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Andri Kopperschmidt* and Jacint Soler Matutes**

Assessment of Trade Liberalisation in Sub-Saharan Africa

The following paper describes the efforts of sub-Saharan African countries to liberalise their trade regimes and analyses the response of the economy to this reform in the short and medium run. In a sample of eight countries the economic reaction is found to be consistent with the ranking of countries according to their trade restrictiveness. However, additional explanations are found to be crucial to the success of African trade reform. Particularly, the lack of supporting policies and institutions, such as export promotion and developed capital markets, threaten the pursuit of reform and undermine the medium-run response of the economy.

After more than a decade of adjustment in sub-Saharan Africa (SSA), the time has come to assess the impact of these necessary but controversial reforms. Different studies have proliferated¹ to ascertain whether Africa's daunting performance of the 1960s to 1980s has been overcome and these countries are regaining lost ground in all social and economic indicators. One of the main features of adjustment programmes was the liberalisation of markets and economic sectors under the principle of "getting the prices right". The reform of the trade regime was one of the crucial contents, included in 80% of all loans granted to African countries, being the most frequent policy measure together with agricultural policy.²

The traditional trade regime of SSA countries before adjustment reflected in many respects the main arguments of development economists from the 1950s to the 1970s. Inward-oriented development strategies were believed to be the best way to achieve industrialisation. Infant industry protection, foreign exchange scarcity, security in food supply, as well as gloomy prospects for primary commodity export expansion were mentioned as basic factors to justify the establishment of a highly protected, state controlled and anti-export biased trade regime. Import substitution, rather than export promotion, was the central target of trade policy and it was achieved through high import barriers, basically quantitative restrictions, import prohibitions and licensing. The state control of market activities was extensive, either

indirectly, through issuance of import licenses, or directly, by carrying out international trade through state agencies or companies.³ This discretionary trade regime, marked by intransparency and unpredictability, heavily encouraged rent-seeking and corruption. A move away from this inward-looking strategy towards increased openness was believed to improve trade performance and yield higher growth rates, as numerous empirical studies have shown in the African case.⁴

This paper will attempt to analyse the main efforts undertaken by SSA countries to liberalise their trade regimes and assess their impact on the economy. A sample of eight African countries will be referred to throughout the paper, since detailed information was available on their specific trade policies: Cameroon, Côte d'Ivoire, Ghana, Mauritius, Senegal, Uganda, Zambia and Zimbabwe. The paper first characterises the sample and describes the main features of the

¹ See Howard White: Adjustment in Africa: Review Article, in: Development and Change, Vol. 26, No. 4, 1996, pp. 786-815, for a thorough survey of the literature.

² See Colin Kirkpatrick: Does Trade Liberalization assist Third-World Industrial Development? Experience and Lessons of the 1980s, in: International Review of Applied Economics, Vol. 9, No. 1, 1995, pp. 22-41, here Table 1.

³ World Bank: Adjustment in Africa: Reforms, Results and the Road Ahead, Washington D.C. 1994, here Table A. 10.

⁴ Although the theoretical links between openness and growth are yet to be clarified, there is a growing literature which explores the empirical relationship between them. Kazi M. Matin: Openness and Economic Performance in Sub-Saharan Africa, World Bank Policy Research Working Paper, No. 1025, Washington 1992, provides a good survey of the most relevant works in this field and also regresses SSA growth rates on four different measures of openness. He finds a positive and significant effect of openness on growth for all four measures.

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Table 1
Characterisation of the Sample Countries

| | Exchange-rate regime | Main traditional exports | Start of trade reform | Adjustment programme |
|---------------|----------------------|------------------------------|-----------------------|----------------------|
| Cameroon | CFA | Oil, cocoa, coffee | 1986 | 1989 |
| Côte d'Ivoire | CFA | Cocoa, coffee | 1985 | 1981-86 |
| Ghana | Non-CFA | Cocoa, gold, timber | 1983 | 1979, 1984-89 |
| Mauritius | Non-CFA | Sugar | 1984 | 1980-86 |
| Senegal | CFA | Groundnuts, phosphates, fish | 1986 | 1979-82, 1984-89 |
| Uganda | Non-CFA | Coffee | 1987 | 1991 |
| Zambia | Non-CFA | Copper | 1991 | 1983 |
| Zimbabwe | Non-CFA | Gold, tobacco | 1990 | 1981, 1983-84 |

trade regimes, as well as the measures implemented in order to achieve more openness in these countries. It then explores the economic response to liberalisation, by using certain performance indicators for the short and medium terms before providing additional explanations for uneven performance across countries by looking at complementary policies in trade reform, and presenting some final conclusions.

Status Quo Prior to Liberalisation

The sample of countries which will be used to analyse the impact of liberalisation provides a useful general picture of the different economic constraints to policy design in SSA. Table 1 summarises some of them related to the external sector: exchange-rate regime, main primary exports, start of trade liberalisation and periods of adjustment.

