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Foreword by Augustin Fosu, *Research Director*

As the new AERC Research Director, I wish to treat you to the third issue of the *Research News*. It provides a wealth of information about the ongoing AERC research to the Network and others in an accessible form for all readers. Each issue will feature a Policy Forum; a view of an ongoing or completed Collaborative Research Project; a newly initiated research project, collaborative or otherwise; a Viewpoint; an occasional interview of an important personality; and a Global Perspective.

The Policy Forum is an article of interest from an eminent policy maker or scholar with substantial policy experience in the region. In this issue, J.L.S. Abbey treats us to an exciting word on "Strategic Development Paths for Africa in the 21st Century" with special emphasis on the critical issue of capacity and institutional building. Remember that the AERC is a crucial element in this building process.

The Collaborative Research, "Africa and the World Trading Systems (AWTS)," is under the microscope this time. This is a very timely subject given the ongoing salient issues involved in the World Trade Organization (WTO) accords and negotiations, which are very pertinent to the African region. Contributions are by Patrick Low, Dominique Njinkeu, as well as by the project coordinator, Ademola Oyejide.

The New Research is the Collaborative Research Project, "Explaining African Economic Growth Performance," and is presented by the Research Director. This is a very ambitious, but realistic, project that will attempt to provide a cross-country and inter-temporal account for African economic growth performance over the last four decades. It will use a four-theme approach, buttressed by detailed case studies for at least 30 African countries.

The Viewpoint, presented by Jeffrey Sachs and Sara Sievers, is on Trade and Competitiveness in Africa. The topic of African competitiveness fits nicely with the subject of WTO accords and negotiations as exemplified by the AWTS project.

Paul Collier rounds off this issue of *Research News* with the Global Perspective on how Africa should respond to globalization. As we approach the next millennium within a new era of WTO accords and trading rules, greater African competitiveness is required and appropriate responsiveness to globalization is a prerequisite for future African growth performance.

Happy reading!

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Strategic development paths for Africa in the 21st century

The critical issue of capacity building and institutional strengthening

J. L. S. Abbey, Executive Director, Centre for Policy Analysis, Accra

Under earlier development paradigms in Africa, the concentration of power in the government and allied institutions was considered the appropriate reaction to both political and economic challenges. As a result, the public sector was expanded, and trade unions and cooperatives were tied closely to governments. Controls and regulations were imposed on external trade and single political parties became the norm. Lack of competition, however, lowered economic efficiency and, with it, growth. Political monopoly, for its part, made it difficult, if not impossible, to construct the broad social coalitions needed to deal effectively with the serious challenges that emerged or accompanied decolonization.

Clearly, the model of development based on the state extending its control over production and trade, and over prices and the allocation of resources, had to be rejected. The serious distortions it created led to inefficiency, corruption, and loss of competitiveness. On the other hand, the model of the minimalist state and unregulated markets –the product of the Thatcher-Reagan conservative doctrine– was a reaction too far. It was also fundamentally flawed. The state cannot be relegated to a passive role–that of a necessary evil–to be tolerated on account of market failure. The minimalist state strategy failed to secure growth because it led to increases in inequality, poverty and deepening social divides that underlie the ethnic conflicts evident in so much of Africa today.

The information technology revolution–the most spectacular example of a wider acceleration of technological change–has gathered momentum. And yet while the accompanying process of globalization presents great opportunities it also brings new challenges. Globalization does not necessarily benefit everybody equally. The poorest countries are also often the least able to take advantage of the opportunities and the most vulnerable to the challenges. In consequence, globalization, if not properly handled, can lead to an increase in inequality internationally among countries and even more dangerously, within poor non-adjusting countries.

The countries in Africa that are most likely to succeed will be characterised by effective government, enlightened legislation, prudent budgeting and generally sound macroeconomic policies, as well as efficient public administration that is responsive to the needs of the poor. The required strategies will naturally depend on individual country circumstances, but regardless of differences successful strategizing will require political commitment to the agreed international targets on poverty eradication, gender balance and the environment. The policies to be pursued should also promote responsive and accountable governments, in full recognition of the fact that governments have obligations to all their peoples. As the World Bank's 1997 succinctly put it, "good government is not a luxury–it is vital necessity for [sustainable] development".

It is increasingly recognised that successful African development strategies will involve working in partnership with the international donor community. Policy statements on international cooperation and development assistance from the United States, the United Kingdom and Sweden reinforce this view. Such partnerships are expected to go well beyond the old confrontational conditionalities of development assistance to commitment on the basis of mutual interests and shared visions. In these partnership arrangements what will happen in any particular country will depend on the partner country itself. For example, where the UK government feels assured of the capacity for effective implementation of agreed policies and programmes, it may exhibit greater flexibility in the forms of financial assistance provided movement from specific projects to providing resources more strategically in support of the economy as a whole.

But there is no illusion that a partnership arrangement will be possible in all instances. For example, some poor country government may fail to demonstrate the required commitment to or capacity for sound economic policymaking and implementation. Whatever the specific situation there is only one principle that will be applied: the level of resources, the length of commitments and the flexibility in the use of resources provided by the UK government will be related not only to perceived need but also the credibility of policies and actions. As one commentator on the White Paper remarked, the history of development assistance shows that the most needy are not always the most deserving. A corollary of this principle is that poor countries that do not develop the required minimum capacity to perform may be allowed to fail.

Against these expectations of commitment to genuine partnerships is the so-called African reality. The historical record of the structural adjustment period paints an unwholesome picture of African leaders, in desperate need for cash, making commitments they had no means of keeping. In many countries complex programmes were expected to be implemented by an underpaid and demoralized African civil service often described in concurrent appraisals as corrupt and incompetent. The result is that for many African countries it was difficult to establish a credible record of performance. It became impossible to "graduate" from donor dependence with its expensive and largely ineffective technical assistance. Africa is, by far, the most externally managed of all the regions of the World Bank and yet as the reports of its Operations Evaluation Department (OED) show with uninterrupted monotony, World Bank projects have been least successful in Africa. In fact, one reviewer claimed that if the billions of dollars spent by the World Bank on Africa had been invested in, say, U.S. treasury bonds and the returns given to Africa, both the World Bank and Africa would have been better off

A most intriguing aspect of the adjustment debate that is of critical importance to the nature and form of the envisaged partnership arrangements is that few, if any, of the things the countries were asked to do by the Bretton Woods institutions (BWI–the IMF and the World Bank–were totally alien or undesirable. And yet in the often acrimonious debates of recent times, structural adjustment programmes were invariably presented as the most controversial interventions–over-focused on macroeconomic criteria, promoting ruthless, jobless growth, leading to increased impoverishment and unbearable debt burdens–in Africa' s political economy since the colonial period largely because they were seen as impositions from outside.

African governments that undertook SAPs obviously knew that their public sectors were unmanageably bloated and wanted them trimmed down. In several cases they had actually also experienced the devastating consequences on the export sector of over-valued exchange rates. Poor tax systems in the context of an overextended parastatal sector had created large budgetary imbalances–financed through monetary accommodation by the central bank, this has fueled inflationary pressures. Financed with the proceeds of external loans, budget deficits led straight to the Debt Trap, aid dependence and loss of national self-respect in international affairs. Those African governments that hung on to the status quo were constrained from drastic action more by domestic politics than ignorance.

The chronic lack of human and institutional capacity in Africa is now widely acknowledged as the "missing link" in achieving sustainable development. The capacity of African governments and civil servants to analyze, plan for, implement and sustain development is insufficient. Furthermore, the private sector appears small and in any case constrained by government policies and bureaucracies. The institutions of civil society are weak and incapable of effectively contributing to the development process, much less holding governments to account and seeing to the enforcement of the social contract. Transparency in public policy making is lacking, and in decision making and accountability it is typically negligible.

Africa continues to lag behind all the other regions of the world in technological proficiency and institutional capacities as well as in key development indicators: life expectancy, infant mortality, national income per head of population, and access to health, sanitation, water and educational facilities. This is not to deny the progress that has been made; rather, it is to stress the magnitude of the work that remains to be done. It is also to bring a sense of urgency and commitment to the need for a credible strategy for sustainable development with poverty eradication at the top of the agenda.

Africa cannot afford the continued pursuit of the failed policies of the last three decades that stand in sharp contrast to those followed in East and Southeast Asia. Nor can Africa afford the mind set of some of the career aid lobbyists in the industrial countries who see technical assistance as the answer to the inadequacies and weaknesses of African institutions and capacities. There certainly would have been greater progress and greater confidence in Africa's future, not least by Africans themselves, if as little as 10% of the resources spent to procure technical assistance for Africa had instead been used to build African capacity and institutions. Regardless of how good the intentions, Africa cannot be developed for Africans in spite of Africans. Africa needs help and encouragement, above all, for Africans to take up the challenge and to be in the forefront in the war against poverty. The time for excuses, apologies and blaming others is far spent.

