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Trade policy and promotion in Sub-Saharan Africa

A review of experiences and issues

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Tanzania*

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Contents

List of Tables	vi
Acknowledgements	vii
I Introduction	1
II Problems related to quality of trade statistics in Sub-Saharan Africa	4
III General characteristics of trade in SSA economies	6
Export performance in Sub-Saharan Africa	13
The key role of imports (volume, value and structure) and the major influences upon them	17
IV Import substitution <i>vis a vis</i> export promotion	19
Main arguments	19
Effects on industrialization	23
V The instruments of export promotion policy	25
Promotional measures	28
Future export prospects for SSA countries	35
VI Trade liberalization	38
Fiscal effects of trade liberalization	42
VII Sequencing, timing and the stability of trade policy reforms	43
VIII Economic integration as a trade policy instrument	45
IX Concluding remarks and additional areas for future trade policy research in Sub-Saharan Africa	49
Appendix	52
Notes	64
References	65

List of tables

1.	Changing shares of SSA countries in world exports and imports (percentages, for selected years)	7
2.	Percentage share of Sub-Saharan Africa and developing countries in world exports of primary commodities	7
3.	Sub-Saharan Africa: Annual average growth rates of GDP, and changing ratios of exports and imports to GDP (selected years)	8
4.	Sub-Saharan Africa: Growth of merchandise trade. Average annual growth rates (percent) and terms of trade (selected years)	10
5.	Sub-Saharan Africa: Concentration and diversification indices, 1970 and 1985	14
6.	Protection levels and induced bias against exports 1986	23
7.	Trade policy reforms in World Bank Structural Adjustment Loans	26
8.	Summary of export taxes for selected SSA countries	27
9.	Growth in manufacturing output, exports, and capacity utilization before and during reforms	28
A-1.	Shares of world exports and imports by main regions (percentage)	52
A-2.	World trade, X and M and shares (percentage) of Africa and SSA countries	53
A-3.	Value of exports from world, developing countries and Sub-Saharan Africa	57
A-4.	Sub-Saharan Africa: Structure of merchandise exports by major categories (percent)	58
A-5.	Sub-Saharan Africa: Structure of merchandise imports by major categories (percent)	60
A-6.	(i) Volume indices of exports (1980 = 100)	62
	(ii) Volume indices of imports (1980 = 100)	62
A-7.	(i) Unit value indices of exports (1980 = 100)	62
	(ii) Unit value indices of imports (1980 = 100)	62
A-8.	(i) Terms of trade indices (1980 = 100)	63
	(ii) Purchasing power indices of exports (1980 = 100)	63

Note: In Tables 3, 4, 5, A.2, A.4 and A.5 countries are listed (following World Bank, 1989a) in ascending order of their GNP per capita, except Angola, Djibouti, Equatorial Guinea and Guinea for which GNP per capita could not be obtained.

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I. Introduction

The subject of trade policy (commercial policy) originates in the mercantilist philosophy of accumulating national wealth through import controls and export expansion. However, this philosophy was challenged by Adam Smith's argument for free trade and reliance on the "invisible hand" of the market. The notion of import protection was reinforced by the contention that infant industry needed tariff protection as expounded by Friedrich List and Alexander Hamilton in support of the early industrialization process of Germany and the United States, respectively. The infant industry argument for import protection has also been used extensively by the developing countries in support of their industrialization process. This argument became prominent following Raul Prebisch's theory, concerning the secular decline in the terms of trade for primary commodities, and the views of the proponents of industrialization as the engine of growth. The present-day protectionist policies of the developed countries embrace both the mercantilist views as well as import tariff protection for what has been termed "sunset" industries, i.e. industries that cannot compete with those of the Newly Industrialized Countries (NICs). The NICs have skillfully combined elements of protection and export policies to develop an outward-oriented development strategy, while other developing countries are grappling with trade liberalization measures reminiscent of Adam Smith's free trade philosophy, the aim being to remove the anti-export bias of previous trade policies.

The mercantilists used international trade to secure balance of trade surplus. Further, they advocated a commercial policy which included the promotion of exports and prohibition of imports, or at least their reduction to a minimum.

Infant industry protection was meant to protect local industries from cheap imports and promote industrialization but without specific emphasis on export promotion. It was to protect infant import substitutes but not infant export-oriented industries. Hence, the infant industry argument for tariff protection is essentially anti-export biased. Export promotion development strategy as applied by the NICs, on the other hand, applies equal incentives to export promotion and import substitution. In addition, specific export policies that may not necessarily be available to import substitutes are used with a strong government commitment and support to steer the economy towards outward orientation

without interfering too strongly with the market mechanism ("optimum government intervention"). A strong political commitment to an outward-oriented development strategy is essential for the implementation of effective institutional mechanisms. An outward-oriented strategy supports neither inefficient import substitutes nor inefficient export industries, but supports both efficient export and efficient import substitution (Rhee, 1984).

This paper emphasizes the export policy measures that should be applied in the Sub-Saharan Africa (SSA) economies in the process of trade policy reform. Several SSA countries embarked on macroeconomic stabilization and structural adjustment measures in the early-to mid-1980s which would need to be supplemented with trade policy reforms so that such reforms could deliver the anticipated results on the export front. It is in this context that we hope to arouse interest in trade policy research which would produce proposals to alleviate the declining trend in export performance in Sub-Saharan Africa.

This paper focuses on the objectives and instruments of trade policy and promotion which are immediately relevant to the SSA economies. The broad objectives include efficient import substitution, export promotion and trade liberalization, where both exports and imports are encouraged to rise together and through which regional economic integration may be fostered. These issues are covered in Sections IV, VI and VIII. Section VII briefly discusses the sequencing, timing and stability of trade policy reforms.

The main instruments of trade policy are trade taxes, import and export taxes and varieties of quantitative restrictions on trade. These vary from country to country. For example, Sharpley and Lewis (1988) identify five separate elements of trade policy which relate to the industrialization process in Kenya. These are: exchange rate policy, tariffs, import licensing, export compensation schemes, and domestic indirect taxes. "Equal footing" export policies (Rhee, 1990), institutional infrastructure and support services for export development are other instruments. Rhee emphasizes easy access to trade finance, automatic investment licensing and access to know-how and markets as the most important "equal footing" export policies. All these measures except automatic investment licensing are discussed in Section V. Section II deals with problems of quality of trade statistics in Sub-Saharan Africa, while Section III deals with the general characteristics of trade in SSA countries. Trade statistics in Sub-Saharan Africa are often close to useless (Deardorff and Stopler, 1990). With this in mind, we devote a whole section on the quality of trade data in SSA countries which we feel should be the starting point for any trade policy research in the region.

In Tanzania, Uganda and, to a lesser extent, Zambia, a policy to which the international research and policy community (particularly the World Bank and IMF) has paid little attention, is a combination of various export retention schemes, "own funds" imports and Open General Licence (OGL). Section V gives a discussion of this, particularly as it has been operating in Tanzania.

While an appropriate exchange rate policy is important in that it gives the right price signals for efficient resource allocation and for the production of tradeables, issues of exchange rate as a trade policy instrument are dealt with

only to the extent that they reinforce or validate the effectiveness of the trade policy instruments. Hence the focus is on measures that influence the production and consumption of tradeable goods and services other than exchange rate policy issues *per se*.

Another trade policy instrument relevant for SSA economies in this period of structural adjustment but which is not treated in this paper is direct foreign investment. As the SSA economies introduce macroeconomic stabilization and trade policy changes, an appropriate environment is created for direct foreign investment with the potential to increase output and exports, particularly if the changes include special incentives for the promotion of Export Processing Zones (EPZs).

We survey the issues of trade policy and promotion in Sub-Saharan Africa but not in great detail. More importantly, we raise issues that may be of research interest in the main areas of trade policy and promotion. When researched, these issues should produce a comprehensive analysis of trade policy and trade development issues in Sub-Saharan Africa.

II. Problems related to the quality of trade statistics in Sub-Saharan Africa

Yeats (1989) identifies several sources of inaccuracies of trade data reported by the SSA countries. This calls for a cautious use of these data in empirical and policy analyses.

In evaluating the quality of data, Yeats compares values of exports f.o.b. reported by African countries with partner countries' imports c.i.f. to estimate the percentage differences or discrepancies. The discrepancies between data for African countries' exports and matched data for OECD (partner) imports are found to be "wide", with OECD imports in many cases turning out to be greater than reported exports of the African countries. This reflects situations where developing countries are not receiving full value for the products they export due to actions by foreign buyers or false invoicing by their own nationals (Yeats, 1989, p.13).

There are, however, "legitimate", rather common, sources of inaccuracies, such as variations in transport costs, re-exports, diversion *en route*, time lags especially in the availability of up-to-date data, and differences in commodity classification. The latter concerns the level of "product detail" in aggregating trade volumes: not all countries report at a 5-digit level SITC (Standard International Trade Classification): most report at 4-or 3-digit level, resulting in substantial "loss" of trade information.

However, these factors are an inadequate explanation for the observed discrepancies. Other, perhaps more serious, problems include: smuggling, or exporters intentionally under-invoicing to evade taxes or exchange controls, or conversely, exporters over-invoicing, though rarely (reported exports exceeding matched imports), in order to acquire government export subsidies or other attractive forms of export incentives. Thus, in a number of countries, some commodities (oil, coffee, cocoa) would have their reported export quantities and values purposefully under-reported "possibly to conceal non-compliance with internationally agreed production and export quotas" (Yeats, 1989, p.14). Too restrictive trade controls certainly reinforce this kind of "cheating" as they encourage importers to under-invoice and/or smuggle while subsidies would encourage exporters to over-invoice.

Discrepancies in data on intra-African trade were generally found to be considerably larger than those on trade with developed countries, which casts doubts on the usefulness of the statistics for analyzing the level and direction of trade among African countries. Improper recording of country of origin and/or trans-shipment through a second African country are other major causes. For instance, in 1983 Sudan reported some US\$69 million of tobacco imports from Tanzania, while Tanzania reports no exports to Sudan (p.24). It has also been pointed out that in 1978, official imports of Nigeria from Cameroon were 1090 percent of the corresponding Cameroonian exports to Nigeria. No complete data exists for a single year, which makes it impossible to construct a complete trade matrix with independent data for any particular year (Deordorff and Stopler, 1990, p.131).

An important research task is therefore to assess the value of the available trade data, and to improve upon it where appropriate and possible. Research on the dimensions, characteristics of and motivations for unrecorded intra-SSA (border) trade may be especially fruitful.

III. General characteristics of trade in SSA economies

According to many indicators recorded by several international agencies (GATT, UNCTAD, World Bank, IMF), world trade continues to play a key dynamic role in the world economy, with trade-related investment and production amongst the leading sources of growth. In 1988, for example, the volume of world merchandise trade rose by some 8.5 percent. More rapid trade growth relative to output indicates increasing economic linkages between countries, and what has become known as the globalization of production (GATT, 1989).

While recent world economic growth has been accompanied by increasing convergence between a number of developing and developed economies (in terms of GDP per capita, composition of output and other indicators), for several developing countries the issue is one of divergence. Even the best-case scenario in the World Bank Report 1989 envisages no more than a 0.1 percent increase in per capita GDP in Sub-Saharan Africa until 1995, after years of steady decline (Weston, 1989). The 1989 African Development Bank Report suggests that a process of "delinking" may be at work, as the volume of African exports has not expanded in proportion with the economic expansion in industrial countries, compounding shortfalls resulting from price declines, especially of tropical beverages. The Fraser Report (UN, 1990) points out that Africa's poor export performance in the 1980s has been a key factor in its divergent economic path.

Since the mid-1950s through the 1960s, available records show "satisfactory" export performance for most African countries (Lewis, 1986; Svedberg, 1988). Real exports grew at 6 percent per annum between 1954 and 1969 (Helleiner, 1990a, p.24). However, all agree that in the following two decades more SSA countries experienced decline or stagnation as reflected, for example, in their shares in world trade.

The shares of SSA countries in world trade (exports and imports) show a sharp decline since 1980 (Table 1). (See also Tables A-1 and A-2.)

Table 1 Changing shares of SSA countries in world exports and imports (percentages, for selected years)

Year		1970	1975	1980	1982	1984	1987
SSA	exports/	2.4	2.3	2.5	1.8	1.7	1.1
world	exports						
SSA	imports/	2.2	2.2	2.1	2.0	1.4	1.2
world	imports						

Source: Computed from UNCTAD 1989a: Table 1.1.

A number of factors generally responsible for this trend can be identified, but certainly performances in respect of each country vary, depending on the specific policies pursued by a given country.

Table 2 Percentage shares of Sub-Saharan Africa and developing countries in world exports of primary commodities (selected years)

(i) Percent shares of SSA countries in:		1971	1976/1977a	1979	1983	1986
World	All					
Exports	primary					
	commodities	6.6	5.8	4.9	4.0	4.1
	18 IPC					
	commodities	14.9	13.8	11.4	9.6	10.8
Developing	All					
countries'	primary					
exports	commodities	21.3	18.4	16.1	13.1	14.2
	18 IPC					
	commodities	24.8	22.2	18.9	16.6	18.5
(ii) Percent shares of developing countries in:						
World	All					
exports	primary					
	commodities	31.1	31.1	30.3	30.1	28.9
	18 IPC					
	commodities	60.3	62.3	60.5	57.7	58.6

Source: Computed from UNCTAD (1989c), *Commodity Yearbook 1988*: 10–13, Table 1.3; 38–40, Table 1.11.

Notes: ^a 1976 for "All primary commodities" only, and 1977 for "18 IPC commodities" only. 1976 and 1977 are notable for the commodity boom, especially of coffee.

Years were selected on the basis of availability of data for both categories.

^b Integrated Programme for Commodities.

Regarding declining export shares, SSA countries, like other developing countries, faced slow growth in world markets for their traditional primary commodity exports. But they also failed to boost alternative exports, e.g. non-traditional primary products and manufactures. Equally significantly, they lost

their market shares in world markets, especially as production of traditional exports stagnated (Svedberg, 1988, and Table 2). There were also significant declines in the export-to-GDP ratio for most SSA countries (Table 3).

Further, Balassa (1990) shows that within Sub-Saharan Africa, "market-oriented" countries generally gained while "interventionist" countries lost market shares. The economies in the former countries adopted realistic exchange rates, while "interventionist" countries strongly biased the incentives systems against export and let their exchange rates appreciate in real terms.

