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Trade and Capital accumulation in Africa in a Context of Financial Crisis. Is Increased Market Access the Answer?

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Summary

Years of reforms in African countries that have emphasized export-led growth without giving an equally central place to ensuring that trade would be a mechanism for capital accumulation are responsible for the current situation of vulnerability in which these countries face the financial crisis.

Trade is the main channel by which the impacts of the financial crisis are, and will continue to be, felt by these countries. The paper applies this lens to the examination of the channels by which the financial crisis is affecting African countries already: commodity prices, export-driven investment, infrastructure and debt sustainability, exchange rate movements, trade finance and trade in financial services.

This analysis is followed by an examination of the official discourse, as embodied in the statements of world leaders, to show that it so far has failed to treat trade at an equal level with finance in efforts to surmount the crisis. Moreover, to the extent that the official discourse does address trade, it tends to simplify the required trade response as one consisting of increasing market access through conclusion of the Doha Round of trade negotiations ("Doha Round").

As far as African economies are concerned, a response based on an increase in market access misses the point. In order for trade to help countries surmount the crisis trade needs to be approached as a tool of capital accumulation and poverty reduction. In turn, this requires that the relationship between trade and domestic and international financial structures that need to support it be closely scrutinized and placed squarely at the center of efforts to reform the global financial system. The issues that matter from this perspective are, however, off the agenda of the current trade negotiations.

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What started as a crisis of the subprime mortgage sector in the United States has now become a global financial crisis of global proportions. However, the global dimensions of the crisis do not mean the primary channels by which it affects economies are the same everywhere. While the crisis quickly affected large financial centers outside the US, the impacts on developing countries took more time to register.

It is a major contention of this paper that in developing countries trade is the main channel by which the impacts of the financial crisis are, and will continue to be, felt. This paper seeks to substantiate this proposition for the countries in Africa. The proposition has important implications for attempts to provide a development-sensitive response to the crisis and the priorities that need to feature in an African agenda but, further, in a developing country agenda. They also bear important implications for the model of trade reforms that have been implemented by these countries in the past and the imperative need to change course towards the future.

In the following section, some of the channels by which the crisis is affecting economies in Africa are developed in order to expose the degree to which trade issues are relevant in the propagation of the crisis in the continent. The following section presents how trade issues are being addressed in the official response to the financial crisis, as proxied by the statements of the Group of 20 Leaders. Finally, the last section makes an assessment of the official response and proposes a number of recommendations that should be on an agenda for the reform of the financial system that places trade and the center.

I. Trade and the projection of the global financial crisis in Africa

This section seeks to establish that trade, more than finance, is central to the channels by which the financial crisis is projecting its impacts on Africa.

Commodity prices

The primary channel by which the crisis will bear impacts on African countries is the lower commodity prices brought about by recession in the industrialized countries. In order to place these impacts in perspective it should be noted that African countries are still highly dependent on commodities.

Indeed, it is more than a mere coincidence the exceptional growth period experienced by African economies in the five years preceding the eruption of the crisis coincides with the surge of commodity prices. Primary commodities, including fuels, account for near 70 percent of the average exports in the period 1995-2006. (UNCTAD 2008, 20)

Between 2002 and 2007 the prices of all commodities, in dollar terms, increased 113 per cent. (UNCTAD 2008a, Table 2.1). This average masks large differences between the minerals group (around 260 per cent) and food and tropical beverages (a 60 per cent). But it is clear that the increases were all significant, nonetheless, especially after decades of declining prices.

The fact that some factors behind the increase (e.g., growing demand from high-growth economies such as India and China) were out of the epicenter of the financial crisis led some to hope that the fall in prices would not be that significant. However, as growth projections for China and India were revised downwards such hopes faded. In any case, Africa also registers significant concentration in markets which makes Asian markets still account for a relatively small portion of trade, even if a growing one.

With a scenario of lower demand everywhere, commodity prices are on their way down at, in some cases, shocking speed. In Africa, the fall in commodity prices does have a bright side. Those countries that until the mid-2008 were trying to cope with rising bills for their food and fuel imports will reap some benefit. (IMF 2009a, 5) But these are at the same time countries that, as a result of the need to deal with rising import bills, saw their fiscal balances eroded, so the relief that comes to them as a result of the reduction in prices will be partly offset by the reduced fiscal space they now enjoy.