Membership of the CFA zone involves a fixed exchange-rate system pegged to the French franc. The sample covers both CFA and non-CFA countries. Main traditional exports are defined as the three main primary export commodities.⁵ The period of liberalisation for each country is obtained from country specific trade policy reviews by the WTO as well as from Husain and Faruquee, and Sahn,⁶ and it mostly shows the year where quantitative restrictions were replaced by tariffs as the first fundamental step in

reform. To define the start of an adjustment programme, the approach of Leenhardt et al.⁷ is used, in which a country is considered to be under adjustment in a certain year if an agreement between the country and the IMF was in force for at least six months and the country effectively used more than 50% of the funds provided by the IMF for that year. This criterion is a better measure of the effective application of the policy changes required by the lenders than the simple signature of an agreement, which is used by Khan.⁸

The features of the traditional trade regimes of these countries prior to the start of liberalisation are obtained from DeRosa⁹ and WTO¹⁰ and may be summarised as follows:

□ extensive protection through quantitative restrictions and licenses under state control, due to foreign exchange scarcity, price controls over certain goods – mostly agricultural goods – as well as the desire to promote strategic sectors, through easy licensing for imports of inputs in import-competing industries;

□ the highest protection was on the imports of food and labour-intensive manufactures like textiles and apparel, although protection was also high on raw materials and iron;¹¹

⁵ J. Trotignon: Pourquoi les politiques d'ajustement ont-elles généralement mieux réussi en Asie du Sud-Est qu'en Afrique?, in: *Economie et statistique*, 1993, No. 264, pp. 33-51, here Table 3.

⁶ Ishrat Husain and Rashid Faruquee (eds.): *Adjustment in Africa, Lessons from Country Case Studies*, Washington D.C. 1994; and David E. Sahn (ed.): *Adjusting to Policy Failure in African Economies*, New York 1994.

⁷ B. Leenhardt, M. F. L'Heriteau and C. Nane Tanke: Une décennie d'ajustement en Afrique: performances comparées de 28 pays africains 1980-89, in: *Caisse Centrale de Coopération Economique, Notes et études*, 1991, No. 43, here p. 22.

⁸ Mohsin S. Khan: The Macroeconomic Effects of Fund-Supported Adjustment Programs, in: *IMF Staff Papers*, Vol. 37, No. 2, 1990, pp. 195-231.

⁹ Dean A. DeRosa: Protection and Export Performance in Sub-Saharan Africa, in: *Weltwirtschaftliches Archiv*, 1992, Vol. 128, No. 1, pp. 88-124, here Table 2 and 3.

¹⁰ WTO: Trade Policy Review: Ghana, 1992; Trade Policy Review: Senegal, 1994; Trade Policy Review: Cameroon, 1995; Trade Policy Review: Côte d'Ivoire, 1995; Trade Policy Review: Mauritius, 1995; Trade Policy Review: Uganda, 1995; Trade Policy Review: Zimbabwe, 1995; Trade Policy Review: Zambia, 1996.

¹¹ See A. DeRosa, op.cit., pp. 100-101.

□ export and import prohibitions, to secure domestic food supply and maintain state control over the main exports and to prevent the entry of domestic-competing goods,

□ extensive state trading on the import and export sides in order to secure domestic supply and maintain control over key exports of the country, which provided large revenues and gave rise to rent-seeking activities within the state administration;¹²

□ inefficient tariff structure with different tariff rates, high dispersion and peak-tariffs over 100%, which encouraged evasion and smuggling, especially in countries with porous borders; the tariff structure reinforced the pattern of protection set by non-tariff barriers;

□ presence of additional charges and taxes on imports, like stamp tax and landing charges, which increased effective protection;

□ extensive taxes on main exports, with a view to increasing government revenue and reducing production to push up world prices;¹³

□ government revenue mainly relying on charges on international trade, i.e. import tariffs and export taxes, although dampened activity through taxation, as well as smuggling and evasion, led to decreasing revenues in some countries; furthermore, many importers benefited from discretionary tariff exemptions, granted on the grounds of lobbying and rent-seeking, which contributed to the overall reduction of revenues.

The burden that these import constraints imposed on the economy and especially on the export side are shown by DeRosa. He also estimates the positive impact of import liberalisation for a sample of 23 African countries as an increase in the volume of exports between 15% and 30% on average.¹⁴

Liberalisation Measures

The wave of trade liberalisation initiated in the 1980s in many African countries was intensively pursued at the end of the decade. The main goal was to move from a highly distorting trade regime with extensive non-tariff protection and considerable state involvement towards a system of market price mechanisms. Quotas, import prohibitions and licensing were to be removed and replaced by transparent ad valorem tariffs. In fact, countries like Mauritius, Ghana and Senegal, which undertook relevant adjustment reforms in the early 1980s, followed a two-step path. They first introduced a tariff-based

system and, in the late 1980s, they reduced tariffs and reformed the regime, in order to enhance uniformity and transparency through fewer tariff rates, lower peak tariffs and reduced dispersion. Others, such as Uganda, Zambia and Zimbabwe, which hardly engaged in adjustment programmes in the 1980s, chose a less gradualist approach by radically reforming their trade regimes at the end of that decade. Also, Côte d'Ivoire and Senegal reversed their reforms in the late 1980s by reintroducing quantitative restrictions and raising tariffs. Côte d'Ivoire followed this path between 1987 and 1988, while Senegal pursued it as of mid-1988.

Table 2 presents an overview of the outcome of liberalisation in 1994-95, for all examined countries (1992 in the case of Ghana).

Liberalisation Ranking

Since the initial trade regimes of African countries shared very similar features, and information on the exact extent and sequencing of reform is not available for all countries, the assessment of liberalisation efforts will be based on the final outcome of liberalisation, i.e. on the degree of trade restrictiveness observed at the end of the period analysed. Table 2 as well as DeRosa¹⁵ provide the main support for the ranking.

As other authors¹⁶ have shown, protection based on non-tariff barriers (NTBs) and discretionary measures by the state, like licensing and state trading, stands out as the most restrictive trade regime in developing countries. The World Bank¹⁷ presents the extent of NTBs in African countries before reforms and DeRosa¹⁸ specifically shows how licensing affected on

¹² Rolf J. Langhammer: *Wirtschaftsreformen in Afrika: Getragen von der Gunst der Geber?*, in: *Zeitschrift für Wirtschafts- und Sozialwissenschaften*, No. 116, 1996, pp. 119-144, p. 119.

