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Trade Policy and Performance in Sub-Saharan Africa since the 1980s

Charles Ackah and Oliver Morrissey*

Abstract

This paper reviews trade policy reform and performance in Africa since the 1980s. African countries have implemented significant trade liberalisation in this period, in particular reducing tariffs. This has usually resulted in an increase in imports, but export growth has often been sluggish so that in many countries the trade deficit has increased. The paper documents trends and performance and reviews the explanations for poor export response. While trade policy reform has been beneficial, the impact has not been as great as expected and the core challenge facing African countries is how to diversify and increase exports.

Résumé

Cet article examine la réforme des politiques commerciales et les performances commerciales en Afrique depuis les années 1980. Les pays africains ont mis en oeuvre d'importantes mesures de libéralisation des échanges pendant cette période, et notamment réduit les tarifs douaniers. Il s'en est généralement suivi une augmentation des importations, mais la croissance des exportations a souvent été faible, de sorte que dans de nombreux pays le déficit commercial s'est creusé. L'article expose les performances et les tendances observées et passe en revue les raisons qui expliquent cette faible réponse des exportations. S'il est vrai que les réformes stratégiques ont été bénéfiques, leur impact n'a pas été à hauteur des attentes et le grand défi pour les pays africains aujourd'hui est de diversifier et d'accroître leurs exportations.

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Section 1: Introduction

The majority of African countries have liberalised their trade regimes during the past two decades. Some countries began this process in the early 1980s, but most have only implemented sustained and significant reduction in barriers to imports since the late 1980s or early 1990s. The major trade liberalisation reforms in almost all countries were unilateral, reforms made by the country acting alone, rather than being implemented as part of an agreement with trading partners. However, various agreements with trading partners have 'locked in' the reform efforts. Most obviously, the multilateral negotiations during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) that culminated in the establishment of the World Trade Organization (WTO) in 1995 resulted in African countries making commitments to open trade policies and declaring their bound tariffs (typically at levels above applied tariffs). Numerous regional trading agreements, some of more substance than others, exist whereby African countries have agreed to more open trade with other African countries. There are also special agreements relating to trade between groups of African countries and developed countries, especially the European Union (EU) (notably arrangements with the African, Caribbean and Pacific (ACP) Group of States) and the United States (US) (notably the African Growth and Opportunity Act (AGOA)). Trade and openness are now high on the policy agenda in African countries.

This paper concentrates on the experience with trade reforms in Africa since the 1980s and African trade performance in the 1990s. Although the focus is on sub-Saharan Africa (SSA), some results are reported for all of Africa (allowing comparison between North Africa and SSA). The major reforms implemented were import liberalisation, and it is these reforms that may have affected economic performance over the past decade. We address two specific questions: what trade reforms have African countries implemented during the past two decades and have there been identifiable economic effects?

The direct impact of trade liberalisation should be to increase the exposure of economies to international trade (a common definition of openness), which would be reflected in an increase in the volume of trade. The expectation is that increased trade encourages a more efficient use of resources, increases competitiveness and contributes to economic growth. However, trade reform is likely to have a more direct and immediate effect on imports than on exports. Factors external to an individual country, such as world prices, are typically more important determinants of the volume and value of exports than a country's own trade policies. Furthermore, the ability of a country to increase exports (its export supply response) is constrained by structural rigidities in production capacity, and infrastructure and institutional barriers to trade (trade costs). This is especially true in SSA, where exports are predominantly of primary commodities subject to world prices and demand determined elsewhere and, in the case of agriculture, affected by weather and other natural phenomena. There are therefore a variety of reasons why the beneficial effects of increased openness to trade may be slow to materialise for African countries, and these are explored in the paper.

We begin in Section 2 with a brief overview of trends in Africa’s performance in relation to global trade developments in the 1990s. Section 3 considers the arguments for trade reform and discusses some measurement issues. Section 4 reviews the trade liberalisation achievements in Africa, which have generally been more considerable than is often recognised. Section 5 relates reforms to trade performance, covering imports, exports and the combined impact on the balance of trade. In general, export growth has been at best sluggish, and the reasons for this are considered. We conclude in Section 6 with a discussion of implications for future trade policy.

Section 2: Africa’s Trade Performance in a Global Perspective

Compared to other regions, Africa, and especially SSA, has exhibited poor economic performance over at least the past two decades. While some countries have been exceptions to the trend and performed very well, the regional performance is cause for concern. The dollar value (in current terms) of exports from Africa actually declined in the 1980s and rose by only three percent in the 1990s. Africa’s share of world merchandise trade declined between 1990 and 2000, in terms of both exports and imports (Table 1). It is clear that Africa has not shared in the growth of world trade.

Table 1: Regional Shares of World Merchandise Trade, 1990 and 2000

Region	Exports (%)		Imports (%)	
	1990	2000	1990	2000
North America	15.4	17.1	18.4	23.2
Western Europe	48.3	39.5	48.7	39.6
Asia	21.8	26.7	20.3	22.8
Latin America	4.3	5.8	3.7	6.0
Africa	3.1	2.3	2.7	2.1

Source: WTO (2001).

The Africa region accounted for just over three percent of world merchandise exports in 1990, but this had declined to a 2.3 percentage share in 2000. Over the same period, Africa’s share of world merchandise imports also declined. Annual variability in the value of exports was very pronounced in the late 1990s, declining by 17 percent in 1998 but rising by 27 percent in 2000, for example (WTO, 2001: 77). The value of imports, in contrast, has been quite stable – negligible change throughout the 1980s, and a four percent increase in the 1990s (WTO, 2001: 77).

This variability in exports, as compared with imports, can also be seen in the sector composition of trade. Africa’s exports are principally of minerals (mining and petroleum). Sector shares of export earnings are determined more by trends in world prices than changes in export volumes. In the early 2000s, the value of mineral exports declined slightly while the value of agriculture commodities increased slightly, with manufactures remaining quite stable (Table 2). Africa’s imports are predominantly of manufactures, and sector shares of imports are quite stable (Table 3).

Table 2: Composition of Regional Exports (Sector % Share in Regional Total)

Region	Agriculture		Minerals		Manufactures	
	2000	2002	2000	2002	2000	2002
North America	10	10.7	7.2	7.2	78	76.9
Western Europe	9.4	9.4	7.1	6.9	80.3	80.7
Asia	6.5	6.6	7	7.1	84.2	83.6
Latin America	18.4	19.3	20.5	20.3	60.5	59.5
Africa	12.9	15.8	59.7	55	24.6	25.2

Source: WTO (2001; 2003).

Table 3: Composition of Regional Imports (Sector % Share in Regional Total)

Region	Agriculture		Minerals		Manufactures	
	1999	2002	1999	2002	1999	2002
North America	6.3	6.2	9	11.2	80.5	78.5
Western Europe	11	10.2	8.2	10.7	77.2	75.7
Asia	10.6	9.5	14.5	16.9	72.5	71.1
Latin America	9.6	9.8	9.1	10.9	78	76.3
Africa	16.6	15.9	10.1	10.8	70.2	70.9

Source: WTO (2001; 2003).

Primary commodities dominate African exports. While the export prices of primary commodities overall held their value in the 1990s, this was driven largely by increased world prices for timber and crude petroleum. World prices for many products important to Africa declined between 1990 and 2000: cocoa by 29 percent, sugar by 26 percent, coffee by 9 percent, cotton by 28 percent and copper by 32 percent, while minerals overall declined by 14 percent (WTO, 2001: 212). One of the principal factors accounting for the decline in the value of SSA exports is that the world prices of many of the primary commodities they export have declined (Table 4). For example, between 1995 and 2002, prices of cotton, sugar and copper lost almost half of their value while coffee prices collapsed to almost a third of their 1995 value. On the other hand, exporters of cocoa and tea will have seen some recovery, while oil prices showed the largest increase. Even where the trend in prices is upward, Table 4 highlights the variations in commodity prices from one year to the next, which makes it extremely difficult to forecast prices. ‘If there is one stylised fact that tends to be applicable to commodity prices in general, it is that of general volatility rather than predictable trend movements’ (Newbold, Pfaffenzeller and Rayner, 2005: 493). This variability in prices is the principal cause of instability of African export earnings and acts as a disincentive to investment.