The failed policies of the past were based on a mistrust of market economics and an unreconstructed instinct to over-intervene and over-regulate. This mind set was, therefore, responsible for the bloated inefficient public sectors that emerged. On the other hand, the need to trim down was confused by the ideological preference of the minimalist state. Debate about the role of the state consequently centered on size rather than efficiency. The strategy of development in the twenty-first century must be based on a clearly integrated approach in which the establishment of sound macroeconomic and financial policies encourages private sector-led, market friendly, pro-poor economic growth.

Foreign direct investment (FDI) can bring a range of benefits to African countries, including employment, exports, new skills and technology. Portfolio flows can also provide resources for local companies and deepen domestic capital markets. But improving on present trends from Africa's perspective would require domestic policies and conditions supportive of political stability, transparent and accountable governments, and the bearing down on corruption in public and private activities. Without these the most that Africa can expect is the perpetuation of the status quo. Worse than that could happen with surges in flows of short-term "hot" money when conditions elsewhere deteriorate sharply enough, and their equally fast exit when such conditions improve as happened with Mexico.

The emerging trend is towards increased trade liberalisation. Real trade creates real employment opportunities and real growth. In the WTO framework of trade liberalisation Africa must not only strive to attain and maintain international price competitiveness through the avoidance of unwarranted real appreciation of the exchange rate. It must put in place production structures that will enable it to produce and export. One of the critical lessons of the Lomé Agreements is that in spite of or perhaps because of the compensation that ACP states were given for loss in export earnings on account of price fluctuations, their structures of production remained fixed and unresponsive to changing conditions. As a result, as European imports increasingly rose on the ladder of technological sophistication, ACP states including African countries lost trade shares in Europe. The remedy on offer in the future is to diversify the commodity base of exports rather than to seek privileged entry.

Dismantling barriers to international trade and investment, however, will be of limited benefit to Africa so long as countries lack not only the supply but also the human and institutional capacity to take advantage of new opportunities. The provisions of the WTO recognize the interests of Africa as well as those of other developing countries. They also recognize that the poor developing countries of Africa in particular cannot always assume their obligations for example, opening up of their markets–as rapidly as developed countries can.

African countries must above all build capacity • to manage the practical 'nuts and bolts' of the trade process including customs procedures and trade liberalization • to improve their trade promotion efforts • to participate fully in the WTO and implement increasingly complex international obligations, and • to meet international product standards.

Africa must take bold steps to change perceptions and attitudes about approaches to its future development, as well as the principles of how development should be managed and sustained and the livelihood of her citizens improved. Capacity inadequacy–the principal underlying cause of the continent's grim prospects–must be given the highest consideration in the agenda for international cooperation. Successful African capacity building must involve a systematic process that will result in a "paradigm shift" as to how African development must henceforth proceed. (*This article was extracted from the original.*)

Collaborative Research

Africa and the world trading system: Opportunities and challenges

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AERC's collaborative research project titled "Africa and the World Trading System" was designed to identify and examine the critical analytical, policy and implementation issues involved in sub-Saharan Africa's economic links with the rest of the world. The project focuses particular attention on the processes and results of the Uruguay Round of multilateral trade negotiations, the implementation of the associated agreements, and their implications for the development policy options available to sub-Saharan African (SSA) countries.

FOUNDATIONS OF THE TRADE PROJECT

The project is influenced by an emerging consensus on development policy that emanates, in part at least, from the following considerations. First, Africa has not performed well in terms of trade and hence, many would argue, in terms of overall economic growth over the last two decades or so. Thus, while world trade expanded rapidly in the 1980s and 1990s, and the share of developing countries in total world trade increased, Africa's total trade stagnated and its share of world trade declined. In summary, while the rest of the world has been globalizing, Africa has found itself practically marginalized.

Second, Africa's economic policy landscape has been undergoing a marked (although still incomplete) transformation over the last 10 to 15 years. The import-substitution industrialization strategy of the 1960s and 1970s is, gradually, giving way to more outward oriented trade and development policies. This fundamental policy switch reflects a recognition of the difficulties associated with previous development strategies, and the apparent success of a different set of policies and institutional arrangements in other regions. It indicates as well the increased leverage in Africa of multilateral development agencies and bilateral donors that condition development assistance on greater liberalization of recipient countries' trade and payments regimes.

Third is the awareness that Africa's economic recovery and sustainable future growth require a significant boosting of its trade, both through recapturing lost market shares and by seizing emerging new opportunities. This, in turn, suggests that the region' s place and prospects in the global trading system would assume an increasing significance for policy. Finally, the emergence of the World Trade Organization (WTO) as the pre-eminent institution on trade and trade-related aspects of global policy making makes it of critical importance for Africa as the region's increasingly outward-oriented development strategy leads it toward the search for more secure and barrier-free foreign markets.

PROJECT COMPONENTS AND ISSUES

This project has two closely interrelated parts. One focuses on thematic, cross-cutting, issues while the second consists of country case studies that examine in great detail the various thematic issues. The thematic part of the project contains papers that explore a range of issues on a regional (and, in some cases, subregional) basis.

- One of the thematic papers offers an overview of the Uruguay Round (UR) negotiation processes and results. By detailing the scope and extent of participation by African countries in the UR, the paper suggests that Africa's participation was both largely inadequate and mainly ineffective. The region's lack of meaningful engagement with the process is reflected in the not-so-favourable results obtained. Bearing in mind various capacity constraints faced by these countries, the paper suggests a number of options and modalities for more effective participation in future WTO processes.
- Three papers examine market access issues for African exports. One focuses on the aggregate and suggests future directions (in terms of negotiation interests) for African export markets and market access, based on a review of the region' s past and current export structures, export markets and access barriers. Two other papers are more sectoral; the first focuses on manufactured goods and mining products, while the second concerns itself with agriculture. Both analyse the market access issues and supply capacity constraints of these sectors in various groups of SSA countries. They show how new WTO disciplines on such issues as intellectual property protection, investment measures, subsidies and agriculture may negatively affect the future production and trade prospects of Africa' s key production sectors.
- Another set of three papers explores issues relating to the implications of new WTO disciplines for Africa's development policy options. The papers ask whether and the extent to which the WTO might be used as a policy commitment technology for African countries, and how the formalized World Bank-IMF-WTO linkages could further constrain Africa's policy autonomy. These papers show that:
- While the new trade and financial policy regimes do limit African policy autonomy, they do not completely eliminate innovative policy interventions.
- If effectively used, the WTO could indeed serve as an "agency of restraint" for African countries and thus promote adherence to sound development policies.
- Deeper understanding of the "rules of the game" and more innovative use of available policy space will be required if African countries are to use the new trade policy regime to their advantage.
- One paper pays particular attention to an African perspective of "special and differential" treatment of developing countries in the GATT/WTO. This paper suggests that "S&D" continues, in principle, to be a desirable and important element of the global trading system, but argues that its various limitations are best removed through a multilateral negotiating process focused on resolving outstanding problems in the area of criteria for defining beneficiaries, graduation, product coverage and duration.
- Three other papers round out the thematic component of this project. One outlines the new issues in the WTO framework and shows that these are areas where Africa is particularly lacking in terms of both existing knowledge base and negotiating capacity. A second paper examines the income distribution implications of globalization and liberalization in Africa, shows how shallow the state of our empirical knowledge is in this respect, and suggests further research. The third paper addresses the issue of capacity building implications of enhanced African participation in the WTO processes. It finds large gaps in many SSA countries between the needs and the available capacity in at least three crucial areas, i. e., capacity to meet obligations and exercise rights, capacity to negotiate, and capacity to compete internationally. The paper suggests more effective uses of existing capacities and more focused and innovative approaches for strengthening and building appropriate capacities.

COUNTRY CASE STUDIES

The project contains eight country case studies covering Cameroon, Cote d'Ivoire, Ghana, Kenya, Mauritius, Nigeria, South Africa and Uganda. Each country case study research team was requested to deal with a minimum set of four issues on the basis of which cross-country comparisons would be made. The following are the issues:

- Analysis of market access
- detailed analysis of tariff and non-tariff barriers and trade preferences before and after the UR to determine the changes brought about in the country's access to foreign markets and the effects of these changes.
- Review of domestic policies
- detailed review of domestic policies that affect the country's capacity for taking advantage of this market access abroad.