The significant negative effects that lower prices will have on export revenues are, nonetheless, the prevailing side of the picture. In its latest forecast for the region, the IMF attributes to the negative terms of trade shock to commodity exporters a widening of the average current account deficit of near 4 percentage points of GDP, though the divergences between groups of countries are significant. (IMF 2009, 5)

What these figures are saying is that what has been characterized as a boom in African countries' growth since the beginning of this decade actually hides meager progress –or even retrogression -- in their export structures. As said by UNCTAD, "The fact that export values increased faster than export volumes suggests that much of the increase in export values in Africa was due to rising prices." (UNCTAD 2008, 18) The trend may have been accentuated with comparison to other regions of the world. The increase in price of a unit of exports was more than four times higher than the world average and nearly three times higher than the developing-country average, with the largest increases happening almost exclusively in oil-exporting countries. (Ib.) Very few countries had been able to use the increased revenue from the boom in commodities to get higher up in the ladder of diversification and value-added. [1]

In some cases the hindrance was that the rents of the boom were not captured at the country level, while in other cases captured rents were not devoted to invest in infrastructure and productive capacity but in either immediate consumption or long postponed social needs. A few countries were merely able to take advantage of the access to the natural resources to expand into natural resource-based manufactures. As a result, trade profiles have not changed much, leaving no room for cushioning the impacts of the decrease in prices. The effectively utilization of increased commodity revenue would have required a capacity that has been wiped out after years of downsizing and withdrawal from economic planning. In this regard, studies underscore the tendency of diversification trends to stop after the introduction of a stabilization approach to macroeconomic policies and trade openness that characterized the economic paradigm prevailing in the continent after the early 1980s. (UNCTAD 2008, 19)

Not having made use of the surpluses of good times to diversify, African countries will be faced with the challenge of diversifying in bad times, and with less income.

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[1] UNECA 2007, 122 ("Most countries have not managed to break out of their traditional exports to more dynamic non-traditional sectors with higher export-earning potential.")

Trade, infrastructure and debt sustainability

The deterioration of several of the financial variables has also to do with the knock-on effect of the lower export revenues. It is very common that, in times of boom, countries tend to be overoptimistic about future trends. The risks of infrastructure projects going wrong are generously evaluated against the backdrop of the growing income prospects. Costs and terms of borrowing that are very high compared with the historical, but not with the most recent, reality tend to be considered viable. This boom has been no exception.

One particular trend in public funding for infrastructure projects has been the increased role of private sector participation, through contracts that provide public funding guarantees, often encouraged by multilateral financial institutions. For example, it is common practice in several public-private partnership contracts to attach provisions that guarantee a certain level of demand and, therefore, revenue to the provider. If the economic activity then does not sustain such demand, the government becomes liable for the difference. The exchange rate risk is sometimes built into demand guarantees. That is, in spite of devaluations that may be necessary for monetary and economic policy reasons, devaluations whose impacts domestic investors and citizens bear in terms of decreased import purchasing capacity would not affect the private investor. (Kessler, Tim 2005)

So, whereas ideally private sector participation should mean less of the risks of a downturn will be borne by public sectors in countries, and more by the private sector, the reality of public-private partnerships has been generally the opposite. Compounding the generous concessions built into private sector contracts, guarantees do not represent an immediate expense, so they escape the degree of scrutiny that actual budget expenditures would receive. (IMF 2005,) This opacity also fosters what the IMF has called “a guarantee culture” on the part of the private sector, so guarantees, instead of a subsidiary mechanism, are provided for risks that the private sector would be best positioned to manage on its own. Since the guarantees are more likely to be called at a time of generalized economic distress (e.g., a financial crisis) their fiscal consequences are aggravated by their pro-cyclicality and potentially multiplying effects. (Ib., 10)

As put by the World Bank, the financial crisis will cause some existing projects to experience financial distress, and will cause significant dislocations in countries’ agendas to address infrastructure deficits. (2008)

The infrastructure projects that are particularly favored are those with a trade dimension. This is the result of a tendency in the multilateral financial institutions, but it is also the result that spending on them is easier to justify against a background of growing returns to trade. The international financial institutions have, since the beginning of this decade, markedly shifted their portfolio to provide increasing amounts of lending for trade-related infrastructure.

In response of the crisis, responses have also emphasized financing for infrastructure, ostensibly to pick up the financing that the private sector is withdrawing from. The World Bank, for instance, announced that it is going to be further increasing its provision of funding for infrastructure. It has been announced that over three years IFC is to invest a minimum of US$300 million and mobilize between US$1.5 billion and US$10 billion from other sources.