Table 4: Trends in Primary Commodity Export Prices (1995 = 100)

Commodity	1998	2000	2001	2002
All Primary	79	116	106	106
Food and Beverages	89	77	78	79
Cereals	79	67	70	80
Sugar	73	66	67	56
Coffee	82	50	35	36
Cocoa	117	63	76	124
Tea	145	151	121	109
Agriculture Raw Materials	76	81	77	78
Cotton	67	60	49	47
Minerals	74	82	74	72
Copper	56	62	54	53
Crude Petroleum	76	164	141	145

Source: WTO (2003).

The African ‘export problem’ is not simply the general dependence on primary commodity exports, but the heavy dependence of most countries on a narrow range of primary commodities. In the late 1990s, 39 African countries depended for more than half of their export earnings on just two primary commodities (UNCTAD, 1999: 33). The collapse of world commodity prices in 1998 was equivalent to a real income loss of 2.6 percent of SSA gross domestic product (GDP) in 1997-98 (UNCTAD, 1999: 29). Zambia illustrates a severe case of dependence on a badly performing commodity, copper in this case. Commodity prices have not shown any dramatic sign of recovery in recent years. For example, world coffee prices in 2002 were below a third of the level in 1997. The implications of primary commodity dependence and the difficulty of diversifying exports will be addressed in Section 5.

Countries with high shares of manufactures in their exports are relatively protected from unstable export earnings, although they are operating in a competitive world market. South Africa is the only African country with a significant share of diverse manufactures in exports. Mauritius and some North African countries (such as Morocco and Tunisia) have significant exports of textile and clothing manufactures, but these rely to some extent on preferential access to the EU (and may be eroded by the dramatic growth of Chinese exports following the end of the Multifiber Arrangement (MFA)). Other countries, such as Lesotho and Kenya, have increased clothing exports to benefit from preferential access to the US under AGOA. In general, preferential access to developed country markets has been an important feature of African exports. A downside of multilateral trade liberalisation is that it erodes the margin of these preferences. African countries have enjoyed preferential access to markets of Organisation for Economic Co-operation and Development (OECD) countries, especially the EU; although this has facilitated exports, preferences have not worked to support export diversification. Erosion of trade preferences will imply losses for some African countries; although this will rarely be significant for agriculture exports, it may be significant for manufactures such

as textiles (Mold, 2004). Erosion of preferences will increase the challenge facing African countries attempting to diversify exports beyond processing of commodities.

A few countries account for most of all Africa's exports. In 2000, only six countries had individual shares above five percent of total African exports (South Africa, Nigeria, Algeria, Libya, Angola and Morocco), and together accounted for almost 70 percent of African exports, whereas in 1980 they had accounted for 76 percent of African exports (WTO, 2001: 77). Three of these are very dependent on oil and a fourth (Angola) on minerals more generally. There are other African countries that have had export success, but these are small countries (even relative to Africa) and their success is usually due to specific features. For example, Botswana has managed its diamond resources well and had a steady export performance (although the export/GDP ratio fell from over 50 percent in the early 1990s to almost 30 percent by the end of the decade, Appendix Table B), while Mauritius has benefited from preferential access to the EU for its sugar and clothing exports (maintaining an export/GDP ratio above 60 percent in the 1990s).¹ The majority of SSA countries, however, are economically small and dependent for their exports on relatively low-value primary commodities.

Section 3: Why Trade Policy Reform?

Although SSA countries may not be important relative to world trade, trade is economically important for these countries. The vast majority of SSA countries have had restrictive and distortionary trade policies since independence until the 1980s (at least), typically motivated by some desire to protect domestic industries. Irrespective of the merits of supporting domestic producers, most economists would agree that trade restrictions are not the best way of achieving this objective. For one reason or another, many SSA policy-makers have become persuaded that trade restrictions are not the best way to support domestic producers. In many cases, it was the World Bank and other donors that exercised the persuasion (Greenaway and Morrissey, 1994), although more recently participation in the WTO has become a force for change. Whatever the reason, the end result is that most SSA countries have begun implementing trade policy reforms, some earlier and more extensively than others. These reforms have aimed to make it easier to import, by reducing tariffs and non-tariff barriers, and to encourage exports, by eliminating export taxes and providing incentives. Before discussing these reforms and their effects, it is worth digressing to consider why policy-makers may find trade reform attractive.

There are four broad ways in which trade benefits an economy (see Box 1), and trade policy reforms are intended to increase the ability to avail of these benefits. First, trade implies that the country has access to a global market that is much larger than the domestic market. For many products, production costs fall as the volume produced increases, so access to a larger market increases the amount that can be produced competitively. This is especially beneficial for small countries. Second, trade encourages

¹ The erosion of preferences could have a severe impact on Mauritius, as competition from East Asia, especially China, crowds out clothing exports while reform of the Sugar Protocol reduces the value of sugar exports to the EU (a problem faced by many SSA countries).

a more efficient allocation of resources. Countries are encouraged to concentrate on producing goods in which they are internationally competitive. These are then exchanged globally for goods the country cannot produce efficiently (exports are traded for imports). Third, in this way, imports increase consumption possibilities by expanding the variety of goods available. A country can gain access to goods it is unable to produce itself, or at least that it is unable to produce efficiently. Taken together, these are the static gains from trade – countries can expand production and consumption possibilities and allocate resources more efficiently.

Box 1: Potential and Challenges of Trade

Engaging in trade does not guarantee net benefits, rather it provides opportunities to which an economy must respond but also present challenges:

- exports imply access the global market and permit increased production;
- trade encourages efficient allocation of resources;
- imports increase consumption possibilities; and
- trade contributes to economic growth by generating long-run gains.

However,

- exporters face competitors on a world market;
- competition from imports challenges local producers; and
- imports may increase faster than exports, resulting in a balance of payments deficit that imposes macroeconomic adjustment costs on the economy.

If local producers increase their competitiveness and the economy is able to reallocate resources, the country can benefit from openness to trade. For SSA countries, although trade reform provides benefits these are unlikely to be significant in magnitude (at least in the medium term).

The fourth benefit is that trade can contribute to economic growth. One aspect of this is that the cumulative effect of the static gains may be to generate dynamic gains. As countries engage in trade, they engage with the rest of the world. There are incentives to avail of new techniques and technologies to increase efficiency, and imports provide access to these. Increases in efficiency and trade stimulate growth. There is also a macroeconomic stimulation to growth as exports earn foreign exchange that can purchase imported inputs and technology, permitting domestic demand to grow faster without generating a balance of payments deficit. Thirlwall (2003: 16-20) argues that an increase in consumption or investment components of domestic demand will tend to increase imports; if this is not 'covered' by increased exports, the resulting trade deficit will create macroeconomic imbalances that retard growth.

Associated with these gains, however, are costs and challenges. Exporters have to compete with producers from other countries, so there is no guarantee that access to the world market will lead to an increase in the value of exports. Access to an increased variety of cheap, or cheaper (than domestically produced), goods is a benefit to consumers but a challenge to local producers of import-competing goods that face increased competition. Some local firms will fail, imposing adjustment costs on the

economy. The challenge is how local firms can respond to the competition and how the economy can adjust, i.e. can it reallocate resources effectively. The latter depends crucially on the ability of export sectors to expand; exporters face the challenge of competing on the world market. It is certainly not inevitable that the end effect is a net cost to the economy. If sufficient local firms can become competitive and the economy does reallocate resources, the country can rise to the challenge and benefit from trade.

There are also potential adjustment costs on the macroeconomic side. Specifically, if imports grow faster than exports, the result is a balance of payments deficit that can have an adverse effect on growth. While such an imbalance cannot persist in the long-run, it has often been observed following trade liberalisation (Thirlwall, 2003: 22). An example is provided by Ethiopia, where the trade deficit widened in the 1990s as imports increased from 12 to 28 percent of GDP but exports only rose from six to 15 percent of GDP (Appendix table B). This is not surprising as reforms can have a direct effect on imports, there being unconstrained supply from the rest of the world, whereas the responsiveness of exports is much slower. Trade reforms can generate a payments deficit in the short-run, imposing macroeconomic adjustment costs on the economy.

There are gains from trade, especially for relatively small countries (and most African countries are small in this sense) who need the larger foreign markets to provide demand for their products. However, there is no reason to suppose that the gains from trade are particularly large (relative to GDP) or evenly distributed, and some countries may even lose. Those SSA countries that depend on a few primary commodities for their exports are the least likely to gain from trade, as the growth benefit from exporting is crucially dependent on price and income elasticities of demand. One country's growth rate relative to all others 'is equi-proportional to the ratio of the income elasticities of demand for exports and imports' (Thirlwall, 2003: 22). Many SSA countries have experienced slow growth because demand for their exports is not very responsive to world incomes, whereas their demand for imports is more responsive to their income.