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Africa and the "**new issues**" in the WTO framework

Patrick Low
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The multilateral trade agenda has expanded greatly in the last few years, creating major challenges for most governments as they struggle to absorb new issues, evaluate their implications and set priorities. The simplicity of focusing primarily on liberalizing tariffs and dealing with trade policy "at the border", which characterized the first 40 years of the General Agreement of Tariff and Trade's (GATT), existence, has been swept away in recent years by a new far-reaching and multi-faceted WTO agenda. Alongside continuing work in the traditional areas, most of the new agenda grew out of the Uruguay Round of multilateral trade negotiations (1986-1993) and its aftermath. The Uruguay Round brought trade in services and trade-related intellectual property rights into the system, and further promoted work on trade and the environment. Subsequent additions dating from the first WTO Ministerial Meeting in Singapore in December 1996 include work programmes on trade and investment, trade and competition policy, certain aspects of government procurement, and trade facilitation.

The complexity of the agenda is placing major strains on many governments, not just in terms of establishing the legal framework and administrative machinery to give effect to new obligations, but also in terms of effective participation in deliberations about the future shape of the multilateral trading system. Most fundamentally of all, many governments find themselves struggling to relate these multilateral activities to a coherent articulation of the national economic interest. What should governments want from this evolving multilateral trading system, and how should they set about pursuing their objectives?

Space limitations prohibit an analysis here of the forces that are driving the multilateral agenda. Suffice it to say that the explosion of the WTO agenda is a logical consequence of intensified linkages and interdependence among nations, which in turn are driven by rapid technological progress, policies favouring open markets (especially for goods, services and capital), and the production and marketing strategies of transnational enterprises. The remainder of this note looks very briefly at some of the major new issues on the WTO agenda and considers their relevance for Africa.

Trade in Services

The decision to incorporate trade into services in the Uruguay Round subjected a vast new area of economic activity to international negotiation. The General Agreement on Trade in Services (GATS) is a framework of rules for the conduct of such trade, as well as an instrument for undertaking commitments to liberalize market access. The GATS is based on principles very similar to those of the GATT, and promotes a process of progressive trade liberalization through successive rounds of negotiation. Market access commitments are expressed in terms of four modes of delivery: cross-border trade, consumption abroad, commercial presence and the movement of natural persons. In other words, the GATS not only covers trade in the ordinary sense of the exchange of products across frontiers, it also encompasses foreign investment and the operations of foreign suppliers present in a given market.

The market access commitments of many countries, including in Africa, are rather modest so far, and considerable scope exists for increasing them. Production of services is a pivotal activity in any economy. Service sectors such as telecommunications, finance, transport, health and education are crucial in determining competitiveness and fostering growth and development. Clear GATS commitments in such sectors could make an important contribution to increased investment and productive efficiency. New negotiations are scheduled for the year 2000 under GATS auspices, and this will provide an opportunity for purposeful engagement in liberalization efforts.

Regulation of FDI

Efforts made by some countries during the Uruguay Round to bring the subject of trade and investment into the multilateral trading system were of limited success. However, the initiative to launch a comprehensive work programme at the Singapore Ministerial Conference in December 1996 means that governments will have to make an explicit decision whether to enter into comprehensive negotiations on investment, beyond what has already been agreed in the trade in services context.

The debate about the desirability of extending multilateral rules on investment is taking place against the background of two inter-related factors, one economic and the other institutional. The first of these relates to the dramatic expansion that has occurred in international capital flows in recent years. Foreign direct investment (FDI) flows averaged US$50 billion per annum between 1980-1985, and had reached US$350 billion by 1996–a sevenfold increase. At the same time, a growing number of countries, especially developing countries, are involved in these capital flows.

Secondly, as a result of the growing prominence of FDI and of globalization trends more generally, international cooperation on investment matters is growing and new agreements are being drawn up all the time. Bilateral investment agreements (BITs) have expanded dramatically. There were about 1,160 BITs in existence by mid 1996, two-thirds of which were signed in the 1990s. Some 256 of these agreements involved African countries. Typically, BITs provide for non-discriminatory treatment of foreign investors and investments, and also guarantees against expropriation and for the transfer of funds. Moreover, a growing number of regional agreements include investment provisions.

Many governments used to be more inclined than they are today to ration and condition the entry of FDI into their markets. They have become less confident that they are better placed than markets to deliver economic prosperity. Outward oriented trade policies have emphasized the need to compete on world markets, which in turn requires new investments in modern plant and continuing upgrading of human skills. On the other hand, some governments continue to have misgivings about an uncritical and undifferentiated approach to foreign investment. One reason for these reservations is the desire to use elements of "industrial policy" to promote specific objectives, such as technology transfer, industrialization more broadly, regional development and export expansion. Other concerns relate to the possibility that large transnational corporations will be able to act in a damaging anti-competitive manner, and to the need to safeguard national sovereignty, strategic considerations and protection of the cultural heritage. All these arguments must be evaluated, with the consideration that the fundamental case for opening up to foreign investment is very similar to that for liberalizing the cross-border flow of goods and services.

Competition policy

The WTO's work on trade and competition, like that on investment, is at an exploratory stage. Governments are seeking to understand better the nature of the relationship between trade and competition in order to determine whether new multilateral rules are needed in this area. Private sector behaviour that affects the conditions of competition in international markets – not least through the operations of transnational corporations – may need to be regulated through international cooperation. International cooperation can be difficult, however, considering the diversity of existing national approaches and the fact that certain types of decisions on competition policy could have positive welfare effects overall, but distributive consequences that may leave some countries worse off and others better off. The political difficulties arising in such circumstances may argue for less than full harmonization of competition policy internationally, with reliance on comity-based arrangements and other forms of cooperation instead.

Another possibility to bear in mind is that some anti-competitive behaviour on the part of private agents may arise from market advantages granted through other government polices, such as trade protection. In these circumstances, it is better to address the problem at source rather than to construct multiple layers of overlapping regulation. In any event, only eight African countries so far have adopted competition policies domestically, and further analysis is required to determine both what the nature of domestic competition policy should be for developing countries and where the interests of these countries lie in the international discussions on these issues.

Intellectual property rights

The decision to bring trade-related aspects of intellectual property rights (TRIPS) into the GATT/WTO trading system was driven by industries whose operations relied heavily on intellectual property (IP) protection, and who considered that their international operations involving both production and sale were inadequately protected. The TRIPS Agreement aims to do three things. First, it defines the substance of intellectual property rights in seven distinct areas, building on several pre-existing international agreements for the protection of intellectual property. The areas covered are copyrights, trademarks, geographical indications, industrial designs, patents, lay-out designs of integrated circuits, and undisclosed information (trade secrets). Second, the TRIPS Agreement creates obligations for the enforcement of intellectual property rights at the national level. Third, it forms part of the WTO's integrated dispute settlement system, providing for enforcement of the Agreement at the international level.

Developing countries are allowed up to five years to phase in most provisions, excluding the most-favoured-nation (MFN) and national treatment obligations (one year). They are permitted a further five years in cases where patentable technology was not protected at the date of entry into force of the Agreement. In the case of least-developed countries, a phase-in period of 11 years is foreseen (except for MFN and national treatment), with the possibility of further extensions. These obligations are going to prove a significant challenge for many countries, because of all that is needed in the way of laws, institutions and procedures.

The area of intellectual property in the WTO has been contentious. As with trade liberalization, there are winners and losers from reforms. But the situation is more complex in the case of intellectual property rights, and it is less easy to argue that all the losers can be adequately compensated in some foreseeable future, or that national welfare in the aggregate will always be augmented in the medium to long term, especially when the initial redistributive effects of introducing intellectual property involve one country gaining and another losing. Much depends on the circumstances of the country concerned. While it would be unconvincing to argue that countries possessing innovative capacity or enjoying the prospect of attracting high technology investment would not see good reason to provide IP protection, this is less clear for countries that have little or no domestic innovative capacity (in the IP sense) and are unlikely to offer a promising destination for hi-tech investment. Such countries may sustain welfare losses through higher prices on IP-protected goods, lower diffusion rates, and fee and royalty transfers. These are complex issues in need of further examination.

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Government procurement

Government procurement has never been in the mainstream of GATT or the WTO. It was the subject of a separate agreement with limited membership under GATT from the early 1980s onwards, but was excluded from the GATT pending further negotiations. Three separate activities relating to procurement are currently underway in the WTO: the GATT negotiations; an examination of the scope for expanding the existing plurilateral agreement; and a new post-Singapore ministerial exercise looking in the first instance at transparency in government procurement procedures. Many see procurement as one of the last major frontiers for traditional trade liberalization. Public authorities in all economies are responsible for purchasing huge quantities of goods and services, many of which are not purchased on the basis of competitive disciplines. Welfare gains from opening up procurement would be considerable in many countries, but governments have often preferred to maintain procurement as a preserve for the protection of domestic industry and political patronage. As the WTO exercises proceed, governments will increasingly have to face up to the trade-off between the latter objectives and securing the benefits from greater liberalization.

