, Franco-Mauritians).

Although exports rose in value to US$711mn by 1994 on the basis of a workforce of roughly the same size as in 1989, the number of enterprises fell by over 28 per cent. Most of those eliminated were former local sub-contractors, as this part of the sector virtually disappeared. Meanwhile, large numbers of those smaller enterprises which survived the cull were obliged to re-orientate to less remunerative and less reliable non-EU markets, since they could not surmount the latter’s upgraded entry barriers.

Towards the end of the 1990s, the part of the Mauritian industry serving the EU market suffered a price scissors, constituted by rising local wages and price deflation by leading EU customers. Enterprises faced a choice between concentrating on production of higher-value items and trying to ‘move up the value chain’ by own branding, and trying to remain competitive in a mixture of semi-differentiated and differentiated basics. The latter now entailed delocalisation of longer run and more labour-intensive production to Madagascar, where wages were 18-25 per cent of their Mauritian levels. Enterprises that embarked on the first of these paths soon found that they lacked both the necessary financial resources as well as the production engineering and marketing capabilities. Two of the largest in this category became deeply indebted, while the remainder re-oriented to the delocalisation strategy.

Of course, enterprises’ capacities to successfully delocalise also varied enormously. By early 2000, 13 had delocalised an average of 28 per cent of their production. This number included all ten top exporters to the EU market; most of the latter planned to delocalise half or more of their production by 2005. While Mauritian exports continued to rise, reaching US$907mn by 1999, it was clear that those enterprises not delocalising soon would not survive, or at least would not remain able to supply ‘first division’ EU retailers.

While some Mauritian-owned enterprises exporting to the EU were now not only very large (with sales well over US$100mn) but also transnationalised, it is important to note that none qualified for the description ‘core supplier’, as it is typically used by, for example, leading UK retailers. The latter use this category to denote those suppliers who they have the closest relations to, and – in the context of a general trend to shrink supply bases – to whom it is intended to devolve increasing volumes of business. Interviews with 12 leading UK clothing retailers in 2001 indicated that eight were in the process of reducing their supply bases. For seven who gave figures on their current supply-base concentration, their leading 20 suppliers accounted for an average of 60 per cent of intake. In addition to those services which large Mauritian enterprises provided, core suppliers were usually also expected to be able to manage inventory on behalf of the customer – a service which no Mauritian enterprise had sufficient working capital to perform, and to exhibit levels of production flexibility
probably attainable only by much more substantial transnationalisation (incorporating a presence near or close to the EU itself, including a UK sales office). Thus, while the demands have become much tougher for that part of the Mauritian industry which can ‘stay in the game’, this part of the industry finds itself further than ever from the position of globalised contract manufacturers like Esquel or Crystal.

Fresh vegetables: Recent work by Jensen (2000) and Dolan and Humphrey (2000) traces the rise in importance of the Kenyan fresh vegetable and cut flower sector during the 1990s, to a position where the value of its exports (at US$189mn in 1999) came to exceed those of coffee. Over the same period however, the sector was transformed from one where the bulk of production was accounted for by smallholders, to one where it was accounted for by a mixture of very large commercial farms plus small-scale commercial farms contracted by the former into out-grower schemes. This goes for both cut flowers and fresh vegetables, although the subsequent discussion will be confined to the latter.

In the case of fresh vegetables this development coincided with two distinct but interrelated trends. First, the major UK supermarket chains emerged as the main buyers of Kenyan horticultural produce. This reflected a fundamental change in the food retail sector in the UK, whereby supermarkets’ share of food sales increased from around a third to 70-80 per cent of the market between 1989 and 1998, displacing in the process not only street-corner grocers and greengrocers but also the previously dominant fresh vegetable wholesale markets. It was supermarkets’ policy to source fresh produce direct from exporters, rather than go through UK wholesalers or more specialised importers. Second, the change reflected the implementation of the 1990 UK Food Safety Act and later legislation on pesticide residues.