In Tanzania, for instance, an important factor contributing to losses in export market shares was the increasing overvaluation of the real exchange rate. Other factors were: high marketing margins of state-owned marketing institutions, which led to reductions in the ratio of producer to border prices particularly for coffee and tea; increasing shortage of agricultural inputs, machinery spares and consumer goods and deterioration of transport facilities (Lele, 1984). The same would be true for several other SSA countries.

Table 3 Sub-Saharan Africa: Annual average growth rates of GDP, and changing ratios of exports and imports to GDP (selected years)

	GDP Growth rate (1)		Exports/GDP (2)			Imports/GDP (3)		
	1970-1980	1980-1987	1965	1980	1987	1965	1980	1987
1. Ethiopia	2.6	1.1	12	14	11	12.7	19.5	24
2. Chad	1.8	5.1	19	28	17	11	10	..
3. Zaire	-0.3	1.6	36	24	33	10	11	20
4. Guinea Bissau	2.0	3.7	..	8	6	..	51	53
5. Malawi	6.1	2.6	19	25	24	26	39	25
6. Mozambique	-2.4	-3.8	11	..	38	33
7. Tanzania	4.5	1.7	26	13	13	25	27	37
8. Burkina Faso	1.9	4.1	9	16	17	18	37	33
9. Madagascar	0.6	0.3	16	16	20	21	21	19
10. Mali	3.8	3.4	12	16	17	17	27	23
11. Gambia	5.4	4.6	43	57	63	43	64	63
12. Burundi	3.1	2.9	10	9	9	21	20	18
13. Zambia	1.1	0.0	49	41	47	28	29	37
14. Niger	1.5	-1.9	9	24	19	6	24	19
15. Uganda	-2.4	0.9	26	2	10	..	14	..
16. Sao Tomé & Príncipe	5.4	-5.9	..	46	20	..	14	..
17. Somalia	2.7	1.7	17	31	11	26	73	45
18. Togo	4.1	-0.5	20	32	31	25	56	34
19. Rwanda	3.9	2.4	12	14	8	72	24	17
20. Sierra Leone	1.6	-0.2	30	23	9	11	42	15
21. Benin	2.3	2.7	13	28	15	8	32	27
22. Central African Republic	2.2	2.2	27	26	17	29	30	18
23. Kenya	5.6	3.2	31	29	21	31	43	25
24. Sudan	5.3	-0.6	15	12	8	16	24	9
25. Comoros	-0.9	2.8	11	36
26. Lesotho	8.5	2.2	16	21	10	50	145	168
27. Nigeria	5.4	-1.9	13	26	31	13	17	32

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	GDP Growth rate (1)		Exports/GDP (2)			Imports/GDP (3)		
	1970-1980	1980-1987	1965	1980	1987	1965	1980	1987
28. Ghana	-0.1	1.4	17	8	20	22	25	17
29. Mauritania	1.3	1.6	42	37	50	26	55	56
30. Liberia	2.2	-1.4	50	55	43	39	53	21
31. Equatorial Guinea	42
32. Guinea	4.3	2.8	..	28	30	..	17	..
33. Cape Verde	1.5	6.6	..	22	76	..
34. Senegal	2.1	3.3	24	29	28	20	35	25
35. Zimbabwe	1.5	2.6	..	30	27	35	29	20
36. Swaziland	4.4	3.4	59	77	116	99
37. Ivory Coast	6.1	1.3	37	34	34	31	36	28
38. Congo	2.4	5.2	36	60	43	33	29	27
39. Cameroon	5.3	7.0	24	24	16	17	21	17
40. Botswana	13.8	12.8	32	50	..	46	76	56
41. Mauritius	7.1	5.1	36	51	69	41	64	68
42. Gabon	9.0	0.6	43	..	41	27	16	24
43. Seychelles	5.8	0.7	..	68	..	13	67	45
44. Angola	-6.4	3.3	21	52	38	20	27	14
45. Djibouti	3.0	1.4

Source: Column 1: UNCTAD, (1989a) *Handbook of International Trade and Development Statistics* 1988: 430-433, Table 6.2.

Column 2: Exports of goods and non-factor services/GDP, World Bank (1989a) *Sub-Saharan Africa: From Crisis to Sustainable Growth*: 227 Table 4.

Column 3: Computed as merchandise imports (million dollars). World Bank (1989a): 240 Table 12 divided by GDP (million dollars) World Bank (1989a) *ibid*: 224, Table 3.

Note: ... data not available

Erzan and Svedberg (1989) point out that Singapore, with a population of 2.5 million, had export revenues at par with all of the SSA countries together—the home of over four hundred million people. According to Svedberg (1988), although supply shortcomings were the predominant cause of the poor export performance of most SSA countries, the demand side, specifically the deterioration in the barter term of trade, also had a negative impact on export performance (Table 4). While the terms of trade index declined from 97 in 1982 to 71 in 1987, the purchasing power of export declined from 72 to 58 over the same period (Table 4).

Using a similar method to Svedberg's (1988) to determine the explanatory contribution of volume changes and changes in barter terms of trade to changes in real exports, and applying the analysis for the period 1980-1988, Ndulu (1990), found that while the explanatory shares were 41.1 percent and 58.9 percent for barter terms of trade and quantum respectively from 1980-1985, the barter terms of trade decline (-7.7 percent) more than offset the quantum increases (0.7 percent) from 1985-1988. This suggests that price declines had a greater impact on the decline of export performance, and hence stagnation in economic growth, in Sub-Saharan Africa over the 1985-1988 period. The reason for the poor export performance in Sub-Saharan Africa for the period 1980-1988 may not therefore be solely declining commodity prices. As SSA

countries lost their share of the world commodity market other nations must have gained that share at the same time as commodity prices were declining. Further explanation for the decline in export performance should therefore be sought in the macroeconomic policies, particularly exchange rate policies, pursued at that time for each SSA country. This should form an interesting subject for research.

The export structure of the SSA countries continues to be highly concentrated on a few primary commodities and the direction of their exports by major market grouping has hardly changed (UNCTAD, 1984;1989b, p.64). The attendant economic crisis has, on the other hand, engendered a slow-down in "import growth, further constraining production in particularly import-intensive 'would-be' alternative exports" (mainly manufactures). Nevertheless it would be worth taking stock of the efforts toward diversification (e.g. into non-traditional exports) being vigorously made during the adjustment period.

Table 4 Sub-Saharan Africa: Growth of merchandise trade. Average annual growth rates (percent) and terms of trade (selected years)

	Exports		Imports		Terms of trade 1980 = 100		
	1965-1980	1980-1988	1965-1980	1980-1988	1982	1985	1988
1. Ethiopia	0.5	-0.7	-0.9	7.2	74	99	104
2. Chad	99
3. Zaire	4.7	-2.9	-2.9	0.2	81	82	96
4. Guinea Bissau
5. Malawi	4.1	3.3	3.3	-3.4	106	73	72
6. Mozambique	84
7. Tanzania	-4.0	-5.4	1.6	0.5	86	90	94
8. Burkina Faso	6.8	6.5	5.8	2.2	97	80	69
9. Madagascar	0.7	-3.5	-0.4	-1.8	80	104	95
10. Mali	11.0	7.0	6.2	3.7	102	82	88
11. Gambia
12. Burundi	3.0	8.4	2.0	1.1	..	100	81
13. Zambia	1.7	-3.7	-5.5	-4.8	72	72	107
14. Niger	12.8	-4.9	6.6	-4.2	89	108	83
15. Uganda	-3.9	2.6	-5.3	4.6	74	96	78
16. Sao Tomé & Príncipe
17. Somalia	3.8	-9.7	5.8	-4.1	111	91	91
18. Togo	4.6	-0.3	8.6	-3.8	112	90	80
19. Rwanda	7.7	1.3	8.7	5.8	63	102	103
20. Sierra Leone	-3.8	-3.2	-2.7	-13.1	84	100	94
21. Benin	5.2	2.4	6.7	2.7	75	90	94
22. Central African Republic	-0.4	0.1	-1.1	3.5	90	88	94
23. Kenya	0.3	0.1	1.7	-0.6	87	92	91
24. Sudan	-0.3	2.7	2.3	-7.9	85	90	86
25. Comoros
26. Lesotho
27. Nigeria	11.4	-3.6	15.2	-13.7	103	90	40

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	Exports		Imports		Terms of trade 1980 = 100		
	1965-1980	1980-1988	1965-1980	1980-1988	1982	1985	1988
28. Ghana	-1.8	-1.1	-1.4	-1.4	61	91	78
29. Mauritania	2.7	9.7	5.4	2.4	97	112	104
30. Liberia	4.5	-3.2	1.5	-9.8	92	91	103
31. Equatorial Guinea
32. Guinea
33. Cape Verde
34. Senegal	2.4	7.0	4.1	2.8	89	100	96
35. Zimbabwe	3.4	1.5	-1.8	-6.0	105	84	83
36. Swaziland
37. Ivory Coast	5.6	1.5	8.0	-2.2	91	96	92
38. Congo	12.5	4.6	1.0	-2.1	110	94	49
39. Cameroon	5.2	6.8	5.6	2.5	71	92	64
40. Botswana
41. Mauritius	3.1	12.1	6.4	8.7	..	90	117
42. Gabon	8.1	-2.2	10.5	0.8	..	90	54
43. Seychelles
44. Angola	104
45. Djibouti

Source: World Bank (1989b): 190-191, Table 14 and World Bank (1990): 204-205, Table 14. Terms of trade for 1982 from World Bank, (1984): 234-235 Table 9.

Notes: 1. Figures for South African Customs Union, i.e. RSA, Namibia, Lesotho, Botswana, and Swaziland excluded.

2. . . . data not available.

The price decline of primary products accounted for about a third of the overall world market share loss of Sub-Saharan Africa. The remaining two-thirds was due to failure to expand export volume (Erzan and Svedberg, 1989). As a result of the sluggish export performance in most of the SSA countries, imports have been compressed which further exacerbate the declining export performance. Of the 38 SSA countries for which data was available, 28 of them experienced declines in their import-to-GDP ratio over the 1980-1987 period (Table 3).

The declines in export-to-GDP ratios of most SSA countries is associated with their poor macroeconomic performance, measured by GDP growth rates. Of the 44 SSA countries for which data were available, 27 experienced declining GDP growth rates over the 1970-1980 and 1980-1987 periods. Four countries experienced very sharp declines in their GDP growth rates between 1970-1980 and 1980-1987: Gabon, from 9 to 0.6 percent; Nigeria, from 5.4 to -1.9 percent; Sao Tomé and Príncipe, from 5.4 to -5.9 percent; and Seychelles from 5.8 to 0.7 percent. Only six countries had growth rates of GDP above 5 percent over the 1980-1987 period: Botswana, Cameroon, Cape Verde, Chad, Congo and Mauritius (Table 3). Helleiner (1990a) points out that although there is no universal "norm" as to the optimal or desirable ratio(s), changes in the export-to-GDP ratios of a country over time may roughly (though not decisively) reflect its development strategy/trade orientation. For instance, it is not purely

accidental that Tanzania, with export-to-GDP ratios changing from 26 percent in 1965 to 7 percent in 1985 (Helleiner, 1990a, p.13 Table 1) happens to be classified as having been strongly inward-oriented. In fact, those countries that had their export-to-GDP ratios decline significantly had adopted anti-export biased development strategies, while those that adopted outward-oriented strategies recorded increasing export-to-GDP shares. But of critical importance to export performance were the incentive structures and the choice of policy instruments; which again differed as between anti-export biased and outward-oriented strategies. While anti-export biased strategies generally taxed exports and applied mainly non-price incentive measures, e.g. quantitative restrictions (QRs) and licensing, outward-oriented strategies more frequently applied price incentive measures, i.e. import tariffs, export taxes and export subsidies that were less anti-export biased. In a theoretical static and perfectly competitive world, there may be little difference between tariffs and QRs in terms of their resource allocation effects. In practice, however, the two operate quite differently. There is no easy measure of inward- or outward-oriented strategies but several writers associate these terminologies with import substitution and export promotion (Rhee, 1990, and references therein). Ocampo (1990) associates inward-oriented strategy with a downward trend of the export coefficient. Some argue that trade performance in Sub-Saharan Africa has been greatly influenced by the efficacy of government expenditures, such as on infrastructure for the agricultural sector, rather than simply by incentive structures (Lele, 1984).

An outward-oriented trade regime has also been defined as a case where the number of units of domestic currency receivable for a unit of foreign currency, which is the effective exchange rate for exports, (EER_x) is equal to the effective exchange rate for imports (EER_m), i.e. $EER_x = EER_m$. An inward-oriented trade regime is one where the effective exchange for exports is less than the effective exchange for imports ($EER_x < EER_m$). Nevertheless, it must be said that evidence of association between outward orientation, however defined, and the rate of economic growth in Sub-Saharan Africa is yet to be found (Helleiner, 1986). Further tests using his data still show no correlation between the rate of growth of output and export growth rate. As reported by Michaely (1977, p.52) in his analysis of the 1950–1975 relationship between export expansion and economic growth, and quoted by Helleiner (1986), no such relationship was observed for the least developed countries.

Plausible explanation for the perceived positive correlation between export expansion and economic growth has to do with externalities, greater utilization of capacity, the potential for scale economies, greater external inflows, the pressure for competition's effects upon X-efficiency and other such influences (Helleiner, 1986; Ndulu, 1990). Empirically, however, the direction of causality between export growth and economic growth in Sub-Saharan Africa remains indeterminate.

However, Fosu (1990), using a pooled cross-sectional *cum* time-series estimation for 1960–1970 and 1970–1980 for selected African countries

including Algeria, Egypt and Morocco, found a positive correlation between export growth and economic growth. On the other hand, his R^2 was quite low, 0.303, indicating low explanatory power of the functional relationship. Although he rules out the issue of mis-specification and hence missing variables, more work is needed on how to model the relationship between export growth and economic growth in Sub-Saharan Africa. The effects of the North African states which are much larger, with a different export composition, may need to be separated out in order to get a clearer picture of the relationship for SSA countries which, except Nigeria, are much smaller and primary commodity export dependent. The amount of foreign resource inflow, e.g. in the form of commodity import support and direct foreign investment, may be an important variable for consideration. Care should be exercised in pooling cross-sectional and time-series data since the extent to which exogenous factors affect growth varies with time and across countries.

