



ECONOMIC RESEARCH PAPERS

N° 60

**Trade Liberalization and Growth:
Policy Options for African Countries in a
Global Economy**

by

Andrew Mwaba
Assistant to Vice President, Operations

The views and interpretations in this paper are those of the author
and not necessarily those of the African Development Bank

ECONOMIC RESEARCH PAPERS

N° 60

**Trade Liberalization and Growth: Policy Options
for African Countries in a Global Economy**

by

Andrew Mwaba
Assistant to Vice President, Operations

Copyright © 2000
The African Development Bank
01 B.P. 1387
Abidjan 01
Côte d'Ivoire

ABSTRACT

African countries have not embraced trade liberalization in the manner that other developing regions have. Protectionist measures have taken various forms, including tariffs, quantitative restrictions, exchange controls and downright import bans. A significant number of researchers have attributed, in part, the poor performance of African economies to the protectionist trade practices. Economists have made sustained efforts at cataloguing the welfare costs of trade barriers and emphasizing the gains from trade in order to advance policies to reverse protectionist practices. In fact new growth theorists contend that traditional analysis tended to consistently underestimate the welfare costs of protectionism, because they ignored the effects of the introduction of new goods on technological progress, domestic production and growth associated with free trade. In this paper we conclude that while opening an economy to trade may not provide the desired quick fix, the removal or relaxation of quantitative import and export restrictions and lowering of tariffs would result in increased exports and growth. The dawn of a global economy ushered in by universal trade liberalization, therefore, need not spell catastrophe for African economies as is widely feared.

“In a major report in the late 1950’s T.K. Whittaker wrote ‘Sooner or later, protectionism will have to go, and the challenge of free trade accepted, if Ireland wishes to keep pace with the rest of Europe’ ”

Former US President Bill Clinton, in his Remarks to the People of Dundalk, Ireland, Courthouse Square, Dundalk, 12 December 2000 (http://www.whitehouse.gov/WH/new/december2000/speech12_12c.html)

RÉSUMÉ

Les pays africains ne se sont pas engagés dans la voie de la libération du commerce de la même manière que leurs homologues des autres régions en développement. Ils ont pris diverses mesures protectionnistes, au nombre desquelles figurent les restrictions tarifaires quantitatives, les contrôles de change et les interdictions pures et simples d'importation. Nombre de chercheurs ont imputé en partie la faible performance des économies africaines à leurs pratiques commerciales protectionnistes. Pour pouvoir proposer des politiques tendant à remédier aux pratiques protectionnistes, les économistes se sont employés à dresser le catalogue des coûts sociaux résultant des barrières tarifaires, tout en mettant en exergue les avantages découlant du commerce. En fait, les nouveaux théoriciens de la croissance soutiennent que les analyses classiques en la matière avait tendance à sous-estimer systématiquement les coûts sociaux occasionnés par le protectionnisme, car elles ne prenaient pas en compte l'incidence de l'introduction de nouveaux biens sur les progrès technologiques, la production intérieure et la croissance liée au libre échange. Dans le présent document, nous avons estimé que, certes, l'ouverture d'une économie au commerce pourrait ne pas entraîner rapidement les résultats escomptés, la suppression ou l'assouplissement des restrictions quantitatives des importations et des exportations, mais que la réduction des tarifs aboutirait à l'accroissement des exportations et à l'accélération de la croissance. Par conséquent, l'avènement d'une économie mondiale, favorisé par la libéralisation généralisée du commerce, ne devrait pas être considéré comme une catastrophe pour les économies africaines comme le craignent la plupart d'entre elles.

« Dans un important rapport établi à la fin des années 50, M. T.K. Whitaker a écrit :
« Tôt ou tard, l'Irlande devra renoncer au protectionnisme et accepter de relever le défi du libre échange si elle veut évoluer au rythme du reste de l'Europe » ».

Propos tenus par l'ancien Président des Etats-Unis, M. Bill Clinton, le 12 décembre 2000 à Courthouse Square, devant la population de Dundalk en Irlande.

Trade Liberalization and Growth: Policy Options for African Countries in a Global Economy

Andrew Mwaba*

1. INTRODUCTION

The issue of whether trade and increased openness should lead to higher rates of economic growth is an age-old question which has sustained debate between pro-traders and protectionists over the years— from Adam Smith, John Stuart Mill and John Maynard-Keynes to Raul Prebisch and Hans Singer and to Jagdish Bhagwati and Paul Krugman. Theorists from both camps have influenced policy in many countries and at various stages of development. Early proponents of free trade lauded the gains from trade that could accrue to countries when they specialize in the production of goods in which they have comparative advantage, and engage in trade to meet their other needs. New development theorists contend that openness stimulates technological change by increasing domestic rivalry and competition, leading to increased innovation; and, that trade liberalization by allowing new goods to flow freely across national borders increases the stock of knowledge for technological innovations which spur growth.

Protectionist scholars contended that trade liberalization is detrimental to growth and could lead to deterioration if adopted by developing economies. They helped shape strategies emphasizing infant industry protection dependent on tariff and non-tariff barriers to trade among many others. It is not strange, therefore, that developing countries and African countries in particular have traditionally been wary of implementing trade liberalization measures and have resisted the opening up of their economies out of fear of marginalization of their local industries. Various rationalizations are used to explain this stance including the fact that industrialized countries subsidize their exports to the developing world or dumping is prevalent due to the inherently lower production and export costs in the west given scale economies.

Many governments have in recent years, however, made far reaching policy reforms including liberalization of their markets to outsiders, much out of the requirement of adjustment conditionality. Furthermore, the choice of whether to maintain a protected economy or open up to the rest of the world is now rather limited with the incorporation of the terms of the Uruguay Round into the World Trade Organization (WTO). These developments and other measures would have significant implications for developing countries in general, and pose some difficult questions for African countries in particular. What should African countries expect when they step out into the uncharted waters of free trade unencumbered by tariffs and quantitative restrictions, and how should they prepare for the imminent global economy in which they should also prosper?.

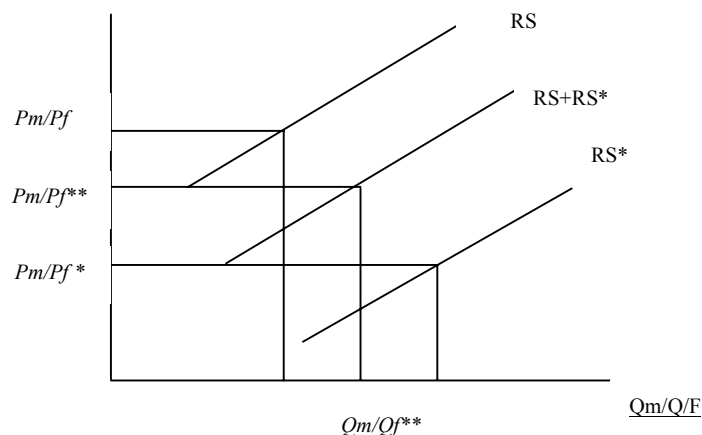
* African Development Bank. A version of this paper was presented at the Development Society of Southern Africa (DSSA) Biennial Conference: *The Southern African Development Scenario: Challenges for the New Millennium*, Rand Afrikaans University, Johannesburg, South Africa, 7-8 April 1999. I thank Chidozie Emenuga, Samuel Gayi and Siphon Moyo for very useful comments, some of which I considered.

This paper attempts to address some of these and similar questions by examining the relevant trade theories and literature surrounding the whole question of external trade and development. It also reviews the trade policies and experiences of African countries in the sixty's and seventy's and in recent years. In the next section we examine the traditional explanations of the gains from trade and impacts on growth. This is followed by a discussion of trade and growth issues from endogenous growth theories, which emphasize the role of trade in technological progress and in particular the introduction of new goods. The subsequent section reviews the evolution of trade policy regimes in Africa and the impact on the performance of the continent's economies. Section six focuses on recent policy reforms undertaken by the countries. The paper closes with a discussion of policy options and practical measures that African countries could adopt to take advantage of emerging opportunities from trade liberalization and global markets.

2. TRADE AND ECONOMIC GROWTH: TRADITIONAL EXPLANATIONS

Traditional explanations of trade as “the engine of growth” and the impact of trade on economic development are rooted in the principles of comparative advantage. The theory of comparative advantage arises from nineteenth century free trade models associated with David Ricardo and John Stuart Mill, which were modified by trade theories embodied in the factor proportions or Hechsher – Ohlin (1933) theory and Stolper-Samuelson (1941) and Rybzsnski (1955) effects. These trade models collectively and in various ways predict that an economy will tend to be relatively effective at producing goods that are intensive in the factors with which the country is relatively well endowed. In other words, comparative advantage provides that when nations specialize, they become more efficient in producing a product (and indeed a service), and thus if they can trade for their other needs, they and the world will benefit. Fig.1 below tries to capture the essential elements of trade and specialization and related gains, using a two-country-two goods model.

Figure1: Gains from Trade in a two country-two goods model



The model depicts two countries and two goods, food and manufactures before and after trade. The y-axis depicts the relative price while the x-axis is the relative output. Home country has comparative advantage in producing food but also produces manufactures, while the foreign country has comparative advantage in manufactures but also produces food. Under autarchy (no trade), the relative price in home is P_m/P_f , facilitating relative supply of Q_m/Q_f on the RS curve, and that in foreign is P_m/P_f^* facilitating relative supply of Q_m/Q_f^* on the RS* curve.