Unlike those supplying UK wholesale markets, exporters supplying fresh vegetable suppliers to UK supermarkets are required to deliver large consignments of two or three different vegetable types on a very regular basis, and over the whole year, in ‘DC-ready’ formats. The supermarkets require these consignments to be made up and dispatched at 24 hours’ notice. The vegetables concerned are required to be of specific sizes and external appearance, to have a specific shelf-life and to be washed, packaged and bar-coded. This requires the exporter to have his/her own cool chain, including a pack-house/warehouse at the port of exit (Jomo Kenyatta Airport, Nairobi). It also requires them to have a system for electronic data interchange with the supermarket and a fail-safe method for procuring the vegetables themselves. According to Jensen, initial efforts by Kenyan exporters to conform to these requirements led to a transition from open-market and out-grower scheme-based procurement from smallholders and small-scale commercial farmers, to the formation of out-grower schemes composed mainly of small-scale commercial farmers. Small-scale commercial farmers could guarantee much better consistency of supply and conformity to appearance standards. Meanwhile, larger exporters were much more competitive than the myriad of smaller ones, owing to the economies of scale which attached to post-harvest activities and to their ability to optimise the temporal integration of post-harvest activities and sales.

In order to conform to the UK Food Safety Act, retailers had to guarantee the traceability of their produce. This means being able to provide documentation of the precise times and places of harvesting, collection, processing, storage and export – and thus corresponds to an escalation in monitoring requirements. Monitoring requirements have been further increased by Pesticide Residue legislation, whose effects include the outlawing of many of the crop-chemical combinations traditionally
used in fresh vegetable production in tropical countries. According to Jensen (2000) this triggered a further transformation in the production base of exporters supplying UK supermarkets. Exporters recognised that they could make major savings on quality monitoring costs by engaging themselves in large-scale direct production and either reducing or eliminating their intake from small-scale commercial farmers.

The result is that, whereas in the mid-1980s 4,000-4,500 smallholders with less than half an acre each under fresh vegetables alone supplied 40 per cent of exports of green beans (which became the main supermarket-destined crop), in 2000 they and small-scale commercial farmers together supplied rather less than this amount. The bulk of the crop came instead from exporters' own-farm production. Accompanying this process has been a strong concentration in the export sector, with the 10 leading firms coming to account for 52 per cent of all exports and the three leading ones 26 per cent. The two largest companies have been able to become global contractors. The combined vegetable and flower exporter Homegrown, owned by Kenyan Europeans, established its own import company in the UK and began to source globally. On the other hand, smallholder producers increasingly retreated to less demanding and less rewarding crops and markets, particularly 'Asian vegetables' for the UK Asian greengrocery wholesale sector, mangoes for the Middle East, etc.

**The New International Trade Regime**

The new international trade regime that emerged at the conclusion of the Uruguay Round in 1994 has served to underwrite the twin tendencies described above: an increase in Africa's participation in particular sectors, but a simultaneous escalation in the demands associated with participation and a consequent narrowing of the base of potential participants. The remainder of the paper examines the general characteristics of this new regime and its specific implications for developments in the two sectors already discussed.

Until the formation of the WTO and the completion of the Uruguay Round in 1993-94, the governance system for world trade was relatively restricted in its scope and based mainly on the principle of balancing national interests. Geographically, its scope excluded all the 'non-market economies' and large numbers of LDCs, while at the same time the central General Agreement on Tariffs and Trade (GATT) was subject to dozens of exceptions, in the form of preference-centred regional trade agreements. The GATT itself took the form of a series of component agreements, whose lists of signatories varied considerably. Substantively, the scope of the governance system was confined to 'classical' trade issues and disputes, especially the use/level of tariffs and duties for trade protection.

Disputes around these questions were invariably settled by political horse-trading and via a formal procedure resting on the basis of consensus. To some extent reflecting the legacy of the rise in developing countries' bargaining power in the 1970s, there was recognition that nations at different stages of economic development had different kinds of national interest regarding trade. In particular, one type or another of 'special and differentiated treatment' was tolerated for developing countries, either in the form of opting out of particular disciplines, retaining degrees of import protection and/or enjoying preferential access to developed country markets on the basis of purely historical ties.

With the Uruguay Round, a more coherent governance system came into being, with a claim to initiate a comprehensive set of multilateral rules for world trade. The
central feature of the new system was that all participants in world trade had to
demonstrate provision of exactly the same set of regulative environments and
politico-legal guarantees for Northern hemisphere actors (not only exporters and
investors but also importers), as the latter enjoyed in their domestic markets. A
second feature of the system was that decision making and dispute resolution would
take juridical rather than political forms. The WTO, whose existence was inaugurated
by the Round, had legally binding articles of association whose interpretation was to
be shaped by ‘case law’. In practice this meant that it would be shaped by lawyers, and
therefore by whichever interests could command the greatest levels of trade law
expertise. Furthermore, built into the WTO juridical system was a presumption in
favour of litigants claiming breaches of free trade.