Export performance in Sub-Saharan Africa

Most SSA countries export a very small number of products. In 1970, for example, the number of products exported ranged from four in Gambia to 76 in Kenya, 81 in Ivory Coast and 82 in Senegal. By 1985 the number of products exported by Gambia had increased to 14, by Kenya to 104, by Ivory Coast to 120; but Senegal's had declined to 54. Both the concentration and diversification indices of the four countries changed marginally over the same period.

Most of the countries that rely on few primary commodity exports (Uganda, Zambia, Niger, Nigeria, Rwanda, Burundi, Guinea, Congo, Angola and Seychelles) have high concentration indices while countries that export a wide range of products including non-traditional products (Kenya, Sudan, Senegal, Ivory Coast, Cameroon and Tanzania) have low concentration indices. These countries should be able to absorb external shock, arising from primary commodity price changes, more easily than others (unless the prices of all the exports are highly correlated with one another). Ivory Coast's Hirschman concentration index (Table 5), changed significantly from 0.422 in 1970 to 0.372 in 1985. During this period Ivory Coast exported significant amounts of non-traditional exports, especially fruits, to Western Europe but could not keep up the quality standards required. Mauritius, which has transformed its sugar export economy to a significant exporter of textiles, has had its concentration index decline from 0.930 in 1970 to 0.656 in 1985. On the other hand, a number of Uganda's export items disappear from the export scene, and its concentration index jumped from 0.596 in 1970 to 0.932 in 1985. Congo's concentration index rose from 0.486 in 1970 to 0.894 in 1985 (Table 5).

Table 5 Sub-Saharan Africa: Concentration and diversification indices, 1970 and 1985

	1970			1985		
	No. of commodities exported	"Diversification index"	"Concentration index"	No. of commodities exported	"Diversification index"	"Concentration index"
1. Ethiopia	29	0.888	0.603	28	0.902	0.620
2. Chad	15	0.929	0.697	9	0.861	0.617
3. Zaire	34	0.897	0.656	44	0.793	0.417
4. Guinea Bissau	9	0.947	0.847	11	0.929	0.557
5. Malawi	23	0.908	0.473	33	0.933	0.530
6. Mozambique	66	0.791	0.234	46	0.810	0.274
7. Tanzania	47	0.849	0.255	53	0.859	0.359
8. Burkina Faso	14	0.890	0.441	23	0.885	0.541
9. Madagascar	64	0.799	0.321	43	0.856	0.439
10. Mali	33	0.869	0.381	25	0.933	0.578
11. Gambia	4	0.973	0.594	14	0.925	0.520
12. Burundi	11	0.923	0.826	13	0.963	0.776
13. Zambia	22	0.963	0.952	30	0.948	0.844
14. Niger	17	0.909	0.569	27	0.944	0.738
15. Uganda	28	0.916	0.596	17	0.972	0.932
16. Sao Tomé & Príncipe	17	0.879	0.627	14	0.920	0.698
17. Somalia	16	0.907	0.574	18	0.948	0.760
18. Togo	16	0.913	0.482	22	0.928	0.461
19. Rwanda	7	0.956	0.639	8	0.968	0.811
20. Sierra Leone	20	0.897	0.543	22	0.880	0.391
21. Benin	28	0.867	0.342	23	0.771	0.428
22. Central African Republic	18	0.901	0.47	13	0.958	0.452
23. Kenya	76	0.813	0.336	104	0.823	0.340
24. Sudan	19	0.949	0.639	43	0.894	0.345
25. Comoros	6	0.974	0.581	9	0.937	0.780
26. Lesotho	--	--	--	--	--	--
27. Nigeria	34	0.875	0.583	87	0.854	0.843
28. Ghana	24	0.941	0.752	33	0.882	0.544
29. Mauritania	14	0.952	0.864	14	0.947	0.622
30. Liberia	28	0.926	0.709	20	0.957	0.631
31. Equatorial Guinea	--	--	--	12	0.940	0.584
32. Guinea	--	--	--	19	0.970	0.952
33. Cape Verde	13	0.930	0.493	9	0.934	0.568
34. Senegal	82	0.793	0.311	54	0.879	0.311
35. Zimbabwe	--	--	--	82	0.870	0.295
36. Swaziland	--	--	--	--	--	--
37. Ivory Coast	81	0.863	0.422	120	0.796	0.372
38. Congo	18	0.895	0.486	25	0.818	0.894
39. Cameroon	61	0.831	0.371	47	0.752	0.403
40. Botswana	--	--	--	--	--	--
41. Mauritius	9	0.968	0.930	42	0.904	0.656

...continued

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	1970			1985		
	No. of commodities exported	"Diversi- fication index"	"Concen- tration index"	No. of commodities exported	"Diversi- fication index"	"Concen- tration index"
42. Gabon	21	0.883	0.500	28	0.824	0.790
43. Seychelles	7	0.973	0.619	8	0.878	0.811
44. Angola	75	0.778	0.365	17	0.826	0.874
45. Djibouti

Source: UNCTAD (1989a): 234-237 Table 4.5.

Notes:

The concentration index discriminates more finely between countries which are relatively more concentrated in their export structure; the diversification index discriminates more finely between countries which are relatively more diversified. Both indices range between zero and 1.0: the latter representing the most extreme concentration.

1. Ranking as of 1985.
2. Number of products exported at the three digit SITC level; figure includes only those products which are greater than \$50,000 in 1970 or \$100,000 in 1985 or more than 0.3 percent of the country's total exports.
3. Absolute deviation of the country commodity shares from world structure, as follows:

$$S_j = \frac{\sum_i |h_{ij}| - h_i}{2}$$

where h_{ij} = share of commodity i in total exports of country j

h_i = share of commodity i in total world exports.

4. Hirschmann index normalized to make values ranging from 0 to 1 (maximum concentration) according to formula:

$$H_j = \frac{\sqrt{\frac{182}{\sum_{i=1}^{182} (x_i)^2} - \sqrt{\frac{1}{182}}}}{1 - \sqrt{\frac{1}{182}}}$$

where j = country index

x_i = value of exports of commodity i

182 = number of products at the 3-digit SITC level

$$X = \frac{\sum_{i=1}^{182} x_i}{182}$$

5. ... data not available

What then are the prospects of countries (in terms of markets and prices to be fetched from such markets) diversifying into other export lines, particularly non-traditional exports? It will depend on each country's policy framework, institutional infrastructure, supportive services and the entry conditions for the selected products in certain markets. However, the whole issue of export diversification is important in the sense that it will play an important role in reducing the variability of export earnings of developing countries and in raising the growth rates of both exports and domestic output.

While export diversification has generally been found to contribute to growth of export earnings, to the reduction of instability in these earnings and to in-

creased domestic economic activity, the *causal* linkages are both more complex and less certain than might initially be supposed (Bond and Milne, 1987). Individual country studies might shed more light on this issue. For example, a country in the process of diversification will find its export growth affected not only by the growth of activity in the individual country but also by exogenous variables, such as changes in international prices of traditional commodities relative to those of non-traditional products, the composition of its exports, the income elasticity of demand of its exports, its geographical location and the export prices of its competitors.

The promotion of non-traditional exports which are not necessarily in the realm of manufacturing is one of the avenues towards export growth that several African countries have discovered recently (Siggel, 1990). To succeed in the development of such niches of specialization it is not usually sufficient to get the exchange rate right. New types of market information, dynamic entrepreneurship and risk capital are needed. Trade policy reforms tend to underestimate the difficulties of creating such new industries, and some form of government intervention may be necessary. Modest amounts of protection for new products in the domestic market and assistance for new exports may therefore be justifiable as incentives when changing economic structures (Lewis, 1986).

The need for government intervention in export development has been emphasized in several writings on the subject: Helleiner (1990a), Rodrik (1988), Ocampo (1990), Rhee (1990), Burton (1989). The transition from import substitution based on import restrictions toward export development may be a difficult and costly exercise. South Korea managed this transition well between 1960 and 1970, when an industrial base founded on import substitution and protection was skillfully manipulated by enlightened government intervention to become export-oriented. We should not forget, though, that South Korea already had half a century of experience in industry and work ethics that few SSA countries have. Nevertheless, that transformation could not have happened at the pace it did, without the intervention and assistance of effective political leadership and an efficient civil service. The need for government intervention can be illustrated by two examples, viz. credit allocation and determination of interest rates for export production, what Rhee (1990) calls "equal footing" export policies. During the transition period from import substitution to export expansion, exporting would not be as profitable as other economic activities (e.g. trading, construction or real estate and services), hence it would be starved of resources without government intervention through credit allocation measures. Likewise, the cost of money (interest rate) is influenced by government policies and by other factors affecting the demand for and the supply of money that have no bearing upon national priorities. Unless the government can effectively intervene to provide viable interest rates for the financing of export-oriented industries, investors and entrepreneurs would be wary of venturing into expansion of production for export.

The extent, form and nature of government intervention as a means of promoting non-traditional exports in each individual country should be interesting research.

The key role of imports (volume, value and structure)
and the major influences upon them

The SSA share of world imports declined from 2.2 percent in 1970 to 1.2 percent in 1987, a reflection of declining export earnings and hence falling purchasing power of exports (Table 1 and Table A-1) and the ensuing import controls. According to the World Bank and many others, efficient, long-term development of exports and output will depend not only on export policies but on import liberalization. This should be taken as a hypothetical case to be explored further in future research in Sub-Saharan Africa. A key issue is whether the link between import volume growth and output growth is sufficiently flexible to justify the expectation that a moderation in the rate of growth of imports will be compatible with anticipated output growth rates.

The import structure of Sub-Saharan Africa consists of consumer goods (mainly food), intermediate goods (including fuels) and capital goods (machinery and transport equipment) (see Table A-5).

Other things being equal, the long-run demand for imports of consumer goods would fall in response to adverse changes in income or the purchasing power of exports, to increases in tariffs or controls on consumer goods imports and to real exchange rate depreciation. Since changes in demand may take time, the level of consumer goods imports associated with a given level of real output may also depend on how long that level of output has persisted.

In many developing countries, households may frequently be unable to act on their demand for consumer goods. With limited export earnings and little external financing, authorities have often rationed foreign exchange while maintaining overvalued exchange rates. Such controls force consumers off their import demand curves, such that observed levels of consumer goods imports fall short of the national demand, a situation characteristic of many SSA countries in the early 1980s. When such constraints are relaxed through trade liberalization, the growth rate of real imports has temporarily overshot its normal level.

In the case of intermediate goods imports, the relationship between the level of output and that of imported intermediate goods is a technological one, captured in the aggregate production function. In many SSA countries, output is rigidly linked to the level of intermediate goods imports as most of the economies are highly import dependent. This has tended to reduce output growth as a result of foreign exchange shortages (Ndulu, 1990). Ndulu further shows that while there was a remarkable stability in the ratio between real imports of capital goods and real investment over the last decade in Sub-Saharan Africa, suggesting a close to fixed proportions relationship, economy-wide ratios of real intermediate imports to value added seem to have shown a compression during the last decade of foreign exchange supply bottlenecks. While the annual growth rate of import volume declined from 7.6 percent in the period 1973–1980 to –5.8 percent in the years 1980–1987, the corresponding decline in the rate of growth of production was much less, declining from 2.5 percent to 0.5 percent, suggesting some range of substitutability (p.4).

Capital goods imports on the other hand, are likely to be imperfect substitutes for domestically produced capital goods for many purposes, and therefore constraints on the volume of capital that can be imported could lead to a fall in the long-term growth of productive capacity, decline in export earnings and further exacerbate the balance of payment problems (Khan and Knight, 1988). Investment requires capital goods that are not domestically produced and therefore domestic savings cannot be transformed into investment goods unless foreign exchange is available. Critical shortage of foreign exchange has, therefore, led to import compression affecting the growth process of SSA countries.

IV Import substitution *vis-a-vis* export promotion

Main arguments

Import substitution has been described as a development strategy that seeks to accomplish the objectives of learning from and in general gaining from the rich countries, and at the same time protect the domestic economy so that the society can find its own way, create its own form of development and redo its economy in order to function on equal terms in the community of nations (Bruton, 1989). Import substitution is not necessarily synonymous with protection, delinking or the traditional infant industry argument. As discussed in this paper it refers to the *strategy* which involves conscious government policy (measured by import tariffs and quantitative restrictions and the anti-export bias implicit in these restrictions) rather than a *phenomenon* (measured by a decline in the import share of total domestic supply) which occurs naturally as a country develops.

The basic characteristics of a strong economy are flexibility, and the capacity to transform resources into a wide range of products, and the ability to determine its economic destiny. According to Bruton (1989) there are several reasons why a non-growing economy needs protection to develop these characteristics. The proximate source of long-term growth is the increased productivity of labour that is produced by more physical capital and by new knowledge. The new knowledge is either built into the physical capital or is acquired. Bruton then contends that development is essentially and ultimately a matter of learning and searching and that, in this context, protection should extend the opportunities for the learning process.

Thus Bruton (1989) argues (and we think correctly so) that in a world of continuous change in technology, tastes, political affiliation, and ideas of the good life, development is necessarily a matter of trial and error, of moving in one direction today and another tomorrow, and that the capacity to do this at relatively low cost is an essential characteristic of a growing economy, sought and created through import substitution.

How does this view contrast with the current import liberalization without explicit efforts to improve technological capacity in Sub-Saharan Africa? It should be recognized that protected import substitution generally imposes short-

run costs on the economy. This, however, may be a necessary investment cost for increased long-term flexibility of the economy whose operations can lead to increased welfare. The cost and time frame for such investment are the important considerations. As a development strategy, the period of import substitution should be as short as possible but is it economically and politically feasible?

A promising research area is the investigation of the types of infrastructure expenditures, broadly defined, that the market-oriented NICs have undertaken in support of their industrial growth. There is some uncorroborated evidence that they devoted considerable resources to education as well as to the provision of inexpensive housing in order to hold down the cost of living and hence the nominal wages in the exporting sector.