Thus, trade presents both opportunities and challenges, and the latter are often more direct and immediate than the former. The opportunities are heavily influenced by what other countries do; the potential gains from trade are greatest if all countries act together. It is in this respect, access to foreign markets, that multilateral (WTO) and regional trade liberalisation is so important. Nevertheless, a country's own policies can affect its ability to avail of opportunities, for example by supporting the competitiveness of export sectors, and can influence the willingness of other countries to grant access.

3.1 Measuring Trade Policy Reform

In principle, any policy reform that alters the ease of importing or exporting could be considered as relating to trade. It is obvious that a wide range of policy instruments may be used to affect, directly or indirectly, the value and volume of trade, and there is no ready way of adding together various instruments. Furthermore, to evaluate trade reform one wants to be able to capture the effects on prices, from which one can then evaluate effects on volumes and impacts on the economy. It is quite easy to measure changes in

tax instruments, such as tariffs or export taxes, and these have quite direct effects on prices. While changes in other instruments can sometimes be identified easily, such as reducing quantitative restrictions or relaxing non-tariff barriers, the effects on prices can only be quantified with difficulty. Furthermore, instruments may be applied and altered at varying levels of intensity across different products, making it difficult to provide an aggregate summary of reforms, and even more difficult to evaluate the effect on prices and incentives. This is a major problem for SSA countries that have reformed complex trade regimes in a piecemeal manner (Milner and Morrissey, 1999). Consequently, it is extremely difficult to produce comprehensive summary measures of trade policy reform for one country, never mind for comparing countries over time. A common and expedient approach in the face of this difficulty is to use relatively simple measures and acknowledge their weaknesses.

There is a large literature on theoretical representation and empirical measurement of trade policy reform (Greenaway and Milner, 1993), but two relatively simple measures are used most frequently. The first is the ratio of exports plus imports to GDP, often referred to as a measure of openness but more appropriately considered a trade volume measure. As a country with a less restrictive trade policy is more open to trade, it could be expected to have a larger trade volume relative to countries with restrictive trade policies. The trade volume measure has particular weaknesses that make it inappropriate as a measure of trade liberalisation, i.e. inappropriate to capture changes in trade policy.² The major weakness, especially in the context of SSA countries, is that exports are largely determined by factors other than a country's trade policy, such as world demand and prices, and major commodity producers can have high export/GDP ratios even if they have very restrictive trade policies (e.g. Nigeria). Another weakness is that the denominator (GDP) can change for reasons unrelated to trade.

The second simple measure of trade policy is to calculate some average of the scheduled tariffs, a measure of nominal protection. To assess the effects on prices, one would like to know the actual tariff paid (collected tariff as a percentage of the import price). This, however, will depend on other factors such as exemptions, preferences and evasion, and data are often not available. Although the scheduled tariff is not the actual tax paid on imports, one can argue that it captures policy as it represents what policy-makers intended. Furthermore, as one is averaging across all tariffs to get a summary, it is a reasonable representation of the policy intention, and changes should capture at least the direction, if not the degree, of policy reform.

The change in the average scheduled tariff is not a very accurate measure, but is indicative of tariff policy reform (Box 2). However, this is only one part of import liberalisation, so it may not be good indicator of trade reform. Non-tariff barriers, such as import quotas, are not accounted for. These are important restrictions on trade in many

² Consider two examples, using data in Appendix Tables A and B. Nigeria has high average tariffs (30% in 2000-02) and high trade volume (80% of GDP in 1998-2000) relative to the African average. So does Tunisia (average tariffs 34% and trade volume 89% in the same periods). Although trade volume suggests both are relatively open, the high tariffs show they are relatively restrictive. Rwanda and Uganda provide examples of countries with low tariffs but also relatively low trade volumes.

SSA countries and their removal represents a significant liberalisation, the effect of which is not captured by a measure of tariff changes.³ As a quota is more restrictive than an equivalent tariff, the process of replacing quotas with tariffs is a liberalisation of the import regime. Such a process could give rise to an increase in the measured average tariff as the number of products subject to tariffs is increased. This would be misleading if the products subject to quotas initially had zero scheduled tariffs. As the average tariff measure does not account for this, one should look for information on changes in non-tariff barriers, especially quotas, to obtain a better picture of overall import liberalisation.

Box 2– Measuring Average Tariffs

There are problems associated with averaging tariffs across all products. Ideally, one would want to weight tariffs on products according to the importance of the product in total imports. For example, a 20 percent tariff on products that account for a large share of imports should be given greater weight in the average than a 5% (or 60%) tariff on products for which there are negligible imports. Typically, however, the data required to construct weights is not readily available. A related problem is that some scheduled tariffs are redundant as there are no imports of the products to which they apply. To the extent that redundant tariffs are most often those at the highest rates, their presence will mean that the unweighted average tends to overstate the true average. As the unweighted average is simply the average scheduled tariff across the number of products listed, it tends towards the modal rather than the mean value and any bias of redundant tariffs is unlikely to be great. It is generally true that the pattern of unweighted average tariffs across countries will reflect the pattern of tariff protection across those countries.

Finally, it should be noted that the average nominal tariff is not an accurate indicator of the effects of reforms on relative incentives. As it is only an average measure of gross tariff protection on domestic output, i.e. the extent to which domestic producers can raise the price of those outputs, it fails to account for the effect of trade taxes on intermediate inputs. The effective rate of protection accounts for taxes on inputs and outputs, providing a measure of the protection afforded to value added (which more accurately captures the effect on production incentives. Furthermore, nominal protection is generally greater for importables than for exportables (which often have zero protection or are taxed), so that effective protection of exports is frequently negative and invariably less than that for import-competing goods. Unfortunately, the data requirements for estimating effective protection are reasonably demanding and such measures are not readily available for a large number of countries.⁴

³ Changes in non-tariff barriers can be captured by measuring trade reform as changes in tariff equivalents (Milner and Morrissey, 1999). This approach shows significant liberalisation in Africa from the mid 1980s (Ancharaz, 2003).

⁴ Greenaway and Milner (1993: 92) list 25 studies of effective protection (published in 1990 or earlier), only four of which relate to SSA countries. The number of studies has not increased greatly since then.

3.2 Natural Barriers to Trade

Policy barriers, and especially trade policy, may be only a part (and often a small part) of the total barriers to trade, the various factors that increase the transactions costs of trade. Some recent literature has measured ‘natural’ or geographic barriers, such as those associated with distance, being remote or landlocked, usually focussing on transport costs as a major source of trade barriers and of effective ‘taxation’ of exports (e.g. Milner, Morrissey and Rudaheranwa, 2000). This latter issue can be very important for ‘small’ countries that have to bear the costs of importing and of exporting, i.e. they are unable to shift trade costs to foreign markets (as competition is intense from more favourably placed producers). It is likely to be the case for many African countries that even if policy barriers to trade are reduced significantly, substantial non-policy barriers remain, and these tend to discriminate against exporters. This is one reason why export supply response is often low for African countries.

Transport cost is one of the more obvious non-policy barriers to trade. It is a particular problem in SSA, not only for the many landlocked countries but also because most countries with sea coasts also have large interiors. One proxy for transport costs is to compare the ‘cost, insurance and freight’ (cif) price with the ‘free on board’ (fob) price of imports. As the former includes transport, the ratio captures the significance of transport costs. For example, a cif/fob ratio of 1.2 suggests that transport and related costs are 20 percent of the fob price. Table 5 compares such ratios for various regions of the world in 1980, 1990 and 1994.

Table 5: Transport Costs, by World Region (selected years)

Region	cif/fob ratio		
	1980	1990	1994
Sub-Saharan Africa	1.112	1.115	1.157
Asia	1.093	1.086	1.086
Central and Eastern Europe	1.201	1.212	1.078
Middle East	1.124	1.103	1.108
Latin America	1.094	1.091	1.083
Western Europe	1.056	1.053	1.047

Notes: Figures are the ratio of cif and fob import prices, averages by region.

Source: Derived from International Monetary Fund (IMF) (1995).

Two interesting patterns emerge. The first is that for all regions except SSA, transport costs (measured in this way) declined between 1980 and 1994 – SSA is the only region in which transport costs increased. In most regions except for Central and Eastern Europe, this decline was moderate, but by 1994 transport costs were less than 10 percent. The second observation is that, by 1994, SSA had the highest transport costs of any region. Such costs are a barrier to trade: they are equivalent to a tax on exports, making African countries less competitive, and they increase the price of imports (thereby conferring some natural protection on domestic producers).