For developing countries, the institutionalisation of these principles exposed them to
demands and procedures from which they could benefit little. The new system
demanded considerable resources to implement, while systematically profiting from
it depended on levels of technological development and legal expertise that were
simply beyond these countries’ reach. The reasons why they agreed to them will be
discussed in a moment. The main point however, is that in agreeing to them they gave
up all ‘political’ claims on the world trading system, based upon compensating for
their historical disadvantages.

Besides the new disputes procedure, what developing countries signed up to
concretely were four major new ‘disciplines’. None of these were concerned with
trade as it had been traditionally defined, and in at least one case they did not even
have any clear relation to the promotion of competition. The disciplines in question
were trade-related intellectual property rights (TRIPs), trade-related investment
measures (TRIMs), the General Agreement on Trade in Services (GATS) and the
Agreement on Sanitary and Phytosanitary Measures (SPS).

The SPS agreement and its implications will be discussed in detail later. The objective
of the TRIPs agreement was to provide globalised system of patent protection.
Although those holding patents in one country still would have to take out additional
patents in each country where they wished to protect their intellectual property, WTO
member countries became obliged to introduce national systems of protection for
intellectual property rights ‘consistent with an existing sui generis system’. Since 97
per cent of all patents held worldwide were held by citizens and enterprises based in
developed countries, and since citizens and enterprises of developing countries
lacked resources to patent most of their own common goods, the likely overall
distribution of benefits from this agreement was obvious.

The objective of the TRIMs agreement was to outlaw host governments’ use of most
‘discriminatory’ investment pre-conditions or performance requirements in relation
to foreign investors. While the defeat of efforts by the US to introduce a version of
TRIMs that would have completely banned all performance requirements for FDI ( as
under its Multilateral Agreement on Investment (MAI) proposal whose defeat
represented the only reverse for its agenda during the Round), the agreement still
clearly benefited transnational enterprises and net investor countries. The GATS
agreement, whose final version was deferred to the derailed Seattle Round, had as its
objective the outlawing of host governments’ use of subsidies or local regulations to
protect domestic service providers from competition by transnational corporations.
The regulations in questions paralleled those referred to by the TRIMs agreement:
‘discriminatory’ local labour laws, consumer protection standards, licensing standards,
and so on.
Developing countries signed up to these disciplines in the belief that the derogations of 'special and differentiated treatment' which they implied would be compensated for by the introduction of new, 'mainstream' ones, plus de-tarification and reductions in domestic support measures in Northern hemisphere industrial and agricultural goods markets. More specifically, the derogations were understood as trade-offs for a new agreement on agriculture outlawing EU and US agricultural export subsidies and domestic price supports and the phasing-out of the MFA. There has been little subsequent progress on either of these fronts. According to the OECD (2001), subsidies to agricultural producers in the 30 OECD countries accounted for 40 per cent of gross farm income in 1999, the same as in the 1980s. The case of the MFA will be discussed below. Meanwhile, although there has been some movement from Northern countries on de-tarification outside of agriculture and textiles and clothing, there has been a significant 'compensatory' increase by Northern countries in the use of non-tariff barriers. Of particular importance in this respect has been an increase in the use of 'anti-dumping and countervailing measures' (see Stiglitz, 2000).

Amongst the most advanced examples of 'special and differentiated treatment' which developing countries benefited from in the pre-Uruguay Round context was the Lomé Convention, which was now found to be in violation of two of the WTO's guiding principles: these were that all trade agreements should be reciprocal, and that there should be no discrimination in trade arrangements between groups of countries which otherwise should be considered of economically similar status. Lomé gave no reciprocal concessions to EU exporters in developing country markets, and it breached the non-discrimination principle by extending identical benefits to 'African, Caribbean and Pacific' (ACP) developing countries and LDCs alike.