Pack (1988) points out that there has been varied success in relating the impact of policy intervention to the structure of trade. Examples cited include the difficulty in establishing a systematic relation between various measures of the magnitude of protection, such as domestic resource cost and effective rates of protection, and the growth of individual sectors. The following reasons have been offered (Bhagwati and Srinivasan, 1979):

- A given effective rate of protection is compatible with many nominal tariff structures and hence with different effects on consumption and protection;
- Effective rates of protection are measured in a static context with no growth in resources. As growth occurs, relative factor endowments change and the impact on output will be mediated, *inter alia*, through effects described by the Rybczynski theorem);¹
- The marginal returns to further expansion of a sector may be low even where high effective protection exists. Thus, Pack (1988) argues that if a sector has undergone considerable import substitution, the local market may offer few opportunities for profitable introduction of new capacity.

Balassa (in Meier and Steel, 1989) argues that discrimination in favour of import substitution and against exports did not permit the development of manufactured exports in countries engaging in "second-stage" import substitution² behind high protection. The cost of protection is estimated to have reached six to seven percent of gross national product in several developing countries. In contrast, countries pursuing outward-looking policies, defined as the maintenance of the effective exchange rate (EER) for exports relatively close to that of imports (the ratio, even in export-oriented countries, has typically been below unity), had rapid growth in aggregate exports, largely concentrated in manufacturing, and this resulted in rapid growth in manufacturing's share of value added (Pack, 1988).

While advocates of import substitution industrialization expect higher total factor productivity (TFP) growth in manufacturing from their policies, proponents of a neutral trade regime (in which the EER for exports relative to imports is close to unity) predict a higher rate of TFP growth from outward-looking policies. In fact, there is evidence that the growth of TFP was lower in countries en-

gaged in second-stage import substitution than in the industrial countries, with the consequent increase in the economic distance between the two.

Exports have been viewed as generating greater growth of productivity as a result of: greater capacity utilization in industries in which the minimum efficient size of plant is large relative to the domestic market; greater horizontal specialization as each firm concentrates on a narrower range of products; increasing familiarity and absorption of new technologies; greater learning-by-doing insofar as this is a function of cumulative output and exports permit greater output in an industry; and the stimulative effect of the need to achieve internationally competitive prices and quality. These issues may need to be examined in greater detail for individual countries and specific sectors.

The exchange rate is also affected by policy performance in protection. Keesing (in Meier and Steel, 1989) argues that if a country prefers high protection and direct control, a characteristic of several SSA countries, this in itself will push the exchange rate in a direction that discourages exports and natural, unassisted import substitution. Conversely, if the country avoids any but the mildest protection, the resulting exchange rate will be more favourable to exports and make strong protection less necessary. He goes on to say that getting rid of controls and protection requires an exchange rate adjustment or else an equivalent reduction in the price level through use of deflationary policies. Such an adjustment through devaluation, if it can be made real and lasting, can be a substitute or partial substitute for protection.

Mauritius is one of the SSA countries that has successfully made the transition from industrial import substitution to export promotion. Mauritius began promoting industrial development in 1964 with an incentive scheme to encourage import substitution activities through tax holidays, priority access to credit, duty-free entry of capital goods, and protection in the form of tariffs and quotas. It has been pointed out that this approach had little immediate impact on industrial growth (Meier and Steel, 1989, p.147).

There was a change of strategy in 1970 when the Mauritian government began trying to attract local and foreign private investors into export activities through the Export Processing Zones (EPZ) Act, which provided free repatriation of capital and dividends, duty-free entry of inputs, and greater flexibility for exporters in dismissing workers. These policies paid off, and manufacturing value added grew by 17 percent per year from 1970–1977, and manufactured exports grew from nil to nearly 24 percent of total exports.

Mauritius took additional policy measures to stimulate industrial exports in the early 1980s, including an export credit guarantee scheme, agreements to avoid double taxation, and intensified export promotion activities abroad. These measures, together with a series of stabilization and structural adjustment programmes as well as import liberalization measures, have transformed Mauritius from a sugar economy to a manufacturing exporter where manufactured exports now account for well over 60 percent of export proceeds.

Could other SSA countries benefit from the experience of Mauritius? What specific conditions have made it successful that may be lacking in other SSA

countries, some of which have launched EPZs without much success? What should be done to change some of these countries to success stories? Maybe there is no need to introduce such far-reaching changes, and a combination of protection and liberal trade policies may be the preferred options. It may be recalled that import substitution played a more important role than export promotion in fostering economic growth in the early stages of industrialization in Japan and South Korea. Bhagwati (1988) even argues that the credibility of outward-oriented policies is greater, and hence appropriate investment is more likely to be forthcoming when actively promoted by an interventionist state than when they are simply the outcome of a potentially changeable *laissez-faire* approach. This should form interesting research areas in specific SSA countries.

So far the keys to successful expansion of exports seem to have been realistic and stable exchange rates and sustained governmental support, not import liberalization and *laissez-faire* (Helleiner, 1990a). He further argues that raising the quality of public sector management may be more important than privatizing public enterprises or liberalizing markets.

In Colombia, which has significant parallels in its history with recent SSA experiences, Ocampo (1990) has shown that the growth of manufacturing output and export from the 1930s to the mid-1970s resulted more from its integration with the domestic market rather than the use of explicit trade policy instruments. A policy of essentially allowing the (real) value of the currency to rise and fall with export booms and busts was an important contributing factor at the time (p.28).

In Tanzania, protection is provided by both tariffs and non-tariff barriers. Until the early 1970s, tariffs were more prominent in determining the protection structure. However, with the emerging shortage of foreign exchange in the late 1970s and early 1980s, QRs have become more prominent. With the introduction of trade liberalization measures in early 1984, and especially through the "own funds" imports and imports through retained export earnings, QRs have been eased and tariffs now have a bigger role to play.

Table 6 shows that, in general, consumer goods had higher rates of both nominal and effective rates of protection than intermediate and capital goods, indicating that the structure of protection provides relative incentives to import rather than produce intermediate and capital goods. The overall high rates of protection are consistent with the promotion of import substitution and bias against export. However, the penalty to exporters is being corrected through the policy measures introduced to correct for the overvaluation of the exchange rate and through compensatory schemes such as the export rebate/duty drawback, export retention schemes, the "own funds" import scheme and the Open General Licence (OGL).

Given that there have been two rounds of tariff reductions in Tanzania since the Ndulu *et al* (1987) study was conducted and the current enthusiasm to introduce major tax reforms, a revisit of the study might produce interesting results on both industrial protection and the extent of the anti-export bias in the reformed tariff structure. Similar studies in other SSA countries where they have

not recently been undertaken, and particularly where there have been important policy changes, could be very useful.

Table 6 Protection levels and induced bias against exports (1986) in Tanzania

	a	b	c	d	e
	Nominal protection percent	Effective protection percent	Export subsidy coefficient	Tariff induced bias against exports	Nominal effective exchange rate (Tshs/USD)
1. Beverages & tobacco	65.6	83.8	1.02	0.62	74.50
2. Textiles & apparel	43.8	55.4	1.00	0.44	68.45
3. Food products	29.8	65.0	1.03	0.26	66.60
4. Tanneries & leather	28.7	41.3	1.01	0.27	66.50
5. Plastics & pharmaceuticals	26.8	45.4	1.00	0.27	57.6
6. Iron, steel & metals	24.1	28.1	1.11	0.12	59.0
7. Agriculture	23.8	24.0	—	—	64.50
8. Machinery & equipment	22.3	25.0	1.06	0.05	58.00
9. Rubber, glass, wood & cement	19.8	28.0	—	—	59.40
10. Chemicals & fertilizers	8.2	1.6	1.07	0.68	57.40

Sources: B.J. Ndulu, W.M. Lyakurwa, J.J. Semboja and A. Chaligha (1987) for nominal effective rates of protection and nominal effective exchange rates.

M.S.D. Bagachwa, N.E. Luvanga and G.D. Mjema (1990) for export subsidy and tariff induced bias against exports.

Effects on industrialization

A substantial amount of work is to be undertaken in the World Institute for Development Economics Research (WIDER) study of trade and industrialization which includes several countries in Sub-Saharan Africa (Ndulu, and Semboja, 1990; Davis, 1990; Mwega, 1990; and Oyejide, 1990). These studies should show how trade policy has contributed to or hindered industrial development in Sub-Saharan Africa.

In summarizing studies done by Power (1972), Lewis (1972), Hopcraft (1973), and Porter (1973) on import substitution in Kenya, Mwega (1990) points out that policies which encourage the establishment of high-cost industrial structures discouraged industrial exports by increasing the cost of inputs and by depressing the earnings of the relatively unprotected, export-oriented industries. Such trade policies included high import tariffs and quantitative restrictions, the most binding being import licensing and foreign exchange allocation. Exports declined, leading to import compression and decline in total factor productivity. The source of industrial growth in Kenya from 1964–1970 has been domestic

demand (Sharpley and Lewis, 1988), a position shared by Zimbabwe during the UDI period (Davis, 1990). In the case of Tanzania, Ndulu and Semboja (1990) show that both tariff and non-tariff barriers, coupled with the overvaluation of the exchange rate, enhanced protection for import substitution particularly in the post-1973 period. The gap between average effective tariff and the parallel market exchange rate premium widened greatly in the early 1980s, inducing smuggling and capital flight through import over-invoicing but the extent of overvaluation has been reversed since 1986 with the depreciation of the real exchange rate.

Detailed studies on tariff-based industrial protection in Tanzania arrive at fairly similar conclusions regarding the tariff regime and industrial protection. To disperse of effective rates of protection across sectors indicates a structure of protection much in favour of import substitutes, particularly non-durable consumer goods, rather than reflecting the drive towards import substitution deepening (Ndulu, 1990, and references therein) adopted since the mid-1970s with the Basic Industrial Strategy. The extent to which the anti-export bias has been reversed needs to be examined further, taking into account the various export promotion schemes that were begun in the mid-1980s, and whether tariffs are now binding as trade policy instruments. Again, similar detailed studies of other SSA countries, where they have not recently been undertaken, are called for.

The role of the state in the formulation and implementation of trade policy and what signals, appropriate or otherwise, have been flashed to the operators regarding the credibility and sustainability of such policy and possible impact on industrial development and export promotion would be worth future research in SSA countries. Drawing on the success stories of Japan and South Korea, and using the dichotomy of "hard" *vis a vis* "soft" state, trade policy formulation and implementation in individual SSA countries should be examined over time, pointing out possible inconsistencies in implementation, possible reversals in policies, the kind of government in power (whether dictatorial or democratic), and effects of the policy changes on the industrialization process. Lessons from other continents, although valuable, cannot replace the study of the special conditions in Sub-Saharan Africa.

A case in point may be the industrialization process in Zimbabwe during UDI, particularly the specific conditions which resulted in a relatively efficient industrial sector in circumstances under which the opposite might have been expected. Research in this area is already planned. The change between liberal and restrictive trade policies followed by Kenya between 1975 and 1986, and their effects on industrial growth provide an interesting contrast.

V. The instruments of export promotion policy

Most SSA economies are characterized by high levels of tariff protection coupled with pervasive quantitative restrictions. Such barriers restrict exports as well as imports, as they direct resources away from exporting sectors and raise the cost of imported inputs to potential exporters. Exports of commodities have also been discouraged more directly via export taxes and the operation of Commodity Marketing Boards. Currency overvaluation has had a similar effect, although exchange rate policy should, in principle, have had rather different consequences for trade (see Rodrik, 1988; Lyakurwa, 1988; Nash, 1990; Siggel, no date). The reason is administrative allocation of foreign exchange with a much depreciated parallel rate serving as the true marginal cost of foreign currency to import. Consequently, import tariffs and export taxes/subsidies have been rendered redundant.

As a result of the economic crises, many SSA countries have started to implement measures to return trade policy. The major exchange rate and trade policy reforms being undertaken in six SSA countries are listed in Table 7. The key objectives are to raise the price received by exporters, simplify the trade regime and reduce the reliance on QRs. With the devaluation included in the package, import liberalization would amount to an across-the-board export subsidy, and serve the same function as the removal of explicit export taxes (Rodrik, 1988). To the extent that it is effective in real terms, devaluation increases the relative price of tradeables relative to those of non-tradeables. In principle, therefore, it is less selective than commodity specific tax reductions (or subsidy increases) and should be neutral between commodity and other exports and among commodities. However, that purported neutrality assumes equal import content in all sectors of the economy. Although devaluation will reduce the anti-export bias in agriculture, it may not have the same effect in the manufacturing sector (although the overall effect has been positive) because of the differentials in import content. Hence, other incentives such as duty drawbacks and export rebates will need to be worked out in order to further encourage manufactured exports. A real devaluation, accompanied by exchange rate unification where relevant for different goods, should improve incentives for exports and efficient import substitutes.

Table 7 Trade policy reforms in World Bank Structural Adjustment Loans

Reforms	East Africa			West Africa		
	Kenya	Malawi	Mauritius	Ivory Coast	Senegal	Togo
<i>Exchange rate policy</i>						
Maintain flexible rate	—	x	x	—	—	—
Have one-shot devaluation	s	x	x	—	—	—
<i>Import policy</i>						
Lower tariffs: reduce variation in tariffs	x	—	—	x	—	—
Remove QRs, replace with tariffs	x	—	s	x	—	—
Reduce duty exemptions	x	—	—	x	—	—
Remove licences, simplify procedures	x	—	—	—	—	—
Increase tariffs in imported inputs	—	—	x	—	x	—
Increase tariffs for government revenue	x	x	—	—	x	—
<i>Export policy</i>						
Raise price of exports	x	x	x	x	x	x
Create/strengthen export promotion unit	s	x	s	—	—	s
Subsidize credit; increase Export Development Fund	s	—	x	x	—	—
Remove licences; simplify procedures	x	—	s	—	—	x
Reimburse import duties to exporters	—	—	s	—	—	—
Subsidize exports directly	x	—	—	x	x	—
Introduce/improve export insurance	s	—	—	s	—	—
Reduce export taxes	—	—	—	—	s	—
<i>Others</i>						
Reduce variations in Effective Rates of Protection (ERPs)	s	—	s	s	—	—
Introduce/expand free trade zones/bonded warehouses	—	—	x	—	—	—
Do export/import substitution projects	—	—	x	—	—	s
Facilitate direct foreign investment	—	—	x	—	—	—
Assist firms with transitional problems	x	—	—	—	—	—

Source: Meier and Steel (1987), Table 6.2.2. Quoted in Rodrik (1988).

x Included in reform programme

s Study only

— Not included

Devaluation has to be coupled with stable macroeconomic policies (such as low fiscal deficit, low inflation rates), and a stable macroeconomic environment is necessary for an outward-oriented development strategy, Rhee (1990).