Trade facilitation

The WTO's work programme on trade facilitation seeks to explore the simplification of trade procedures in order to assess the scope for WTO rules in this area. It is predicated on the view that as other barriers to trade have fallen over the years, delays at borders, cumbersome and excessive documentation requirements, and a lack of automation have become relatively more costly. Trade facilitation refers to practically any aspects of trade or trade-related activity where government regulatory or documentary requirements exist, but in its wider conception also includes consideration of such matters as harnessing new information technology in order to accelerate transaction times. Considering the welfare gains that could accrue from improvements in these areas, especially in countries where such problems are pervasive and carry high costs for the economy, the WTO trade facilitation exercise would seem to justify active participation.

Trade and enviroment issues

The WTO's work programme on trade and environment seeks to identify the relationship between trade measures and environmental measures in order to promote sustainable development and to make recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and non-discriminatory nature of the system. The work programme is motivated by growing concerns among various governments and non-government organizations, especially from the early 1990s onwards, about environmental protection and the relationship between trade and the environment. This work is continuing, but no conclusions have so far been reached on the question of whether the WTO's rules are adequate for dealing with environmental problems.

Trade liberalization can improve environmental quality by improving resource allocation in a socially desirable sense, such as in agriculture, where protection of high-cost farming may entail the use of environmentally unfriendly farming techniques. But opening up markets could also lead to a deterioration in environmental quality if the consequence of liberalization is to exacerbate environmental degradation, such as in circumstances where liberalization encourages misuse of a non-renewable resource. In the latter situation, however, the solution to the problem is very unlikely to involve lessening trade liberalization or closing markets; rather, the underlying problem of poor environmental policy should be addressed directly.

Where markets do not safeguard the environment adequately, proper environmental protection typically requires interventions such as taxes, subsidies, regulation or the assignment of property rights. Trade restrictions alone are at best ineffectual and might even cause greater environmental degradation. One source of particular tension in the trade and environment debate has been over the use of trade restrictions as a means of punishing countries for not adopting particular environmental standards, or of trying to persuade them to adopt such standards.

When measures are used for enforcement or coercion in this manner, they create strains on the multilateral trading system. Greater cooperation among governments is required to deal with these situations, including through the establishment of multilateral environmental agreements, which may include trade policy enforcement mechanisms. A major challenge from the WTO perspective is to ensure that the integrity of the trading system is not undermined by the misuse of trade policy, either in support of poorly conceived environmental policy, or as an instrument of surrogate protectionism .

The views expressed are those of the author, not of the WTO Secretariat.

Markets and market access for African exports:

Constraints, opportunities and challenges in the new trading system

Dominique Njinkeu
Deputy Director of Research, AERC,

Recent literature reviewing the experiences of economic success stories of countries around the world suggest a positive relationship between per capita exports and economic growth. In sub-Saharan Africa per capita exports of goods and services vary enormously, from an estimated \$9 in Mozambique to \$3,743 for the Seychelles, with a median value of \$98. Services exports, especially earnings from tourism in a number of countries, play an important and increasing role. Merchandise exports have fluctuated; countries with the highest rate of growth in export earnings in the late 1980s and early 1990s are those that had the worst decline in earnings in the late 1970s and early 1980s. Among them commodity exporters experienced much higher degrees of fluctuations in export earnings than mineral and oil exporters. Overall, for African countries there has been a general decline in world exports in all categories of resource-based exports: as a percentage of total world exports, SSA's share dropped from 0.8% in 1970 to about 0.3% in 1995. African countries have thus seen a steady decline in their market shares. To reverse this trend and assure a proper integration into the world trading system they need to identify and correct constraints to export activities.

THE CONSTRAINTS

Commodity and market concentration constitute one set of these constraints. For most SSA countries the share of primary commodity exports as a proportion of total merchandise exports has remained high, although some countries have experienced significant improvements in export diversification. Not only do most SSA countries depend on primary commodity exports, their export earnings are also highly concentrated in a few primary products: some countries rely on as few as three commodities for as much as 90% of their total merchandise exports. Countries with very high export concentration are essentially mineral and oil exporters.

Postwar economic development experiences suggest that a heavy reliance on exports of primary commodities significantly reduces the contribution trade can make to economic development. As a result there is a need to consider urgently the potential for developing "non-traditional exports" as well as options for expanding traditional exports to non-traditional foreign markets. SSA's endowments of relatively abundant natural resources and relatively scarce human skills limit the possibilities for developing significant manufacturing for export in the near future, except in some unskilled labor intensive primary processing activities. The best, short-run, option appears to be a focus on primary the production base, particularly smallholder agriculture. In pursuing such a specialization Africans can usefully draw on their "latecomer" advantage which lies not only in the possibility of technological "catch up" but also in the opportunity to learn from others' experiences. A country such as Mauritius has been particularly successful in promoting manufactured exports, mainly through a reliance on export processing zones (EPZ).

In their attempts to diversify their exports SSA countries should, however, have a coherent strategy toward traditional and non-traditional exports. Africa's poor export performance cannot be blamed entirely on the product composition of current exports. Furthermore, any protection to a sector is only obtained against a tax on other sectors. It is therefore hard to favour one sector without disadvantaging others. A neutral, rent-free incentive structure should be put in place. One possibility for promoting traditional exports is to explore non-traditional markets, and focus on strengthening the initiatives and innovative actions of the private sector. The government in such a framework would be playing a facilitator role through the elimination of price controls and state monopolies, promotion of research and development, and development of infrastructure in transportation and communication. The role would also include facilitating of foreign capital and technology transfers and establishing a legal system for the use of innovative financial instruments.

THE OPPORTUNITIES

Fortunately, the new trading system driven by the WTO also offers several opportunities for increasing African participation in world trade. African countries need to adopt a positive attitude toward the globalizing trade environment and decide on a strategy after taking into account all policies that have been advocated as solutions to supply-side rigidities, and then systematically going through the WTO rules and disciplines at a detailed level to see which of those policies are covered by the rules and disciplines. For policies so covered, it will be necessary to identify the rules and disciplines that are binding and those that are not. Such an assessment should also account for issues that can only be definitively clarified by decisions of WTO dispute settlement panels and the Appellate Body.

For several SSA countries the special treatment for less developed countries (LDCs), which is covered in the Marrakesh Decision under the set of Measures in Favour of

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Least Developed Countries, can be useful. These measures require that LDCs apply only individual commitments, obligations and concessions that are consistent with their individual development, financial and trade needs, or their institutional capabilities. The rules and transitional provisions resulting from the round would be applied to these commitments in a flexible and supportive manner. In addition, LDCs are explicitly subject only to fewer obligations or easier rules. Finally, the WTO rules allow a member to have any level of protection it desires, subject to three easy-to-meet conditions: it must be tariff protection, except in the case of partner countries in a free trade area or customs union; it must be applied on an MFN basis; and it must not involve raising a bound tariff above the bound level.

THE CHALLENGES

A coordinated approach to increasing African participation can be built into a negotiating agenda focusing on improved market access and elimination of supply constraints. The credibility, sustainability and predictability of governments' policies are also fundamental. The upcoming round of negotiations may well determine the level and pattern of protection in WTO countries for the next 15 to 20 years. This corresponds to the period over which the payoff for recent policy reforms can materialize and enhance the competitive position of SSA in international markets. As a result, to secure their smooth integration in the world trading system, African governments cannot afford to neglect the preparations for the new round. This means playing a more active role in Geneva and in the capitals of important actual and potential trading partners. It also means increased lobbying to get topics of interest to them on the negotiation agenda.

The WTO allows member countries, regardless of their size, to play an active role in its activities. Lack of active participation can be very costly to a country. The involvement of SSA countries in the WTO should include (1) participation in the routine day-to-day activities, in Geneva and at home; and (2) participation in setting the agenda for the next negotiations. African participation is at the moment very low, however. Most countries have no representation in Geneva and when they do it is by very small staffs that are required to cover several other international organizations as well as the WTO.

The low level of staff is also true at the country level. The range of issues covered by the WTO requires more than the competency of trade economists and the ministry in charge of trade. An inter-ministry coordination in capitals is necessary but is not currently done. In addition, trade issues need to be given a more important role in economic policy formulation and implementation. The inter-ministerial coordination scheme should be provided with the necessary human and financial resources and be headed by a line cabinet member.