The offer during the Uruguay Round to 'mainstream' special and differential treatment was believed by developing countries to entail simplifying the benefits which they would receive and removing the time limits on them, by rapidly phasing-in an expanded General System of (tariff) Preferences. In other words, within broader processes of de-tarification (and removal of subsidies to Northern producers), LDCs would gain by an accelerated transition to preferential tariffs averaging no more than 4-5 per cent. In fact, the Uruguay Round failed to usher in such a process, at least on a multilateral basis. The only concrete examples of institutionalised special and differential treatment secured by developing countries and LDCs in the Round's final Marrakesh Agreement were agreements that they could 'backload' the implementation of the four agreements mentioned above, whereas developed country WTO members were supposed to implement them immediately. Thus, developing countries were not obliged to have TRIPs-conforming legal systems until 2000, and LDCs until 2006. These 'concessions' were accompanied by non-binding pledges of aid to assist conformity.

LDC signatories of the Lomé Convention have been promised some form of new preferential trade agreement after 2007, when the WTO's waiver on the current interim arrangement expires. The best that the Lomé signatories who were not LDCs can hope for appears to be incorporation into a bilateral reciprocal Free Trade Agreement with the EU. As far as the trade with the US is concerned, bilateral reciprocal Free Trade Arrangements are the best any developing country, LDC or otherwise, can hope for. In the last few years, such agreements have become the preferred trade policy instruments for both the US and EU for regulating trade relations with 'strategic' third countries. Such arrangements, the best known of which is the US's NAFTA, differ from agreements like Lomé not only in being reciprocal, but in that their negotiation typically involves a high degree of policy conditionality. For
example, signatories of NAFTA have agreed, and future signatories of other US-centred Free Trade Agreements will have to agree to, proscription of all performance requirements for FDI, along the lines of the US’s failed MAI proposal.

**The Emerging Trade Regime for Clothing & Textiles**

For developing countries, Free Trade Agreements carry with them not only policy restrictions/conditionalities, but also the threats of substantial loss of fiscal revenue and de-industrialisation (in sectors where domestically-produced goods are not competitive with those made in the EU or US). On the other hand, at least in the areas of clothing, textiles and fresh vegetables, they offer considerable opportunities. This is because they compensate on a regionally selective basis for the fact that the pre-Uruguay Round trade regimes for clothing and agriculture have been maintained largely intact, in spite of promises made at Marrakesh. In this context, the US Africa Growth & Opportunity Act (AGOA) and the EU-South Africa Free Trade Agreement confer special advantages on African based exporters – whereas the alternative scenarios of MFA phase-out and overnight abolition of the EU’s Common Agricultural Policy would almost certainly favour existing high volume/low cost producers in the Far East. There are even strong reasons for considering that such Free Trade Agreements with Africa, like their NAFTA precedent, have been concluded precisely in order to reduce the North’s import dependence on a single region.

The Multifibre Arrangement, initiated in the 1970s, was a permissive framework for the operation of bilaterally-agreed quantitative restraints or quotas on developing country exports of clothing and textiles. Exports above the level of the restraints/quotas were subject to penal levels of duty. In return for exporting at or close to quota levels, exporting countries could ‘earn’ incremental increases in quota levels. Quotas were applied initially to basic clothing and basic grey cloth, for these were the exports which developing countries typically specialised in first, but were later extended to wider and wider categories of clothing. The rationale for the MFA framework was for the US and the EU countries to protect their domestic textile and clothing industries. In general however it succeeded only in slowing the latter’s decline, basically at the expense of potential export growth by developing countries. But while it restricted developing countries’ overall Northern market share for clothing and textiles, it is also generally thought to have stimulated a pattern of combined upgrading and geographical dispersal in developing country clothing industries. Exporting countries such as Hong Kong, Taiwan and South Korea avoided the effects of quota restrictions by moving into production of more sophisticated garments and ultimately textiles, while at the same time promoting production of ‘basics’ in new locations from Indonesia to Mauritius and the Caribbean, where there were initially no quota restrictions. For the most part, MFA-led clothing industrialisation in these new LDC locations was of an assembly-only character. But, in this process, certain Hong Kong and Taiwanese-based firms (including those referred to earlier) gained the status of global contract manufacturers to the leading US retailer-importers.