Several SSA countries have taxed income from commodity exports more heavily than income from other sources whether by export taxes or by running up statutory marketing board surpluses. In several cases, such taxation played a major role in bringing about stagnation or decline in output and exports, shifting resources to the production of non-tradeables or heavily protected products as well as encouraging smuggling. Table 8 shows the extent of export taxation for selected SSA countries applicable to two commodities, coffee and cocoa. In some SSA countries, trade taxes constitute, on average, around a quarter of government recurrent revenues and close to half of total tax revenues. The governments in Uganda, Burkina Faso, Sierra Leone, Sudan, Swaziland and Mauritius collect as much revenue from trade as they do from all other sources combined (Rodrik, 1988, p.7).

Deliberate reduction of domestic marketing costs, where this is possible, is another policy for promoting exports. In some SSA countries, marketing costs absorbed the largest share of export proceeds, taxation took the next largest share (although in certain countries, such as Uganda, taxes on coffee exports took the largest share of export proceeds), and growers received the residual share. Reasons for the high marketing costs include overemployment, high transport costs relative to efficient fleet operators, long delays in sales and collection of proceeds (increasing finance and storage cost as well as high physical losses), poor management and embezzlement. Efficient use of resources in the export sector is necessary in order to increase output and exports.

Table 8 Summary of export taxes for selected SSA countries

Country	Commodity	Export taxes
Ivory Coast	Coffee	20–25% of f.o.b. value, including 15% from formal export taxes and 5–10% of Cois Stab operations
Kenya	Coffee	15% of current f.o.b. value, based on a progressive sliding scale
Central African Republic	Coffee	30% of current f.o.b. value, primarily Cais Stab net margin, plus minor taxes such as special transport tax for export commodities
Uganda	Coffee	Over 50% of f.o.b. value mostly from formal export tax
Nigeria	Cocoa	4% of current f.o.b. value state tax of N 250
Ghana	Cocoa	As per cent of current f.o.b. value, net margins of Cocoa Board
Ivory Coast	Cocoa	15–20% of f.o.b. value, including 15% from formal export tax and 0.5% of Cais Stab operations
Cameroon	Cocoa	15–20% of f.o.b. value, including 15% from formal export tax and 0.5% from Cais Stab operations.

Source: Shakolko, R. (1989) *Commodity Export Prospects in Sub-Saharan Africa*. Prepared for the Un Expert Group (August).

The effect on the manufacturing sector has been more mixed (Table 9). In general trade reforms have helped export industries and those that faced constraints because of a scarcity of imported inputs. Highly protected industries—often parastatals—tended to suffer. In some countries, reforms, together with external support, revived the economy so much that even the relatively disprotected industries were not hurt in absolute terms. A survey in Ghana in December 1987 showed that 56 percent of the firms increased their output following the reforms; only 15 percent lowered output (Steel, in Meier and Steel, 1989). Much of the increase came from recovery of export markets and expansion of existing operations, for example in textiles from Ghana and Nigeria to neighbouring countries and cocoa products from Ivory Coast and Nigeria to Europe. Some expansion came from new industries such as garments in Madagascar and glycerol from Ghana. The reforms tended to shift the industrial structure from assembly industries, highly dependent on imported inputs, to resource-based industries (Nash, 1990). However, further research is required on this issue and in particular where reforms have not been supported by large external inflows. This would provide a good contrast to the good performance observed in Ghana following the reforms and supported by substantial amounts of foreign inflow from the World Bank, IMF and the donor community.

Table 9 Growth in manufacturing output, exports, and capacity utilization before and during reforms period

	Output		Exports		Capacity utilization	
	During	Before	During	Before	During	Before
Ivory Coast	-1.8 (1981-1983)	5.8 (1984-1986)	-6.9	12.3	-	-
Ghana ^a	-17.1 (1980-1983)	15.0 (1984-1987)	-10.4	51.3	19	32
Nigeria	-7.8 (1982-1985)	0.2 (1986-1987)	-15.4	18.1	30	57
Zambia ^b	-3.1 (1982-1984)	4.0 (1984-1986)	5.4	7.2	38	54

Source: Nash^c (1990): Table 4, p.16.

Notes: ^a There was substantial inflow of external support, particularly from the World Bank and IMF, for the reform process.

^b External support was withdrawn when the country suspended the IMF programme.

^c Footnotes added

Promotional measures

Sound macroeconomic and trade policies are a necessary foundation for any kind of efficient, cost-effective development aimed at structural adjustment and expansion of exports. But in Sub-Saharan Africa these policies alone do not automatically evoke the responses that would normally be forthcoming from the business sector in a developed economy or from the NICs where a tradition of entrepreneurship has been established and management skills and specialized services which underpin the expected investment, production and trade-related

decisions are far advanced (Helleiner, 1989a; Rodrik, 1988 and 1990; Rhee, 1990; Ocampo, 1990).

A number of systemic deficiencies, imperfections and constraints in both the government and private sectors hamper the operation of general policies in SSA countries. Such general policies need to be supplemented with "equal footing" export policies (Rhee, 1990) so as to be effective export promotion instruments. A word of caution to those researchers who may resort to quantitative analysis in order to explore export development and promotion issues may be in order. Very few issues of export development and export promotion lend themselves to quantitative analysis. Export development involves so many variables both at home and abroad that a "cause and effect" type of equation may be quite difficult to formulate. Hence the analysis may have to be based on more qualitative empirical evidence. This does not make the analysis less valid—provided, of course, that the interpretation of empirical evidence makes sense.

We will now present a brief account of the "equal footing" export promotion measures as applied to Ivory Coast, Kenya and Tanzania.

Ivory Coast

Under external pressure, the government initiated export development measures such as liberalization of imports and reform of the tariff regime, duty drawbacks and temporary duty-free admission of imported inputs needed for export production and producer price incentives for non-traditional export crops. Except for higher producer prices for non-traditional export crops, none of the other policies have been resolutely pursued, partly because of lack of good administrative machinery and lack of government commitment to export diversification into manufacturing and processed products.

The government has also hesitated, particularly because of budgetary problems, to implement some of the export promotion measures. These have been implemented in piecemeal and at times with reversal of government decisions. For example, the main thrust of industrial reform under the third phase of structural adjustment was to achieve an across-the-board effective protection of 40 percent and to give a 20 percent subsidy payment for exports. The export subsidy scheme was to be funded in the 1987 budget. However, faced with a serious fiscal crisis in August 1987 stemming partly from the declining export prices of coffee and cocoa (the main export products), the government decided to increase import duties by 30 percent across the board, thus bringing the effective protection to 52 percent. The export subsidy payments have not been made promptly for the same reasons and the business sector has grave doubts about the continuation of the scheme. Behind success of the NICs is the very strong alliance between government and the business sector and the credibility and sustainability of government decisions which is even more important in fostering export development and promotion than the policies themselves (Rhee, 1990; Rodrik, 1990).

The effects of inertia in the implementation of export policies and the reversal of government decisions affecting the export sector, on the diversification and

promotion of exports in Sub-Saharan Africa should be explored further, particularly at the firm level. A strong national commitment, in both public and private sectors to high export growth rates, non-ambivalence of macroeconomic and trade policies for export development and strategy and a strong institutional infrastructure are essential for export promotion in Sub-Saharan Africa (Lyakurwa and Lindhal, 1987).

Kenya

From the late 1960s to early 1980s, Kenya embarked on a programme of import substitution supported by high import tariffs as well as other restrictions, notably import licensing and foreign exchange allocation. The initial pattern of tariffs produced incentives for import substitution of high duty items using low duty intermediate inputs (Sharpley and Lewis, 1988). There were also domestic taxes in the form of excise taxes and sales tax on both imported and domestically produced goods, levied purely for revenue purposes. Recognizing the potential disincentive effects of the tariff and domestic indirect tax system on the competitive position of export of manufactured goods, in 1974 Kenya introduced an Export Compensation Scheme, designed to provide a 10 percent payment in cash to compensate exporters of manufactured goods for the increased costs arising from the protective effects of tariffs and the indirect taxes (Sharpley and Lewis, 1988, Mwega, 1990). At the same time, the practice of providing duty drawbacks and rebates on imported inputs used in the production of exported goods was discontinued. This change of policy is characteristic of many SSA countries and could be detrimental to rather than assist their export development if not considered credible and/or sustainable by the business sector.

In 1982, the basic rate of export compensation was maintained at 10 percent and an incremental scheme was announced. In 1984, however, the basic rate was raised from 10 to 20 percent of the f.o.b. value and the incremental scheme was later abolished (Sharpley and Lewis, 1988). Surely such changes would be confusing to the business sector and would not lend themselves to any degree of credibility.

As in the case of Ivory Coast, the Kenyan Export Compensation Scheme was plagued by budgetary constraints and there were long delays before payments could be made, if at all. It would be interesting to explore further, particularly at the firm level, the effects of the compensation scheme *ceteris paribus* on the export of manufactured products from Kenya.

Tanzania

Over the years trade policies in Tanzania have favoured import substitution, through high import tariffs and other import restrictions, particularly import licensing and foreign exchange allocation, over export promotion. Industrial development depended on the growth of domestic demand and import protection. In the early 1970s, the initial efforts to promote non-traditional exports were

made in textiles, cigarettes, cement and dry cell batteries but these efforts faltered as they were not backed up by any explicit export policy measures, and the East African market for which these exports were intended fell off with the collapse of the East African Community in 1977. Fresh efforts to promote Tanzania's products abroad had to be sought and the government established the Board of External Trade (BET) as the national focal point for trade development and promotion, with specified functions characteristic of a standard export promotion organization.

The first serious effort at export promotion came in 1981 when the government approved a package of incentives for non-traditional exports including:

- (a) Export rebate/duty drawback ranging between 0–25 percent of the f.o.b. value of exports of non-traditional products;
- (b) Preferential interest rates for export production;
- (c) Export credit insurance and guarantee scheme;
- (d) Special marks for the transport of export products;
- (e) Trade facilitation—rationalization, harmonization and simplification of export documents;
- (f) Presidential Export Awards;
- (g) Export Revolving Fund/Seed Capital Revolving Fund; and
- (h) Preferential foreign exchange allocation for export production.

On paper, this would sound like the beginning of serious export promotion, similar to that of the NICs. However, appropriate macroeconomic and trade policies as well as government commitment and support were lacking. The exchange rate was highly overvalued and QRs in the form of import licensing and foreign exchange allocations were the order of the day. Except for (a), (f) and (g) above, all the other promotional measures have been in abeyance and export earnings have been on the decline. Real export growth declined by 12.4 percent between 1977 and 1986 while the purchasing power of exports declined by 6.8 percent over the same period (Bagachwa, Luvanga and Mjema, 1990). Manufactured exports were affected by the relative profitability of the domestic market as well as the real exchange rate, accounting for about 65 percent of the variations in real manufactured exports (Ndulu and Lipumba, 1989).

Since 1984, there has been a reversal of inward-oriented policies with trade liberalization measures which allow "own funds" imports and exporters retain a portion of the foreign exchange earned. These two policy measures have probably been the most powerful in promoting non-traditional exports in Tanzania. As a proportion of official total exports, non-traditional exports rose from 25 percent in 1985 to 45 percent in 1988 (Bagachwa, Luvanga and Mjema, 1990, p.33). The increase is partly due to an increase in new products (such as horticultural, forest and marine products) and partly due to the officialization of

part of the parallel export flows. While the proportion of export goods seized by customs to total exports was 0.09 percent in 1985, it declined to 0.02 percent in 1986, indicating officialization of parallel flows (Bagachwa, Luvanga and Mjema, 1990, p.94).

Where conditions in other SSA countries are similar to those that existed in Tanzania (critical shortage of foreign exchange, serious import compression, capacity under-utilization, declining export earnings, serious leakage of foreign exchange through smuggling and under-invoicing, shortage of consumer goods, etc.), the above policy measures would be effective if accompanied by an appropriate trade regime and exchange rate management. Specific country research should be undertaken concerning this issue.

A quick assessment of some of the "equal footing" export policies as applied in Tanzania might guide future trade policy research in Sub-Saharan Africa.

i. Export rebate/duty drawback scheme

The duty drawback scheme which was established under the Refund of Fiscal Charges Act, 1970, and which was no longer operational because of the excessive delays in effecting payments and frequent non-payment of refunds was replaced by the export rebate scheme in 1981. The rebate scheme aimed to refund exporters import duties paid on inputs that were used for export production, but the rates, which ranged from 0-25 percent of f.o.b. value of exports were too low to compensate for the duties which averaged over 50 percent. At the same time, the overvaluation of the exchange rate had increased the anti-export bias which could not be compensated for by the rebate scheme. In fact the rebate payments only acted as a windfall gain to those who received them. The scheme was abolished in July 1986 and a duty drawback scheme was instituted to take its place in 1988. Given the current macroeconomic policy environment and the anticipated changes in the tariff regime, it may be opportune to have firm level analysis of the duty drawback scheme as an export promotion policy measure in Tanzania. Such analysis would also be relevant in other SSA countries with similar conditions as Tanzania.

ii. Trade facilitation

Expeditious processing of export documents is essential for export promotion in a competitive business environment. As a result of the establishment of a Trade Facilitation Council, export documents have been rationalized and simplified and the average waiting time reduced from six months to one week. It should be noted, however, that it took over eight years and a Presidential order to have the system operational. In Mauritius it takes a maximum of 24 hours to have all export documents processed, while in Kenya, which is contemplating introducing manufacturing under bond, the system is yet to be rationalized and simplified (Mwega, 1990).

iii. Seed Capital Revolving Scheme

This export incentive scheme makes initial foreign exchange available to start production for export. Exporting firms then retain part of their foreign exchange earnings (retentions varying between 50 and 80 percent) for financing the next round of input requirements. Exporting firms also retain 35 percent of any excess foreign exchange earned over and above the revolving seed fund to expand production. Although the size of the fund is small (US\$3.5 million), the number of beneficiaries has increased from 18 firms in 1985 to 51 firms in 1989, generating US\$14.1 million in non-traditional exports (BET, 1990). The major shortcoming of the scheme is that it encourages the use of imported inputs rather than local resources (as initial as well as subsequent allocations of foreign exchange from the scheme are determined by imported input requirements). An export revolving fund of the Seed Capital Type may be an important export policy measure in Sub-Saharan Africa but may need to be tailored to the specific conditions and requirements of each country.