Section 4: Trade Policy Reform in Sub-Saharan Africa

Since the 1980s, and especially in the 1990s, almost all African countries liberalised their trade regime to some extent, and many countries reduced trade barriers significantly (especially restrictions on imports). In most cases, these trade policy reforms were undertaken unilaterally under the auspices of a World Bank programme. Although the vast majority of African countries signed the Uruguay Round Agreement in Marrakech in December 1994 and therefore were members of the WTO at its establishment, the WTO has not been the driving force for trade liberalisation in the continent. Although there has been a proliferation of regional trading agreements (RTAs) in the continent, few of these have been associated with significant trade policy reform. Consequently, in this section the focus is on unilateral trade reforms.

A broad picture of trade policy reform can be obtained by examining trends in tariffs. Although, as mentioned above, there are limitations of average tariff measures, it is the one measure that is fairly widely available for many countries at different points in time. Even still, the data are patchy. The data presented here are based on average (scheduled, unweighted) tariffs for as many countries as available covering three periods – 1980-85, 1990-95 and 2000-02. Where data were available for more than one year in any period, the average for available years is calculated. This indicates the pattern of changes in average tariffs shown in Table 6.

Table 6: The Pattern of Tariff Changes in Africa

	<i>Average Scheduled Tariffs</i>			<i>% change</i>
	1980-85	1990-95	2000-02	1990-2002
All Africa (29)	32.8	23.2	16.1	-30.6
Regions				
North Africa (4)	35.2	27.2	24.3	-10.7
West Africa (10)	38.5	23.4	14.4	-38.5
Central Africa (6)	33.1	20.4	16.4	-19.6
East Africa (5)	32.5	26.1	16.0	-38.7
Southern Africa (4)	19.5	17.7	12.9	-27.1
Export orientation				
Manufacturing	28.1	20.4	16.5	-19.1
Agriculture	40.2	22.5	14.5	-35.6
Mining/resources	50.5	18.4	13.2	-28.3
Oil	30.7	25.2	20.2	-19.8

Notes: Figures reported are simple averages across countries in each group for average unweighted scheduled tariffs reported for a year within the relevant period. Total sample is 29 countries with tariff data for at least two periods (see Appendix Table A), with numbers per region in parentheses (see Appendix for list).

The figures in Table 6 are simple averages in three senses. First, for each country they are unweighted averages of scheduled tariffs. Second, within each period they are averages of annual values for each country (although often there is only one observation for a country in any period). Finally, they are simple averages, not weighted by trade, across countries in each of the groups (and are thus affected by individual countries that may have very low, or very high, values). African countries are grouped by region, and by ‘export orientation’ – whether it is manufactures, agriculture, mining products or oil that are major export commodities. The countries in each group are listed in the Appendix. The classification by export orientation is useful insofar as manufactures and oil are likely to be more stable sources of export earnings than agriculture or mining.

Being simple averages, the data are no more than indicative, but some clear patterns emerge. Average tariffs have been reduced significantly, roughly halved on average, in Africa over the past 20 years. The final column reports the percentage reduction between the early 1990s and early 2000s (for comparison with trade data in Section 5), and even in this latter period reductions were quite large, some 30 percent on average. Comparing different regions of Africa, although the overall variation or spread in tariffs has been reduced, progress varies. North Africa reduced tariffs the least, especially since the 1990s, and by 2000-02 had the highest tariffs of any region (this is influenced by Tunisia having increased tariffs). Southern Africa has consistently had the lowest tariffs (and the trend is influenced by significant reductions in South Africa). Although West Africa appears to show the greatest reduction, the 1980-85 value is distorted by very high tariffs in Guinea. Of the regions, East and West Africa reduced tariffs the most since the 1990s.

Finally, we can observe some differences according to export orientation. In the 1980s, countries whose main exports were agriculture or mining tended to have high tariffs, whereas countries with significant exports of manufactures tended to have relatively low tariffs. By the 2000s, these differences had largely disappeared: the differences by export orientation were negligible, except that oil exporters tended to have higher tariffs. Although the latter figure is distorted by Nigeria’s relatively high tariffs, even excluding Nigeria the average in 2000-02 would be almost 19 percent. It is perhaps surprising that the ‘manufacturing’ group had the least reduction in tariffs and the highest average in the 2000s after the ‘oil’ group, but this may reflect the composition of the group. The general pattern is that significant tariff reductions (trade liberalisation) can be observed in almost all African countries, although the timing and extent of reductions varies across countries.

Table 7 reports data on average trade-weighted tariffs for 35 (SSA) countries. By the 1990s, three-quarters of the SSA countries had an average weighted tariff under 20 percent, and only two countries had an average tariff over 30 percent. We have information to compare average weighted tariffs in the 1980s and 1990s for the 26 countries: 21 countries (80 percent of the sample) had an average over 20 percent in the earlier period, but only six (23 percent of the sample) in the later period. About three-quarters of these countries had average tariffs below 20 percent in the 1990s, suggesting the sample is quite representative of SSA. The pattern is consistent with the evidence in

Appendix table A, suggesting that the use of unweighted tariffs gives a fairly reliable picture of the pattern of change.

Table 7: Distribution of Average Trade-weighted Tariffs in SSA

Average tariff	N=35		N=26	
	1990s	1980s	1990s	1990s
Under 10%	6	3	6	6
10-19%	21	2	14	14
20-29%	6	8	4	4
30-39%	2	10	2	2
40% and over	0	3	0	0

Notes: The column N=35 refers to a sample of observations for the mid to late 1990s, whereas N=26 refers to 26 countries for which values in the 1980s and 1990s can be compared.

Source: Derived from data in WTO website.

Table 8 provides more detailed data, reporting unweighted average tariffs for all goods, agricultural goods and manufactures (for years generally in the mid-to-late 1990s). Although tariffs are generally higher in agriculture than manufacturing, the gap is rarely large and there are only two countries with average tariffs in agriculture in excess of 30 percent (Burkina Faso and Rwanda). It is interesting to note that SSA averages are relatively close, by this time, to the average for all developing countries; higher than East Asia and Latin America, but lower than South Asia. It is also worth noting that for other regions tariffs are generally lower for manufactures than for other goods (all or agriculture). This suggests that African exporters are globally disadvantaged because they tend to export goods facing relatively high tariffs elsewhere.

Section 5: Policy and Trade Performance

The presence of import barriers or restrictions creates an anti-export bias by raising the price of importable goods relative to exportable goods. Removal of this anti-export bias through trade liberalisation should encourage a shift of resources from the production of import substitutes to the production of exports. Following trade liberalisation, one would expect to see an increase in imports and exports, with domestic production of import-competing products declining. Typically, import supply from the rest of the world responds more rapidly than domestic export supply. Imports increase faster than exports, imposing adjustment costs, as jobs are lost in import-competing sectors faster than they are created in export sectors, and possibly increasing the trade deficit. The most obvious trade policy liberalisation measures are reducing the average tariff, reducing the dispersion of tariffs and reducing or eliminating non-tariff barriers to imports. All such forms of import liberalisation were implemented by African countries in the 1990s. The most immediate effect is to make it easier to import and, specifically, to reduce the domestic price of imports. One would therefore expect to observe an increase in imports following liberalisation. Table 9 shows that this was generally the case, with data on import and export trends in the 1990s for the same sample of African countries for which average tariffs were reported in Table 6.