When the two countries trade, home exports food to the foreign country and imports manufactures. The relative price (P_m/P_f) in home drops because the price of food (P_f) increases due to the reduced supply of food in home country, while the relative supply of manufactures increases. Changes occur in foreign country when it imports food from home, as increased food suppliers bring down the price of food, causing the relative price P_m/P_f^* to rise in foreign. The equilibrium relative price converges at P_m/P_f^{**} on the $RS+RS^*$ curve. This is the efficiency price that generates the relative supply of Q_m/Q_f^{**} , where home country produces the efficient level of food and foreign country produces the efficient level of manufactures as a result of trade and specialization. The two countries eliminate unnecessary capacity in their respective economies. Trade has the impact of integrating the two economies as through exchange, they produce the economically efficient levels of both food and manufactures.

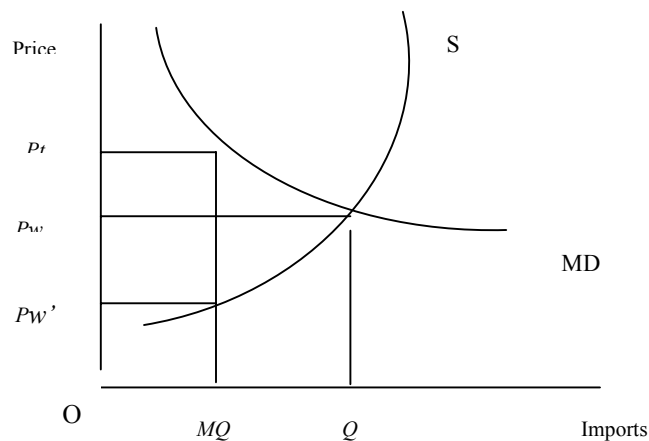
The principles portrayed in the above model are also in line with the theories advanced in early writings by John Stuart Mill, stating that trade, according to comparative advantage, results in a more efficient employment of the productive forces of the world. According to Mill, this was considered as the direct economical advantage of international trade (Meier, 1995).

Empirical literature overwhelmingly suggests that increased trade or reduced protectionism is associated with greater growth. Sebastian Edwards (1989), for example, found that after taking into account the roles of all other factors including capital accumulation, growth in labor force and differences in levels of technology, countries with lower degrees of protectionism, on average, tend to grow at a much faster pace than countries with higher trade restrictions. Economist Ann Harrison's 1991 paper makes a synthesis of previous empirical studies between openness and the rate of GDP growth, comparing the results from cross-section and panel estimations while controlling for country effects. Harrison concluded that on the whole, correlations across openness measures seem to be positively associated with GDP growth - the more open the economy, the higher the growth rate, or the more protected the local economy, the slower the growth in income.

On the other hand, trade restrictions or barriers are associated with reduced growth rates and social welfare, and countries with higher degrees of protectionism, on average, tend to grow at a much slower pace than countries with fewer trade restrictions. This is because tariffs reflect additional direct costs that producers have to absorb, which could reduce output and growth. The cost of a prohibitive tariff or quantitative restriction on a hypothetical country and world economy is demonstrated graphically in the chart below.

With free trade, both foreign suppliers and local producers would be willing to supply country X (a large importer) the combined output of product Q at the world price of P_w . If country X imposes a tariff or quota, however, total demand for product Q is reduced from Q to MQ . This drives down the world market price from the equilibrium price of P_w to the new world price of P_w' , while at the same time pushing the price facing local consumers in country X to the higher P_t . It will be seen that the tariff or restriction is welfare reducing at the global level as it results in lower prices for exporters (who may have to face collapse), while country X consumers face unjustifiably higher prices at P_t . A narrow group of local suppliers or a rent seeking monopolist would, however, register a gain, in that due to the tariff or quantitative restriction, they earn a premium of $P_t - P_w'$.

Figure 2: Impact of a prohibitive tariff or restriction



and total rents amounting to $(P_t - P_w) \cdot MQ$. The dynamic effects are that world supply would decline as producers from the rest of the world cut back in response to the lower price, and the monopolist local suppliers have no incentive to increase output, since they can enjoy premium revenues without expanding output. This results in reduced growth overall.

The model we have examined predicts that protectionist measures in the form of tariffs or quotas could lead to reduced output and export growth and overall welfare. The direct implication of these conclusions is that unrestricted trade would tend to be associated with higher levels of growth. Several studies have established the negative relationship between tariffs and growth. A regression analysis of variables explaining growth in a cross section of countries by Barro and Xala-i-Martin (1995) found the coefficient for tariff rates to be significantly negative. They concluded that market distortions in the form of protectionist tariffs could reduce the growth rate of output substantially. Studies specific to African countries including by Fosu (1990), Ojo and Oshikoya (1995), Ghura and Grennes (1993) and Sachs and Warner (1997) all confirm the negative effects of trade restrictions. Sachs and Warner found the lack of openness as by far the largest contributor to the dismal economic growth performance of sub-Saharan Africa. Sachs and Warner's study defines openness as a country with average tariffs of less than 40 percent and no extreme controls through taxes, quotas, and state monopolies.

Despite the demonstrated and potential gains from free trade, the vision that trade restrictions and protectionism lead to higher growth rates took center-stage, in many developing regions. In the 1950's and 1960's, the position that trade restrictions and protectionism lead to higher growth rates took firm hold among many policy makers, especially in Latin America. Trade restrictions therefore proliferated, mainly in support of import-substitution and infant industry protection strategies. A vocal group of scholars maintained that trade liberalization was detrimental to economic growth and could lead to a deterioration in economies. One of these is economist Lance Taylor, who contended that "there are no great benefits in following open trade and capital markets strategies. Development strategies oriented internally may be a wise choice towards the centuries end" (Taylor, 1991).

The trend of thought that portrays trade restrictions as the source of high levels of growth has been reversed significantly as academics and policy makers alike seek more definite answers. The increase in trade liberalization initiatives, proliferation of free trade areas and the successful completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) are confirmation that trade has been increasingly accepted as generating growth. Indeed, as pointed out by Bhagwati (1991), positive results have been registered as evidenced by unprecedented reductions in tariffs “ after twenty five years of successive trade liberalization in industrialized countries, and round after round of negotiations under the auspices of the GATT.”

Having discussed the gains from trade and the negative impacts of trade restrictions from the traditional classical explanations, we move on to consider the mechanisms through which trade affects economic growth, from the perspective of the explanations provided by endogenous growth models.

3. TRADE AND DEVELOPMENT: ENDOGENOUS GROWTH PERSPECTIVE

3.1 Accounting for growth

We will begin with an overview of economist Robert Solow’s 1956 and 1957 ground breaking work in growth accounting. Solow’s model seeks to explain the growth rate of aggregate output from various components, mainly the growth of factor supplies – labor and capital - and the factor for technological progress representing growth in total factor productivity (TFP). The standard neo-classical model relating these factors to output is given as follows:

$$Y(t) = A(t) f [K(t), L(t)] \quad (1)$$

where $Y(t)$ represents output in time (t), $K(t)$ capital input in time (t) and $L(t)$ labor input in time (t). $A(t)$ denotes the technology level in the economy or its stock of knowledge and total factor productivity. Equation (1) shows that output growth (and per capita output growth) can be explained by changes in the capital and labor inputs and the rate of technological change also known as the Solow residual. With proportional changes in both sides of the equation, we obtain the following:

$$\Delta Y/Y = \Delta A/A + \alpha_k \Delta K/K + \alpha_l \Delta L/L \quad (2)$$

where $\Delta Y/Y$ is the growth rate of output, $\Delta K/K$, $\Delta L/L$ are the growth rates in physical capital stock and labor services respectively, α_i is the elasticity of the change in out put with respect to the changes in factor inputs and $\sum \alpha_i = 1$, and $\Delta A/A$ is the rate of change of technical progress. Equation (2) can also be presented as follows:

$$\Delta Y/Y = \Delta A/A + (1-\alpha_k) \Delta K/K + \alpha_l \Delta L/L \quad (3)$$

To measure the relative roles played by input growth and technological change in explaining output growth, one would need to measure the components in equation (3). Technological change was not easy to measure, and as a result, Solow (1957) and others computed available information of labor and capital and output, and imputed the contribution of technological change as a residual. This computation can be derived as in equation (4) below:

$$\Delta A/A = \Delta Y/Y - [(1-\alpha)\Delta K/K + \alpha\Delta L/L] \quad (4)$$

According to empirical work by Solow (1957) on the American economy, growth in per capita income in the US during the period 1909 to 1949 was influenced by technological change to the tune of 87 percent, with the other factors accounting for the balance of 13 percent. Recent estimates put the ratio at 49 percent for technological change for the period 1948-1985. Estimates by Boskin and Lau (1992) came up with the following figures on the influence of technology on growth for the following countries- France 76 percent, Germany 78, and Japan 55 percent. Many other studies have confirmed the significance of the residual or the stock of technology as accounting for the larger share of long-term economic growth (see also Barro and Xala-i-Martin, 1995 and Rivera-Batiz, 1996).