The provision of more lending for trade-related infrastructure, at a time when predicted returns to trade are falling, may be a recipe for worsening public debt as countries struggle to raise foreign exchange to More important, it is apparent that the lending aims to subsidize private sector participation. This could potentially worsen the imbalance in sharing of risks and returns between private and public sectors in trade-related infrastructure, skirting the need for a realistic and sound methodology to evaluate trade-related returns.

Alongside the deterioration of trade and fiscal balances for African countries, debt levels are set to grow. In spite of the debt relief committed in the Heavily Indebted Poor Countries Initiative and is most recent expansion, the Multilateral Debt Relief Initiative—launched by the Group of 8 meeting in Gleneagles almost 4 years ago - debt situations will deteriorate. Trade is a key factor in that equation. The least risky group is, according to the most recent reports, the 18 low income countries that received all debt relief commitments already. Out of the African countries in this group, less than half have a low risk of falling back into debt distress.[2] Those with low and moderate risks are highly vulnerable to export shocks. (Ib., 13.) Of the countries that were not eligible for HIPC/MDRI, one third are also either in or at risk of debt distress.

Even as one assesses these figures, it is important to keep in mind that the assessment of risks and "sustainability" is according to the rather tolerant parameters of the Debt Sustainability Framework adopted in 2005. Such reform resulted in a ramping up of the thresholds at which borrowers are considered to be in trouble. Substantial criticisms had been leveled at the methodology for measuring debt sustainability in the past, which relied on overoptimistic projections of export and GDP growth.[3] In spite of the attempt to address the methodological problem with stress-testing, the boom of the last years continued to boost the optimism of projections. The IMF/ Bank staff assert, referring to the situation of countries not in the HIPC/MDRI program, that the situation is not worse because these countries were having an export growth rate of 11 percent average in a 10-year average. Export projections based on such trends will be rendered useless by the impact of the crisis and so will the projections of debt ratios for many countries. The very notion of "low" or "moderate" risk will certainly come under challenge.

Reciprocally, the need to direct more income to paying debt service can only contribute to accentuate the problems both low and middle income countries have in making investment necessary to expand their production capacity or place them in tighter competition with pressing immediate social needs.

Trade and withdrawal of investment flows

The financial crisis will also affect Africa through a reduction in FDI inflows. (IMF 2009, 6) This would appear to contradict the argument of trade as the main channel.

However, it is necessary to consider that, in Africa, FDI in natural resource-based sectors is traditionally a significant portion of capital inflows. The boom in the commodity prices explains, in fact, a large proportion of FDI increases seen by African countries in the period during which such boom took place. According to UNCTAD's World Investment Report "In the major natural resource producers, FDI in

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[2] In the World Bank's classification, countries may have a low, moderate or high risk of debt distress. (IMF/ World Bank 2008). Debt Sustainability in Low Income Countries – Recent Experience and Challenges Ahead.
[2] Ib., 13.
[3] For a survey of criticisms see Caliari, Aldo 2006.

natural resource exploitation projects has contributed to accelerated export growth." (UNCTAD 2008b, 39).In 2006-2007, 82 percent of foreign investment in Africa landed in 10 countries, most of them oil- or mineral-producers. (2008b, 40) That year also marked a second year in growth of FDI inflows to the LDCs in Africa, growth clearly linked to the rise in prices of commodities (Ib., 41) and is, therefore, also set to go down as prices fall.

The "enclave" nature of investments linked to natural resources was for a long time one reason that accounted for why FDI in Africa was not yielding better results for income generation and poverty reduction in host countries. The trends visible with the ongoing crisis offer further confirmation that attracting more foreign investment cannot be considered to have always a positive effect, even from a purely neutral balance of payments perspective. Foreign investment that comes in good times leaves quickly in bad times, generating a rather procyclical effect for the balance of payments.

Conditions for foreign investment in Africa tended to exacerbate these trends. The attraction of foreign investment to export-oriented sectors failed to put in place mechanisms to ensure that part of the revenues from increased export revenue would contribute to a building a domestic capital base.