Table 8: Average Tariff Rates by Sector in SSA and Other Regions (1990s)

Country	Tariff Rate (% , unweighted)			
	Year	All Goods	Agric.	Man.
Benin	1996	13.1	13.7	12.8
Botswana	1996	11.1	12.3	11.0
Burkina Faso	1998	31.1	37.0	29.1
Cameroon	1996	18.1	24.3	17.8
Central Africa Rep	1997	7.0	7.6	6.8
Chad	1997	15.8	17.0	15.5
Congo Rep.	1997	17.6	18.0	17.5
Cote d'Ivoire	1996	19.2	21.2	18.8
Gabon	1998	20.6	25.1	19.7
Ghana	1995	15.0	20.1	14.1
Guinea	1998	16.4	16.6	16.3
Kenya	1999	18.0	16.7	18.2
Madagascar	1998	6.8	6.4	6.9
Malawi	1998	15.7	15.6	15.7
Mali	1999	11.2	16.1	10.4
Mauritius	1998	19.0	14.9	19.5
Mozambique	1997	15.6	16.9	15.3
Nigeria	1998	23.4	23.0	24.0
Rwanda	1993	34.8	58.0	31.1
Senegal	1996	12.3	13.5	12.1
South Africa	1999	8.5	8.0	8.6
Tanzania	1999	16.1	17.4	16.2
Togo	1997	13.3	13.6	13.3
Uganda	1996	13.2	23.7	11.6
Zambia	1997	13.6	15.9	13.0
Zimbabwe	1998	22.2	27.0	21.7
Averages for Regions (number of countries)				
All developing countries (96)	1993-99	13.1	17.0	12.4
East Asia (15)	1994-99	9.8	13.9	9.4
South Asia (5)	1996-99	27.7	26.3	28.0
Sub-Saharan Africa (26)	1993-99	16.5	19.2	16.0
Middle East & N. Africa (11)	1995-99	14.4	20.8	13.2
Transition Europe (15)	1996-99	9.6	15.7	7.8
Latin America (24)	1995-99	10.1	13.8	9.5

Notes: Agric refers to agriculture products and Man to manufactures.

Sources: WTO, IDB CD ROM 2000 and Trade Policy Review, various issues, 1993-2000; World Bank, World Development Indicators, 2000; and UNCTAD, World Investment Report 2000.

Table 9: Trade Performance in Africa (Tariff Data Sample)

Regions	Imports/GDP			Exports/GDP		
	90-92	98-00	% change	90-92	98-00	% change
North Africa (4)	34.1	32.1	-5.9	29.5	29.9	1.4
West Africa (10)	32.3	38.4	18.9	26.5	29.5	11.3
Central Africa (6)	27.3	30.8	12.8	23.6	28.4	20.3
East Africa (5)	33.4	35.5	6.3	23.0	26.1	13.5
Southern Africa (4)	30.6	37.2	21.6	26.6	30.8	15.8

Notes: Columns give average import/GDP and exports/GDP ratios averaged over 1990-92 and 1998-2000, and percentage change in ratios. Sample is those countries used for the pattern of tariff changes in Table 6.

Sources: Derived from data in Appendix tables.

Table 9 shows that it is not uniformly the case that regions that reduced tariffs the most experienced the greatest increase in imports, nor that import growth necessarily exceeded export growth. However, the broad pattern is as expected. North Africa, the region with the highest tariffs and that reduced tariffs the least, actually saw a decline in imports and very slow growth of exports. Southern Africa, with the lowest tariffs and a significant liberalisation, had the greatest increase in imports to a relatively high import/GDP ratio and relatively good export growth. West Africa, which also had significant liberalisation to relatively low tariffs, had high import growth but relatively modest export growth. These regions suggest a relationship from relative tariff reductions to relative import performance. East Africa was the region with the greatest tariff reduction since the 1990s, but had low growth of imports and moderate growth of exports. Central Africa had the lowest tariff reduction for SSA regions, moderate import growth but the highest export growth. It is clear that trade performance, especially for exports, is only partly explained by tariff reductions. The remainder of this section explores trade performance further for a larger sample of countries.

5.1 Trends in Imports

For Africa overall, imports (measured relative to GDP) increased by some 12 percent during the decade of the 1990s, and increased in all regions except the North (Table 10). Although North Africa is the only region for which the sample in Table 10 (and subsequent tables) is the same as for Table 9 (and Table 6), the pattern of relative regional trade performance is similar for the two samples, so we can relate the trade performance to our information on (relative) tariff reductions. North Africa reduced tariffs the least (proportionally), had the highest average tariffs at the end of the decade, and import ratios fell. Southern Africa had consistently the lowest average tariffs and the highest import/GDP ratio. This high starting point may explain why the percentage increase in imports was relatively low for the larger sample.

For the other three regions, there is no evident correlation of tariffs and tariff reductions to growth in imports. West Africa reduced tariffs significantly and to the lowest level (of these three regions), but did not have the highest import growth and actually has the lowest import/GDP ratio of the three regions. However, as the data for average tariffs are not weighted, whereas the data on trade performance are relative to GDP, one should not necessarily expect a strong correlation.

Table 10: The Pattern of Import Performance in Africa (Country Groups)

	Imports (% of GDP)		Change	
	1990-92	1998-00	% points	%
All Africa (47)	39.4	44.7	5.3	13.5
Regions				
North Africa (4)	34.1	32.1	-2.0	-5.9
West Africa (15)	35.8	40.8	5.0	14.0
Central Africa (9)	36.7	44.6	9.2	26.0
East Africa (9)	39.0	46.5	7.5	19.2
Southern Africa (10)	51.4	54.1	2.7	5.3
Export orientation				
Manufacturing (18)	35.8	39.4	3.6	10.1
Agriculture (10)	33.2	36.9	3.7	11.1
Mining/resources (7)	35.3	42.0	6.7	19.0
Oil (6)	30.8	35.1	4.3	14.0

Notes: Change between 1990-92 and 1998-2000 averages is given in percentage points and in percentage terms.

Sources: Derived from data in Appendix tables.

Although oil exporting countries had the highest average tariffs in the 1990s, they also showed relatively high growth of imports, probably because buoyant demand for their exports allowed them to finance imports. Among the other groups of countries classed by export orientation, import shares and growth tends to be higher in those groups with lower tariffs. In particular, mining exporters tended to have the lowest tariffs but highest imports, whereas manufacturing exporters had relatively low tariff reductions and the lowest import growth. There is some indication that imports are highest and grow faster in countries with low and declining tariffs, whereas imports are least in countries with relatively high (or slowly declining) tariffs. However, the performance of exports is likely to be a more important determinant of import growth.

5.2 Export Performance

Although trade liberalisation does not usually affect actual export prices (as these are typically determined on a world market), it increases the return to exportables relative to the return to importables. Producers of importables face increased competition from cheaper imports, reducing the profits of those that remain competitive. The competitive

position of producers of exportables is not adversely affected, and may be improved if they can access cheaper inputs and/or the trade reform included specific export promotion measures. Thus, the relative incentives to producers of exportables are improved. An adequate export response is usually sufficient to ensure that the net impact of trade liberalisation is favourable.

Table 11: The Pattern of Export Performance in Africa (Country Groups)

	Exports (% of GDP)		Change	
	1990-92	1998-00	% points	%
All Africa (47)	27.2	32.4	5.2	19.1
Regions				
North Africa (4)	29.5	29.9	0.4	1.4
West Africa (15)	25.3	28.6	3.2	12.6
Central Africa (9)	22.2	35.2	13.0	58.6
East Africa (9)	25.4	29.4	4.0	15.7
Southern Africa (10)	35.5	39.1	3.6	10.1
Export orientation				
Manufacturing (18)	26.9	31.4	4.5	16.7
Agriculture (10)	21.9	27.3	5.4	24.7
Mining/resources (7)	29.7	33.0	3.3	11.1
Oil (6)	34.4	38.3	3.9	11.3

Notes: Change between 1990-92 and 1998-2000 averages is given in percentage points and in percentage terms.

Sources: Derived from data in Appendix tables.

Table 11 shows that overall export growth in Africa was quite strong over the decade, with the export/GDP ratio increasing by almost 20 percent. Interestingly, the lowest growth was in North Africa, the least ‘liberalised’ region, whereas the highest export/GDP ratio (with moderate growth) is in Southern Africa, the most liberalised region. There are many factors affecting export performance. Domestic trade policy is only one, and rarely would it be the most important, at least in the short to medium term. Thus, one would not expect to observe a strong correlation between relative tariff reductions and relative export growth, although it is encouraging that export growth was generally strong throughout Africa. Only a few individual countries recorded sustained export growth in the 1990s, but these are mostly countries that reduced tariffs. Ghana is one example, where export growth supported rapid import growth (during the 1990s, import/GDP grew 107 percent whereas export/GDP grew 125 percent, Appendix Table B).

As export performance is driven by trends in world demand and prices for the commodities exported, performance across countries classified by export orientation is only weakly related to tariff reductions. Agriculture exporters reduced tariffs the most and had the most rapid export growth, but the other groups exhibit no clear pattern. As

export earnings are the basis of financing imports, one might expect to see a relationship between export and import growth. This is evident comparing Tables 10 and 11. Regions with the highest export growth also tended to have the highest import growth, although no pattern emerges when countries are grouped by export orientation. The two come together in the effect on the balance of trade.