¹³ This policy follows from the optimal export tax argument of International Trade Theory and the belief that African countries have market power in the exports of some primary goods. In this framework, there is an optimal tax which will reduce production and increase world prices thus maximizing profits. However, Takamasa Akiyama, and Donald F. Larson: *Adding Up Problem - Strategies for Primary Commodity Exports in Sub-Saharan Africa*, World Bank Policy Research Working Paper, No. 1245, Washington D.C. 1994, show how only Côte d'Ivoire for the case of cocoa has strong reasons to set an export tax, while SSA as a whole faces this for cocoa, coffee, tea and tobacco.

¹⁴ Cf. A. DeRosa, *op.cit.*, Tables 5 and 6.

¹⁵ *Ibid.*, here Table 2.

¹⁶ See e.g. Anne O. Krueger: *Liberalization Attempts and Consequences*, National Bureau of Economic Research, Cambridge MA. 1978.

¹⁷ World Bank, *Adjustment in Africa ...*, *op.cit.*, here Table A.8.

¹⁸ Cf. A. DeRosa, *op.cit.*, here Table 2.

Table 2
Outcome of Liberalisation

| | Dispersion index ¹ | Additional duties on imports ² | Quotas on imports | Licensing | Prohibitions ³ | State trading ⁴ | Taxes on exports |
|---------------|-------------------------------|---|-------------------|-------------------|---------------------------|----------------------------|------------------|
| Cameroon | 0.52 | None | None | None | Normal | On import side | Yes |
| Côte d'Ivoire | 0.41 | Yes | Yes | Yes | Normal | On import side | Yes |
| Ghana | n.a. | Yes | None | None (5) | Above normal | None | Yes |
| Mauritius | 0.90 | Yes | None | Yes | Above normal | On both sides | Yes |
| Senegal | 0.0 | Yes | None | Yes | Above normal | On import side | Yes |
| Uganda | 0.54 | None | None | None ^a | Normal | None | Yes |
| Zambia | 0.68 | Yes | None | None | Normal | None | None |
| Zimbabwe | 0.65 | Yes | None | Yes | Normal | On both sides | None |

¹ The dispersion index is defined by the WTO as the standard deviation of the tariff system over the unweighted average tariff, which gives a measure of the dispersion in tariff rates per each percentage point of average tariff.

² This accounts for additional ad valorem burdens imposed on imported goods other than tariffs, which are not borne by domestic goods (i.e. indirect taxes such as V.A.T., which affect all goods irrespective of their origin, are excluded).

³ Bans on import/export of goods for health, national defence or security reasons (e.g. drugs, weapons) are regarded as a "normal" level of prohibition, while an "above normal" stage refers to an extension of the prohibition with a clear protective purpose (e.g. infant industry argument, state control over exports).

⁴ "State trading" is here restricted to the presence of state-owned or controlled agencies/companies which act as sole importers/exporters of certain goods. We do not account for state stakes in importing/exporting enterprises if they are not granted monopolistic trading power.

^a These countries still have listed goods subject to import licenses, but these are issued automatically. Hence, these restrictions are not binding and have no effect on trade.

Source: WTO: Trade Policy Review: Ghana (1992), Senegal (1994), Cameroon (1995), Côte d'Ivoire (1995), Mauritius (1995), Uganda (1995), Zimbabwe (1995), Zambia (1996).

average 47% of all imports in SSA in 1987, with some countries in our sample reaching 100%, e.g. Zambia, Uganda, Zimbabwe. Therefore, the removal of licensing is considered as the first criterion to rank liberalisation efforts. Secondly, countries are ranked according to the persistence of state trading on the import side, which affected about 14% of all African imports on average. Thirdly, among the countries with equal degrees of liberalisation of licenses and state trading, we resort to the existence of quotas and above normal import prohibitions as ranking criteria (they both covered about 6% of all products). Finally, in the case of equal restrictiveness in NTBs, the rank of a country is decided upon its dispersion index. Hence, the liberalisation ranking reflects the degree of restrictiveness of protection measures in African countries: licensing, state trading, prohibitions/quotas and tariffs. The final ranking is the following:

1. Uganda
2. Zambia
3. Ghana
4. Cameroon
5. Zimbabwe
6. Senegal
7. Côte d'Ivoire
8. Mauritius

The ranking shows how late liberalisers like Uganda and Zambia achieved a more open trade regime than countries such as Ghana, Cameroon or Mauritius, which engaged in trade reform in the early 1980s. Mauritius stands out as the most restrictive country, since it maintains licensing, state trading and prohibitions and it has a high degree of tariff dispersion. Senegal and Côte d'Ivoire appear in the lower scale of the ranking despite their early start, since they largely reversed reforms in the late 1980s.¹⁹

Assessment of the Economic Response

Trade performance by SSA countries has usually been treated as one of the key criteria for assessing the impact of policy reform on the economy as a result of adjustment programmes. In this respect, the recent literature offers a common framework of analysis the main features of which are the use of before-and-after comparisons of aggregate measures of external performance. Elbadawi et al.²⁰ focus on the ratios of exports and imports to GDP by contrasting the period 1981-84 with 1985-89. Similarly, Guillaumont et al.²¹

¹⁹ See Ishrat Husain and Rashid Faruquee, *op.cit.*, here pp. 100, 308.

²⁰ Ibrahim A. Elbadawi, Dhaneshwar Ghura and Gilbert Uwujaren: World Bank Adjustment Lending and Economic Performance in Sub-Saharan Africa in the 1980s, World Bank Policy Research Working Paper, No. 1000, Washington D.C. 1992.

use the growth rates of imports and exports as well as the average current account balance over the periods 1979-84 and 1984-88. Leenhardt et al.²² also include the ratio of exports to imports along the period 1980-89.