As postulated by the growth accounting models, technological change constitutes the major part of economic growth. Given the significance of technological factors in growth accounting, we need to go further into the specification of factors that determine technological change. New growth theorists have argued that technological change was not exogenous, as assumed in Solow's model, and that it was driven by an interaction of economic factors within the economy. Some researchers have focussed on the role of research and technology while others have emphasized the influence of learning externalities (Stokey, 1988). Yet others have focussed on the availability of human capital in fostering technological change. This is the major thesis of endogenous growth theorists such as Lucas (1988) and Romer (1990), who explored various assumptions concerning the dependence of growth on the development of technology and productivity, and especially growth in human capital. The basic Romer type endogenous growth model, emphasizing the role of human capital is expressed in the following form (Romer 1990):

$$Y = Hy^\alpha Lu^\beta X(i)^\mu \quad 5$$

where Y is the aggregate output, Hy represents human capital, Lu denotes unskilled labor and $X(i)$ represents the amount of the various intermediate capital goods used in production in the economy, and it is assumed that $\alpha + \beta + \mu = 1$.

What do the endogenous growth approaches have in common? They all endogenize technological progress in the growth process, arguing that it is determined by economic forces, and not necessarily a residual. In the neoclassical growth models developed by Solow and others, technological change as embodied in A was seen as exogenous – a residual unaffected by economic forces. With endogenous growth theory, output growth will not result from accumulating the physical or traditional factors alone, but would come from advances in human capital, and taking deliberate measures to invest in areas that contribute to improving total factor productivity (A).

3.2 Trade, technological change and growth

As discussed above, under endogenous models, growth reflects the contribution to productivity from structural and governance reforms on the one hand, and the adoption of new technology on the other. Trade is seen as affecting long run growth through its impact on technological change— i.e. it influences the rate of change in technological progress. Endogenous growth models, therefore, hold that trade provides access to imported products, which embody that new technology; additionally trade alters (mainly increases) the effective size of the market facing producers which raises returns to innovation; and affects a country's specialization in research-intensive technologies and production systems.

These principles reflect what John Stuart Mill had earlier referred to as the important indirect effects of trade, which must also be counted as promoting development. These benefits were of three kinds: 1) those that increase the extent of the market, induce innovations and increase productivity; 2) those that increase capital accumulation and savings; and 3) those that have an educative effect in instilling new wants and in transferring technology, skills and entrepreneurship. The emphasis is on the fact that trade gives a poor country the opportunity to remove domestic shortages, to overcome the diseconomies of a small domestic market and accelerate the learning rate of the economy. Mill concluded that if trade increases the capacity for development, then the larger the volume of trade, the greater the potential for development (Meier, 1995).

Rivera-Batiz (1996) describes a model depicting two identical economies operating under autarchy and then subsequently engaging in trade, to establish the impacts of trade on technological innovation and productivity growth within the endogenous growth framework. In this framework there is only one homogenous final good, which is an intermediate or capital good. The assumption was that without trade, the two economies are producing capital goods, which are totally differentiated from each other. When the two countries engage in trade, each has available the ideas of the other, represented by the stock of blueprints for the capital goods. The larger body of ideas and knowledge doubles the rate of innovation and results in productivity growth in both economies. Rivera-Batiz adds that the effects of trade on growth will depend very much on the extent to which the national innovation system can effectively use the new information and blueprints to generate new products. If the specialized human capital required to use the new ideas and blueprints is not available or is limited, the growth effects from trade in intermediate goods would not be substantial. Whatever the extent of the impact of the new knowledge on innovation, the model suggests a definite positive impact of trade on medium and long-term growth.

Emphasizing the potential gains in knowledge from the flow of new products, Paul Romer (1994) argued that classical models studying the impacts of trade barriers on welfare, in fact, grossly underestimate the aggregate negative welfare effects of protectionist measures. Romer's position was that traditional analysis assumed that the set of goods in an economy was given and never changed. This assumption made the predicted efficiency loss from a tariff appear small. If this assumption is loosened to accommodate new goods which might flow into an economy through trade, the fraction of national income lost when a tariff is imposed becomes much larger, easily exceeding twice the tariff rate. This is because new goods entering the economy of a developing country increase the amount of goods or inputs that local producers can work with using their labor and capital, and hence increase efficiency. Romer added that these goods need not be tangible; they could include new engineering processes and innovations. To the extent that tariffs and trade restrictions keep out these new goods, the efficiencies and improvements in total factor productivity are not realized.

The various conclusions that trade should lead to higher growth rates have drawn caution from some researchers, indicating that these outcomes could be conditional upon certain factors. Harrison (1991), for example, has pointed out that the new growth or endogenous growth theorists do not predict that free trade will unambiguously raise economic growth. She adds that increased competition could, for example, discourage innovation by lowering expected profits. Grossman and Helpman (1991) also pointed out that one of the key inputs to a country's innovation system is human capital, and the amount of human capital allocated to innovation is closely reflected in technological change in the economy. Trade could constrain innovation and growth if it tends to shift human capital from research and development activities to other sectors of the economy to meet the human capital needs of direct production activities. In countries with scarce skilled human

capital, this would drive human capital away from research and development, reducing innovation and growth.

The situation described above is particularly the case when the country's major exports are human capital intensive. For countries which export products with lower human capital content, trade liberalization and integration with the rest of the world helps to reduce derived demand for human capital and thereby lowers the cost of innovation. Grossman and Helpman concluded that in such countries, the indirect gain from trade is to encourage growth. Cantwell (1992) added that a country wishing to capture the benefits of new ideas generated by trade will need to develop its national innovation system, defined as the network of institutions that support the initiation, modification and diffusion of new technologies. The pre-condition for such an innovation system is an adequate pool of human capital and institutional capacity in the country.

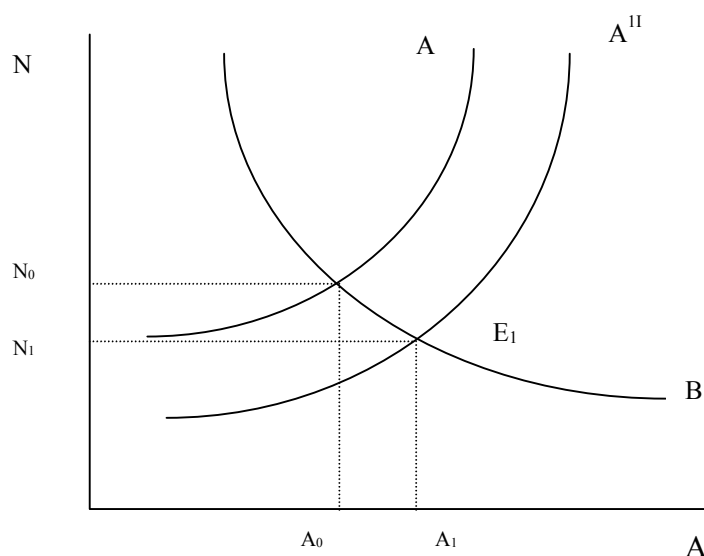
3.3 *Trade, rivalry and technological innovation*

The extent of rivalry and competition is a key determinant of innovation activities among firms in an economy. Openness and international competition increases rivalry among firms in the domestic economy and with outsider producers, which stimulates innovation leading to efficient production systems and growth. By contrast, protectionist policies that restrict trade keep out the competition and this would result in reduced innovation and slow down growth.

A wide range of empirical research has supported the hypothesis that increased international rivalry and competition results in technological innovation. Porter (1990), in a wide ranging study on innovation and competition, concluded that "competitive advantage emerges from pressure, challenge, and adversity, which are powerful motivations for change and innovation." He added that protection, in its various forms, insulates domestic firms from the pressure of international competition. Sherer (1986) has also noted that most observers cannot escape acknowledging the invigorating effect rivalry commonly has on industrial firm's research and development efforts.

Rivera-Batiz (1995) presented a simple model showing the mechanisms through which trade generates innovation. He demonstrated that by augmenting the rivalry facing producers in the local market, trade could induce domestic producers to increase their R & D activities leading to greater innovation and raising domestic total factor productivity. The model presented in Rivera-Batiz's paper incorporates gains from trade related to increased domestic productivity and economic growth associated with foreign competition. Studies of long run growth also suggest that the invention and development of new goods and inputs constitute one of the major sources of economic growth. If trade stimulates competition, leading to the creation of new inputs and products, long-term growth will arise. The model simulating the impacts of trade on technological innovation is shown in Fig.2 and discussed below.

We start at point E, reflecting equilibrium under autarky, with the number of firms represented by N , and the level of R&D per firm represented by A . Curves AA and BB represent unskilled labor and skilled human capital in the economy respectively. The opening up of the economy to trade is equivalent to increasing the number of competing firms in the local economy as outside firms are allowed to trade freely. The increased competition lowers price mark ups and induces some of the local producers to exit the market, represented by the drop in the number of firms from N_0 to N_1 . At the same time, the increased competition induces increased R&D per firm represented by the movement from A_0 to A_1 , along the BB curve. The new equilibrium with trade thus becomes E_1 . The increased R&D is a reaction by the local firms to the rivalry generated by foreign suppliers. As the number of competing firms increases and price mark-ups continue to fall,

Figure 3: Equilibrium under autarchy and with free trade

the phenomenon leads to an increase in the real wages of unskilled labor. The higher cost of unskilled labor increases the marginal benefits of R&D expenditures, thus leading to firms demanding more skilled human capital. The resultant increased use of skilled human capital by each firm then results in technological improvements that lower the costs of doing business.