5.3 Trade Balance

In percentage terms, export growth exceeded import growth for Africa overall and in most country groups. However, as import/GDP ratios were initially higher than export/GDP ratios, this need not translate into an improvement in the trade balance. As Table 12 shows, the trade deficit for Africa overall was almost unchanged, at just over 12 percent of GDP at the start and end of the 1990s. The deficit declined noticeably in North and Central Africa. In the former this can be attributed to a decline in imports (consistent with relatively high trade barriers), whereas in the latter it is due to the dramatic increase in exports (as a number of countries in this region emerged from political and economic instability during the period). The deficit declined slightly in Southern Africa, the region most dependent on imports. In West and especially East Africa was there a noticeable increase in the deficit. Interestingly, these are the regions in which average tariffs were reduced the most, highlighting the danger that, following rapid liberalisation, imports can increase faster than exports.

Table 12: Trade Balance in Africa (as % of GDP) (Country Groups)

	1990-92			1998-2000		
	M	X	X-M	M	X	X-M
All Africa (47)	39.4	27.2	-12.2	44.7	32.4	-12.3
Regions						
North Africa (4)	34.1	29.5	-4.6	32.1	29.9	-2.2
West Africa (15)	35.8	25.3	-10.5	40.8	28.6	-12.2
Central Africa (9)	36.7	22.2	-14.5	44.6	35.2	-9.4
East Africa (9)	39.0	25.4	-13.6	46.5	29.4	-17.1
Southern Africa (10)	51.4	35.5	-15.9	54.1	39.1	-15.0
Export orientation						
Manufacturing (18)	35.8	26.9	-8.9	39.4	31.4	-8.0
Agriculture (10)	33.2	21.9	-11.3	36.9	27.3	-9.6
Mining/resources (7)	35.3	29.7	-5.6	42.0	33.0	-9.0
Oil (6)	30.8	34.4	3.6	35.1	38.3	3.2

Notes: Columns give imports (M), exports (X) and the trade balance (X-M), where a negative sign indicates a deficit, all expressed as percentages of GDP.

Sources: Derived from data in Appendix tables.

When we consider countries classed according to export orientation, only the oil exporters as a group show a trade surplus (and this declined slightly). In terms of the

reducing the trade deficit, the best performance was in agriculture exporters, for which the deficit declined significantly although it remained high. There is a suggestion of import compression in these exporters, as export/GDP ratios remain very low (exports would have to grow by some 40 percent, given constant imports, to eliminate the deficit). In particular countries, import surges are not unusual, so sustaining a reduction in the trade deficit is difficult if exports are flat (e.g. in Malawi, imports roughly doubled from 30 percent of GDP to 60 percent between 1992 and 1994 but exports did not change). Exporters of manufactures reduced the deficit slightly. Exporters of mining resources displayed the worst performance, with the deficit increasing by over a third.

These results show that there is a potential danger from relatively rapid liberalisation, as import supply is more immediately responsive than export supply. This problem is most pronounced for countries exporting primary commodities subject to weak and volatile world prices. Kenya, for example, has experienced an increasing trade deficit; in the 1990s, import/GDP rose 15 percent but export/GDP fell by four percent (Appendix Table B). Oil exporters have fared reasonably well and maintained a surplus as a group, although this was significantly reduced in the late 1990s (e.g. in Gabon it fell from 14 percent to four percent of GDP in the 1990s, Appendix table B) and agriculture exporters have fared better than may be expected (reducing the size of the deficit for the group). Countries dependent on mining exports, however, have not fared well in the 1990s. Whilst overall, it would be wrong to conclude that Africa has not gained from trade liberalisation in the 1990s, export supply response has been a major constraint in many countries. This is one reason why trade reforms may not have delivered the growth dividend anticipated.

5.4 Trade and Growth: The Importance of Exports

The empirical evidence on the relationship between trade and economic growth can be quite confusing, as often studies are writing about different issues. Some commentators take a narrow focus on the association between exports and growth. Exports, by providing a market for surplus and by earning foreign exchange (to finance imports), will tend to be associated with growth. This need not require a very liberal import regime. Nevertheless, many commentators refer to the openness of the trade regime, the core argument being that minimising protection against imports reduces relative price distortions and encourages production of exportables. Some commentators take a very broad focus, considering the openness of the regime not only to imports but also to foreign investment, technology, institutions and ideas (Rodrik, 1999). Our interest is the middle ground, of the link between trade policy and growth.

For small economies, and all African economies are small in this sense, export expansion can be the driver of growth. Uganda is an example of a country for which this was the case (export/GDP grew by 35 percent in the 1990s, although import/GDP grew by only four percent, Appendix Table B). Countries that achieve high export growth rates also achieve high economic growth rates, whereas it is rare for a small economy to achieve high economic growth without export growth. However, it is not so clearly evident that trade liberalisation increases exports and therefore contributes to growth (Greenaway,

Morgan and Wright, 1998). As observed above for SSA in the 1990s, imports often grow faster than exports following trade liberalisation, such that in the short to medium term the impact on growth may be minimal if not adverse. The long run gains require export growth, but this often fails in SSA because of constraints on export supply response.

There are a number of reasons why the beneficial impact of trade policy on growth may be muted in Africa. A general problem is that there is a weak link between unilateral trade policy reforms and the effect on export trade. Domestic policy reforms have their direct effect on imports, while export performance is largely determined by external factors, notably world prices and demand. In the latter respect, multilateral (and regional) trade liberalisation can be important because it increases countries' access to foreign markets. Specific concerns relate to the structure of African exports, and these are most relevant for SSA countries (as few of these are significant exporters of manufactures). The structure of SSA exports generates two problems for growth – commodity dependence and high trade costs.

First, SSA countries relative endowments of land and natural resources result in export dependency on primary commodities. This subjects exports to the vagaries of a volatile world market and the economy is vulnerable to terms of trade shocks and volatile export earnings, both of which have negative impacts of growth. It also means that exports are likely to be relatively bulky with high volume-to-price ratios, hence relatively high unit transport costs. This links to the second factor, SSA countries tend to face 'natural barriers' that increase the costs of trade – imports are more expensive and exporting more costly. While these barriers confer protection to producers of importables, they imply effective taxation of exports (Milner, Morrissey and Rudaheranwa, 2000). Transport costs are the most obvious such costs. Many SSA countries are landlocked (and suffer the additional costs of slow Customs procedures at borders) and many of those that are not have large interiors. The primary commodities they produce have to be transported large distances overland to reach ports; road and rail systems tend to be inefficient throughout SSA, and sea shipping costs are relatively high.

Resource endowments will be a major determinant of trade structure. A standard hypothesis is that countries with relatively low endowments of natural resources, thus relatively high labour endowments, will need to industrialise to promote export growth and utilise their comparative advantage. However, countries endowed with natural resources coupled with low skill levels will tend to have export dependence on unprocessed primary commodities. This can retard growth because extractive industries have weak linkages with the rest of the economy, agricultural exports are largely unprocessed and primary commodities tend to face volatile and deteriorating terms of trade. Although having an abundance of primary commodities to export is, in itself, beneficial, problems arise for those countries dependent on a narrow range of primary commodities (Lederman and Maloney, 2003). Under such an environment, trade liberalisation will confer limited benefits – the capacity of the export sector to respond is constrained, whereas domestic producers will face increased competition from imports. This may help, in particular, to explain Africa's poor growth performance.

Although the evidence that trade liberalisation increases growth is weak (Mbabazi, Milner and Morrissey, 2003), there is almost no evidence that trade liberalisation retards growth beyond the short-term adverse effect on the balance of payments discussed above. Whilst increased competition from imports could have adverse effects on manufacturing industries, there is no convincing evidence that trade reforms caused de-industrialisation in Africa (Bennell, 1998). In general, trade liberalisation offers benefits to African countries. The evidence is stronger that exports promote growth, even in African countries. There is some evidence that growth has been higher in more outward oriented SSA economies, suggesting that trade liberalisation offers the potential for SSA countries to increase growth rates (Onafowora and Owoye, 1998). Even in those countries dependent on primary commodity exports, a less restrictive trade regime is conducive to increased efficiency of resource allocation and hence growth.