Exchange rates and trade

The fate of exchange rates is also heavily tied to the ongoing trade trends for African countries. The expectation of deteriorating terms of trade and the worsening of trade balances will put pressure on the currencies of African countries, leading to sharp depreciations. The currencies of commodity-dependent economies are especially affected, as their currencies tend to lose value in the face of declining commodity price trends that make their growth and export prospects more dubious and may prompt investors to withdraw capital. Some experts use the term "commodity currencies" to refer to the strong correlation between the prices of commodity exports and the currencies of such countries. (Wall Street Journal 2008)

But, whereas usually an exchange rate depreciation gives a boost to exports that can boost income and help offset negative effects, that relieving effect cannot be expected under current conditions. It will make little different in the downward demand trends of international markets.

The financial crisis is underscoring the difficulties faced, even in good times, by developing countries that attempt to benefit from trade in the absence of a system to provide some measure of stability to exchange rates. The projection of competitive advantages and domestic investment oriented to exports, especially in a long term, are hampered, while the costs of finance are rendered more volatile.

In already two studies, the IMF has argued that fluctuations of exchange rates do not have such a strong impact in trade performance and has advocated in favor of market-based hedging instruments as the way forward for developing countries that are affected. (IMF 1984 and IMF 2004) Critics contend that this is only available to large companies, with the means and sophistication to pursue such hedging. But difficulties being faced by companies in large emerging markets outside of Africa, e.g. Brazil , Mexico of South Korea, reveal that even for large companies in developing countries this practice may not be a reliable safeguard.[4] Likewise, the size of government intervention that those governments needed to

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[4] In countries such as Brazil, Mexico and South Korea, companies have reportedly lost huge amounts by taking the wrong side on derivatives to hedge against dollar movements. (Financial Times 2008; Financial Times 2008a) In Brazil, the government had to intervene to protect the companies affected by lending to them at below-market

exercise to rescue their exporters will be off –reach to African countries, with the possible exception of South Africa. This alone should speak to the inapplicability of the IMF's views in African countries, and calls for a different approach to cushion exchange rate fluctuations.

Exchange rate depreciations are, unfortunately, not the end of the story, as they bear feedback effects to the debt sustainability. The IMF states that more than half of public debt among low income countries is denominated in external currencies. (2009a, 25) As public debt prospects deteriorate, a vicious circle may emerge that exacerbates the trends on the depreciation of domestic currencies throughout the region.

Trade and liberalization of financial services

The impact of the crisis will also be determined by the degree of openness of the trade in financial services regime of African countries. As admitted by the IMF, in reference to low income countries, "The existence of capital controls in several countries and structural factors have helped to moderate both the direct and the indirect effects of the financial crisis." (2009a, 9) For instance, this resulted in banks having to finance themselves with domestic funds, minimizing leverage on their balance sheet, and having very limited exposure to complex financial instruments (Ib.).

But in Africa the flexibility of many countries to introduce the capital management techniques required to cope with the crisis has been, or is on track, to being compromised by trade and investment agreements. In the multilateral context, financial services liberalization is one of the elements of the Doha WTO Round whereas. At the regional level, Economic Partnership Agreements (EPAs),put "pressure on ACP countries to further de-regulate. For example, provisions at the core of the EPA, such as granting national treatment (the obligation to treat *like* foreign services and services' suppliers like the domestic ones), remove the possibility for ACP governments to regulate in a manner that positively discriminates in favour of domestic ones, leaving the fate of domestic services' suppliers to the market." (Kategekwa 2008)

Unfortunately, rather than the urgent review of negotiations on financial services that would be warranted in the light of the crisis, what is being proposed as a solution to developing countries around the world is deeper liberalization. In a recent speech, the WTO Director General Mr. Lamy's stated belief that financial services trade openings can be useful, by "bringing fresh capital inflows." However, the experiences with foreign banks operating in developing countries has oftentimes not meant they bring "fresh capital." Quite to the contrary, their business model implies that, in many cases, they use existing capital that, given a larger pool of resources and access to intra-company credit or international capital markets, can be better leveraged.

The latest IMF's World Economic Outlook reports that it is the developing countries that more opened themselves to foreign banks –economies in Eastern Europe-- that are faring worst comparing to the ones that had a relatively more closed financial sector, such as those in Asia. (2008) Indeed, as the crisis erupted, it became clear that, far from representing relief, foreign banks operating in developing countries brought added woes. The IMF highlights that one of the difficulties that low income countries may face is that, given the prevalence of foreign owned banks, they may face difficulties from withdrawal of funds by their parent companies. (2009a, 10) According to Kategekwa, "for most ACP

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interest rates, in another sign of the costs that the problem may have for developing countries public treasuries. (Ib.)

countries, opening up and stringent loan conditions has *reduced* access of rural communities to credit. With the financial crisis, access to credit is expected to be even harder, even for urban based SMEs who have comparably easier access than small rural farmers."