Because of the complexity of the process each SSA member will have to focus on the most important trading interests, and coordinate with others to remain informed on other issues. A corollary to this is to cooperate formally by assigning responsibility for issues and meeting regularly to compare notes. This coordination can also involve the use of the technical assistance possibilities of the WTO.

Preparing for the new round involves two distinct categories of policy analysis and planning by each African government. The first is concerned with foreign obstacles to Africa's exports, which also covers reduction or elimination of those barriers. The items to be negotiated include the structure and the level of tariffs and other duties and charges, as well as the remaining non-tariff barriers.

Because of their buying power and/or population, the major actual or potential markets for Africa are the EU, the United States, Japan, China and India. Most African countries receive Lomé preferences to the EU market and for most products these preferences are non-operative because the post-Uruguay Round bound rate is zero. On the U.S. market, most post-UR bound MFN tariffs are zero; the only barriers of any consequence appear to be those applied on imports of raw sugar and prepared or preserved tuna/skipjack/bonito from the non-LDC countries. A similar situation obtains on the Japanese market, where the most important barrier facing African products appears to a 6.4% GSP rate on prepared or preserved tuna/skipjack/bonito. Tariffs are highly restricted for many of Africa's important exports on only the Chinese, Indian and other potential developing country markets.

In addition to focusing on the main traditional and non-traditional exports, there is a need to proceed to disaggregated data analysis of trade barriers, this should be coupled with an identification of the country's current and expected future export interests. Such an analysis allows the identification of aspects of partners' trade regimes that warrant closer examination in the course of preparing a list of the country's goals in a next round of trade negotiations. Each African government needs to conduct this kind of work.

If we restrict the focus on the LDCs, we find that about 70% of their merchandise exports enter industrial countries' markets duty free, or under tariff lines that have bound MFN zero tariffs. However, in this area an issue that deserves the attention is that of tariff escalation. Although it is likely to diminish after the full implementation of the UR agreements it will still prevail on many product chains. Tariff peaks is a second area and it will particularly prevail in six sectors where the reduction of tariffs in developed countries during the UR was below average. These sectors are (a) major agricultural staple food products; (b) fruit, vegetables, fish, etc. (c) the food industry; (d) textiles and clothing; (e)

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footwear, leather and travel goods; (f) the automotive sector and a few other transport and high technology goods such as consumer electronics and watches.

Several analyses of African trade performances have shown that market access for exports does not rank as high as domestic supply response as explanatory factors for low export performance. The other category of analysis and planning requires that each African government decide which of its own import barriers it would be willing to reduce and by how much. Such decisions help increase the credibility and predictability of domestic policies: as a result, they help attract new investments that would allow increased production to take advantage of the new market access possibilities. The upcoming negotiation for lower tariffs on industrial goods therefore ought to be on a framework that enhances credibility such as increased coverage of bindings at rates below those currently applied.

In summary, round of negotiation, the reduction and bindings of industrial tariffs should remain the focus of African countries. Agricultural tariffs are already on the agenda, and African countries should actively participate in the coming round so that the reduction takes into account their interests.

EXPLAINING AFRICAN ECONOMIC GROWTH PERFORMANCE

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The Collaborative Research Programme represents a unique modality for addressing an important economic subject relevant to Africa. Collaborative research taps the intellectual capabilities of Africa-based scholars in collaboration with other scholars worldwide. The current project uses this approach to focus on explaining Africa's economic growth performance over the last four decades.

Until the mid 1970s, African economies grew rapidly. The substantial slowdown since then, especially when compared with the performance of the economies in other regions, has been a major subject of concern in many circles. The current collaborative research project is designed to explain this growth record. It does this by combining the usual macro-growth framework with three approaches grounded on African country experiences: governments, private agents and markets. By analysing data from about 1960 to the present within this four-perspective approach, the study intends to answer the question of why economic growth in Africa has not been as rapid in the latter period.

The design

There will be four principal framework papers, each of which produces a survey and synthesis of the literature on one of the four approaches. These are in turn supported by background papers. In addition, there will be country-specific case studies matched to the macro-growth country coverage. To be comprehensive, the study aims at covering as many countries as possible; currently, there are 30.

The various perspectives are briefly described below.

MACRO-GROWTH

The macro-growth framework will be based on the new applied growth literature on Africa. Consistent with the unique AERC modality, however, this approach will be linked to the country level.

The new growth literature has so far been used to account for African similarity vis-à-vis the rest of the world. The present study will extend that framework to account for changes in the performance of a given country over time, as well as to explain differences among African countries.

The country-level growth studies will harness the new growth literature to determine how much of a given country's growth experience is explained on the basis of the cross-country growth regression, and then to account for any major residuals. In addition, the approach lends itself to providing considerable scope for regional level analysis of growth performance.

The macro-growth approach will, first, identify a set of salient variables, both policy oriented and structural, in the growth process. Policy variables include the domestic currency exchange rate, especially as related to misalignment: the degree of openness; and fiscal and domestic instruments generally. Structural variables entail such factors as geographical endowment (e.g., if landlocked, disease prevalence, topography), social capital and socio-political configuration.

Second, the macro-growth approach, through its framework paper, will provide a common guide for the growth accounting work at the country level. This macro-country level linkage will allow for a greater latitude of refining the currently crude measures of structural variables. For example, Jeffrey Sachs use of the tropics dummy may be better articulated by the use of measures of agricultural research capabilities. Similarly, the rough indexes of social capital and ethno-linguistic fractionalization may be more finely defined at the country level, where the usual inter-temporal and interactive dynamics can be better explored.

The framework paper will use the overall growth regression to produce for each country a predicted performance on the basis of its observed characteristics, decade-by-decade. The task of the macro-growth cum country case study is two fold. First, it will attempt to explain any residuals, that is why a certain country may not fit a globally applicable relationship (in the case of a non zero residual). Second, it will examine why certain explanatory variables took on the observed values; in particular, why were certain policies adopted?

Results from the macro-growth framework would be motivated and interpreted within the following three themes: government, private agents, and markets.

GOVERNMENT

The political economy of economic performance can be approached at both macro and micro levels. Consistent with the new growth macroeconomics, the macro level uses political variables to explain economic performance. Thus it should provide guidance for the country studies in terms of the variables to be studied. The micro level assumes the endogeneity of the political variables themselves.

Policy choices that may result from the political process include: the provision of infrastructure, size and allocation of the public budget, trade policy, financial repression, and exchange rate policy. The variables should be primarily derived from the incentives created by patterns of political competition among interest groups.

These political outcomes are likely to affect economic performance as measured by private investment, for example. In addition, the politics of interest groups and incentives for political competition may influence investment directly. This is likely to occur through uncertainties introduced into the economic decision-making sphere engendered by the variability, rather than the level, of the policy choice.

The nature of political violence is another variable that may determine economic outcomes as well as be influenced by politics. The study will seek to examine this relationship. In particular, country authors will be invited to explain why nations lie above or below the statistical trend in a distribution of political violence across countries.

A last concern entails the creation of political institutions, particularly those that govern the economy. For example, what dynamics exist among the various economic institutions such as the military versus the civilian political agents? How do these dynamics determine the preservation and strengths of the various institutions? Finally, to what extent does the interplay among institutions influence the economic outcome, or is being influenced by it?

PRIVATE AGENTS

The study will discuss the two key groups of private agents: households and firms. In the case of the former, the focus will be on farm households, the major component of most African economies. Nevertheless, important issues, such as whether to send children to school, will have to be discussed in the context of drawing the contrast between farm and urban household choices. To the extent that it reflects on aggregate performance, intra-household choice will also be addressed in the study. For instance, the husband-wife choice dichotomy may help to explain the structure of production, such as food and export crops.

Regarding firms, the focus will be on manufacturing, drawing on available detailed firm-level data for a number of countries. Also of interest is the mineral extraction sector, which has traditionally been more important than manufacturing in much of Africa.

In order to provide the microeconomic foundations for the observed macroeconomic performance, the study will first survey the literature to identify relevant microeconomic variables for economic performance. For example, what is the role of credit availability in firm performance? Such a survey will then provide guidance for the country case studies, in terms of identifying the major microeconomic constraints to the growth process.

MARKETS

As media of exchange between economic agents, markets are key institutions in the growth process. For example, Douglas North (N. Douglass. 1990. Institutions, Institutional change and Economic Performance, Cambridge: Cambridge University Press), emphasizes the reduction of transaction costs through institution building as the source of modern economic growth. The rather limited evidence for Africa suggests that increasing transaction costs might have featured significantly in the economic decline that has taken place since the mid 1970s.