As part of the Uruguay Round’s ‘single undertaking’, the MFA was supposed to be phased-out over four stages covering 10 years. The main importing countries or groups of countries using quotas were at each stage supposed to ‘integrate’ a stipulated proportion of clothing and textile categories into their general tariff. In fact, little progress has so far been made with integration. The EU integrated only 4.0-7.2 per cent (depending on which source is used) of categories by January 1998, against a target of 17 per cent. It now plans a 20 per cent integration by 2004, the year before phasing-out is supposed to be completed. The US has put off phasing-out any
clothing categories at all until January 2005. Moreover, it has made substantial use of the Uruguay Round’s agreed interim provision of ‘Safeguard Actions’, as well as antidumping complaints to effectively increase its level of protection. It seems clear that a new (and possibly equally fictional) timetable for phasing-out will have to be agreed in 2005.

Meanwhile, on the basis of agreements like NAFTA and the EU-Turkey Customs Union, importers and exporters can take advantage of major differences in labour costs without suffering any trade restrictions. Correspondingly, in a very short space of time, Mexico has come to account for around 15 per cent and Turkey over 8 per cent of all clothing imports to the US and EU respectively. In some of these countries there has been an accompanying process of industrial upgrding, reaching back to the textile sector. In the case of Turkey, this upgrading has been led mainly by domestic capital, but in countries like Mexico it has been FDI-led. US producers have relocated to Mexico because large numbers of US clothing manufacturers have relocated there (Kessler, 1999). In the case of Mexico, US clothing and textile manufacturers have been interested in relocating in a mutually coordinated way because of the nature of NAFTA Rules of Origin, which insist that free trade between member countries applies only to goods produced entirely within the NAFTA region.

Against this background, a few words can be said concerning the likely impact on Africa of the textile and clothing provisions of the AGOA, which presages a Free Trade Arrangement between the US and a majority of sub-Saharan African countries, and the EU-South Africa Free Trade Agreement. The latter gives clothing from the Southern African Customs Union (SACU) free access to the EU on the basis of Lomé-type Rules of Origin. AGOA gives free access to the US market for clothing assembled in a majority of sub-Saharan African LDCs for a four year period, irrespective of where its constituent cloth or fabric were made. For non-LDC countries, free access is available for clothing assembled from cloth or fabric of either African or US origin for a period of 10 years; this rule will also apply to LDCs for the last six years of this period. Thirteen LDCs, including Angola, Burkina Faso, Cote d’Ivoire, and Zimbabwe, have been excluded from coverage on various conditionality grounds.

As far as clothing is concerned, the AGOA seems certain to lead to selected African LDCs capturing a share of the current exports to the US from low-cost East and Southern Asian countries. No trade diversion from NAFTA seems likely, since trade between the US and the latter is largely defined by short lead-time requirements. Trade diversion from the Caribbean can be also ruled out since, under legislation paralleling the AGOA, Caribbean Basin Initiative countries will probably come to enjoy the same benefits as African ones. Given the low levels of domestic accumulation in most African LDCs, and US retailer-importers’ preference for dealing with global contract manufacturers, it seems likely that the main sources of investment will probably be global clothing contract manufacturers already based in Mauritius and/or South Africa, like Esquel, Crystal and Novel Denim, followed by other Hong Kong, Taiwanese or Korean-owned contract manufacturers, followed finally by the few Mauritian and South African-owned enterprises already producing for the US market.

As far as the EU-South Africa Free Trade Agreement is concerned, there seems likely to be a diversion of EU imports from low-cost East and Southern Asian countries to low-wage areas of the SACU, particularly Lesotho and possibly Botswana. EU trade diversion from Central and Eastern Europe, Turkey and North Africa is very unlikely, for the same reasons as US trade diversion from NAFTA. Because of the preference of
EU importers for dealing with established exporters, the main investment in Lesotho and Botswana is likely to come from leading Mauritian and South African enterprises already producing for the EU market, from large global contract manufacturers like Novel based in Africa and with EU market experience, and from global contract manufacturers already serving EU importers in other regions.

With regard to textiles, the likely pattern of development entails a degree of upgrading along the lines of Mexico and Central and Eastern Europe, but on a reduced scale and with different actors. Because they offer importers a combination of low wage costs and short lead times, NAFTA and the EU’s agreements with Central and Eastern European countries have attracted a critical mass of investment in clothing manufacturing which is unlikely to be repeated in Africa on the same scale, and which is therefore likely to spontaneously attract less textile producers. Furthermore, investment by US and EU textile producers is also unlikely to be attracted on the same scale, if only because of the composition of likely investors in clothing manufacture. Global contract manufacturers for the US market are typically obliged to source exclusively from nominated suppliers, also mostly Far Eastern in origin. Besides a small number of investments from textile producers in this category, new investment in textiles is likely to be dominated by existing textile producers in Mauritius, Madagascar and South Africa. However, it is likely that the latter’s main customers will be clothing manufacturers of the same provenance.