In this model, trade is associated with technological change, and therefore, growth. Domestic welfare is also enhanced through three mechanisms: 1) the number of differentiated products consumed rises due to the introduction of foreign varieties; 2) as the number of producers increases, the real wage rate of unskilled labor also increases; and, 3) as R&D per firm rises, the demand for skilled human capital leads to a rise in increased real wages for skilled labor.

4. TRADE POLICY AND PERFORMANCE IN AFRICAN COUNTRIES

In Africa and other developing regions trade plays a quantitatively important role – i.e. a larger share of their income is spent on imports and a large share of their output is exported, than is the case for developed countries with similar economic size. In fact it is natural that the larger a country's GDP, the smaller its trade ratios. Most African countries have high ratios of external trade to GDP, which makes trade policy vital to the functioning and prospects of their economies. In Nigeria for example, the percentage contribution of foreign trade to GDP rose from 35 percent in 1960 to over 60 percent in the 1980s and over 75 percent in the 1990s. Other African countries depict similar characteristics – for example in 1997, the trade to GDP ratio for Botswana was 88 percent, and that for Zambia 66 percent. The comparative ratios for the developed countries were UK 28 percent, the United States 11 percent and Japan 9 percent (World Development Indicators, 1996, 1997).

Prior to political independence, trade policies of most African countries were formulated as an integral part of colonial trade policies – they were aimed at promoting and regulating trade to serve the metropolitan country. These policies forged strong trade ties between the colonies and

the metropolitan countries, effectively monopolizing the colonies' external trade. Special licenses had to be issued to obtain goods from outside the realm of the colonizers and usually these could only be obtained where the goods in question were not available in the metropolitan country. One would say that African countries received their lessons in trade policy and practices from the metropolitan country, which in many countries have persisted over time.

Trade policy in many African countries has been dominated by significant restrictions. African countries' protectionist trade policies were initially influenced by the perceived need to stimulate local industrial development, under the banner of import substitution and infant industry protection. In many African countries, tariffs and quantitative restrictions have contributed the most important form of trade restriction. A large proportion of imports into Africa was either subjected to outright prohibition or high tariffs or some sort of import ban or licensing mechanism. Usually an industry can be protected from imports by the use of any one of these measures – for example applying a quantitative restriction or a tariff. Trade barriers in Africa were, however, excessive in that countries applied quantitative restrictions, tariffs, licensing, import bans, and foreign exchange regulations to control the flow of imports and exports. Protectionist policies were actually instituted to totally block imports into the countries, except those deemed as priorities by the government and obtainable through elaborate licensing arrangements.

Ngoy and Yeats (1996) computed average tariffs and non-tariff barriers (NTBs) imposed on imports from OECD countries by African countries, and established that these were relatively high compared to a group of fastest growing exporters.¹ As indicated in Table 1 below, African countries maintained average tariffs of 26.8 compared to the 8.7 percent by the group of fastest growing exporting countries. The comparable figure was 3.4 percent for the higher income non-OECD exporters. This trend is repeated with respect to non-tariff barriers. The average coverage ratio of NTBs to tariffs for the Sub-Saharan African countries was 34 percent (for the low-income countries even higher at 40.6 percent), compared to 3.7 percent for the fastest growing exporters, and 4.0 for the non-OECD exporting countries.

Table-1 African Trade Barriers Compared With Other Exporters

Exporting countries	OECD Imports 1992-94 (\$m)	1964-92 import growth rate	Tariff levels of exporters	NTB coverage ratio
All Sub-Saharan Africa	15,146	5.41	26.8	34.1
Low Income	11,433	5.21	28.6	40.6
Middle income	3,713	6.08	20.9	12.5
Fast Growing Exporters	271,157	16.77	8.7	3.7
Korea	44,839	24.61	11.1	2.6
Singapore	28,064	22.66	0.4	0.3
Taiwan	56,046	20.47	9.7	11.2
Hong Kong	26,178	13.65	0.0	0.5
Mexico	42,635	13.83	13.4	3.9
Bahrain	471	20.62	7.1	1.5
High Income Non-OECD	105,364	18.18	3.4	4.0

Source: Ngoy and Yeats (1996).

In many countries, exports were subjected to similar measures, with rules making it illegal to export “strategic” items or subjecting exports to high taxes. Special marketing agencies and boards were instituted to ensure compliance. In some countries, farmers or traders needed to obtain special permits to export surplus agricultural or “controlled” products. The most cited example of the adverse effects of high protection is exemplified by the tale of two neighbors, Ghana and Cote d’Ivoire. In Ghana, import prohibitions in the 60’s and 70’s encouraged inefficient high cost production in manufacturing industries; controls and taxes on the main export crop cocoa, discouraged its production and other crops were adversely affected by the unfavorable exchange rate. Cote d’Ivoire on the other hand pursued an open policy with minimum quantitative restrictions, that encouraged the development of both primary and manufactured goods. As a result, it increased its share in world cocoa exports, developed new primary exports and expanded manufacturing industries. Differences in policies applied may largely explain that between 1960 and 1978, per capita incomes fell from \$ 430 to \$390 in Ghana, as compared to an increase from \$ 540 to \$840 in Cote d’Ivoire (Meier, 1996). This occurred, in spite of the two countries having similar resource endowments, and at the time of independence, Ghana having the advantage of a higher educational level.

Table 2 indicates average tariffs on selected items in a number of African countries in 1992-94. The table reveals that tariffs on agricultural materials for all Sub-Saharan Africa averaged 23%, while fast growing exporters had average tariff rates of 7.3 percent. Corresponding rates for crude fertilizers averaged 17%, compared to 4.7% for the fastest growing exporters. The average rates for all categories of goods, including final goods, was 26.7% for Sub-Saharan Africa and 10.8% for the fastest growing exporters. Ng and Yeats (1996) point out that the high levels of tariffs and trade restrictions were instrumental in keeping the cost of important inputs beyond the reach of most local producers and exporters. The tariffs on production equipment and other goods and services that are often employed as key inputs in agriculture and manufacturing activity, exaggerated the additional costs that potential exporters had to absorb to compete in foreign markets. The tariffs also inflated the associated costs of transport and utilities that also enter manufacturing and agriculture.

Oyejide (1997) also points out that the impact of the restrictive measures was to produce a large anti-export bias in the African countries. More specifically, restrictions on imports translate effectively into a tax on exports; by making import substitutes effectively more profitable, they increase the cost and reduce the availability of imported inputs which enter the production of exports, thus forcing exporters to use expensive inputs of doubtful quality. Import restrictions also made exporters face more appreciated exchange rates than would have been the case in their absence. Oyejide concludes that these elements combined to reduce the international competitiveness of the export sectors of the African countries-and subsequently reduced exports and GDP growth

In a 1998 study of the role of trade and trade policy in achieving sustained long-term growth in African countries, Dani Rodrik (1998) concluded that high levels of trade restrictions have been an important obstacle to export performance and growth. He contends that the reduction of these restrictions can be expected to result in significantly improved trade performance in the region. To examine the differences in regional policies and impacts, Rodrik also makes a cross comparison of trade policies in Sub-Saharan Africa with East Asia and Latin American countries using simple averages of tariff rates and coverage ratios of non-tariff measures (on intermediate and capital goods). There are three major findings emerging from the comparisons. Firstly that government-imposed trade barriers have generally been higher in Africa than East Asia, though the differences

Table 2: Average percentage tariffs in selected African countries 1992-94

Country	Agric. materials	Crude Fertilizers	Chemicals	Manuf. Fertilizer	Electric Machines	Transport equip	Prof. equip	All items
Angola	8.2	9.4	9.2	1.4	17.4	6.2	8.6	11.6
Malawi	3.9	0.3	9.7	0.0	23.8	7.8	18.3	15.2
Mozambique	16.2	9.5	10.3	4.9	11.5	16.2	15.6	15.6
Tanzania	29.6	22.5	22.2	0.0	27.5	13.7	20.4	29.8
Zambia	25.1	17.5	20.3	7.1	33.4	17.4	28.5	29.9
Zimbabwe	1.4	0.2	3.7	0.6	15.4	7.8	10.3	10.1
Cote'Ivoire	9.3	18.0	20.7	19.8	25.4	17.4	30.6	23.3
Senegal	39.9	2.1	7.7	0.0	14.6	14	14.7	12.3
Uganda	26.1	10.0	12.3	10.3	17.8	14.3	16.3	17.1
Nigeria	25.0	16.9	22.2	10.0	31.4	22.7	21.2	32.8
Ghana	10.0	9.5	9.4	5.0	7.0	7.0	7.4	8.9
All SSA	23.6	17.0	19.8	5.1	28.5	18.9	26.5	26.7
Fast G.Exp.	7.3	4.7	8.2	5.3	13.4	9.7	10.2	10.8
SSA/FGE	3.2	3.5	2.4	1.0	2.1	2.0	2.6	2.5