5.5 Constraints on Export Supply Response

Trade liberalisation is expected to remove the relative disincentive to produce exports and the anticipated beneficial effect is that exports will increase and, in turn, fuel economic growth. However, trade policy is only one factor constraining exports, and relative prices are rarely the major constraint on export supply response. For countries dependent on agricultural exports, non-trade policies (e.g. marketing boards and price controls) have often been biased against agriculture and discouraged export production. In addition, farmers face many constraints in gaining access to factors, inputs and technology that limit their ability to increase production in response to improved (export) price incentives (McKay, Morrissey and Vaillant, 1997). Given the many and varied constraints to increasing production and distribution of primary commodities, one may not observe a quick export response to trade liberalisation. This does not mean that trade reforms should not be undertaken, but one should exercise care in interpreting the evidence.

As mentioned previously, transport costs can be quite high for many SSA countries and this can act as an important constraint on primary commodity exports. Transport costs are some 15 percent of unit values on average in Africa, which is considerably higher than the averages for other developing country regions. Table 13 illustrates the importance of transport costs, reporting the cif/fob ratio for groups of African countries. Unsurprisingly, Landlocked countries (or Central Africa, which is similar) face the highest transport costs, of over 20 percent unit values, while North Africa faces the lowest transport costs. In general, transport costs declined slightly between 1980 and 1994. The main exceptions are landlocked, Southern Africa and Agriculture groups. The increases in all of these groups are largely due to Malawi, where the ratio in 1994 rose to 1.67 (because the war in Mozambique denied the shortest route to the sea).

Differences in transport costs between groups of countries reflect differences in the direction and composition of trade as well as location characteristics. The latter seems most important, as there are few consistent patterns across countries grouped by export orientation (although manufactures appear to have the lowest costs). Remoteness, poor infrastructure and being landlocked are clearly damaging to trade because they raise trade costs, and such costs are a particular burden on African countries.

Table 13: Transport Costs in Africa, Country Groups

Grouping	cif/fob ratio	
	1980	1994
Landlocked Countries	1.227	1.249
Regions		
North Africa	1.101	1.096
West Africa	1.196	1.191
Central Africa	1.244	1.224
East Africa	1.161	1.146
Southern Africa	1.137	1.222
Export orientation		
Manufacturing	1.144	1.128
Agriculture	1.168	1.196
Mining/resources	1.197	1.139
Oil	1.148	1.152

Source: Derived from data in IMF (1995).

A more general point can be made regarding the link between trade liberalisation and openness. While the latter may give rise to concerns regarding the competitiveness of domestic producers of importables, access to imported investment goods and the technology embodied in imports may be very beneficial. Furthermore, trade openness and being seen to implement trade reforms may attract foreign investment. Foreign investors tend to be attracted to countries with relatively open trade regimes and increasing trade volumes. Furthermore, the injection of funds, know-how and marketing contacts associated with foreign investment may itself be a boost to exports.

Section 6: Conclusion

There is no doubt that SSA countries have liberalised their trade regimes quite significantly over the past decade or so. The pace and pattern of trade reforms varies from country to country, but the broad trend is towards lower barriers to imports. Evidence for this can be found in lower average tariffs, and perhaps more significantly in increases in imports as a share of GDP. Multilateral and regional agreements have committed them to these reforms – the clock cannot be turned back, although the appropriate pace of future liberalisation is an important policy issue. To date, there is little aggregate evidence that the trade policy reforms and liberalisation since the late 1980s have produced a significant export response. Exports have not increased consistently, and there is no evident correlation between the extent of trade liberalisation and the rate at which exports have grown. There is some tendency for imports to grow faster than exports following liberalisation, increasing the trade deficit and thus constraining growth. The major problem facing SSA is not trade reform *per se* but rather how to diversify and increase exports.

There are many explanations as to why the export response to trade liberalisation in SSA has been limited. These include factors relating to the effectiveness of the liberalisation itself (what trade reforms were actually implemented), and to the response of producers to the apparent shift in the incentive structure (do they believe that the reforms are credible and sustainable). However, trade liberalisation has now been sustained for some time in most SSA countries. The issue for the future is how the effectiveness of trade reforms is contingent on the existence of other characteristics of the environment in which production and investment decisions are made. We have identified trade structure and constraints on supply response as predominant among these. Some commentators emphasise the role of institutional (political and legal) and infrastructure factors in affecting private sector confidence in achieving and securing adequate returns. The simple point is that there are many factors other than trade policy that help explain the poor export performance of SSA countries. Consequently, the benefits of trade liberalisation may not be immediately apparent. This does not imply that, at the margin, trade policy reform is not beneficial.

The importance of trade, and especially policies to enhance export performance, feature prominently in the Commission for Africa (2005). Transforming Africa into a dynamic exporting region is seen as central to achieving sustained economic growth and poverty reduction. The basic argument of the Report is that more needs to be done, globally and within African countries, to allow these countries to expand exports, and to diversify exports away from dependence on a narrow range of (unprocessed) primary commodities. Chapter 8 of the Report discusses trade and offers many sensible policy proposals, and the Commission for Africa (2005) advocates a substantial increase in aid to assist in implementing these and other proposals. Although the Commission for Africa (2005) recognises that an increase in imports is necessary for macroeconomic accommodation of the rapid growth in foreign exchange inflows associated with a large increase in aid, there is surprisingly little discussion of imports. Morrissey (2005) questions the feasibility and desirability of a significant increase in imports (as we have seen above, import/GDP ratios are high and rising), and that the Commission for Africa (2005) is rather weak on how to implement trade reforms. Nevertheless, this reinforces the importance of trade on the African policy agenda.

One of the keys to future prospects is ‘discovering’ how to bring about improved export performance. A core element of any strategy is the need to diversify exports. Trade liberalisation can do no more than provide opportunities – unilateral reforms increase relative incentives to exporters, and multilateral or regional liberalisation increase market access. Domestic policies are necessary to reduce the varied constraints on supply response, increase transport and marketing efficiency, and encouraging investment. To benefit from trade, and channel these benefits into helping reduce poverty, SSA countries need to increase the flexibility and efficiency of resource use so that they can be competitive in global markets. Policies in other countries, and especially multilateral and regional agreements, will be important in the long term, but will not ensure that any particular country is able to benefit from the opportunities provided by trade rather than succumbing to the challenges and costs. African countries should concentrate on their own policies and not rely on actions by other countries.

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APPENDIX - Country Classifications Used

To summarise the data in the text, two ways of classifying countries (47 for which full trade data were available) were used. The first was relatively straightforward, classifying countries according to the geographical region of Africa in which they are located. The second classifies according to the relative importance of particular sectors in exports, termed *export orientation*. Four sectors were identified (following the WDI classification): manufactures, agriculture, mining and oil. The criterion used was to designate the sector as relatively important if it accounted for over 20 percent of merchandise exports, on average, in the 1990s. The classification should be considered as illustrative of African countries exporting products in these sectors. Data quality is poor so it is not a definitive list (for specific countries, sector shares can vary considerably from year to year). Furthermore, as the criterion is not based on the majority share of exports, a country could appear under more than one sector. The full list of countries included under each classification is given below.

Classifications of Countries by Region

North Africa (4):

Algeria, Egypt, Morocco and Tunisia.

West Africa (15):

Benin*, Burkina Faso*, Cape Verde, Cote d'Ivoire*, Gambia, Ghana*, Guinea*, Guinea Bissau, Mali, Mauritania*, Niger, Nigeria*, Senegal*, Sierra Leone* and Togo*.

Central Africa (9):

Burundi*, Cameroon*, Central African Republic*, Chad, Congo (Republic)*, Equatorial Guinea, Gabon*, Rwanda* and Sao Tome and Principe.

East Africa (9):

Comoros, Eritrea, Ethiopia*, Kenya*, Madagascar, Mauritius*, Seychelles, Tanzania* and Uganda*.

Southern Africa (10):

Angola, Botswana, Lesotho, Malawi*, Mozambique, Namibia, South Africa*, Swaziland, Zambia* and Zimbabwe*.

*Countries for which observations on average tariffs were available for at least two periods (Appendix Table A) are denoted with *.*

Classifications of Countries by Export Orientation

Manufacturing (>20% share of exports) (18):

Algeria, Cape Verde, Central African Republic, Cote d'Ivoire, Gambia, Ghana, Guinea, Kenya, Madagascar, Mauritius, Morocco, Mozambique, Senegal, South Africa, Tanzania, Togo, Tunisia and Zimbabwe.

Agriculture (>20% share of exports) (10):

Benin, Cameroon, Central African Republic, Ghana, Malawi, Mali, Mauritius, Tanzania, Togo and Uganda.

Mining/Resources (>20% share of exports) (7):

Angola, Central African Republic, Guinea, Mauritania, Niger, Togo and Zambia.