The other export promotion measures (*viz.* preferential interest rates for export production, export credit insurance and guarantee scheme, preferential allocation of foreign exchange for export production), which may be more important for export promotion than the ones that have been implemented, have not been implemented in full because of the insensitivity of the banking sector to the requirements of the export sector. Without assured access to trade finance for all export activities, Korea could not have achieved its unprecedented export success, even though it could have done as well without export loan interest preferences (Rhee, 1990, p.34). "While the effective exchange rate or effective subsidy formula (used to measure the aggregate index of export buyers for an outward-oriented trade regime) reflects only the negligible aspect of the contribution of Korea's export financing system to its export success, access to trade finance—one of the most important 'equal footing' export policy instruments—was the most important aspect contributing to Korea's tremendous export success," (Rhee, 1990, p.35).

It would be interesting to explore further the extent to which the lack of such policy measures has constrained export development in individual SSA countries. (Of course the effect of such policy measures will have to be evaluated against the background of the prevailing exchange rate policy and tariff regime.) In Colombia, for example, a policy package combining protectionism with active exchange rate management and export promotion policies led to the economy growing at 6.5 percent between 1968 and 1974 (Ocampo, 1990). Although the package relied more on import substitution in its early stages, it played a more important role in export promotion after the process of export diversification took off.

Serious research on trade policy instruments for an outward-oriented development strategy in Sub-Saharan Africa should evaluate, first, the potential loss of export opportunities stemming from the difficulties in access to trade finance, even after receiving confirmed export L/Cs (letters of credit) (and other export

orders). Second, major factors that are responsible for such difficulties should be identified. Third, the need to develop or improve the necessary instruments and the need to build the required institutions or improve upon existing institutions should be articulated.

There are a number of diverse functions and responsibilities essential for export development which may be grouped into two broad categories.

(a) Export promotion and support services to:

- Investigate demand and supply conditions and market exports;
- Participate in trade fairs and exhibitions;
- Establish a well-functioning trade information centre with modern electronic data processing facilities;
- Improve quality, standards, packaging and labelling to match international market requirements;
- Represent overseas trade with competent personnel;
- Give appropriate methods of costing and pricing for exports;
- Provide training on the legal aspects of foreign trade, import procurement and materials management;
- Strengthen the trade promotion organizations by providing them with adequate physical, human and financial resources;
- Process export documents; and
- Develop manpower.

(b) Export development policy and strategy to:

- Formulate macro- and sectoral-policies relevant to the export sector;
- Assess the country's export potential and strengths;
- Formulate indicative export plans, targets and priorities for the benefit of both public and private sectors;
- Formulate proposals for export incentives and provision of such incentives once accepted by government; and
- Monitor implementation of policies, incentives and export plans.

Without these important export services in Sub-Saharan Africa, what should the governments do? An inventory of what already exists should be drawn up, the need and effectiveness of such services at the firm level can be assessed. Depending on the outcome, an inter-ministerial National Export Promotion Council with substantial representation from the private sector could be usefully established. However, further research in this area for individual SSA countries or groups of countries is required to establish the need, structure and functions of such a body, taking into account the two points raised above. As a follow-up, ways and means should be sought to strengthen the trade promotion

organizations if they exist or create them as necessary. Such bodies should then be made effective organs of export promotion.

In the context of the realities of the current world situation (slow growth, high interest rates, unstable exchange rates, and growing protectionism) as well as the conditions in Sub-Saharan Africa (deteriorating terms of trade, critical shortage of foreign exchange, steep rise in debt and debt servicing, underdeveloped institutional infrastructure), a scenario of spectacular export growth within a relatively short time as was possible in the NICs would be unlikely. A slower evolution of a national commitment to export development would be more realistic.

Future export prospects for SSA countries

It is questionable whether the current international economic environment will allow the majority of SSA countries to achieve export growth rates as high as those of the NICs during the 1960s and 1970s. At that time the level of economic activity in the industrial countries was high and booming, trade was expanding with relatively stable exchange rates, protectionist tendencies had not soared, and low interest rates encouraged investment in export production. Such a favourable climate is unlikely to appear again in the foreseeable future. Furthermore, the continuing deterioration in primary commodity exports, coupled with the burden of servicing debts and increasing interest rates, will have an adverse influence on the ability of SSA countries to mobilize adequate investment resources for accelerated export expansion. These factors should be kept in mind when devising national export promotion policies and strategies.

Notwithstanding the unfavourable global trends and the harmful effects of international market conditions created by the actions of some OECD governments, commodity production and export will remain of great importance to many African countries. Some will continue to depend upon mineral exports as their primary source of foreign exchange. Agricultural exports will continue to be a major source of income, employment, foreign exchange earning and government revenue. Recent UNCTAD calculations indicate that agricultural and mining production is the single most important component of GDP for all developing countries except the handful of fast growing manufacturing exporters (e.g. Mauritius). For most, the share in GDP is less than 30 percent as compared to less than 10 percent for 95 percent of all developed market economies, and the share of primary commodity in total export earnings is above 50 percent (Kaonides, 1990). For Sub-Saharan Africa as a whole, export agriculture is equivalent to 7 percent out of GDP; for Kenya, 17 percent; for Malawi, 18 percent; for Ivory Coast, 34 percent. It has been recognized that some recovery of market share will be possible for some African countries. However, this may not be advantageous for all African exporters simultaneously in the face of competition from outside Africa determined to protect its market share. Several constraints facing SSA trade expansion have been noted although opportunities have also been stressed (Lewis, 1986). Some of the constraints include:

- Fluctuations in international demand for SSA primary commodities;
- Inaccessible markets arising from protection, credit terms and lack of knowledge of overseas markets.

According to the Fraser Group (UN, 1990), current policy initiatives should aim to:

- Develop new uses and new markets for established commodities;
- Diversify the commodity export mix, so that African countries become less dependent upon the price and upon the continuing demand for individual primary commodities;
- Further processing of commodities within the countries;
- Identify new export products through product development and adaptation for the regional and overseas market;
- Introduce policies that will enhance the comparative advantage of small producers in certain product lines for the direct benefit of low income groups and structural adjustment and transformation.

A paper prepared for the UN Secretary-General's Expert Group on African Commodity Problems titled "Diversification of African Exports", August 1989, indicates that export of non-traditional export commodities, such as exotic tropical fruits, cut flowers and plants, and off-season fruits and vegetables is governed by the relatively small, upmarket demand in developed countries, the seasonality of such demand and the ability to obtain access to market information, to meet quality specifications and to develop or access market channels and transportation means. These are important points to take into account when devising an export strategy for non-traditional products in Sub-Saharan Africa.

Diversification of exports is highly risky with volatile price and market conditions. Only a few SSA countries have achieved some success: Ivory Coast for fresh pineapples (though recently facing difficulties); Kenya for canned pineapples, pineapple juice, fresh beans and various nuts; Senegal for melon and fresh beans; Burkina Faso for fresh beans. What are Sub-Saharan Africa's most promising non-traditional exports? Among the many primary (or primary-related) product possibilities are: horticultural products (fresh fruit, vegetables and potted plants), fish and fish products, forest products, cassava chips, livestock products (meat, leather and leather products), tourism, selected oilseeds and their oils and cakes. In terms of a percentage of export earnings, however, the returns have been quite small and represent less than 5 percent of export earnings in most cases. Export of fish (fresh and crustaceous) has shown considerable growth in recent years but the markets are quite fragmented and concern has been expressed by environmentalists about over-exploitation (Fraser Group, UN, 1990). These examples serve as initial suggestions of the type of products SSA countries could diversify into but country specific

potentials have to be determined through research. In the identification of export potentials, the sustainability of supply, market prospects, quality requirements and their attainment, prices to be fetched, the prospects of meeting delivery schedules, environmental factors all need to be considered.

Traditionally most African manufactured exports have consisted of processed versions of material previously exported in their raw form. There remains great potential for expansion of value-adding export activities, although, not all of these would be wise at present since some are relatively capital-intensive and/or skill-intensive, and some demand significant scale for reasonable efficiency (Helleiner, 1990b). Given the existing production capacity in Sub-Saharan Africa and the preferential access to the EEC market for SSA countries, manufactured exports through the Lome Convention, textile exports in the form of yarn, grey cloth, fabrics and garments may be possible. However, issues of detail in terms of production capacity, quality standards, institutional framework as well as export support services need to be researched at the firm level in individual countries.

VI. Trade liberalization³

Import licensing, prohibitions, exemptions, quotas, official reference prices, and foreign exchange allocations schemes are common non-tariff barriers dependant on discretionary decisions by the authorities. These make the system less transparent and predictable and encourage lobbying, rent-seeking and corruption. While trade restrictions are invariably rationalized in terms of national welfare, in reality they are usually advocated and made sustainable by those special groups in the nation that stand to benefit from such restrictions. Their detailed functioning must be understood to ascertain their social costs. Even with little or no decrease in protection, the replacement or reduction of non-tariff barriers can probably have major salutary effects. This deserves more careful study, both by documenting the costs and problems of unreformed systems and by examining the effects of reforms. Because tariffs and non-tariff barriers on finished products are usually higher than on intermediate and raw materials and because exemptions are common, effective protection is often high and varies greatly across industries. In most countries, it is generally argued that production efficiency requires that effective protection be reduced, and that the degree of protection (or total subsidy) among imports be made more uniform, taking into account the protective effect of the domestic tax and subsidy system. It has been shown that by co-ordinating tariff reform with domestic tax reform to offset revenue losses, and of course exchange rate policy, deeper reductions in tariffs are more possible than otherwise (Mauritius). Raising low tariff rates (usually on inputs) also increases revenue, allowing high rates to be reduced further (Ndulu, Lyakurwa, Semboja and Chaligha, 1987) and makes effective protection more uniform between inputs and finished goods.

Levels of effective protection in Sub-Saharan Africa differ substantially between export and the domestic market. In Kenya, for example, while production for the domestic market enjoys substantial effective protection, exporting has met a number of disincentives (Siggel, no date). First the average nominal rate of protection of manufactured goods has been computed to be 35 percent (World Bank, 1987), whereas the maximum rate of export compensation, receivable for eligible exports, is 20 percent of the export value. Therefore the effective exchange rate is substantially higher for import substitutes than for exportables. In addition the payment for export compensation is known to be uncertain and

plagued by bureaucratic delays and costs. Second, exports to neighbouring countries often meet financing and exchange problems. Even within the Preferential Trade Area (PTA), where a clearing house exists, foreign payment arrangements have been an obstacle to foreign trade. In 1988 for instance, Mauritius threatened to withdraw from the PTA, as her imports from Kenya were required to be paid for in fully convertible currencies.

Furthermore, this protection creates a bias against exports and agriculture, both of which have the characteristics used to justify protection for infant industry, such as the ability to reduce costs by "learning-while-doing" and imperfections of capital markets. It is not clear then, why policies should be followed that protect import substitutes while dis-protecting export-oriented infant industries.

Siggel (no date) shows that industrial protection in Kenya was provided by both import duties and QRs, the latter mainly in the form of import licensing. Since import licensing was used primarily for the management of foreign exchange, its impact on protection is less well understood and less transparent.

Price control and industrial protection are closely related policies that tend to counteract each other. While liberalization of protection is intended to push prices of restricted imports and their domestic substitutes downwards towards the import parity price, price control liberalization tends to allow prices to increase towards import parity (including the tariff). It has been shown that regulations that make it costly for firms to restructure or shut down have been a factor in failed liberalization attempts in Poland, Turkey (in the early 1970s), and Yugoslavia (Nash, Thomas and Martin, 1990).

Under conditions of extreme economic difficulties—especially import compression, high debt and debt service and dwindling external inflows—the pressure has been to maximize short-term export earnings. For many of the economies in Sub-Saharan Africa which are commodity and natural resource based exporters, this has meant pressure to raise the volume of commodity exports under conditions of falling real global commodity prices. However, the fall in commodity prices has been sharper than quantum increases, thus precipitating a foreign exchange crisis. Under pressure from the prevailing crisis, many SSA countries have started to reform their trade regimes.

Devaluation removes the implicit export tax contained in overvalued currencies, while revocation of export taxes and reduction of marketing board surpluses and increased efficiency enhance exporters' earnings. Liberalization on the import side need not impede the increasing of foreign exchange receipts, but has to be managed more carefully (Rodrik, 1988, p.6). He argues that unlike export liberalization, import liberalization immediately increases the net demand for foreign exchange. To prevent this, a steep devaluation can accompany significant import liberalization. The package of devaluation, together with import liberalization, would amount to an across-the-board export subsidy or, usually, elimination of previous anti-export bias and serve the same function as the removal of explicit export taxes. When appropriately managed, both raise exports and foreign exchange earnings. It has been argued, however, that in Sub-Saharan Africa growth in export capacity has been limited, and the little has

been recorded, has largely represented rehabilitation of existing capacity and/or the clawing back into official channels of previously smuggled exports. Individual country research in this area would certainly direct the issue in its proper setting.

As stated earlier in this paper, in Tanzania export retention schemes and "own funds" imports have shown varying degrees of success, although the time frame is rather short (1985-90) to permit meaningful time-series analysis. These deserve more study.

The export retention schemes originate in the various counter-trade deals of the late 1970s and early 1980s and the special purchase agreements reached between the government and suppliers of important inputs arising from the foreign exchange crisis of the early 1980s. Such agreements were extended to the parastatals existing in 1981/82, when they were allowed to retain 10 percent of their foreign exchange earnings for the importation of essential inputs, particularly fertilizers, pesticides and certain implements. By 1984, several exporters realized that the retention schemes provided a way of getting around the lengthy and bureaucratic system of foreign exchange allocation and started applying to open retention accounts abroad. This, together with the continuing foreign exchange crisis, led the government to initiate a general export retention scheme for non-traditional products in the 1984/85 budget with initial retention levels at 50 percent, subsequently reduced to 35 percent.