The crisis started with a number of banks based in developed countries that had either invested in subprime market securities or provided backup credit lines for special purpose vehicles and had to recapitalize them. (Borio 2008) For supervisory purposes, the originating banks were not even subject to the jurisdiction of developing countries that are now bearing the impacts. Yet, the developing countries are poised to suffer lack of access to credit. It is the countries with licensed subsidiaries of foreign banks, rather than branches, that may be better positioned to detect potential risks of capital withdrawal, simply because their local operators are subject to local supervision. (IMF 2009a, 10)

Moreover, a number of remedial measures being put in place in the home countries are putting added pressure on credit in host countries. This is the case of bailouts financed with the guarantee of home governments' triple-A borrowing in capital markets. Developing countries can hardly match such measures, putting them at a disadvantage as a borrower and their banks at a disadvantage as they lack the guarantees that home country banks have.

But liberalization of financial services does not only bring dangers to the banking sector. In a powerful piece, Vander Stichele argues that the government obligation not to stop a foreign service provider from entering the country and offering financial services that have been committed may mean in practice that it could be difficult for the authorities to prohibit derivative trading, a measure many governments are finding necessary to implement. (2008)

As Joy Kategekwa says, referring to similar rules in the Economic Partnership Agreements, "The role of regulation has never been more vindicated than at this time of financial turmoil," so extreme caution in adopting any new rules, and even a roll-back of existing ones, is in order. (2008)

Scarcity of trade finance

Finally, a very obvious way the credit crunch will project effects on developing economies is the impact it has on trade-finance, this is, the different mechanisms by which typically a bank or financial institution, for a fee, guarantees payment of shipments by an importer. The deterioration of the availability and the terms of trade credit were already being felt earlier this year, but the situation significantly worsened since September, with the collapse and defensive stances taken by major international banks.

This was in evidence in a statement made by Brazil last October in the WTO: "Exporters from developing countries who seek trade finance find themselves in the odd situation of being among the most creditworthy economic agents, but unable to access credit in a scenario with heightened overall risk perceptions that lead to more stringent requirements by the banks, or simply because funds are not available any longer."(WTO Working Group on Debt, Trade and Finance 2008) The negative impact that Basel II may have on trade flows, *inter alia,* through increased procyclicality of trade finance, has also triggered complaints. (Ib.) Balance-sheet exposure to least-developing countries costs banks apparently three times as much as exposure to developed countries, creating a large asymmetry in access to this type of lending. (WTO Working Group on Trade, Debt and Finance 2008a) The urgency of the situation prompted the WTO Director General to take the unusual step of hosting a meeting of main trade-finance providers last November in Geneva.

In a recent paper, World Bank staff points out that trade credit was traditionally thought to be only relevant from a microeconomic point of view, but he argues this should no longer be the case. (Raddatz 2008) The author explores the role of trade credit as a mechanism for the amplification of shocks at the macro level and finds strong evidence for the hypothesis that an increase in the use of trade-credit along the input-output chain linking two industries results in an increase in their correlation. (Ib.) This is certainly not good news to African countries that have strived, at great effort, to find their niche as providers in global production chains. The problems for both providers who need cash but also buyers, who face the threat that their cash-strapped providers may disappear because of the inability of holding up without such credit, are becoming more evident. Overall, the full model on which world trade has thrived in the last several decades, is in question. The loss of a model that allows large transnational conglomerates to increase profit margins by locating pieces of the production chain in the lowest cost locations, may not be so regrettable. Especially if this comes with some return of the price-setting power in the chain for local producers and workers. But there is no doubt that the productive base of whole economies may be wrecked in the process of adjustment to this new reality.