Among the works exclusively devoted to assessing trade performance in sub-Saharan Africa, Kirkpatrick and Weiss²³ approach an estimation of the impact of trade liberalisation on the efficiency of the economy by using the black market premium and they also offer a measure of structural change within the composition of exports through the share of manufactures in total exports. Svedberg²⁴ focuses exclusively on the export side by isolating the effect of terms of trade and volume expansion on overall export earnings for the period 1970-85, i.e. prior to the implementation of trade liberalisation measures in most African countries.

Departing from the aggregate analysis of other authors, the present study will basically address the impact of trade liberalisation on the resource allocation of the economy. The removal of trade restrictions and anti-export bias is expected to reallocate resources from protected inefficient activities to the new ones favoured by reform and supported by market forces.²⁵ In a classical Heckscher-Ohlin trade framework, this will imply the fostering of sectors in which the country has relative comparative advantage. In the case of African countries, resources may move from import-competing production to labour-intensive and natural resource-based processing, with an expected increase in exports in the medium term. The desired shift of the economy and change of the trade structure should lead to a higher diversification of the export composition, which includes an increasing share of commodities with high income elasticity. The share of value added produced in the country should also increase the gain from the comparative advantage of abundant labour. To reach

this desired structure, production should move away from the traditional, mostly agricultural and raw material sector towards manufacturing. This structural change will reduce dependency on foreign aid and exposure to terms of trade effects.

To assess the reaction to liberalisation the timing of measuring is crucial. In this evaluation, the assessment is measured firstly in the short run, with a response lag of three years after implementation of liberalisation, and secondly in the medium term, with a response lag of seven years.

Short-run Measurement

The indicators that describe the effects of the liberalisation in the short term are the percentage change in traditional exports and the percentage change in the imports of capital goods. The traditional exports are defined in Table 1 as primary products, which made up most of the export earnings in SSA countries since their independence. The absolute figures are deflated by the world prices of agricultural products, raw materials and beverages – which includes coffee and cocoa. The group of capital goods also includes intermediates and is defined by UNCTAD²⁶ as SITC categories 5, 6.7, 6.8 and 7.²⁷

The reason for the assumed increase in the traditional export share of total exports is the concentration on production with comparative advantage using the prevailing endowment. The abolishment of export tariffs, export quotas and marketing boards²⁸ diminishes the cost of exporting and reduces the control of foreign relations. Another reason for the immediate reaction of non-traditional exports is the devaluation that often accompanies the liberalisation process.²⁹ Balassa³⁰ estimates an elasticity of 1.35 for agricultural raw materials with respect to the real exchange rate. The decreased

²¹ P. Guillaumont, S. Guillaumont and P. Plane: *Comparaison de l'efficacité des politiques d'ajustement en Afrique: zone Franc et hors zone Franc*, in: Caisse Centrale de Coopération Economique, Notes et études, No. 41, 1991.

²² See B. Leenhardt, M. F. L'Heriteau and C. Nane Take, op.cit.

²³ Colin Kirkpatrick and John Weiss: *Trade Policy Reforms and Performance in Africa in the 1980s*, in: *The Journal of Modern African Studies*, Vol. 33, No. 2, 1995, pp. 285-298.

²⁴ Peter Svedberg: *The Export Performance of Sub-Saharan Africa*, in: *Economic Development and Cultural Change*, 1991, Vol. 39, No. 3, pp. 549-566.

²⁵ See Thomas, Vinod, John Nash and Associates: *Best Practices in Trade Policy Reform*, Washington D.C. 1991, here p. 9.

²⁶ UNCTAD: *Handbook of International Trade and Development Statistics*, Geneva 1995.

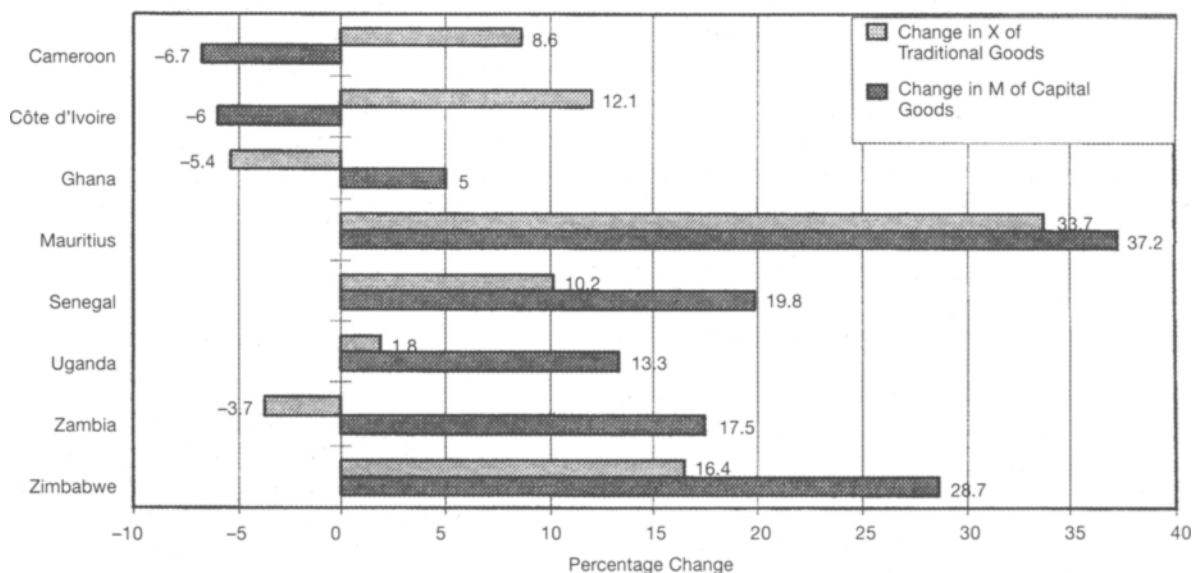
²⁷ The following product groups belong to the mentioned SITC categories: chemicals, metals, machinery and transport equipment.