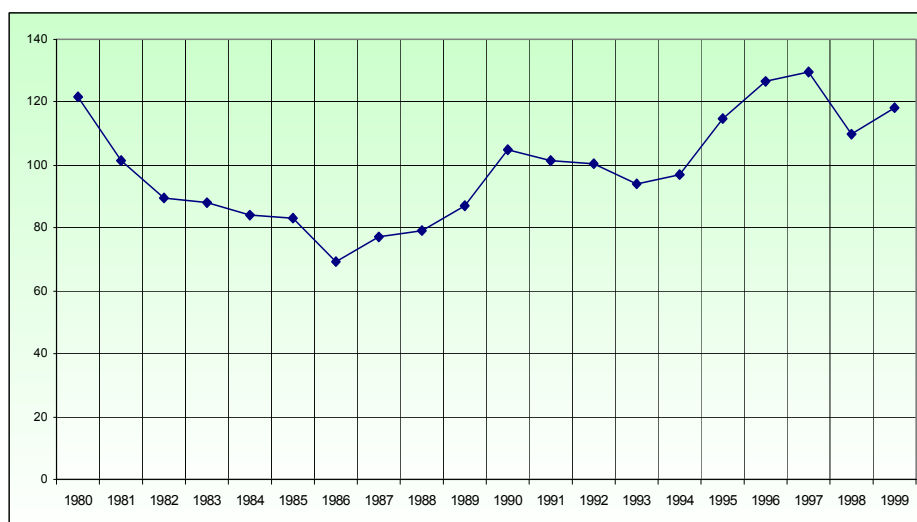
Source: Ngy and Yeats (1997).

are not large. Secondly, until the early 1990s, trade barriers in Sub-Saharan Africa were comparable in magnitude to those prevailing in Latin America. Thirdly, the trade reforms that have occurred in Latin American economies – as well as in many former socialist economies in Eastern Europe – have left Sub-Saharan Africa as the only region in the world where substantial tariff and non-tariff barriers to trade are prevalent.

What have been the experiences of the African countries, especially the lower income Sub-Saharan African countries in terms of export growth, in the light of the restrictive trade policies. Many countries have witnessed cyclical declines and marginalization in export performance over the past three decades. In his 1997 paper, Yeats points out that Africa's trade has grown at relatively low rates since the 1950s, with the result that today, the region's share in world trade stands at around 1%, down from more than 3% in the mid-fifties. Indeed African countries as a group have not fared well in trade, as seen from their exports, which have either stagnated or declined even in nominal terms. For example, between 1975 and 1984, African exports grew by an annual rate of 6.9 percent; this dropped to 2.9 percent during the period 1985-1989 (World Bank 1999). Exports increased slightly after 1994 but the expansion slowed again in 1998. Chart 1 below, indicates the evolution of African exports between 1980 and 1998, revealing a declining or flat trend over the 18-year period.

Africa has also not fared well with regard to its share of external trade compared to other developing regions in the world, as indicated in chart 2 below. In 1980, African countries accounted for close to 20 percent of all developing country exports. This fell to about 10 percent in 1990, before commencing a downward spiral for the next decade. In 1998, the share of African exports in total developing country exports was a dismal 6 percent, and falling. The outlook for a rapid expansion in exports for the African countries is not encouraging. It needs to be pointed out that the figures being discussed are gross numbers incorporating South Africa and Nigeria. The position is worsened when these countries are excluded to include only Sub-Saharan Africa.

Chart 1: Africa: Merchandise Exports 1980-1999
(Billions of US\$)



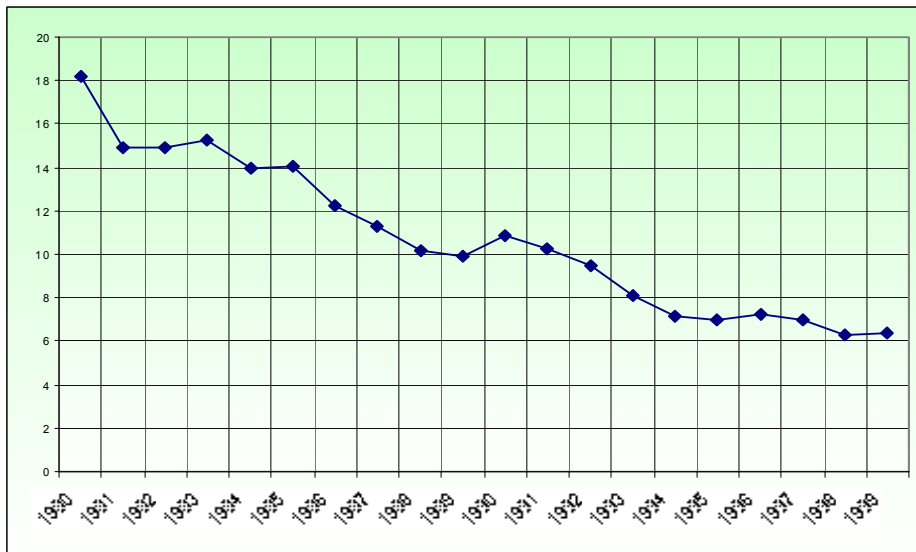
Source: *IMF Economic Outlook, October 2000.*

The decline in Africa's relative standing in global trade is further put graphically in the same study by Yeats, as summarized here: In 1962-64 copper alloys were the region's single largest commodity export, with Sub-Saharan Africa supplying 32 percent of all OECD imports. By 1991-93, however, Africa's market share had dropped more than 22 percentage points to less than 10 percent. Similarly, Africa's market shares for other key commodities (such as vegetable oils, palm oil, palm nuts, and kernels, and groundnuts) dropped 47-80 percentage points below earlier levels. For the thirty most important non-oil exports combined, Africa's average shares declined by more than 11 percentage points (from 20.8 percent to 9.7 percent), which implies annual trade losses of about \$11 billion. That figure is almost equal to OECD official development assistance to Africa in 1991- \$10.9 billion (Yeats, 1997).

The dismal performance in trade is closely reflected in developments in GDP growth. Africa's GDP growth averaged 0.8 % over the period 1965-1990. Growth in the fastest growing developing countries outside Africa averaged 5.8 %, while that for the rest of the developing world was 1.8% (Sachs and Warner 1999). Furthermore, in the early 1960s, the GDP per capita in SSA was 60 percent of the average of the rest of the developing world; by 1990, this had fallen to 35 % and was much lower at the close of the millennium. Much of the decline occurred during the period 1980-94, as can be seen in Chart 3 below. The region recorded some modest gains after 1995 as reforms in a number of countries began to take hold.

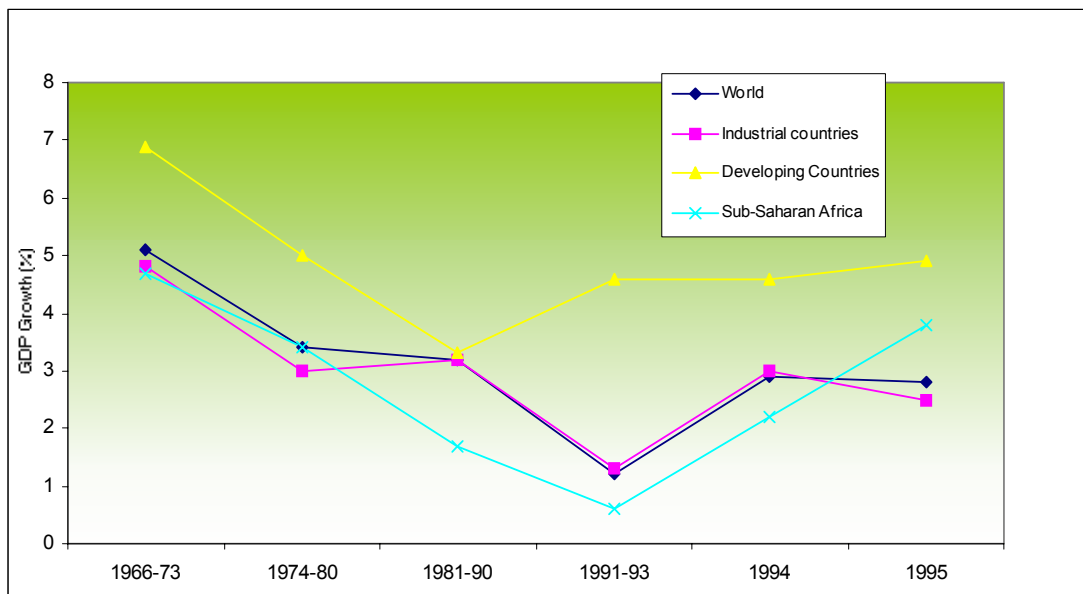
The marginalization of African countries in trade and GDP growth happened in spite of the trade preferences received under the OECD's Generalized System of Preferences (GSP) schemes and through the Europeans Union's Lomé Convention, which extended low tariffs for African exports to the OECD area. Even lower tariffs have been extended to the least developed countries in the region. Ng and Yeats (1996) have computed average preference margins given to and tariffs received by Sub-Saharan countries during 1992-94. These rates are summarized in Chart 4 below for selected African countries. For example, according to the chart, Zambia faced OECD

Chart 2: African Exports Share in Dev. Countries - 1980-1999
(%)

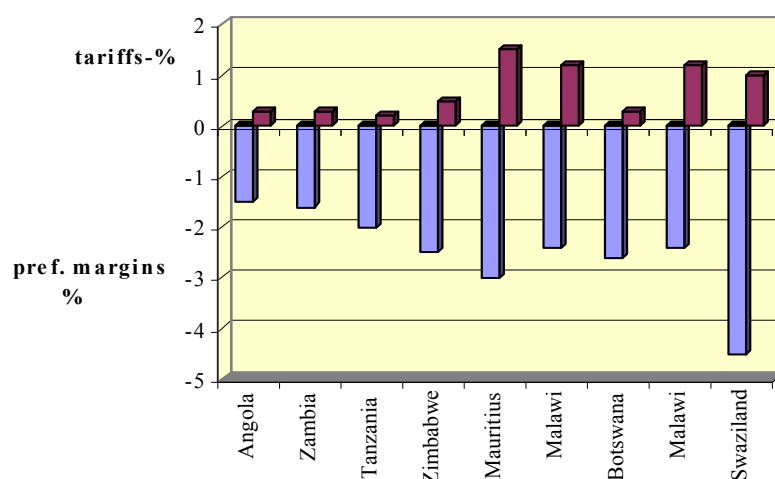


Source: IMF Economic Outlook, October 2000.