A major purpose of this section of the study will be to identify the role of markets in economic growth, primarily through their ability to reduce transaction costs. This will entail the functioning of markets both individually and as integrated units. For example, to what extent have policies and rapidly depreciating public goods aided possible disintegration of markets in Africa? Relatedly, what has been the nature of the market structure over time? What role has regulation played? Finally, has the type of taxation, for instance, impeded market integration?

The analysis will provide guidance to the country studies as to the relevant aspects of markets to be studied. In turn, these country

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Viewpoint

Trade and competitiveness in Africa

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Sara Sievers, Executive Director, *Center for International Development, Harvard University*

African competitiveness played prominently at the World Economic Forum's annual meeting in Davos, Switzerland, last year, where many of the continent's leading reformers were on hand for the release of the 1998 Africa Competitiveness Report (ACR). The report, published biennially by the World Economic Forum (WEF) and the Harvard Institute for International Development (HIID), ranks the national competitiveness of 23 countries in Africa, using as its definition of competitiveness prospects for medium-term economic growth, controlling for initial income levels. Rather than attempting to provide sector analysis or to take positions on export competitiveness, as is often done in studies of national competitiveness, this index measures the overall national business climate. Within this context, openness to international trade in goods, services and financial markets remains one of the single most important factors contributing to economic growth, and is particularly important in reducing poverty in the developing world, Africa included. Unfortunately, Africa's economic integration into world markets lags woefully behind its potential. Through our work studying competitiveness more generally, we have isolated some of the reasons that this may be so.

Why trade matters

Africa was the only major region in the world to experience an absolute decline in export earnings per person between 1980 and 1996. This is not only a vivid illustration of its marginalization in the world economy, but also a proximate cause of Africa's slow growth, since it has lacked the foreign exchange earnings needed to invest heavily in capital goods from abroad. It seems clear, therefore, that Africa's economic development will require a major commitment to policies and institutions that promote manufactured exports. Such an approach was key to the economic growth of many tropical countries in East and Southeast Asia. While general points of economic reform, such as macroeconomic stability, currency convertibility and low inflation are important in this regard, they are not enough. International competitiveness in manufactures requires a set of effective institutions (often mediated by multinational enterprises) linking the domestic economy with world markets. These have not been fostered adequately by the World Bank and IMF programmes of recent years; more direct focus on export diversification and manufacturing sector competitiveness is needed. Most of the major coastal port cities of East and West Africa are candidates for a greatly expanded role in export-led growth. In addition, creative effort is needed to promote investment in infrastructure. However, one important lesson of recent development experience in other parts of the world is that infrastructure can increasingly be financed privately and in a competitive market setting, rather than by cash-strapped state monopolies, as has traditionally been the case in Africa. The rapid urbanization that Africa is currently experiencing will enhance this process by allowing private entrepreneurs to benefit from greater economies of scale in densely populated urban areas.

The competitiveness rankings

In the months following the publication of the ACR, many have asked to know more about the methodology used to produce the competitiveness rankings. Nearly 100 variables were included, both survey data compiled from a poll of nearly 700 companies in 24 countries in Africa, and hard data gathered from the World Bank, African Development Bank, IMF, United Nations and other well-regarded sources, in addition to national ministries of statistics and central banks.

These data were divided into six equally-weighted subindexes:

- Openness. This measures the degree to which government policies open a country to international trade. It looks at such indicators as exchange rate policy, barriers to imports, average tariff rates and other similar items.
- Government. This variable looks at government consumption rates, budget deficits and national tax policy, as well as businesses' perceptions of state involvement in the private sector, government competence, and taxes.
- Finance. Firms' access to financing, the maturity of the banking sector and corporate attitudes towards taxation are included in the finance subindex.
- Infrastructure. This subindex includes the extent and quality of roads, railways, ports and air travel. It also looks at telecommunications infrastructure and access to computers. The quality and cost of utilities such as water and electricity supply are also included.
- Labour. Labour examines the characteristics of the workforce we think are relevant to economic growth. What are national education rates? Is health care adequate? Does government overregulate workplace conditions, from the perspective of businesses?
- Institutions. This is the only section that is based entirely on survey data. It includes subjects such as crime rates and the effectiveness of police forces, the quality of legal institutions, and other rule of law measures. In addition, political and policy stability are key components of the institutions index.

A word about the survey, which has received considerable attention and scrutiny, in South Africa and elsewhere. The World Economic Forum and the Harvard Institute for International Development collaborated to conduct a survey of the business communities in the 24 countries included in the report (Senegal, due to late survey responses, was not included in the index calculation). In partnership with local business organizations and economic institutes, as well as with individual consultants, WEF and HIID successfully received responses from nearly 700 companies working in Africa. The sample consists primarily of medium to larger businesses, 80% locally-owned, producing largely for domestic markets. While not strictly representative of economic activity in the countries surveyed, the sample does give a healthy representation of the larger, urban business base. The response rate varied across countries, but most provided 35–50 completed surveys. The survey instrument was piloted in five countries in Africa, in west, east and southern parts of the continent, and adjusted as appropriate. In addition, approximately half of the questions on the survey are identical to those in the survey conducted annually for the Global Competitiveness Report, which has been refined over a period of several years.

Where does trade fit in?

As is clear from the methodology outlined above, trade-related factors as conventionally defined, comprised an extremely limited percentage of variables included in the competitiveness rankings. Yet after isolating the factors that relate to openness, we see that the most competitive countries also opened their policy frameworks to trade. Mauritius, the top performer on the competitiveness scale, has the lowest average tariff rate and the most open trading policies of all the countries included in the competitiveness rankings. Businesses surveyed in Mauritius confirmed that the policies actually took effect by ranking the island consistently at the top of the charts on questions as diverse as non-tariff barriers, availability of foreign exchange, national export position and dividend remittance policies. Botswana, another top performer in competitiveness overall, also scored unusually high on most of the openness variables, as did Egypt, Tunisia and Namibia.

This does not mean to argue that openness policies lead immediately to growth and competitiveness. Some countries, such as Ghana and Zambia, ranked higher on the openness variables than they did in the competitiveness index at large. But the policies are one important step in the right direction. Economic performance in many African countries could be dramatically improved by renewed focus on a competitive export sector, in particular with a focus on manufactured goods. The history behind the economic performance of the top finishers in sub-Saharan Africa, indicates that while diamonds make Botswana a somewhat unique case, the country certainly took advantage of the export market when developing its gem mining industry. Mauritius built much of its wealth through textile and apparel production in export processing zones. Experience in other parts of the world, notably Pacific Asia, shows similar export and trade orientation. Previous work at HIID also confirms that a lack of openness to trade is among the most significant factors explaining sources of slow growth in Africa.

What Africa's exporters say

Our research points strongly toward the importance of reforming in tax structures and their enforcement, deepening financing opportunities, developing infrastructure and improving educational levels. As spurs to export competitiveness in the short term, export processing zones and other creative measures designed to give growth a shot in the arm are well worth a serious look.

In the final question of the survey , respondents were asked to rate on a scale of 1-4, which of the 21 areas listed posed the most serious problems for doing business. In order to understand what African firms currently engaging in trade have to say about their barriers to business, we isolated the responses to this question on the basis of the level of trading activity of each firm surveyed. Firms importing more than half of their inputs (in 1996) were separated from those importing 25%–50% of inputs; firms with less than 25% of their inputs brought in from abroad comprised a third group of firms examined. A similar division was applied to export oriented firms. Firms with more than half of their sales abroad, those with 25%–50% abroad and those with less than 25% abroad were analysed as three distinct groups. Then the full sample was included; the differences among these seven groups are described below.

The top three barriers to business for all seven categories dealt with tax rates and regulations, infrastructure failings, and a lack of available financing. A look at the respondents' numerical responses show that tax regulations and high tax rates scored just under 2.0 for all but two categories. Inadequate infrastructure placed an average of 2.03, with difficult access to financing showing an average score of 2.03 as well. The rank order varied among the categories of firms described above, but with little statistical significance. When cross checked with other questions on the survey that deal in more detail with these three general areas, consistency across the seven categories was also observed.

After a reasonably distinct break, the second group of variables that caused companies difficulties showed more differentiation among importers, exporters, and the sample as a whole. Corruption and inflation were difficult for all groups, all of which hovered around the sample-wide average of 2.18 for both factors. The third variable, however, changed rather dramatically depending on whether the company produced for the export market.