²⁸ Marketing Boards had the monopolistic control over the sales of exports and over domestic purchases from farmers before liberalisation. Most countries dismantle these institutions during the liberalisation process.

²⁹ This only applies to non-CFA countries that are devaluing their currency. The Franc-zone established a huge devaluation of 50% in January 1994, which falls outside our period of analysis. See Jean A. P. Clément: *Aftermath of the CFA Franc Devaluation*, in: *Finance & Development*, June 1995, for an early assessment of the impact of this measure.

³⁰ See Bela Balassa: *Incentive Policies and Export Performance in Sub-Saharan Africa*, in: *World Development*, Vol. 18, 1990, pp. 383-391.

Figure 1
Short-run Economic Response



Source: Own calculations based on UNCTAD Trade Data.

exchange rate reduces the price for many traditional export commodities that are mostly not dependent on imported intermediates, the prices of which increase with the devaluation. These reasons account for a short-term rise in traditional exports if effective liberalisation efforts take place.

The second instrument to measure short-run performance is the change in imported capital goods. With successful liberalisation, the demand for new technology and further equipment rises, which must be satisfied by imports due to the lack of domestic supply. Therefore, one can observe the response lag of liberalisation, where the rise of imports occurs before the rise of exports. As a reaction to the new trade regime, donor countries usually offer more foreign aid to countries that are opening their markets. Furthermore, outstanding debts are frequently rescheduled and further loans are granted by creditors as a response to liberalisation. This increase in financial inflows is often conditional to investment in specific sectors, mostly infrastructure, and may also be complemented by foreign direct investment (FDI). An open economy attracts international companies to invest in the sectors with comparative advantage.³¹ Additionally, many SSA countries accompanied trade reform and policy adjustment with a reform of their investment codes: between 1982 and 1987 about one half of them introduced changes in favour of FDI, while many others did this at the end of

the 1980s.³² All this supports the assumption of a rising demand for capital goods that must be satisfied by imports and increased foreign exchange availability which allows this rise in imports to be financed.

Short-run Assessment

Figure 1 presents the average percentage change in imports of capital goods and exports of traditional goods from the first to the third year of liberalisation for each country.

The short-run effects of liberalisation are on average consistent with the theoretical predictions, i.e. an increase in imports of capital goods and an expansion of primary, traditional exports. However, a close look at the figures leads to the conclusion that more liberalisation is not always directly correlated with better performance. Strong liberalisers like Cameroon, Ghana, Uganda and Zambia, placed at the top of the liberalisation ranking, are outperformed in the short run by countries such as Mauritius, Senegal and Zimbabwe on both measures. Hence, radical liberalisation does not seem to pay off in the short run, since it may very much encourage imports of consumer goods, which were previously severely

³¹ UNCTAD: Foreign Direct Investment in Africa, Current Studies, Series A, No. 28, New York 1995, here pp. 42-44.

³² Ibid.

restricted through import-substitution policies, at the expense of capital goods.

However, in the medium term increased investment in new sectors may lead to a surge in imports of capital goods, provided that trade reform is credible.³³ In fact, Thomas et al.,³⁴ show this effect for a sample of 37 LDCs. In our sample, this result appears when the period of analysis is increased to seven years (medium run) or to the whole liberalisation period for countries which liberalised for less than seven years (Zambia and Zimbabwe). The strong liberalisers increase their imports of capital goods substantially with respect to the short run (Cameroon, Ghana, Uganda and Zambia), while all weak liberalisers except Mauritius face declining average increases in imported capital goods.

The second measure of short-run performance, exports of traditional goods, also seems to advocate against radical liberalisation, since all four countries at the top of the liberalisation ranking are outperformed by the bottom four. However, their bad performance may be due to external reasons, namely weather conditions and the kind of exported commodities. Ghana's decrease of 5.4% may be the result of droughts in the mid-1980s, while performance in Uganda and Zambia may bear the effect of sluggish expansion in world demand for coffee and copper respectively.³⁵

Medium-run Measurement

The medium term is defined by a response lag of seven years. Six countries can therefore be examined, namely Cameroon, Côte d'Ivoire, Ghana, Mauritius, Senegal and Uganda, since our period of analysis is limited up to 1993 due to unavailability of data. The indicators to measure the reaction to liberalisation are

Table 3
Weighted Growth Index
of the Manufacturing Sector

| | |
|---------------|-------|
| Cameroon | +1.50 |
| Côte d'Ivoire | -3.70 |
| Ghana | +3.68 |
| Mauritius | +6.20 |
| Senegal | +0.46 |
| Uganda | -0.09 |

Source: Own calculations, World Bank Data, UNCTAD Trade Data.

firstly the change in the share of the manufacturing sector in GDP and secondly the percentage change in exports of manufactured goods. The change in the share of the manufacturing sector is described by the Weighted Growth Index $X_{ij} \ln \frac{X_{ij} + 1}{X_{ij}}$, where X_{ij} is the

share of manufacturing sector i in total GDP in period j . This index is the growth rate of the manufacturing sector weighted by the initial sectoral share.³⁶ Manufactured goods are defined by UNCTAD as SITC categories 5 to 8 except 6.8.³⁷