Chart 3: Percapita GDP Growth-Selected Regions



Source: ILO World Employment 1996.

Chart 4: Selected African Countries' tariffs and preference margins from OECD

Source: Computation by Ng and Yeats (1996).

tariffs that averaged 0.4 percent over the period 62/64 to 92/94, with preference margins of close to 2 percent for its exports. For the EU, the average preference margins receive by African countries are in the range of 2-4 percentage points. Among the SADC countries, Swaziland records the highest at 4.9 percent. The average tariffs imposed by the OECD countries were under one percent. The tariffs faced by African country exporters in the United States and Japan on their own are generally higher, averaging 9.8 percent.

In the same study, Ng and Yeats undertook a comparative analysis to examine the suggestions and widely held view that Asia received more preferential treatment than African exporters. Their categorical conclusions were that this did not hold. They point out for example, that Korea had faced average EU tariffs of 7.8 percent, with Taiwan paying 7.5 percent. Both were more than 4 percent higher than those faced by all other exporters including the Africa Caribbean Pacific (ACP) group of countries. For example, Nigeria, which had the lowest preference margin as an OPEC country, faced tariffs of a maximum 3 percent on average on exports to its EU partners. Non Tariff barriers were also not significant. Again according to Ng and Yeats (1996), 11 percent of African non-fuel exports faced non-tariff barriers as opposed to the average of 17 percent for all developing countries taken together. Food and feed products, however, experienced higher non-tariff barriers to EU markets as a category.

In summary then, we see in Africa, a continent where protectionist measures were instituted and sustained over time, in an effort to expand local industry that may lead to increasing manufactured exports. This has ironically not been the case as the continent continued to be marginalized in trade and GDP growth. In the next sections we examine some of the policy reforms and measures adopted by African countries in the quest to reverse the negative trend and declining share of the continent in world trade.

5. RECENT TRADE POLICY REFORMS AND OUTCOMES

As outlined above, prior to the 1990's most African economies were characterized by a profusion of trade control instruments, including high tariffs, quantitative restrictions and exchange controls that resulted in overvalued currencies. African countries have, however, taken measures to institute trade reforms in the last few years. The once widespread quantitative restrictions on imports have been reduced or replaced by tariffs in many cases. The tariffs themselves have been lowered significantly and their variations narrowed. For example, trade weighted tariffs in many reforming countries averaged about 10 percent, down from levels as high as 35 percent in some cases. Many countries have also liberalized foreign exchange regimes for current account transactions, and even more have moved to rationalize or eliminate exemptions and preferential treatment of favored sectors including government producers.

Reforms of restrictive trade regimes in most countries started with the removal of distortions in the foreign exchange markets. Early reformers such as Uganda and Ghana implemented large devaluations of their local currencies, steadily reducing the gap between the official and parallel markets. In Uganda for example, a series of policy changes, including the licensing of foreign exchange bureaus culminated in the unification of the exchange system in 1993. Similar measures were carried out by later reformers including Zambia, authorizing the operation of foreign exchange bureaus and liberalizing the exchange rate against the major currencies, and removing trade barriers and lowering tariffs substantially.

Many countries also eliminated quantitative restrictions on imports, and introduced rationalized licensing systems that allowed importation of goods without restrictions. Other countries removed import-licensing systems and adopted negative or positive list approaches to streamline import procedures and finally fully terminating all kinds of import licensing and all kinds of prohibitions. The countries also implemented several rounds of tariff reforms, aimed at rationalizing the import tax structures, and reducing significantly the tariff levels and their dispersion.

Although detailed quantitative studies on the effects of these trade reforms have yet to be undertaken, it has been observed that countries that implemented far reaching trade reform measures have registered modest recovery in their exports, and particularly have witnessed significant growth in their non-traditional exports. In the case of Uganda and Ghana for example, the reforms undertaken helped recovery of exports in both countries, after long stretches of decline Rodrik (1998). Exports in both countries have increased and in the case of Ghana the export to GDP ratio has risen to levels reached in the seventies.

Export growth has seen similar successes in Zambia. In pre-trade liberalization days, the country depended on copper exports to the tune of 90 percent of its foreign exchange earnings. The extensive trade liberalization measures instituted since the mid 1990s have helped to drive up non-traditional exports, which have sustained the countries foreign exchange needs even at a time when only negligible resources could be secured from the mines. Indeed in recent years non-traditional exports have contributed no less than 40 percent of the country's foreign exchange earnings, up from some 10 percent in the eighties.

It needs to be noted that taking the economies and other sectors in totality, the welfare effects of trade policy reforms have been mixed. Trade liberalization, at least in the early stages of the reforms, led to notable closures of the previously protected import competing sectors. Traditional producers could not compete with the influx of final goods, which could now come in as imports at low or zero tariffs. This was the case for example in Zambia, which lost a substantial share of its light manufacturing industries to outside suppliers. But a whole sector of non-traditional

producers and exporters was emerging, fueled by the ready availability of imported inputs, and some of the older manufacturing establishments returned to production with injection of new capital through privatization.

Experiences such as that described for Zambia led many countries to reconsider their new policies to protect their traditional sectors, even in the presence of evidence that exports were growing. The lure of saving jobs in the traditional import competing sectors in the urban centers was more attractive than the long-term transition of their economies to self sustaining strong exporters, leading to significant policy reversal. A World Bank report (1994), for example, indicates that in many countries examined, either trade restrictions, which were removed, were reinstated, or some existing barriers were reinforced to offset reductions elsewhere. Some countries, for example, which had eliminated most quantitative restrictions, later increased import bans dramatically. The Report cites a number of examples including Nigeria, which after eliminating most of its import restrictions and quotas, dramatically increased import bans. Ghana, which was one of the countries that made significant strides in trade reforms and tariff reductions, reversed some of the reforms with the implementation of special taxes on imports. Cote d' Ivoire also raised tariffs substantially after have reduced or eliminated quantitative restrictions.

In most of these cases, the motivation for policy reversal appeared to be pressure from import competing industries that could not stand the competition from imported goods. Another explanation is that African countries have always been suspicious of trade reforms, and have adopted them mainly as a result of intense pressure from lending agencies and donor governments. They have generally been more skeptical about the value of opening up their economies than their counterparts in Latin America or Eastern Europe. In Latin America, Governments stuck with ambitious reforms even under severe macroeconomic difficulties (such as the peso crisis in Mexico), where as many countries in Africa tend to rush to rewrite policies at the slightest hint of unfavorable developments. The inadequate implementation of reforms and policy reversals has contributed to the low credibility of African reforms, which negatively affect the desired response in investments and exports (Rodrik, 1997).

A recent study by the World Bank (2000) points out that even after the first wave of reforms, we still see trade taxes that are higher in Africa than in other developing regions and anti-export biases continue to prevail in most countries. This has had considerable negative impact for the imported inputs dependent exporters. African countries have held on to high import and export taxes to maintain the inflow of revenues which in the smaller economies is still the major source of budgetary resources. The Report also points out that trade liberalization has also not gone far enough or locked onto a specific objective, such as the expansion of exports. Trade liberalization has been linked more to adjustment programs as conditions of the international financing agencies.

We see then that some reformers took aggressive measures in the area of trade policy, and some implemented a few but not all the measures, while many others have done much less. Consequently tariffs remain high, trade monopolies continue to exist in many sectors, export crops continue to be taxed and trade procedures continue to be mired in red tape and corruption. In the 1998 paper, Rodrik points out that some of the resistance to trade reforms has been due to the belief and "suspicion that trade reform may not "work" in Sub-Saharan Africa, in the way that it worked in Asia and in some cases in Latin America".

From the foregoing discussion we see that African countries embarked on trade reforms in the last decade or so, which have had some modest gains in selected countries, and have met with low acceptance and reversal in some countries. There is therefore, an unfinished agenda that the African countries need to address to create the necessary environment for expanding trade and exports. These issues are the subject of the next section.