Substantial liberalization was thus realized on both exports and imports since exporters of non-traditional products no longer had to surrender all their foreign exchange earnings from exports and they no longer faced with quantitative import restrictions in the form of import licensing (now a formality) and foreign exchange allocations. Minor agricultural export crops (such as cocoa, cardamom and sesame) were deconfined and could now be handled by both public and private exporters including co-operatives which would also benefit from the retention schemes. Exporters of traditional products (coffee, cotton, tobacco, tea and cashew nuts) would obtain their input requirements through the Open General Licence. The OGL system also gives small importers access to foreign exchange through the commercial banks.

Between June 1987 and June 1989 in Tanzania, export earnings retained under the schemes increased from US\$6.3 million to US\$20 million, while imports financed from the scheme increased from US\$1.9 million to US\$12.4 million over the same period. At the same time non-traditional exports as a proportion of total exports increased from 25 percent in 1986 to 45 percent in 1989 (Bagachwa *et al*, 1990).

The "own funds" imports came into effect in 1984, when Tanzanian citizens were allowed to import goods purchased by their "own funds" without their source being questioned. This represented substantial liberalization of imports from the QRs of import licensing and foreign exchange allocation. The scheme has led to a boost in imports in an otherwise import strangled economy and "own funds" imports based on licences issued rose to 53.5 percent of total imports in 1988 before falling to 39 percent in 1989 (URT, Ministry of Finance, 1990).

The OGL is important trade liberalization instrument which has also been applied in Uganda in combination with the Special Import Programmes. It operates on the same principle as the export retention scheme, with automatic import licences issued on listed items.

An OGL operated in Tanzania in the 1970s before it was suspended with the onset of the economic crisis in the late 1970s, early 1980s. A new OGL system was introduced in 1988 as an automatic foreign exchange allocation mechanism aimed at solving day-to-day production bottlenecks of enterprises, especially in the form of vital inputs and spares. Any *bona fide* importer, defined as one with a valid business licence could use the facility, providing the applicant satisfies the conditions which include: a limited range of allowable items, a minimum value of applications per applicant, and 100 percent cash cover up front.⁴ The advantages of the system are:

- Automatic foreign exchange allocation;
- Less bureaucracy; and
- Less government interference.

Drawbacks of the system include:

- 100 percent cash cover up front in the presence of a severe credit squeeze, continuous devaluations and high interest rates which have limited utilization of the facility;
- Low range of allowable items; and
- Necessary import licence.

However, based on import licences issued, OGL imports as a proportion of total imports increased from 3.8 percent in the July/December 1988 period to 9.3 percent in the July/December 1989 period (Mbelle *et al*, 1990, p.31). In the July/December 1989 period, "own funds" imports together with imports under OGL represented about 35 percent of total imports.

The manufacturing sector uses the OGL facility to the greatest extent. On the basis of import licences issued and L/Cs established for the period January/March 1990, the manufacturing sector constituted 31.7 percent of the import licences issued and 30.8 percent of the L/Cs established (Mbelle *et al*, 1990 Table 4.4, p.45), indicating easing up of the import compression which hit the manufacturing sector hardest during the crisis years.

The impact of these policy measures on export development, particularly at the firm level, needs to be explored further. Whether they can be universally applied in all SSA countries would have to be determined on a case-by-case basis depending on the specific conditions prevailing in each country.

There are similarities in the structure of SSA economies as well as specific socio-economic conditions. Very few SSA countries are already exporting substantial amounts of industrial goods, Mauritius being the only known exception. For countries of such industrial structure, rapid liberalization can

easily destroy the acquired industrial sector and thereby reduce income and employment, as well as opportunities for technological learning. The timing and sequencing of reforms therefore deserve special consideration. The dependence of the state budget on trade taxes is another major problem which is particularly strong in Sub-Saharan Africa because of the low income bases for direct taxation, difficulties associated with indirect taxation and the historical reliance of the budget on trade taxes. In Uganda, for example, trade taxes constitute about 50 percent of the total tax revenue. Botswana is a known exception because of its very large mineral revenues. It is thus very important to analyse the fiscal implications of trade policy reforms and to design feasible alternatives to the trade-based sources of revenue.

Fiscal effects of trade liberalization

Trade liberalization affects not only the external sector, production and prices, but also the fiscal balance, through changes in tariff revenue. The consequences of liberalization for the budget, if they have not been anticipated and accommodated by complementary macroeconomic policies, may complicate the process of implementing reforms. This is particularly true in the case of SSA countries where, as we have seen, trade taxes constitute a large share of government revenue.

Trade tax revenue can increase by reducing very high tariff rates if tariff evasion rates fall or if import demand is price elastic. However such increases in tariff revenue do not occur automatically. Nash (1990) points out that in a sample of countries that primarily reformed non-tariff barriers, tariff revenue increased from 2.7 percent of GDP to 3.4 percent. But in a sample of tariff reformers, revenue fell on average from 2.8 percent of GDP to 2.3 percent. Generally the fiscal effects of a devaluation depend on whether the government is a net buyer (Ghana, Sierra Leone, Somalia, Uganda, and Zaire) or seller (Nigeria) of foreign exchange and the country's external debt situation. In countries highly dependent on tariff revenues, therefore, the effects of tariff reductions on revenue should be evaluated before implementing reforms. Measures to reduce expenditure or enhance revenue from other sources (such as consumption taxes) may need to be implemented. Mexico generated additional revenues through tax reform when trade taxes fell; Morocco did not generate new revenues, leading to a partial reversal. Ghana offset losses from devaluation and successfully implemented reforms. However, the Ghanaian case is substantially different from others because of the substantial amount of foreign inflows, particularly from the World Bank and IMF, which were specifically targeted at averting the effects of the devaluation.

In general, the initial impact of trade liberalization on the volume of trade taxes collections may not be predicted in a simple manner (Blejer and Cheasty, 1988). The UNDP/World Bank studies on Mali and Uganda have indicated some directional changes on government revenue as a result of trade liberalization, but further studies in Sub-Saharan Africa are called for in order to concretize the issue.

VII. Sequencing, timing and the stability of trade policy reforms

When a country contemplates introducing trade policy reforms (or any economic policy reform, for that matter), particularly after going through serious economic difficulties as many SSA countries have done, the timing and sequencing, as well as the credibility and sustainability of the reforms are very important. The reforms should be seen, understood and interpreted as a continuous process in the same direction. In terms of sequencing, it must be determined whether inward orientation is to be followed by outward orientation or vice versa and the appropriate timing at each stage in the reform process should be specified.

According to conventional wisdom, unless incentives for export promotion are greater than or equal to incentives for import substitution, no firm would be willing to sell its products in the world market. However, the experience of the NICs suggests that so long as export activities are supported by "equal footing" export policies and infrastructure, firms enter the world market, and often find that it results in better profits, given that the world market is larger than the domestic market and that some elements in the "equal footing" export policies are not available to import substitution (Rhee, 1990). For firms that are assured "equal footing" export policies, therefore, providing export incentives that are not lower than incentives for import substitution would be an added advantage (Rhee, 1990, p.45). Hence the appropriate sequencing of trade policy designed to carry out an outward-oriented development strategy in Sub-Saharan Africa would be "equal footing" export policies followed by equal incentives between export and import substitution at the firm level as a short-term to medium-term objective, depending on other conditions.

Four questions should be raised in the design of trade policy given the special circumstances of the SSA countries:

- (1) Are aggregate equal incentives between export and import substitution desirable and feasible?
- (2) Are "equal footing" export policies practical and required?
- (3) Are "equal footing" incentives between export and import substitution desirable and feasible? and

- (4) What would be the appropriate timing and sequencing of mixing (2) with (1) or (3)?

Attempts to provide answers to these questions, particularly at the firm level, would form an important input in the design of appropriate trade policy for individual SSA countries. With regard to trade liberalization in Sub-Saharan Africa, Helleiner (1990a), citing Choksi and Papageorgiou (1986), suggests the following sequence of liberalizing policy reform:

- (i) Fiscal discipline;
- (ii) Free the labour market (i.e. allowing real wages to fall);
- (iii) Liberalize goods trade, including external trade;
- (iv) Liberalize domestic financial markets; and
- (v) Liberalize the external capital account.

Implicit in this sequence are caveats in respect of import liberalization prior to the restoration of internal balance.

Incentives are stable and predictable over time, an aspect which economic theory and those responsible for the design and formulation of the incentives have until recently ignored. It has always been assumed that once a government chooses a particular trade policy instrument, for example tariff rate, the private sector responds accordingly. In reality, the trade regime and the incentives emanating from them can change frequently (Rodrik, 1990, p.16).

However, if the private sector is to invest in new sectors, it must believe that the incentives would be sustained. If not, firms in previously protected sectors may invest in lobbying efforts until their protection is restored. Once restored, the credibility of the government is put into serious doubt by the private sector, resulting in rent-seeking ("footloose") investment activities rather than long-term investment where returns would take longer to realize. The first steps of reform should be generally clear and decisive, to avoid reversal (Thomas, Martin and Nash, 1990). Reforms are usually easier to introduce after a crisis that discredits old policies. For example, it was much easier to introduce the economic recovery measures in Tanzania in 1986 when old policies could not get the economy out of the crisis. (This, however, does not suggest that governments in Sub-Saharan Africa should wait until their economies reach rock bottom before they introduce corrective measures.)

To increase the credibility and sustainability of trade policy reforms, the government should compensate any losers by introducing worker retraining targeted food assistance programmes (though difficult to administer), re-trenchment benefits and employment programmes.

VIII. Economic integration as a trade policy instrument

Many countries have formed regionally integrated groups due to the potential for expanding trade with neighbours. Members gain from increased trade, take advantage of economies of scale by producing for a regional market and get initial exporting experience under protection. But intra-regional trade expanded little (Economic Community of West African States) or fell (West African Economic Community, East African Common Market) (Nash, Thomas and Martin, 1990). Industries established as a result of integration usually had high production costs, and the experience in marketing to neighbours proved not very useful in exporting to wider markets (the experience of Tanzania after the collapse of the East African Community in 1977). Most regional groups raised barriers against extra-regional trade, discouraging integration into the world economy, where the gains from trade would be greater. Many schemes have broken down as a result of low benefits, high costs, and practical implementation problems. Despite the shortcomings, integration efforts continue. Integration has been more successful among countries with generally outward-oriented economies such as ASEAN (Association of South Eastern Asian Nations) or the European countries (Nash, Thomas and Martin, 1990, p.14).

Several factors have contributed to the rather dismal performance at attempting economic integration in developing countries. These include:

- National concentration on expanding exports and import substitution rather than regional imports;
- Severe regional and global trade imbalances, which prevent significant advances towards the reduction of tariffs and elimination of QRs;
- Feeble attempts at industrial planning to ensure an equitable distribution of benefits among participating members⁵;
- Problems of polarization effects; and
- Lack of convertible national currencies.

The terms of trade for primary commodity exports continued to deteriorate while debt and debt servicing burdens increased. Attempts to accommodate these inefficiencies thus became unsustainable integration arrangements stagnated.

The current trade liberalization and structural adjustment efforts as well as outward-orientation of the countries that have embarked on liberalization should give rise to better conditions for economic integration agreements among the developing countries which should in turn enhance the adjustment and liberalization process.

The need for increased economic integration among SSA countries has been widely recognized throughout the post-independence period. However, progress towards attaining this objective has been disappointing. The aims of the Lagos Plan of Action of 1980 for an eventual common market in Africa are worthwhile, and when coupled with the current trade liberalization efforts should be a useful starting point. As Mansor and Inotai (1990) aptly put it, "... the progress with outward-oriented adjustment in SSA sets the stage for and *should* facilitate the implementation of a new approach to regional integration that emphasizes the complementarity between trade liberalization and regional liberalization of factor markets ... Selectivity and adaptability *should* be the key concepts in implementing the new approach; ... " (p.2)

However, the preconditions for intra-regional trade in Sub-Saharan Africa may need to be generated through co-ordinated trade policy measures (though not exclusively) and accompanying improvements of payments systems, transport and communications facilities, etc.

Siggel, 1990 notes that while North-South trade is driven by different factor endowments, South-South trade, similar to North-North trade, may take the form of intra-industry specialization and trade. Since economies of Sub-Saharan Africa are highly fragmented and small, regional economic integration is necessary to attain economies of scale and product differentiation which are essential in intra-industry trade. This should be explored further in the context of SSA economic and political realities and the changing world political and economic systems.

The success of regional integration schemes can be measured by the share of intra-regional trade to total trade. Increasing shares are identified with success, decreasing shares with failure. In Sub-Saharan Africa, however, officially measured intra-regional trade is substantially lower than what actually takes place in the form of trade between neighbours. In Uganda, for example, "no foreign exchange required" imports were estimated at US\$100 million in 1989, 60 percent of which would come from the neighbouring countries in exchange for exports (Lyakurwa, 1990). There is a substantial amount of trade between neighbours that goes unrecorded; a lot of it on a small scale using several methods of transportation (cattle from Tanzania to Kenya, manufactured goods from Kenya to Tanzania and Uganda, food items from Uganda to Rwanda and Tanzania, coffee from Tanzania and Uganda to Kenya, etc.) but often in an organized manner using modern transportation methods. Diamonds are recorded as exported from

the Congo, gems from Kenya and ivory from Burundi, while it is known that these countries do not produce such products. Such products are smuggled from Zaire to the Congo and from Tanzania to Kenya and Burundi. However, the bulk of smuggled goods are traded in traditional markets where one can buy just about everything, and moreover, in local currencies. "The officially unconvertible currencies at fixed exchange rates are used for illegal trade and thus are made convertible at fluctuating rates" (Deardorff and Stolper, 1990, p.134). They conclude that: "Illegal trade is trade-creating not trade-diverting and that trade among neighbouring SSA countries with similar factor endowments is, or could be, big and profitable for the countries concerned, contrary to current beliefs in the region, and is much bigger than officially claimed" (p.134). Trade liberalization through economic integration would therefore help in reducing the problem of smuggling in Sub-Saharan Africa. It is perceived that a substantial amount of intra-regional trade in food items takes place in Sub-Saharan Africa through smuggling. If it could be legalized, this trade would form substantial intra-regional trade and a basis for economic integration in the region. However, this perception needs to be explored further through in-country as well as cross-country research. The necessary pre-conditions for illegal trade (smuggling) in Sub-Saharan Africa go beyond differences in trade policy to include inflation differentials, differences in the relative overvaluation of the local currencies and the credibility and sustainability of government policy changes which give rise to the prevailing investment climate. Hence, measures to reduce smuggling would need to be explored in the context of both trade policy reforms as well as macroeconomic policy changes.