Although Stein and Matsuyama³⁸ have raised the issue of the danger of deindustrialisation as a result of openness and adjustment in African countries, the law of comparative advantage also acts in favour of labour-intensive manufacturing, i.e. towards an increase in domestic processing activities in the medium run. By opening up new profit opportunities in the export market, traditional goods producers have an incentive to invest their profits in non-traditional opportunities to diversify the companies'

³³ The credibility of trade reform has been thoroughly explored by Dani Rodrik: *Credibility of Trade Reform: A Policy Maker's Guide*, in: *The World Economy*, Vol. 12, No. 1, 1989, pp. 1-16; and by the same author: *The Limits of Trade Policy Reform in Developing Countries*, in: *Journal of Economic Perspectives*, Vol. 6, No. 1, 1992, pp. 87-105. He points out how a non-credible reform may lead to overconsumption and underinvestment in the country. Credibility of the reform may be enhanced by avoiding conflicts with other policies, building up reputation (by preventing reversals) and resorting to external commitments such as tariff bindings.

³⁴ See Thomas, Vinod, John Nash and Associates, op. cit., here Table 2-5.

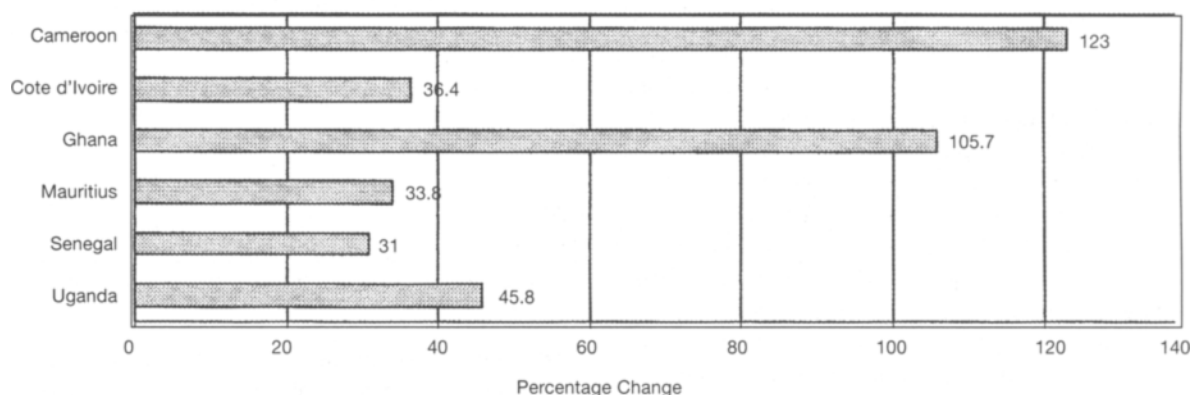
³⁵ Ronald C. Duncan: *Agricultural Export Prospects for Sub-Saharan Africa*, in: *Development Policy Review*, Vol. 11, 1993, pp. 31-45, here p. 35, mentions an expansion in the growth of world demand for cocoa, while demand for coffee hardly increases by 1% yearly. This would match with the increase of Ugandan traditional exports (coffee) by an average slightly above 1%, while other coffee exporting countries, which also export other primary products like cocoa, record better performance (e.g. Côte d'Ivoire and Cameroon).

³⁶ Lillien: *Sectoral Shifts and Cyclical Unemployment*, in: *Journal of Political Economy*, Vol. 90, No. 4, 1982, pp. 777-793, uses similar terms in describing structural change by the standard deviation of sectoral growth rates.

³⁷ Some product groups covered by SITC 5 to 8 are: chemicals, light manufactures, machinery and transport equipment, miscellaneous manufactured articles.

³⁸ Howard Stein: *Deindustrialization, Adjustment, the World Bank and the IMF in Africa*, in: *World Development*, Vol. 20, No. 1, 1992, pp. 83-95. In his theoretical model, Kiminori Matsuyama: *Agricultural Productivity, Comparative Advantage and Economic Growth*, in: *Journal of Economic Theory*, Vol. 58, No. 2, 1992, pp. 3172-3144, pp. 329-330, shows how a country richly endowed with natural resources and arable land, such as the African economies, will specialize in these activities as a result of openness to trade, thus losing all industrial base and achieving lower growth rates. However, this conclusion relies heavily on basic assumptions which may be questioned in reality: learning by doing as the only source of technological change (e.g. no change embodied in imported capital goods), lack of endogenous growth in agriculture, removal of all frictions to international trade, low income elasticity of agricultural goods (questionable for some African exports such as coffee, cocoa, tea or tobacco), as well as the absence of knowledge spillovers across countries.

Figure 2
Average Change in Exports of Manufactured Goods



Source: Own calculations from UNCTAD Trade Data.

activities and reduce their dependency on the traditional sector. Also, new capital inflows should help to bring about this structural change.

The exports of manufactured goods may also react in a positive way to liberalisation. Lower prices for inputs and non-tradables that use imported goods may lead to lower final prices and increased competitiveness in foreign markets. Also, openness in other African markets following trade reform as well as in developed countries will allow diversification away from the small domestic markets with limited purchasing power. Entry into foreign markets will introduce more competition to the imperfectly competitive African markets and will help to achieve economies of scale within an expanded market-place, thus increasing competitiveness in world markets. Preference schemes in OECD countries, especially the Lomé Agreement, guaranteed nearly duty free access of African industrial exports throughout the 1980s. The implementation of the Uruguay Round Agreements in the 1990s threatens to erode these tariff preferences, especially in the EU, thus leading to a possible reduction in some exports from SSA.³⁹ However, liberalisation in third countries which do not grant special treatment to SSA aside from the Generalised System of Preferences (USA, Japan, Asia), the phase-out of the Multi-Fibre Arrangement⁴⁰ as well as the overall reduction in tariff escalation⁴¹

may provide new opportunities for African exports in the future.