**The SPS Agreement**

The ostensible objective of the SPS Agreement was to prevent the sanitary and phytosanitary standards of importing countries being used unfairly as a non-tariff barrier to trade. In practice, and as in the case of TRIPs, it has been in fact associated with giving developed countries’ evolving standards the status of mandatory global norms. This has been because Article 3 (2) of the SPS Agreement, which states that SPS measures are justified insofar as they are based on recognised scientific principles, has been interpreted as meaning that they are justified insofar as they correspond to the Codex Alimentarius. The latter body, created by FAO and the WHO in 1962 to devise standards for consumer foods, sets SPS standards on the basis of majority voting by member states. Developed countries comprise a majority of the Codex’s active members. In a few cases, notably that of hormone-treated beef, EU members declined to accept Codex standards – although this was in favour of standards that were significantly more demanding.

In a survey reported in Henson (2000), developing country WTO delegations rated SPS standards as the single most important impediment to the expansion of their agricultural trade with the developed world. They are likely to become a still greater impediment with the transition in the Codex in 1999-2000 from the use of product standards to the use of process standards. For agricultural commodities, whereas product standards refer to various aspects of the physical condition of the commodity, process standards refer to the nature of the conditions under which the commodity has been produced. The transition from product to process standards has been generally justified in terms of the growing disjunction between the increasingly large number of microbiological risks that are now scientifically recognised, and the general lack of agreed procedures for testing them.

The key process standard that has become embodied in the Codex is the Hazard Analysis Critical Control Point (HACCP) standard. This identifies potential SPS hazards in terms of points of possible incorporation of filth or contamination by
various products (including pesticides), and lays down a set of practices to minimise risk at each point. Since HACCP was subsumed in the SPS Agreement, the latter has come to be interpreted to the effect that individual exporters to Northern markets must demonstrate compliance with HACCP process standards. However, all WTO member governments are now also charged with responsibility for maintaining national public systems of food inspection, testing and food manufacturer certification, along with 'National Enquiry Points' to which interested parties can turn for information.

Up to now, critical public discussion of SPS and HACCP has been confined mainly to the respective scientific merits of the latter as a standard, relative to the 'precautionary principle'. Some economists have also raised the issue of the costs for developing countries of implementing the Agreement in this form. First, governments have to bear high levels of cost to establish conforming national systems, which in many cases will never be justified in terms of future export earnings. Second, private exporters in developing countries will be penalised by higher marginal costs of conformity. In the North the costs of certain 'minimum practices' like ensuring the presence of potable water at particular 'hazard points' are heavily subsidised, since potable water is a public good. In the South, on the other hand, it normally has to be provided privately.

As Unnevehr (2000) has pointed out, a so far unexplored dimension of HACCP is its logic of vertical integration. Unnevehr cites a statement of the FAO Committee on World Food Security on 'The Importance of Food Quality and Safety in Developing Countries', to the effect that SPS problems typically arise from 'the fragmentation of the supply chain and the involvement of a multitude of middlemen'. Correspondingly, it could be added, unless the parts of the commodity chains for exported food that are located in developing countries are fully integrated, it is impossible for exporters to guarantee HACCP conformity. For example, in addition to requiring exporting countries to have national codes of hygienic practice covering both domestic and export trades, plus national laboratories capable of a full range of chemical and microbiological analyses, the EU's requirements for fish safety specify a series of harmonised standards covering the entire supply chain from boats, via landing facilities to processing plants. Only if the owners of processing plants have control over boats and landing facilities can harmonised conformity be guaranteed.

Evidence from Kenya on the effects of efforts to conform to EU HACCP standards for Nile Perch exports, following import bans by the EU in 1998-99, suggest that SPS in this way amplifies existing trends toward economic differentiation and the elimination of artisanal operators from fresh food supply export chains. Amongst the changes to the organisation of different links in the chain insisted upon by EU inspectors were the introduction on fishing boats of storage areas which were closed and refrigerated, the provision of fenced landing sites with jetties and running potable water supplying toilets and wash basins, the elimination of the use of chlorinated static water and hand-operated suspended hoses in factories, the regular medical certification of all factory workers using microbiological check tests and stool samples, etc. (EU, 1998). In this way, SPS reverses the effects of a series of highly successful interventions by East African governments earlier in the 1990s, to ensure that the Nile Perch export chain was socially inclusive (see Gibbon, 2001b).