Workforce education levels was listed as a significant problem, on a par with inflation and corruption for firms exporting more than half of their output, with a similar result for firms exporting 25%-50%. Firms not oriented to the export market, companies in all categories relating to imports and the sample as a whole all listed education as a much less difficult challenge. The numbers reveal a sample average for the education variable of 2.35; the export oriented firms list it as 2.17. A rank order comparison shows that the exporters place education fourth on their list of difficult problems, while non-exporters list it as eighth. Policy instability, political instability and the labour force work ethic are ranked as more problematic for the sample as a whole than for exporters. Not surprisingly, transfer costs associated with exporting capital, while not a serious impediment in overall terms according to these firms, does hit exporting companies harder than it does the remainder of the sample.

If Africa is to grow economically and increase competitiveness, it must integrate into the world trading system with increased speed and intensity. Competitive countries trade. Small competitive countries in particular base much of their economies on trade. Africa currently comprises less than 3% of world trade in manufactured goods and slightly less in services–approximately half of its 1980 levels. While recent upswings in exports of primary commodities from Africa are good news, this trend is tentative and heavily reliant on world demand for traditional exports, a demand many predict is unlikely to be sustained. The African countries that have become most competitive have done so largely through export oriented trade, and through implementing the policies that underpin effective trading systems. Their neighbours would be well advised to look across the borders, and to follow suit.

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Globalisation:
How should Africa respond?

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Though benefitting massively from the globalization of markets for manufactures, East Asia has come to grief over mismanaged integration into global capital markets: attracting large inflows that were probably not well-used, and suffering huge costs as a result of the subsequent outflows. Africa's largely unofficial integration into capital markets has been even more disastrous than East Asia's. Around 40% of its private wealth is held abroad (Collier, Hoeffler and Pattillo, 1998). Here, however, I focus on Africa's potential to integrate into the global manufacturing market.

Africa exports approximately a normal proportion of its GDP given its low level of income, but the composition of its exports is dominated by agriculture and resource extraction. Africa has simply missed out on the process of labour-intensive manufactured exports that has been an important engine of development elswhere. On one interpretation this is simply the destiny implied by Africa's comparative advantage. Wood and Berge (1997) argue that given Africa's large endowment of land its comparative advantage is inevitably natural resources, and so Africa should forget about a manufacturing future. Africa can only keep manufacturing activities alive as "pets" not adding value at world prices and being parastic on the real economic activities that directly or indirectly pay for their survival.

In the long run there will be some truth in this proposition. However, I think that it is wrong for the medium run over which policy needs to be focused. While Africa is indeed a typically well endowed with land relative to labour the mechanism by which this will eventually disadvantage African manufacturing is by raising the demand for labour. Other things being equal, the abundance of natural resources will raise the demand for labour in Africa and so make it more expensive than in Asia. Because a greater proportion of Africans than of Asians would be able to find productive employment in land-intensive activities, real wages would be higher and this would make Africans manufacturing uncompetitive relative to Asian manufacturing. However, it is evident that this cannot be the explanation for why African manufacturing has not been competitive. At present, African incomes are mostly now lower than Asian incomes and so African labour is cheap. African manufacturing is uncompetitive with Asian manufacturing despite rather than because of its real wage levels.

Why then is African manufacturing uncompetitive? I will set out six reasons, all related to policy rather than to intrinsic endowments. My overall thesis is that the African policy environment has inadvertently been hostile to manufactured exports relative to other types of exports.

First, African governments still impose much higher tariffs and more non-tariff barriers than other governments. This handicaps manufacturing because the activity is highly dependent on imported inputs. In principal, this should not matter because duty drawback schemes enable an exporter to recover duties on imports that are then incorporated into exports. However, in practice African duty drawback schemes do not work. There are long delays in payment that reduce the real value of refunds and procedures are complex and uncertain.

Secondly, international transport costs are much higher for Africa than elsewhere, this being reflected in a wider margin between cif and fob prices. There are two principal reasons for these high transport costs: a failure to maintain the road and rail networks, and a lack of competition among service providers. For example, the attempt to protect national shipping companies and arilines has led to much higher freight charges than could be the case if the system were competitive. Transport links are also unreliable, so that firms need to hold large inventories. For example, the average manufacturing firm in Zimbabwe holds two months worth of inputs in inventory. Internationally, such firms will be faced by competition from firms operating "just-in-time" delivery systems in which inventories can be as low as 20 minutes worth of output.

Third, there are higher costs of contract enforcement because the courts function slowly and unreliably. As a result, contract enforcement has to depend on reputation. This makes it harder for firms to change to new suppliers and so reduces the degree of competition, further raising costs of inputs.

Fourth, information costs are high, predominantly because Africa has the worst telephone system in the world. The costs of international calls are particularly high and constitute an implicit tax on international transactions.

These four costs all make transactions more expensive. Such high transaction costs disadvantage manufacturing relative to agriculture and mineral extraction because manufacturing is much more transaction intensive. Indeed, manufacturing can usefully be thought of as analogous to shopkeeping. Whereas agriculture and mining are primarily production of an output using factor inputs, light manufacturing involves the purchase of a wide range of intermediate inputs and their resale after minor transformation. The key technology for such manufacturing is probably the ability to effect these transactions as cheaply as possible. Africa has a

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comparative disadvantage in manufacturing because it has high transaction costs. Even an efficient manufacturing activity will have a low ratio of value-added to product price. Transactions costs are important because they raise the costs of inputs and lower the firm-gate price of output. Because the ratio of value added is low, even small percentage changes in the costs of inputs and the price of output have large effects on value added.

Fifth, manufacturing firms pay high price for unreliable electricity supply. For example, in Uganda around a third of manufacturing investment in equipment is to purchase generators, and more electricity is now generated for own use than through the public utility. In effect, electricity has become a subsistence activity for Ugandan firms. Yet there are such large economies of scale in electricity generation that subsistence production imposes very high costs and so handicaps firms. Ugandan firms cite electricity supply as their singly most important problem.

Finally, in Asia an important source of labour for manufactured exports has been teenage girls with some secondary education. African governments have neglected the secondary education of girls and so manufacturers must hire more expensive adult male workers.

All these handicaps keep African firms out of international markets. This has an important consequence for technology. African manufacturers learn from exporting. Bigsten *et al.* (1998) find that firms in Kenya, Ghana, Cameroon and Zimbabwe get large productivity gains through their exposure to exporting. Hence, the low level of technology and productivity of African firms is a consequence rather an original cause of their failure to export. Thus, the cost disadvantage that has kept Africa out of the global market in manufactures arises not from something intrinsic to Africa's resource endowments, but to a series of policy errors that have raised the cost of production. Africa's "industrial policy" should be to correct these policies.

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Africa and the world trading system: Opportunities and challenges

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- analysis of whether, how and the extent to which the country's trade and trade-related policies are affected by the new WTO disciplines.
- identification and analysis of alternative WTO-consistency policy options that might be adopted.
- Analysis of capacity for compliance and defence of rights
- review of the country' s record of compliance with its WTO obligations and defence of its rights.
- analysis of the country's capacity constraints and capacity building needs.
- Identification and analysis of priorities for future trade negotiations
- identification and review of priorities in the light of the WTO agenda.
- examination of the policy and institutional environments within which decisions about these priorities are made (e.g., what does the record of previous trade negotiations suggest for the future?).

Preliminary results on these four issues from the eight country case studies can now be summarized. First, market access issues are dominated in the case study countries by preferences and the effects of UR results on preference margins. Virtually all countries in the project sample benefit from ACP-EU Lome Convention and GSP schemes, which together provide them with broadly favorable access to the markets of the developed countries that are also the dominant destinations of their exports. South Africa was, until recently, the only exception, but in the last few years it has also gained access to the most important GSP schemes and has been admitted into the Lomé Convention.

Virtually all the sample countries have experienced market access problems related to these schemes. These range from the exclusion of Nigeria from the GSP scheme of the US to the use of voluntary export restraint arrangements against Kenya and Mauritius. In addition, these countries are subject to the impact of preference erosion and of tariff escalation in several products of particular export interest. For Mauritius, how the multi-fibre agreement is implemented is especially important, given its substantial reliance on textiles and clothing. This country is also concerned about the future of the sugar protocols, as are the other African countries in the Lomé Convention, is to be re-negotiated before it expires in the year 2000.

Second, the domestic trade and trade-related policies of most of the sample countries can be described as being in a fluid state. Ongoing policy reforms are gradually moving virtually all of them away from inward oriented development strategies and toward more outward oriented strategies. Hence trade barriers, although falling, are still high, widely dispersed and largely unbound. Questions are being raised in consultations with the WTO about the justification for certain quantitative restrictions on

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imports (e.g., Nigeria's use of balance of payments and safeguard reasons for maintaining a range of import prohibitions). Many of the sample countries have not yet eliminated certain WTO-inconsistent policy measures or articulated appropriate alternatives.