6. OPTIONS AND PRACTICAL MEASURES FOR TRADE EXPANSION

We have pointed out in the previous section that many African countries have undertaken substantial reforms in their trade policies, under the general guise of structural adjustment programs, which have witnessed the adoption of orthodox measures- including fiscal adjustment, decontrol of local markets, trade liberalization and privatization of public enterprises. Telling from the trends discussed above, the reforms have not been adequate and it remains clear that the African countries need to adopt deeper and significant policy and practical measures to increase their participation and integration in world markets. This would be a major step towards reversing the marginalization of the continent and move toward the achievement of sustained long-term growth. This is particularly important given the prospects for even stiffer competition with the rest of the developing world as trade barriers and trade preferences are removed.

What policy measures could African countries undertake to boost trade and subsequently to ensure sustained development? In other words what is the unfinished agenda to bring about the desired condition?

In his 1998 paper, Dani Rodrik concluded that there already exists a fair bit of consensus on what constitutes a reasonable trade strategy for the African countries, which he presents in terms of a list of *Dos* and *Don'ts*. These include the following: demonopolize trade; streamline the import regime; reduce red tape and implement transparent customs procedures; avoid extreme variation in tariff rates and high rates of protection; allow exporters duty-free access to imported inputs; and do not tax exports too highly.

We established that African countries' tariffs were and continue to be high and place domestic producers and exporters at substantial cost disadvantage compared to the fastest growing exporters. African tariffs have stemmed the flow of inputs, goods, and services that are necessary to spur production of high quality products, even when only the direct costs are considered. If we were to extend the analysis to include the impact of the indirect costs of protection practices as argued by Romer, the economic losses from tariffs assume exponential proportions. Arising from this argument, it can be safely concluded that significantly reducing tariffs and other import restrictions would stimulate increased exports and growth in Africa. This should be especially so for agricultural raw materials and inputs to agriculture, which are key ingredients to labor intensive industries such as the manufacture of clothing and agro-processing. These are areas in which Africa should have a comparative advantage in world markets, as they are relatively less physical and human capital intensive.

In reaching this conclusion, we are sufficiently persuaded that a good number of African countries have the potential to develop the requisite capacity to incorporate the new ideas from trade, especially in the mass production items in agro-industry and related activities, which are not human capital-intensive. For this group of countries, there is no need for pessimism or concern that they face special conditions and difficult infrastructure. For some low-income African countries, the easing of tariffs and import restrictions could impose some difficulties with important economic implications. Mainly due to such cases, there are those who may not be convinced that policy reforms on their own would result in the desired results, especially in the lower income countries. These would probably require some additional practical measures to be undertaken to boost trade and subsequently to ensure sustained development. We now offer a number of suggestions of practical measures, beyond trade policy reforms, which may be available to the African countries to significantly expand exports and growth. These are discussed in the following sections in the context of the themes of infrastructure and capacity building, export diversification and trade promotion and investment activities.

Capacity and infrastructure issues- A number of observers have acknowledged the difficult geographic conditions faced by the majority of the African countries, including a large section of the countries being land-locked (Sachs and Warner 1997). This factor is joined by a host of other infrastructure related obstacles including high transport and transaction costs, inefficient rail routes, poor roads and ports facilities and the poor state of telecommunications, and un-competitive air transport routes which all negatively impact African competitiveness (Elbadawi, 1998). Transport costs associated with moving goods to external markets reduces the profitability of exporting especially as these goods face given prices in foreign markets. These are compounded by other bottlenecks and poor communication systems, and the poor quality of ancillary services including inspection facilities at ports, which all represent direct impediments to output and exports expansion.

African countries need to move aggressively to address infrastructure and transport related and transaction costs. This could be achieved, possibly by creating scale economies through pooling of resources to develop transport corridors, having common air services to distant destinations, and improving telecommunications and actions to strengthen capacity in institutions whose activities directly impact the expansion of trade. These include increased financial allocations to departments of trade, and non-governmental agencies engaged in promoting exports, and build capacity to manage the practical aspects of the trade process such as customs facilities, procedures and regulations.

Diversifying exports- African countries have a crying need for diversification of exports if their economies are to escape the vicious cycle of primary commodity exports and cyclical export price collapses. There is a broad consensus that the ultimate goal of export orientation in Africa should be to achieve significant export diversification, through building new comparative advantages in non-traditional exports, especially in labor intensive manufactures (Elbadawi, 1998). One of the misconceptions about African export diversification, though, is that the countries could move rapidly from primary commodities to manufactures. While acknowledging this as a long-term possibility to materialize as African countries acquire advanced human capital, we wish to submit here that only limited advances can be secured in manufactured exports and mainly from the higher income countries. African countries' comparative advantage in short to the medium term lies in agricultural exports. Diversification, if it is to be sustainable, will have to occur within agriculture—taking agriculture beyond exporting raw materials to export processed raw materials, food and food ingredients. The development of agriculture and agribusiness processing can, however, form the foundation for a manufacturing culture that can be emulated in the drive towards expanding manufactured exports.

Trade promotion- African Countries need to invest in trade promotion activities and organizations to help expand their exports. African countries have a number of niches that could make an impact on international markets but most lack the promotional skills evident in the west and among the fastest growing exporters in East Asia and Latin America (Braga, 1998). Trade promotion organizations undertake, among others, the following functions: provide local firms with information and statistics on foreign trade, production and consumption of the countries' exports, prices and markups, business contacts and opportunities. They also help to identify production constraints through supply surveys; prepare market studies and product profiles; provide guidance on export financing, costing and efficient inputs procurement; and carry out training programs for the development of human resources in international trade and securing exports markets.

Many African countries have experimented with trade promotion boards, which did not achieve much due to limited support and financing. Financing for trade promotion organizations should initially be made available by governments and donors in the form of grants. When exports are able to build up substantially, the beneficiary exporting firms could subsequently assume the financing of trade promotion organizations from contributions. Trade promotion organizations are not a developing country phenomenon. Developed country governments whose firms possess the skills to enter international markets invest even more in trade (and investment) promotion activities. Businessmen from OECD countries regularly travel to Africa to make their services made known to potential African buyers. These are activities that will survive even the universal adoption of the Internet.

Outward investment-Outward investment represents a higher level of commitment to export promotion, moving beyond information and export campaigns, to countries actually investing in facilities in the target markets. African countries would need to invest in facilities such as warehouses and shops; cold rooms for perishables, detailing centers and terminals for repackaging final goods for the local market in the target destinations. Exporters' own facilities at the port of destination could reduce shipping and storage costs substantially as suppliers would ship their goods without the pressure of overnight delivery and other such costly measures forced on them by the lack of such facilities. Most individual firms may not afford to set up these facilities on their own as the cost could be prohibitive. These facilities could be set up by groups of exporters or by country chambers of commerce and even amongst groups of countries as cooperative ventures. Establishing such facilities would of course require financing from export-import banks, and multilateral and bilateral agencies.²

7. CONCLUDING REMARKS

Developing countries and African countries in particular have traditionally been wary of implementing trade liberalization measures and have resisted opening up their economies to the rest of the world. Indeed, Africa has maintained the highest import barriers through tariffs and quantitative restrictions among the developing countries. A number of theoretical and empirical studies reviewed conclude that there is sufficient evidence that this strategy has to a large extent contributed to the decline in Africa's trade and with it GDP growth, as opposed to the view that African exports faced trade barriers in outside markets. Many governments have in recent years, however, made far-reaching policy reforms including liberalization of their markets to outsiders. Implementation has however been marked by policy reversals and in some cases adoption of half-measures that have undermined the intended objectives of boosting trade and exports.

The choice of whether to maintain a protected economy or open up to the rest of the world will not be available indefinitely as pressures for trade reforms intensify. In order to survive the collapse of protectionism, African countries need to start taking measures to increase the competitiveness of their products, so as to increase exports to the northern countries. They should use the period of transition to the Global Economy to emulate the fastest growing exporters and begin reducing trade restrictions and tariffs, especially those that increase the cost of producing exportable goods and otherwise create a bias against exports. Considerable concerns continue to persist regarding the lower-income African countries' preparedness in expanding their access to developed countries markets in the absence of trade preferences. This is one area in which government intervention and donor support could assist in creating competitiveness enhancing infrastructures and to strengthen institutions involved in the promotion of exports in their countries.

If these measures are properly undertaken, African countries need not be apprehensive about the global economy.

Notes and References

1. Growth rates for the *fastest growing exporters* are averages for a selected number of mainly Asian countries plus Mexico, whose exports to the OECD grew by over 16 percent on average. SSA countries' exports over the same period grew by 5.41 percent on average.
2. In Japan, for example, the Japan Development Bank under a scheme to open Japanese markets to outside exporters, has assisted foreign exporters to Japan to invest in on-shore facilities, where bulk imports can be repackaged and labeled for local distribution.

Baldwin, Robert (1969), "The Case Against Infant Industry Protection" *Journal of Political Economy* 77

Baldwin, Robert (1982) "The Political Economy of Protectionism" in Bhagwati, J.N., ed *Import Competition and Response* (NBER Conference Report), Chicago University Press

Barro and Xala-i-Martin (1995), *Economic Growth*, Chapter 12, "Empirical Analysis of a Cross-section of Countries" New York, MacGraw Hill

Bhagwati, J.N. (1982) "Shifting Advantage, Protectionist Demands, and Policy Response," in *Import Competition and Response* (NBER), Chicago University Press

Bhagwati, J.N. (1991) *Protectionism*, MIT Press, Cambridge

Bhagwati, J.N. (1993) "The Case for Free Trade", *Scientific American*, Nov. '93

Bhagwati, J.N. (1992) *GATT Annual Report* (The Bhagwati Reports)

Bhagwati, J.N. and Anne Krueger (1995) *The Dangerous Drift to Preferential Trade Areas*, American Enterprise Institute for Public Policy Research, Washington DC.