Oil Exporters (6):

Algeria, Cameroon, Congo, Egypt, Gabon and Nigeria.

APPENDIX Table A: Average Tariffs by Country

Country	AVERAGE ANNUAL TARIFFS		
	1980-85	1990-95	2000-02
Algeria	29.6	23.9	19.2
Benin	48.3	41.0	12.0
Burkina Faso		21.0	12.0
Burundi	37.9	7.4	
Cameroon	28.3	18.6	18.0
Central African Republic		18.6	18.0
Congo, Rep.		20.6	18.0
Cote d'Ivoire	27.7	22.9	12.0
Egypt, Arab Rep.	47.4	32.9	19.9
Ethiopia	29.0	22.6	18.8
Gabon		18.6	17.9
Ghana	33.3	16.7	14.6
Guinea	76.4	11.9	
Kenya	41.0	33.3	17.1
Malawi	19.4	19.1	13.4
Mauritania	24.6	28.2	10.9
Mauritius	36.2	29.0	19.0
Morocco	37.5	24.3	
Nigeria	33.8	33.7	30.0
Rwanda		38.4	9.9
Senegal		13.3	12.0
Sierra Leone	25.8	30.3	
South Africa	29.0	9.6	5.8
Tanzania	23.9	28.4	16.3
Togo		15.0	12.0
Tunisia	26.3	27.9	33.9
Uganda		17.1	9.0
Zambia		25.5	14.0
Zimbabwe	10.0	16.7	18.3
Average	32.8	23.2	16.1

Source: Compiled from various WTO sources.

APPENDIX Table B: Trade Shares by Country

Country	IMPORTS (% of GDP)			EXPORTS (% of GDP)			TRADE (% of GDP)		
	90-92	98-00	Change	90-92	98-00	Change	90-92	98-00	Change
Algeria	24.1	23.6	-2.3	26.0	31.0	19.5	50.1	54.6	9.0
Angola	39.6	81.4	105.6	46.0	77.9	69.3	85.6	159.2	86.1
Benin	27.7	28.9	4.6	14.9	16.5	10.8	42.5	45.4	6.8
Botswana	45.9	33.4	-27.2	52.3	31.2	-40.3	98.2	64.6	-34.2
Burkina Faso	25.5	30.4	19.3	11.6	12.3	5.6	37.1	42.7	15.0
Burundi	28.4	20.6	-27.5	8.8	8.6	-2.3	37.2	29.2	-21.5
Cameroon	16.8	25.5	52.2	20.2	27.2	34.4	37.0	52.7	42.5
Cape Verde	44.7	58.2	30.4	11.5	21.0	81.9	56.2	79.2	41.0
C African Rep.	24.7	18.6	-24.6	12.9	13.7	6.1	37.6	32.3	-14.1
Chad	26.1	31.5	20.8	12.2	17.0	39.3	38.2	48.4	26.6
Comoros	39.1	34.5	-4.6	17.4	23.8	6.4	56.5	58.3	1.8
Congo, Rep.	44.3	57.8	30.5	47.2	71.9	52.4	91.5	129.7	41.8
Cote d'Ivoire	27.4	37.8	37.8	31.2	44.2	41.7	58.6	82.0	39.9
Egypt	33.4	24.3	-27.4	25.6	15.8	-38.2	59.1	40.1	-32.1
Equatorial Guinea	61.2	105.1	71.8	27.4	96.8	252.8	88.7	202.0	127.8
Eritrea	56.7	88.6	31.9	20.1	13.9	-6.2	76.8	102.5	25.7
Ethiopia	12.0	28.3	135.8	6.0	15.1	151.7	18.0	43.4	141.1
Gabon	32.6	39.1	19.8	46.5	42.7	-8.2	79.1	81.8	3.4
Gambia, The	74.1	62.8	-15.3	62.2	48.3	-22.3	136.3	111.1	-18.5
Ghana	26.7	55.2	106.6	17.0	38.3	125.1	43.7	93.5	113.8
Guinea	26.5	27.6	4.2	24.4	22.9	-6.2	50.9	50.5	-0.8
Guinea-Bissau	41.6	45.7	9.7	8.3	23.7	186.5	49.9	69.4	39.0
Kenya	28.9	33.2	14.7	26.8	25.6	-4.4	55.7	58.8	5.5
Lesotho	124.3	96.8	-22.1	17.0	26.4	54.9	141.3	123.2	-12.8
Madagascar	25.7	32.3	25.4	17.0	23.6	38.7	42.7	55.9	30.7
Malawi	35.1	40.4	15.4	23.4	28.9	23.2	58.5	69.3	18.5
Mali	33.7	36.9	9.3	16.9	24.8	46.4	50.7	61.7	21.7
Mauritania	55.0	53.2	-3.4	42.4	39.9	-5.9	97.5	93.1	-4.5
Mauritius	67.4	67.8	0.6	62.7	65.2	4.0	130.1	133.0	2.2
Morocco	31.3	34.4	9.8	25.2	29.7	17.9	56.5	64.1	13.4
Mozambique	40.4	34.2	-15.3	11.1	12.3	11.3	51.5	46.5	-9.6
Namibia	55.5	57.0	2.7	47.3	47.4	0.3	102.8	104.4	1.6
Niger	19.5	24.0	22.8	15.3	16.4	7.3	34.8	40.3	16.0
Nigeria	33.5	40.1	19.5	41.0	40.9	-0.1	74.5	81.0	8.7
Rwanda	16.8	23.2	38.3	6.2	6.5	5.0	22.9	29.7	29.4
Sao Tome e Principe	79.8	79.7	0	18.6	32.6	14.0	98.4	112.3	13.9
Senegal	30.9	38.8	25.5	24.5	31.3	28.0	55.4	70.1	26.7
Seychelles	62.8	85.4	22.6	59.0	73.0	14.0	121.8	158.4	36.6
Sierra Leone	29.0	24.7	-14.7	27.1	15.0	-44.6	56.1	39.7	-29.2
South Africa	17.8	24.6	38.4	22.7	26.9	18.5	40.5	51.6	27.2
Swaziland	86.2	89.3	3.6	75.2	72.8	-3.2	161.4	162.1	0.5
Tanzania	36.8	25.5	-30.8	11.8	13.9	18.3	48.6	39.4	-18.9
Togo	41.0	47.2	15.2	31.3	33.6	7.4	72.3	80.8	11.8
Tunisia	47.5	46.1	-2.9	41.2	43.1	4.6	88.6	89.2	0.6
Uganda	21.9	22.8	4.4	7.8	10.6	35.4	29.7	33.4	12.6
Zambia	40.6	42.1	3.8	35.6	26.6	-25.3	76.2	68.8	-9.8
Zimbabwe	28.8	41.7	44.6	24.7	40.8	65.6	53.5	82.5	54.3

Source: World Bank, World Development Indicators (WDI) 2002 CD-ROM

APPENDIX Table C: Transport Costs (cif/fob ratio)

Country	cif/fob ratio		Country	cif/fob ratio	
	1980	1994		1980	1994
Algeria	1.100	1.100	Mali	1.428	1.429
Benin	1.205	1.205	Mauritania	1.130	1.130
Botswana	1.176	1.176	Mauritius	1.210	1.148
Burkina Faso	1.279	1.282	Morocco	1.136	1.099
Burundi	1.150	1.150	Mozambique	1.120	1.120
Cameroon	1.100	1.100	Niger	1.246	1.173
Cape Verde	1.150	1.150	Nigeria	1.107	1.107
C African Rep.	1.194	1.089	Rwanda	1.514	1.436
Chad	1.330	1.350	Senegal	1.144	1.144
Congo	1.222	1.229	Seychelles	1.150	1.150
Cote d'Ivoire	1.223	1.244	Sierra Leone	1.099	1.136
Egypt	1.111	1.111	Somalia	1.149	1.149
Ethiopia	1.176	1.186	South Africa	1.051	1.087
Gabon	1.201	1.211	Sudan	1.099	1.066
Gambia	1.167	1.167	Swaziland	1.006	1.014
Ghana	1.069	1.069	Tanzania	1.177	1.176
Kenya	1.149	1.163	Togo	1.217	1.164
Liberia	1.158	1.155	Tunisia	1.058	1.072
Libya	1.111	1.111	Uganda	1.111	1.110
Madagascar	1.244	1.205	Zambia	1.230	1.200
Malawi	1.138	1.670	Zimbabwe	1.150	1.150

Source: IMF (1995).