Third, for virtually all the countries covered, compliance with WTO obligations and defence of rights remains difficult. There are two critical disabilities involved here. One is lack of knowledge about changes that need to be made and actions that should be taken; the other is lack of institutional capacity to carry out the required changes. For instance, although Nigeria has accepted and ratified all the agreements, the country's domestic legislation does not yet embrace them. In addition, the country has no formal domestic legislative procedures on safeguard actions and its legislation on intellectual property rights is not yet consistent with that stipulated in the agreements. Kenya has experienced difficulties in getting most of its 22 notifications accepted as being in full compliance by the WTO; this is due to the country's apparent inability to satisfy specified requirements which stems from the lack of technical and institutional capacity to handle the stringent notification procedures. In the light of experiences with related problems in Mauritius the case study suggests the need for setting up a specialized department to be tasked with ensuring that the country's WTO obligations are met and the benefits and advantages offered are effected.

Finally, priorities for future trade negotiations appear to be woven around a review of various aspects of the agreements in view of the implementation problems currently being experienced. In particular, there is considerable concern that the time limitations within which a whole range of obligation must be met, particularly those requiring new legislative provisions and institutions, are too short and should be substantially extended. It is argued that the lengths of transitional periods and the levels at which thresholds have been set in many of the agreements appear to have been chosen haphazardly without any linkage to specific criteria reflecting levels of development and capacity of African countries.

Explaining African economic growth performance

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studies should make available detailed information bearing on the respective nations' relative positions in the distribution of growth performance.

Planned activities

The first research workshop is scheduled for Harvard University, USA, in late March this year. The framework papers on the four themes, together with several background papers, will be presented. In addition to providing analyses of the various thematic issues, the workshop will be expected to lay the foundation for conducting the country studies. In particular, it should generate the guidelines needed for these case papers.

Another workshop is currently scheduled for July, 1999, to be held somewhere in Africa. It is intended to have the prospectuses of the country case studies presented. This workshop will also be used to further develop the guidelines emanating from the thematic papers, and to strengthen the linkages between the thematic areas and the country studies.

Additional workshops are planned as well. A third research meeting is intended for reviewing preliminary drafts of the country studies. Next, a fourth workshop will be held to discuss the final versions of these studies along with their syntheses based on the four themes and, possibly, on additional subthemes. An overall synthesis paper will subsequently be produced jointly among the four thematic principal investigators, assessing the results of the entire project. Among other things, this synthesis will examine the extent to which the micro-level evidence supports the macro-growth results. A major dissemination conference ensues by December 2000. Finally, the project results will be published in several volumes.

abstracts

The Impact of Government Policy on Macroeconomic Variables
by H.P.B. Moshi

Government policies are critical in determining the rate of economic growth, the levels of private investment and the magnitude of credit to the private sector. Since the adoption of the Economic Recovery Programmes (ERPs) in 1986, Tanzania has embarked on policies that aim to rebalance the role of public and private sectors in the economy and thus emphasize private sector development. This is a major departure from the socialist policies of the pre-ERP period that relied heavily on public sector institutions. The major hypothesis of the paper is that private sector investment is necessary if economic growth is to be accelerated. However, in order to stimulate such investment, appropriate monetary, fiscal and exchange rate policies have to be formulated and implemented, along with provision of socioeconomic infrastructure. In studying private investment in Tanzania, it is thus assumed that certain variables will be the major determinants. These are government expenditure on investment, the exchange rate, GDP growth and capital inflows. These variables were incorporated in modelling private investment and their linear and non-linear relationships were analysed. The results obtained lead to the conclusions that public investment — especially on infrastructure — exerts a positive and significant effect on private investment. Further, foreign exchange availability positively affects private investment. It is found that the policies adopted by the Government of Tanzania since 1986 have enhanced private investment in the economy.

Exchange Rate Policy and Price Determination in Botswana, by J. Atta, K. Jefferis, S. Ndai and I. Mannathoko

The dominant influence of South African goods on the Botswana CPI basket leads to the expectation that South African prices have a significant role in determining prices in Botswana. This paper examines Botswana's price and inflation relationships and their interaction. Cointegration analysis is used to develop a dynamic error correction model that establishes the link between long run equilibrium prices and short run inflation. Results show that the exchange rate (and South African prices), rather than money, are cointegrated with prices, supporting theoretical predictions of a dominant long-run equilibrium relationship between prices and the exchange rate in a pegged exchange rate regime with capital controls. In the short-run, both domestic prices and imported inflationary pressures determine growth in the price level each month. This suggests that monetary, exchange rate and fiscal policy can be used to temper inflation in the short run. Changes in the exchange rate and prices will only have short term price competitiveness effects however over time as adjustment back to the equilibrium real exchange rate occurs.

The Impact of Interest Rates Liberalization on the corporate Financing Strategies of Quoted Companies in Nigeria
by D. Omole & G. Falokun

This paper analysed empirically the linkages among interest rates and the leverage ratios (debt-to-equity ratio and debt-to-capital ratio) of selected firms, their investment, turnover and profits. The study used a survey of business as well as the quoted companies' final accounts and balance sheets, both before and after liberalization. The result of the study showed a link between interest rates and the corporate financing strategies and the profitability of firms. It also revealed that interest rate liberalization has a link with the growth of the equity markets. On sectoral analysis, the study indicated that the interest rate liberalization does not seem to have similar effects on all the investigated quoted companies. However, industrialists are shown to be sensitive to cost of production, with interest rates treated as a major component in the cost profile. Basically, all items of production are admitted to be affected by interest rate variations. The study therefore underscored the need to identify the trilogy of investment, production and finance and also to formulate policies that will not only integrate the entire financial markets (both the money and the capital markets) in an attempt to synchronize the benefits of liberalization, but also to facilitate the financial mobilization process of firms, so that their optimum contribution to development can be facilitated.

External Debt and Economic Growth in Sub-Saharan African Countries: An Econometric Study
by Milton A. Iyoha

This econometric study takes a simulation approach to investigate the impact of external debt on economic growth in subSaharan African countries. The study uses a small macroeconometric model estimated for 1970-1994. An important finding is the significance of debt overhang variables in the investment equation, suggesting that mounting external debt depress investment through both a disincentive effect and a crowding out effect.

Policy simulations were undertaken to investigate the effects of various debt stock reduction scenarios effective in 1986 on investment and economic growth in subsequent years. It was found that debt stock reduction would have significantly increased investment and growth performance. A 75% debt stock reduction would, on average, have increased investment by 40% and increased GDP growth rate by 3 during the 1987-1994 period.

The results demonstrate that debt forgiveness could provide a much needed stimulus to investment recovery and economic growth in sub-Saharan Africa.

These research papers will be published in the AERC Research Paper series. A full list of publications is available on request at the address on page 20 or on the AERC web site: http://www.aercafrica.org.

AERC *Research Activities*

April to December 1999

Africa and the World Trading System: Dissemination Workshop
April 17-18 *Yaounde, Cameroon*
Poverty, Income Distribution and Labour Market Issues: Research Workshop
May 27-28 *Accra, Ghana*
Biannual Research Workshop
May 29-June 3 *Accra, Ghana*
Advisory Committee Meeting
June 4 *Accra, Ghana*
Survey Methodology Workshop
August 16-24 *Nairobi, Kenya*
Economic Modeling Workshop
September *Nairobi, Kenya*
Explaining African Economic Growth Performance: Research Workshop
September *Nairobi, Kenya*
Managing Transition from Aid Dependence in Sub-Saharan Africa: Dissemination Conference
October *Washington, D.C.*
Biannual Research Workshop
December 4-9 *Nairobi, Kenya*
Advisory Committee Meeting
December 10 *Nairobi, Kenya*

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AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)
CONSORTIUM POUR LA RECHERCHE ECONOMIQUE EN AFRIQUE

The African Economic Research Consortium (AERC), established in 1988, is a public not-for-profit organization devoted to advanced policy research and training. The principal objective is to strengthen local capacity for conducting independent, rigorous inquiry into problems pertinent to the management of economies in sub-Saharan Africa. In response to special needs of the region, the AERC Research Programme has adopted a flexible approach to improve the technical skills of local researchers, allow for regional determination of research priorities, strengthen national institutions concerned with economic policy research, and facilitate closer ties between researchers and policy makers. The Training Programme augments the pool of economic researchers in sub-Saharan Africa by supporting graduate studies in economics as well as improving the capacities of departments of economics in local public universities. AERC is supported by donor governments, private foundations and international organizations. Further information concerning AERC and its publications can be obtained from:

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