Bhagwati, J.N. (1991) *The World Trading System at Risk*, Princeton University Press, Princeton, New Jersey.

Bhagwati, J.N. (1994), "Threats to the World Trading System: Income Distribution and Selfish Hegemony", *Journal of International Affairs*, Spring.

Bergstein, C. Fred (1996) "Competitive Liberalization and Global Free Trade: A Vision for the 21st Century, *Institute for International Economics Working Paper No. 15*, Washington, DC.

Boskin, M. and Lawrence Lau (1992) "Capital Technology and Economic Growth" in N. Resenburt et al, eds., *Technology and the Wealth of Nations*, Stanford.

Braga, R.L. (1998), *Expanding Developing Countries' Exports in a Global Economy*, UNCTAD Discussion Papers No. 133

Cantwell, John (1992), "Japan's Industrial Competitiveness and the Technological Capability of the Leading Japanese Firms" in T.S.I Arrison, C. Fred Bergsten, E.M. Graham, M. Caldwell Harris, eds. *Japan's Growing Technological Capability: Implications for the US Economy*, National Academy Press, Washington DC.

Daly, H. (1993) "The Perils of Free Trade", *Scientific American*, November, '93

Edwards, Sebastian (1992) *Openness, Trade Liberalization and Growth in Developing Countries*, Institute for Policy Reform Working Paper Series No. 35, Washington DC

Elbadawi, I. (1998), *Can Africa Export Manufactures? The Role of Endowment, Exchange Rates and Transactions Costs*. AERC/OECD/IMF Conference on Competitiveness in Manufacturing, Johannesburg, South Africa.

Feenstar, R. (1992) "How Costly is Protectionism"- *Journal of Economic Perspectives*, Vol. 6, No.3.

Fosu, Azam and Ndungu, N (1999) *Explaining Slow Growth in Africa*, paper presented at the Second Workshop – Can Africa Claim the 21st Century, Abidjan, Cote d' Ivoire.

Fosu, A. (1990) Exports and Economic Growth: The African Case" *World Development*, Vol. 18 No. 6.

Ghura and Grennes (1993), The Real Exchange Rate and Macroeconomic Performance in Sub-Saharan Africa", *Journal of Development Economies*, Vol. 42

Grossman, Gene and E. Helpman (1991) *Innovation and Growth in the Global Economy*, MIT Press, Cambridge

Harbeler, Gottfried (1988) *International Trade and Economic Development*, International Center for Economic Research, San Francisco.

Harrison, Ann (1991) *Openness and Growth: A Time Series Cross-Country Analysis for Developing Countries*- World Bank Policy Research Papers No. 809, Washington, DC.

Jackson, John (1991) "World Trade Rules and Environmental Policies: Congruence or Conflict" in *Trade and Development*

Krugman, Paul, (1994) "Increasing Returns, Monopolistic Competition and International Trade" in P. Krugman, *Rethinking International Trade*, Cambridge, MIT Press.

Krugman, P. and M. Obstfeld (1994) *International Economics-Theory and Policy* 3rd Edition, Harper Collins, New York.

Krugman, P. (1980)"Scale Economies, Product Differentiation and the Pattern of Trade" *American Economic Review* 70, pp. 950-59

Lucas, R. (1988), "On the Mechanisms of Economic Development" *Journal of Monetary Economics*, Vol. 22, p 3-42.

Magee, Stephen P. (1982) - Comment on Robert Baldwin's "The Political Economy Of Protectionism" in Bhagwati, J.N. ed. *Import Competition and Response* (NBER Conference Report), Chicago University Press.

Magee Stephen P. (1989) "Three Simple Tests of the Stolper-Samuelson Model" in Stephen Magee, William A. Brock, and Leslie Young, *Black Hole Tariffs and Endogenous Policy Theory*, New York: Cambridge University Press.

Meier, G. (1995) *Leading Issues in Economic Development*, Oxford University Press

Mill, John Stuart (1848) *Principles of Political Economy*, Vol 2, Chapter 17

Mwaba, A. (1996) "Accounting for the Sources of Economic Growth: The Experiences of Kenya, Zambia, Tanzania and the Sudan", Unpublished mimeo, Program in Economic Policy Management, Columbia University.

Ng Francis and Alexander Yeats (1996), "Open Economies Work Better! Did Africa's Protectionist Policies Cause Its Marginalization in World Trade?" *World Bank Working Paper No. 1636*

- Ohlin, Bertil (1933) *Interregional and International Trade*, Cambridge, Harvard University Press.
- Ojo, O and Temitope Oshikoya (1995) Determinants of Long-term Growth in Africa, *Journal of African Economies*, Vol. 4 No. 2, Oxford University Press.
- Olofin, S. (1992) "Trade Policies in Nigeria" in Salvatore, D. *National Trade Policies: Studies in Comparative Economic Policies*, Vol.2 North Holland
- Oyejide, A. "Trade and Regional Integration in the Development Context: Emerging Patterns Issues and Lessons for Sub-Saharan Africa", *Journal of African Economies*, Vol. 7 Supplement 1.
- Porter, Michael (1990) *The Competitive Advantage of Nations* The Free Press, New York.
- Prebisch, Raul (1950) *The Economic Development of Latin America and its Principal Problems*, New York, United Nations.
- Rivera-Batiz, L. and P. Romer (1992), "Economic Integration and Endogenous Growth" in Grossman, G., ed., *Imperfect Competition and International Trade*, MIT Press, Cambridge.
- Rivera-Batiz, F. L. (1995), Rivalry, Trade and Technological Change. *Conference on High Technology Competition and Cooperation in Global Markets, Hamburg*.
- Rivera-Batiz, F. L. (1996) "The Economics of Technological Progress and Endogenous Growth in Open Economies", in Georg Koopmann/Hans-Ekard Scharrer (eds.) *The Economics of High Technology Competition and Cooperation in Global Markets*, Baden Baden, Hamburg
- Rivera-Batiz, F. L. (1996) "Trade Liberalization and the International Distribution of the Gains from Growth", in Dev Gupta and Choudry eds. *Globalization and Development: Growth, Equity and Sustainability*, Klower Academic Publishers, Boston
- Rodrick, Dani (1992) "Conceptual Issues in the Design of Trade Policy for Industrialization" *World Development* Vol 20 No. 3
- Rodrick, Dani (1992) "The Limits of Trade Policy Reform in Developing Countries" *Journal of Economic Perspectives*, Vol 6, No.1
- Rodrick, Dani (1998) *Trade Policy and Economic Performance in Sub-Saharan Africa*, Expert Group on Development Issues (EGDI:1), Swedish Ministry of Foreign Affairs.
- Rodrik, Dani (1994) *Developing Countries After the Uruguay Round*, CEPR Discussion Paper No. 1084, London
- Rodrik, Dani (1997) *Why is Trade Reform so Difficult in Africa*, *Journal of African Economies*, Vol. 7 Supplement 1.
- Romer, Paul (1994) "New Goods, Old Theory and the Welfare Costs of Trade Restrictions" *Journal Of Development Economics*, 43 p 5-38
- Romer, Paul (1990) "Endogenous Technological Change" *Journal of Political Economy*, Vol. 98 No.5
- Rybczynski, T. M. (1955) "Factor Endowments and Relative Commodity Prices, *Economica*, 22 pp. 336-341
- Sachs, Jeffrey and Warner (1997), "Sources of Slow Growth in Africa Economies", *Journal of African Economies*, 6, Oxford
- Salvatore, D. (1992) *National Trade Policies: Studies in Comparative Economic Policies*, Vol.2 North Holland

Singer, Hans (1950) "The Distribution of Wealth between Borrowing and Investing Countries" *American Economic Review*, 40, pp. 473-485

Solow, Robert M. (1956) "A Contribution to the Theory of Economic Growth" *Quarterly Journal of Economics*

Stockey, Nancy (1988), "Learning by Doing and the Introduction of New Goods" *Journal of Political Economy*, Vol. 96, 1988

Stolper, W. and Paul Samuelson (1941), "Protection and Real Wages" *Review of Economic Studies*, 9, pp. 58-73

Taylor, Lance (1991) "Economic Openness: Problems to the Century's End" in T. Banuri, ed., *Economic Liberalization: No Panacea*, Oxford University Press

The Economist, 7 October 1995 "*The Race to the Bottom*" Economics Focus.

Verrydt, E. and Jean Waelbroeck, (1982) "European Community Protection Against Manufactured Imports from Developing Countries: A Case Study in the Political Economy of Protection" in Bhagwati, J.N., ed. *Import Competition and Response* (NBER Conference Report), Chicago University Press.

The World Bank (1991), *World Development Report*

The World Bank (1994), *Adjustment in Africa*, Oxford, New York.

The World Bank (2000), *Can Africa Claim the 21st Century*, Washington.

Yeats, A. et al (1997), *Did Domestic Policies Marginalize Africa in World Trade*, World Bank, Directions in Development Series.