Medium-run Assessment

Table 3 presents the weighted growth index explained above of the manufacturing sector from the first to the seventh year of liberalisation. Structural change in GDP occurs to a larger extent in the most liberalised countries, although two outliers may be identified: Mauritius records the largest index value in the sample, despite its still restrictive trade regime, and Uganda, leader in liberalisation, presents a negative value. Countries such as Côte d'Ivoire and Senegal, which achieved a medium stage of reforms but reversed them at some point, showed a positive performance in the short run (except for imports of capital goods in Côte d'Ivoire), but failed to change the structure of their economies into manufacturing significantly in the medium run.

Figure 2 shows the average percentage annual change in exports of manufactured goods in the first seven years of liberalisation. The data for the medium-run performance again show mixed results with respect to the liberalisation efforts undertaken by SSA countries. The evolution of exports of manufactures is clearly in favour of strong liberalisation since the top

³⁹ The loss in exports is overestimated by Alexander J. Yeats: What are OECD Trade Preferences Worth to Sub-Saharan Africa?, in: *African Studies Review*, Vol. 38, No. 1, 1995, pp. 81-101, since he assumed a 100% MFN-reduction in tariffs in OECD countries, while the final outcome of the Uruguay Round yielded an average reduction of only 40%.

⁴⁰ R. Kappel: Africa's Marginalisation in World Trade: A Result of the Uruguay Round Agreements, in: *INTERECONOMICS*, 1996, Vol. 31, No. 1, p. 40.

⁴¹ The absolute average tariff reductions for natural resource based products in the Uruguay Round are 1.1 percentage points for raw materials, 1.5 for semi-manufactures and 2.0 for finished products. Reductions are very significant in markets like the USA and Japan for processed products from tobacco, fish, wood and nuts, in which African countries are richly endowed.

countries Cameroon, Ghana and Uganda show the highest growth rates although weak liberalisers do not fall short of the average results (change of about +30%). However, the results may bear a strong base-effect given that many countries started from very low export levels at the outset of liberalisation. This may explain Cameroon's steep increase, where manufacturing accounted for only 2.6% of all exports in 1980.⁴² Also, Mauritius' modest rise is consistent with its already high initial share of manufactured exports, namely 27% in 1980.⁴³ Therefore, trade liberalisation seems to yield better results in the medium term, although Mauritius' good performance and the failure in Côte d'Ivoire, Senegal and Uganda call for additional explanations, in which complementary policies play a key role.

Supporting Policies

The above analysis of trade performance in our sample of SSA countries has implicitly stressed the role of other policies in the design of trade reform. This issue has been explored by many authors in recent years, such as Falvey and Kim⁴⁴ in a general overview, and Lall⁴⁵ from an African perspective. The former mention the relevance of macroeconomic policies towards stability as a way of enhancing the sustainability of reform and therefore unleashing the positive long-run effects of liberalisation. This arises from the possible conflicts between trade liberalisation and macroeconomic balance, especially in the balance of payments and the fiscal budget.⁴⁶ The main recommendations to avoid such conflicts include exchange-rate devaluation and tax reform, the latter being more difficult to implement in African countries due to low domestic income. The benefits of exchange-rate depreciation have been shown for an African-type economy by Collier and Gunning,⁴⁷ namely that it raises the price of importables and

lowers the price of exports. However, the analysis of the short and medium-run effects in the sample countries controlling for CFA and non-CFA membership does not allow the drawing of any general conclusions in favour of a devaluation of exchange rates. This result matches with the findings of Leenhardt et al. and Guillaumont et al.,⁴⁸ which do not show a better average trade performance of non-CFA countries than CFA countries.

Although a stable macroeconomic environment may definitely help to attain the positive effects of trade liberalisation,⁴⁹ an active microeconomic policy to encourage exports is also necessary. Falvey and Kim⁵⁰ recommend such a policy prior to the start of trade liberalisation, so that exportable industries can expand just at the time the import-competing sector is contracting. A close look at the experience of African countries with this type of policy, described in Harrold et al.,⁵¹ gives a gloomy picture of the outcome of the efforts: duty drawback systems have failed for reasons of trust and capacity, of cumbersome procedure and administrative delays, while export promotion zones did not offer sound economic incentives to entrepreneurs or could not compensate for the additional costs of doing business or overall macroeconomic instability in the countries (e.g. Senegal's Industrial Free Trade Regime). The success of the Mauritius Export Promotion Zone provides a plausible explanation for Mauritius' success in changing the structure of its economy and exports towards manufactures, despite its still restricted trade regime. The East Asian experience also shows the relevance of active export promotion combined with restricted liberalisation to achieve successful trade performance.⁵²

The trade performance of African countries in the medium run is also very much dependent on the availability of investment. The emergence of new competitive industries requires new investments which depend on economic and non-economic considerations such as domestic savings, political

⁴² WTO: Trade Policy Review: Cameroon, op.cit., p. 99.

⁴³ WTO: Trade Policy Review: Mauritius, op.cit., p. 13.

⁴⁴ Rod Falvey and Cha Dong Kim: Timing and Sequencing Issues in Trade Liberalisation, in: *The Economic Journal*, Vol. 102, 1992, pp. 908-924, here p. 910.

⁴⁵ Sanjaya Lall: Trade Policies for Development: A Policy Prescription for Africa, in: *Development Policy Review*, Vol. 11, 1993, pp. 47-75.

⁴⁶ Dani Rodrik: The Limits of ..., op.cit., 1992, pp. 95-97.