The concerted government efforts in a number of industrialized countries to recapitalize their banking systems may, for trade finance purposes, not be worth counting. A reporter said that, as the government takes a stake in banks, their priorities may be to get taxpayers' money back and, politically, stimulate lending to domestic business rather than devote taxpayers' equity to far-off trade finance. (Financial Times 2008b)

Moreover, the scarcity of trade credit is bringing the spotlight to another, little heard of, sector but that is vital to the continued operations of supply chains: trade insurance. While large companies tend to take the risk that trade credits will not be honored, small providers could be so largely affected by the failure of a big buyer that they usually take insurance. Recently, however, because of the drying up of credit, trade insurers have seen a rise in their losses. Atradius, the UK's biggest credit insurer, saw its losses increase to account for more than 70 per cent of revenues, up from a norm of 50-60 per cent. (Financial Times 2008c) In what some reports say is a panic reaction, they are quickly blacklisting as non-insurable many companies, some of them large buyers such as General Motors, Woolworths and Ford. Moreover, trade credit insurers are likely to base their assessment of the creditworthiness of a foreign company partly on the economic stability of its home country. A commentator speaks of the formation of a vicious circle: "insurers are cutting trade credit insurance because they believe that the scarcity of bank loans has increased the chances of businesses failing. Companies who use the cover are then more exposed to collapse themselves, because some lenders will not advance new funds unless credit insurance is in place." (Financial Times 2008d)

The seriousness of the problem is in evidence in the swift action taken by countries like Brazil and India, where governments have rapidly made available credit support for exporters. But it is unlikely that smaller countries will be able to have that support forthcoming.

II. <u>The official response: The Group of 20 Summits in Washington and London</u>

Examination of the official discourse, as embodied in the statements of world leaders, to show that it so far has failed to treat trade at an equal level with finance in efforts to surmount the crisis. Moreover, to the extent that the official discourse does address trade, it tends to simplify the required trade response

as one consisting of increasing market access through conclusion of the Doha Round of trade negotiations ("Doha Round").

As demonstrated by last sections' overview, the damage to developing countries in the financial crisis stems from the intersection of trade with a number of financial policies and structures that either are missing or inadequate to help them cope. A development-friendly response, therefore, would have to squarely place those connections on the agenda. However, a quick survey of the policy responses to the crisis demonstrates that the focus on trade has tended to stay rather narrowly focused on market access concerns.

In late 2008, as the financial crisis reached undoubtedly global and historical proportions, the leaders of several countries started talking about the need for a "Bretton Woods II", in reference to the foundational character of the reform that the crisis should trigger. Bretton Woods was, indeed, the conference that established, right after the Second World War, the multilateral economic institutions that have overseen the world economy up to these days. As a result, in November of last year, the G20 – a grouping that involves several emerging market countries and was created after the East Asian financial crisis as an informal forum to broaden the discussion on international economic affairs – was vested with a new mandate. This group usually meets at Finance Ministers level but Heads of State of the countries in this group were summoned to the US by President Bush for an unprecedented G20 Summit on Financial Markets and the World Economy that agreed on Principles and an Action Plan for reform.

The references to trade in the outcomes of that Summit could be taken as a proxy of how the international policy agenda is addressing the trade question in the face of the crisis. In this regard, the trade aspects of such outcome can be summarized in the references on paragraph 13 of the Declaration issued by the G20 leaders.

In the Declaration they, first, "underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty." They commit to not raising "new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports" for 12 months. Secondly, leaders say they "shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome," instructing Trade Ministers to achieve this objective. (Group of 20 Leaders 2008, para. 13)

In spite of the hype surrounding the Summit, there was general disappointment, in all quarters, with the results, which made inevitable the reference to the Summit as a "first step in a process" and a call to a new Summit. This one was hosted by the UK Government, in London, on April 2 2009.

As far as trade issues are concerned, and contributing to the generalized skepticism about the G20, in between the Summits the World Bank and WTO released reports showing a generalized increase in trade restrictions by several countries, including 17 of the 20 countries that had pledged not to do so in Washington last year. (Newfarmer and Gamberoni 2009) Likewise, there were no signs that the Doha WTO Round could be unblocked.

The London Summit chose to address the trade issues in similar way as the Washington Summit had done. In a section called "**Resisting protectionism and promoting global trade and investment",** they

reiterated their pledge from Washington to refrain from raising trade and investment barriers but promised, in addition, to "rectify promptly any such measures" and extended it to the end of 2010. (Group of 20 Leaders 2009, para. 22) Further to this commitment they called on the WTO and other international bodies to " monitor and report publicly on our adherence to these undertakings on a quarterly basis." (Ib.)