Conclusion
While the main beneficiaries of new forms of global industrial organisation and the new international trade regime are likely to be the world's strongest economies and
transnational enterprises, this by no means signifies that Africa will be by-passed by these trends, or even benefit from them. In sectors such as fresh vegetables and clothing, a few enterprises based in Africa have managed to keep abreast of the new conditions necessary for integration into the world economy, including establishing ‘contract manufacturing’ bases in more than one country. Opportunities are even likely to improve for the most successful of these enterprises, as a result of the new international trade regime. In the latter, Free Trade Agreements with politically-weak regions like Africa are likely to play an increasingly important role for trade diversification, against a background in which the global trading superpowers have raised the barriers for global market entry while refusing to dismantle their own protective structures against Far Eastern ‘threats’.

On the other hand, and particularly in relation to clothing, the biggest winners from this process are likely to be not African enterprises, but ones that are already global and that can transplant themselves to Africa. Even amongst the African-based enterprises that are currently benefitting from these developments, all but a few are owned by Africans of European descent with well-established socio-economic networks in Europe, and even these are mostly gaining only second-tier status in supplier bases.

The downside of this trend is the fate of earlier generations of African participants in the global economy in these sectors. With the evolution of new forms of industrial organisation and new internationally institutionalised standards of service provision, food safety, etc., the traditional comparative advantages of smaller-scale African producers have been severely eroded. Smallholders account for a shrinking proportion both of traditional and ‘modern’ export crops, while in the clothing sector there is no longer a role in production for the global market for local sub-contractors or even less resourceful full manufacturers. The labour availability and labour monitoring advantages which the success of these forms of production rested upon are nowadays less relevant for competitiveness. Central to the latter are now advantages that come with scale and upstream integration, such as quality monitoring.

The major imponderable of these developments are its welfare consequences. If smallholder agriculture is being replaced by a new form of plantation agriculture, and a large number of smaller-scale manufacturing enterprises are being replaced by a handful of large ones, will the employment generated compensate for the welfare losses by the earlier generations? The relatively turbulent and unstable basis upon which the new system rests at present gives only very limited grounds for optimism.

Peter Gibbon is a Senior Researcher at the Centre for Development Research, Copenhagen, Denmark; e-mail: Peter.Gibbon@cdr.dk

* This paper sums up work by a group of researchers belonging to the ‘Globalisation and Economic Restructuring in Africa’ research programme, based at Centre for Development Research (Copenhagen), the Department of Geography, Copenhagen University and the Department of Economics, Royal Danish Veterinary and Agricultural University (Copenhagen). The programme, which runs until 2003, comprises commodity-specific studies of coffee, cotton, cocoa, fresh vegetables, fruit, clothing and music. The paper draws particularly from the work of Michael Friis Jensen on fresh vegetables and the author’s own work on clothing.

© 1974-2010, ROAPE / see www.roape.org
Bibliography


Fold, N (2000), 'Restructuring of the European chocolate industry and the impact on cocoa production in West Africa', Department of Geography, University of Copenhagen (mimeo).


Henson, S. et al. (2000), The impact of SPS measures on developing countries, University of Reading, Dept. of Agricultural and Food Economics, Reading, UK.


Jensen, M F (2000), 'Standards and smallholders: a case study from Kenyan Export Horticulture', Royal Danish Veterinary and Agricultural University, Economics Unit (mimeo).


OECD (2001), The Uruguay Round Agreement on Agriculture: an evaluation of its implementation, Paris: OECD.

Ponte, S (2001), The 'Latte Revolution'? Winners and losers in the restructuring of the global coffee marketing chain, Centre for development Research (Copenhagen), Working Paper 01.3.


Stiglitz, J (2000), 'Two principles for the next round: or, how to bring developing countries in from the cold', The World Economy, Vol. 23, No. 4.


Unnevehr, L (2000), 'Food safety issues and fresh food product exports from LDCs', Agricultural Economics No. 23, pp. 231-40.


Williams, K (2000), 'From shareholder value to present-day capitalism', Economy & Society, Vol. 29, No. 1