⁴⁷ Paul Collier and Jan Willem Gunning: Aid and Exchange Rate Adjustment in African Trade Liberalisations, in: *The Economic Journal*, Vol. 102, 1992, pp. 925-939, here p. 927.

⁴⁸ B. Leenhardt, M. F. L'Heriteau and C. Nane Take, op.cit.; and P. Guillaumont, S. Guillaumont and P. Plane, op.cit., here Tables 22 and 23.

⁴⁹ Malathe Jayawickrama Harrold and Deepak Bhattasali: Practical Lessons for Africa from East Asia in Industrial and Trade Policies, World Bank Discussion Paper, No. 310, Washington D.C. 1996, provide a ranking of countries by overall macroeconomic policy stance, where Ghana is considered as adequate, Senegal and Uganda are regarded as fair while Zimbabwe, Côte d'Ivoire, Cameroon and Zambia are seen as poor or very poor. This has clear correlations with the performance of these countries that has been observed in the previous sections.

⁵⁰ Rod Falvey and Cha Dong Kim, op.cit., here p. 916.

⁵¹ Malathe Jayawickrama Harrold and Deepak Bhattasali, op.cit., here p. 80, Box 15 and 16, Table 11.

⁵² World Bank: *The East Asian Miracle*, Washington D.C. 1994.

stability and credibility of policies.⁵³ Guillaumont et al.⁵⁴ show how domestic savings and investment as a share of GDP increased in most African countries between the periods 1981-84 and 1985-88. Furthermore, countries with good medium-term performance such as Mauritius and Ghana record the largest increases in both measures: Ghana's savings and investment rates doubled from one period to the other, while Mauritius attained the highest level of investment in the sample (24.2%).⁵⁵ Senegal and Côte d'Ivoire show an increase in the savings rate but a slight decline in investment rates. All these figures, however, fall short of the levels reached in East Asia, close to 40% of GDP.

In the absence of sufficient domestic savings, the rise of new sectors should be financed by FDI. Although UNCTAD⁵⁶ shows an increase in FDI inflows to SSA with a maximum share of 17% of all inflows to LDCs in 1989, two thirds of them were concentrated on the nine African oil exporters followed by mining activities, e.g. large FDI for copper mines in Zambia, which reach 3.53% of GDP. Despite trade liberalisation and a more favourable legal framework for foreign investors, SSA has failed to attract fresh investment in manufacturing ventures. Apart from Zambia, Mauritius leads the sample with a total FDI to GDP share of 1.23% in 1986-90, followed by Côte d'Ivoire with 0.53% and Ghana with 0.16%,⁵⁷ all of them far from Malaysia's 8.4% and the average for LDCs of 2.5%.⁵⁸ The lack of developed capital markets and adequate policies in favour of savings and investment, both domestic and foreign, hampered the necessary medium-term adjustment following trade liberalisation in many African countries.

Conclusion

This paper has shown the large efforts undertaken by SSA countries to reform their trade regimes towards increased openness. However, the extent of liberalisation has not always been followed by an equally positive response by the economy. Trade liberalisation by itself is a necessary but not sufficient condition to achieve the desired shift in African economies towards manufacturing and diversified exports, thus leading to higher growth and improvements in other economic and social indicators. The replication of East Asia's good performance by African economies, apart from the difference in initial conditions, is very much dependent on factors other than the simple liberalisation of their external sector. An active export

promotion strategy, sound macroeconomic policies as well as developed capital markets combined with the fostering of domestic savings and FDI are crucial conditions for the economy to react to the new set of incentives introduced by trade reform. As recognised in the adjustment programmes, "getting the prices right" also in the external sector is just a first step to be followed by more fundamental changes in policies and institutions.

Very few of the SSA countries in our sample have effectively implemented these changes over a long period. Those like Mauritius and Ghana which achieved higher savings and investment rates, succeeded in attracting more FDI, pursued adequate macroeconomic policies and offered sound incentives to exporters, attained the best performance, especially in the medium run, even though they were not ranked as top liberalisers. Zimbabwe's and Zambia's recent efforts have still to prove their effectiveness in the medium term, while Côte d'Ivoire and Senegal may start to yield better results after the dramatic change in their policies introduced by the CFA-franc devaluation in early 1994.

Prospects for higher growth and development in Africa heavily rely on structural change and diversification in these economies, away from traditional primary commodities, the prices and demand volumes of which will hardly rise, towards new crops and manufactures. Increased openness in both the developed and the developing world, as a result of adjustment and the Uruguay Round, should be seen not as a threatening erosion of preferences but as a promising access to new markets. Africa must pursue the broad reform of its policies and institutions in order to increase its competitiveness and take full advantage of this new challenging environment. Only in a framework of increased openness and appropriate policies will Africa be able to regain the lost ground in all social and economic indicators.

⁵³ Ishrat Husain: Trade, Aid, and Investment in Sub-Saharan Africa, World Bank Policy Research Working Paper, No. 1210, Washington D.C. 1993, here p. 14.

⁵⁴ P. Guillaumont, S. Guillaumont and P. Plane, *op.cit.*, here Tables 18 and 19.

⁵⁵ See also Michael T. Hadjimichael et al.: Adjustment for Growth, the African Experience, IMF Occasional Paper, No. 143, Washington D.C. 1996, here p. 25; Rolf J. Langhammer, *op.cit.*, p. 125; World Bank: Adjustment in Africa ..., *op.cit.*, here pp. 153-157.

⁵⁶ UNCTAD: Foreign Direct Investment ..., *op.cit.*, here Table 3.

⁵⁷ *Ibid.*, here Annex Table 1.

⁵⁸ *Ibid.*, here Table 15.