G20 leaders also restated their commitment to reaching "an ambitious and balanced conclusion" to the Doha Development Round (Group of 20 Leaders 2009, para. 23)

Finally, they Leaders said they "will ensure availability" of $ 250 billion for trade finance. (Group of 20 Leaders 2009, para. 22) The ambiguous reference, however, is rather an estimate of all that would be spent –by countries and private sector -- in trade finance in the next two years, than a new and additional pledge attributable to this meeting. This includes a new trade finance facility launched by the World Bank the day before the Summit and presented with much fanfare as a "$ 50 billion trade finance facility." The fine print of that announcement revealed that pledges amount to scarcely $5 billion, with $ 50 billion being the amount of total trade that is expected to be financed by it. In a similar spirit, one of the G20 annexes puts actual voluntary bilateral contributions made at the Summit at $ 3-4 billion, to be contributed to that same World Bank pool.

Another Summit—the third—is expected to continue the G20 process later this year, most likely in New York in September.

III. Assessment of the official response. Recommendations

The approach to trade in official responses to the financial crisis reveals a bias to address the question on the narrow basis of preserving market access. In the light of the foregoing analysis of the trade channels by which the financial crisis is affecting African countries, it is clear that this approach misses the point. The trade-related channels by which the crisis is having impacts on African countries does rather have to do with a number of domestic and international structures and policies that intersect with trade, rather than with market access per se.

This is not to deny the importance of market access issues. Market access for African products could certainly be improved, and keeping markets open is not an irrelevant element of the response. But a look at the trade patterns during boom times, and the current ones, reveals at market access is scarcely relevant to improving the capacity of African countries to benefit from international trade, let alone convert it into an instrument for capital accumulation and poverty reduction.

In this regard, the crisis could be seen as an opportunity to address longstanding issues that have prevented African countries from a more beneficial trade engagement with the rest of the world, including during much more benign times. But an agenda for response to the global financial crisis that fails to place those reforms at the center is more than merely a missed opportunity to fix these longstanding problems. It could have tragic consequences for the future of African economies. Hence the urgency of a shift in approach.

Moreover, the issues that would matter from this perspective are actually off the agenda of the current trade negotiations, narrowly focused on market access concessions. So the forums that are addressing the financial crisis provide a welcome opportunity to place these issues –that otherwise would lack a negotiating forum—on the agenda of international cooperation.

This final section proposes key areas that such negotiations should address in order to place the trade needs of African countries at the center of the discussion on international financial reforms:

1. Move away from Commodity-dependence: There is an urgent need to diversify away from commodities and natural resources and increase the value added to local production. Trade policy should not be guided by quantitative, but by qualitative considerations about the content of exports. Financial policy tools such as loose monetary and fiscal

2. Infrastructure, trade and public debt: There is a need for an increase in volume of grant financing mechanisms for infrastructure provision. Governments should develop tools for a better distribution of risk and profits between private and public sectors in trade-related infrastructure deals. Tools should also be develop to assess the returns of trade-related infrastructure vis-à-vis domestic market-related infrastructure, beyond mere foreign exchange earnings.

3. Export-oriented foreign investment: The advantages of foreign investment, especially resource-seeking, should be carefully scrutinized, rather than taken for granted. Investment screening criteria should have explicit goals to foster diversification of the economic and productive base and an increase in the local value-added of production for exports.

4. Exchange rate stability: African countries should call for reserve-currency-issuing countries to take responsibility for the asymmetrical advantage that their status confers upon them vis-a-vis African exporters. The asymmetries in exchange rate management should be the basis for opt-out clauses for developing countries in trade agreements. African countries should also explore regional monetary cooperation, including the establishment of swap and multilateral payments systems, as partial frameworks to regain exchange rate stability and foster intra-regional trade and diversification.

5. Trade in financial services: All negotiations on financial services liberalization should be immediately suspended and existing commitments subject to review from the perspective of the new learning stemming from this financial crisis in developed countries. Their suitability to protect financial stability and allow for the adequate controls of capital should be objectives in such review.

6. Trade finance: The Group of 20 Summit commitments are, in quantitative terms, insufficient to address the trade finance needs of developing countries, so they should be ramped up. But from a more qualitative perspective, it is important to ensure that trade finance comes at terms that are affordable for developing country exporters and that do not contribute to further

vulnerabilities in the balance sheet of the domestic corporate sector. Moreover, the trade needs of developing countries should be considered in a review of the restrictive and procyclical regulatory frameworks that constrain trade finance provision by the private sector.

Underpinning all of them is a radical shift from an approach to trade policy that emphasizes the growth in export volumes to one that ensures that trade becomes a mechanism to support domestic capital accumulation and financial stability.

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