Deardorff and Stolper (1990) argue that, apart from the marginal improvements that smuggling might yield were it only to circumvent simple taxes and tariffs, one feels that it may have played the role of preventing the collapse of the economies of some SSA countries. This would be difficult to put to an empirical test but it has been shown that smuggling necessarily improves people's welfare at least in cases where production is price elastic (p.121), and that smuggling serves to reduce the adverse effects of the goods market distortion.

Mansor and Inotai (1990) claim that in Sub-Saharan Africa, goods produced using domestic resources and labour intensive consumer products are oriented to the international market, while capital intensive goods and products based on imported inputs have a relatively higher intra-regional share in total exports. This view seems to negate that of Deardorff and Stolper mentioned above.

Domestic inward-looking policies and exchange rate overvaluation rather than tax evasion have been singled out as the main causes of illegal trade, but economic integration (which would legalize the otherwise illegal trade) may be a powerful instrument of achieving outward orientation in Sub-Saharan Africa, given the reluctance to reduce tariffs and to eliminate QRs altogether. Economic integration may also lead to a reduction of barriers on factor movements across national frontiers which in turn would lead to a more efficient allocation of resources within the region, flexibility and efficiency in production.

The experiences of integration efforts have resulted in two noteworthy lessons. First, integration schemes might focus more on improving infrastructure and factor mobility than on trade policy measures. Increased trade should follow naturally. Second, any trade policy measures might focus on reducing barriers to all trade, not just trade among members. In the African context, this would mean making all members' currencies convertible and removing existing artificial barriers to trade among members. Above all, integration should accelerate, or at least not interfere with, reduction of barriers to trade with the outside world. The central American Common Market, for example, has explicitly recognized the need not to impede member countries' progress in overall trade policy reform (Nash, 1990).

All these views need to be explored further through research on economic integration as an instrument of trade liberalization in Sub-Saharan Africa.

To evaluate the various integration experiences in Sub-Saharan Africa, and chart out the future course of action for integration efforts in the region say by the year 1995, it would be worthwhile considering possible scenarios for the various integration schemes. If we take, for example, the PTA and SADCC (Southern Africa Development Co-ordinating Conference), what would their role and function be in a post-apartheid Republic of South Africa (RSA) with RSA as a member or outside these organisations? One of the aims of the SADCC is to reduce external dependence in general and reduce dependence on RSA in particular. This is bound to change with the changing political situation in RSA.

To explore the necessary pre-conditions for Sub-Saharan African Economic Integration by the year 2000 would also be interesting. This could be done by first evaluating the various integration schemes in Sub-Saharan Africa and second, by comparing experiences, pointing out the common features as well as important differences, causes for past failures and the necessary pre-conditions for future success.

IX. Concluding remarks and additional areas for future trade policy research in Sub-Saharan Africa

It has not been possible to deal with all areas of trade policy and trade promotion which are of research interest in the SSA countries. We have attempted to highlight some of the key areas, taking into account the current efforts for structural adjustment and trade policy reforms in Sub-Saharan Africa.

We aimed to point out the salient features of some of the policy measures with a view to arousing interest in the need to take stock of these changes and evaluate their impact on the longer term trade strategy for Sub-Saharan Africa.

For SSA countries that have undergone substantial structural adjustment and trade policy reform programmes it would be pertinent to study further:

- The trade policy instruments that have been used (e.g. changing quantitative restrictions to tariffs, greater uniformity of tariffs, lower levels of tariffs, product-by-product elimination of quotas, auctioning quotas or a tariff-quota system) and their relative impact on: the imports in terms of volume and structure; the general reduction of the anti-export bias; the balance of payments; and the government revenue;
- The effective rates of protection/subsidy allowing for the exchange rate changes;
- Whether infant industries have attained "adulthood" i.e. which ones have learned, become more efficient and turned themselves into successful exporters. Case studies of infant industries that have become successful exporters would be very useful.

It should be remembered that in the specific conditions of SSA countries, selecting which industries are to survive trade policy reforms in the process of structural adjustment may be an important political decision, and the establishment of an institutional framework for economic policies may be as important as trade policy reform itself.⁶

For future policy direction, it would also be useful to examine in greater detail, and particularly at the firm or household level, the effects of the trade policy reforms on:

- Real output and employment;
- Total factor productivity, firm exit, entry and restructuring;
- Terms of trade between the rural and urban sectors and their effects on the rural/urban labour migration;
- Development of human capital and the use of appropriate technology; and
- Income distribution.

The relationship between structural adjustment and trade liberalization has received substantial attention recently, particularly concerning whether trade liberalization should follow macroeconomic stabilization measures or should occur concurrently, and whether import liberalization should come before or after export promotion. The recent experiences in some SSA countries may be relevant here. An associated issue discussed in the paper is the timing, sequencing, and the stability of trade policy reforms. Is it appropriate to introduce reform programmes after disastrous failures of previous policies, as was the case in Ghana, Tanzania and Uganda, or what would be the appropriate timing for the reforms? In addition, it is important to evaluate how stable trade policy reforms have been in each SSA country, pointing out how instability in the implementation of reforms may have led to failures and often policy reversals.

The key issue is to trace the recent structural adjustment and trade liberalization efforts in Sub-Saharan Africa and find out whether the policies as applied to date have been compatible to both structural adjustment and trade liberalization. (Such policies would include: real exchange rate depreciation; liberalizing the capital market where it exists only after liberalizing the goods market; and liberalizing imports when exports are growing or declining.) The relative impact of the policy changes on the SSA economies should be examined carefully in any study of trade liberalization and structural adjustment.

The appropriate use of trade policy instruments for trade development and trade promotion has also been considered in this paper. The relative impact of the different policy instruments needs to be explored further, particularly at the firm level in Sub-Saharan Africa. Where results have shown favourable trends, the contributing factors should be pointed out and evaluated before recommending a replica of such measures in other SSA countries. Where results have not been so favourable, alternatives should be sought. Policy research is also required to determine whether other policy instruments (e.g. direct foreign investment and export processing zones) may be desirable and feasible under the prevailing conditions in Sub-Saharan Africa.

Other research areas include:

- Further possible explanations for the relative decline in Africa's share of world exports/trade—who has gained at the expense of African countries and why? Explanations such as productivity differences as to how other countries gained market shares in primary commodities at the expense of SSA countries at a time of universal decline in commodity prices should be sought. In the case where decline in exports was in favour of food crops, how have incomes and resources been distributed/redistributed between urban and rural dwellers?
- What are future market prospects for Sub-Saharan Africa's non-traditional exports? (One should be aware of the possibility that such products may face restrictive tariffs in developed market economies over time because of increased protectionism, not forgetting, of course, the on-going efforts of GATT negotiations [The Uruguay Round].)

Appendix

Table A.1 Shares of world exports and imports by main region (percentage)

(i) Exports

Year	1970	1975	1980	1985	1987
1. Developed market economies	70.9	65.6	62.6	65.8	69.5
2. Developing countries	18.4	24.5	28.6	23.6	20.3
of which Africa	(4.1)	(4.1)	(4.7)	(3.2)	(2.1)
North Africa	(1.6)	(1.8)	(2.3)	(1.5)	(1.0)
SSA countries	(2.4)	(2.3)	(2.4)	(1.7)	(1.1)
3. Socialist countries	10.7	9.8	8.8	10.6	10.2

(ii) Imports

1. Developed market economies	71.6	67.0	68.2	68.1	71.4
2. Developing countries	17.9	21.6	22.9	20.9	18.7
of which Africa	(3.4)	(4.3)	(3.6)	(3.0)	(2.4)
North Africa	(1.2)	(2.0)	(1.5)	(1.6)	(1.2)
SSA countries	(2.2)	(2.2)	(2.1)	(1.4)	(1.2)
3. Socialist countries	10.6	14.3	8.9	10.9	9.9

Source: UNCTAD, 1989:26,27: Tables 1.9, 1.10.

Table A.2 World trade, X and M, (in million USD) and shares (percent) of Africa and SSA Countries

	1970		1975		1980		1981		1982	
	X	M	X	M	X	M	X	M	X	M
World total	315100	328300	875500	903700	2002000	2062100	1976100	0045400	1840000	1910900
Africa	12770	11080	35920	38480	94660	74240	75550	85470	65890	74640
% share of world X, M	4.0	3.4	4.1	4.3	4.7	3.6	3.8	4.2	3.6	3.9
SSA-total X, M	7779	7333	20477	20596	49308	43462	39691	48024	33247	38582
% share of world X, M	2.5	2.2	2.3	2.3	2.5	2.1	2.0	2.3	1.8	2.0
<i>Individual countries:</i>										
1. Ethiopia	122	172	240	296	425	722	389	739	404	787
2. Chad	30	61	48	133	71	74	83	108	58	109
3. Zaïre	781	533	865	905	1639	842	662	672	569	482
4. Guinea Bissau	4	27	7	37	11	55	14	50	12	50
5. Malawi	60	86	139	251	285	440	270	350	245	311
6. Mozambique	156	324	202	417	281	800	281	801	222	836
7. Tanzania	259	318	372	773	508	1225	613	1212	455	1131
8. Burkina Faso	18	49	44	151	90	358	75	338	56	346
9. Madagascar	145	170	294	367	402	600	316	540	310	425
10. Mali	33	47	54	177	205	440	154	385	146	332
11. Gambia	17	18	48	60	31	163	27	122	44	97
12. Burundi	24	22	32	62	65	168	71	161	88	214
13. Zambia	1001	477	810	929	1299	1111	1074	1062	1022	1001
14. Niger	32	58	91	101	566	594	455	510	332	466
15. Uganda	282	172	287	200	345	293	242	345	347	377
16. Sao Tomé & Príncipe	8	9	7	11	20	19	14	17	9	15
17. Somalia	31	45	89	155	133	348	152	512	199	330
18. Togo	55	65	126	174	335	550	211	433	177	391
19. Rwanda	25	29	42	96	112	243	11	256	103	276
20. Sierra Leone	101	116	121	185	204	414	153	312	89	240
21. Benin	33	64	32	197	63	331	34	544	24	464
22. Central African Republic	31	34	48	69	115	81	79	95	109	127
23. Kenya	305	442	644	980	1389	2588	1188	2069	977	1613
24. Sudan	298	284	438	1033	543	1576	658	1578	499	1285
25. Comoros	5	9	10	23	20	33	16	34	20	33
26. Lesotho	6	32	13	160	58	464	50	516	37	524

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	1970		1975		1980		1981		1982	
	X	M	X	M	X	M	X	M	X	M
27. Nigeria	1239	1059	7994	6041	24999	15025	18087	20453	13665	15003
28. Ghana	458	411	807	791	1148	1129	1063	1106	873	705
29. Mauritania	89	56	174	177	194	286	261	265	232	273
30. Liberia	213	150	394	332	589	534	529	477	477	428
31. Equatorial Guinea	25	24	26	20	14	26	16	31	17	42
32. Guinea	42	55	143	165	390	270	490	320	410	310
33. Cape Verde	2	16	2	40	4	68	3	71	4	72
34. Senegal	152	193	460	583	477	1052	500	861	548	992
35. Zimbabwe	367	329	923	802	1423	1290	1406	1472	1273	1472
36. Swaziland	71	60	196	180	369	538	391	506	325	440
37. Ivory Coast	469	388	1182	1127	3142	3015	2535	2384	2235	2090
38. Congo	31	57	179	175	911	545	1073	804	977	807
39. Cameroon	232	243	448	599	1384	1602	1122	1428	1000	1211
40. Botswana	22	49	142	218	503	691	400	799	457	688
41. Mauritius	69	76	298	332	431	19	324	554	367	464
42. Gabon	121	80	942	471	2173	674	2200	841	2160	723
43. Seychelles	2	7	6	32	21	99	17	93	15	98
44. Angola	423	369	1012	422	1902	1341	1874	1678	1645	876
45. Djibouti	21	49	36	147	19	125	9	120	13	226

Source: UNCTAD 1989, Tables 1.1 and 1.2.

Notes: X = exports f.o.b. in million dollars

M = imports c.i.f. in million dollars

Sub-Saharan total for 45 countries as per World Bank 1989a list

Table A.2 World trade, X and M, (in million USD) and shares (percent) of Africa and SSA Countries

	1983		1984		1985		1986		1987	
	X	M	X	M	X	M	X	M	X	M
World total	1817700	1884100	1911100	1992000	1932200	2019600	2127700	2210500	2493500	2573100
Africa	61550	68740	63340	62880	61320	60600	48490	61700	53190	61900
% share of world X, M	3.4	3.6	3.3	3.2	3.2	3.0	2.3	2.8	2.1	2.4
SSA-total X, M	32126	33067	33130	27111	32729	28087	27145	28347	28809	29809
% share of world X, M	1.8	1.8	1.7	1.4	1.7	1.4	1.3	1.3	1.1	1.1
Individual countries:										
1. Ethiopia	402	867	417	942	333	996	477	1097	460	1150
2. Chad	74	117	111	162	62	190	99	170	111	210
3. Zaïre	1134	498	1004	659	947	997	1092	884	975	763
4. Guinea Bissau	9	55	17	48	12	60	15	60	15	70
5. Malawi	229	311	309	269	253	287	245	258	276	296
6. Mozambique	132	636	86	540	77	377	80	440	100	660
7. Tanzania	366	822	378	889	284	1031	346	780	282	928
8. Burkina Faso	57	288	79	207	70	333	83	405	90	415
9. Madagascar	296	387	333	366	274	402	304	353	332	302
10. Mali	165	353	208	375	172	547	206	496	260	493
11. Gambia	48	115	47	98	43	93	35	100	48	128
12. Burundi	80	183	98	186	111	186	169	205	86	212
13. Zambia	825	703	655	608	543	692	403	603	909	739
14. Niger	299	324	274	285	290	345	260	330	310	370
15. Uganda	372	377	399	344	350	327	395	344	320	477
16. Sao Tomé & Príncipe	6	10	7	12	5	13	5	15	5	17
17. Somalia	103	180	46	105	91	112	85	125	90	125
18. Togo	162	284	191	271	190	288	240	340	220	360
19. Rwanda	121	269	144	295	131	294	189	352	114	353
20. Sierra Leone	92	166	148	166	106	154	145	152	132	137
21. Benin	67	588	90	500	110	500	80	500	70	550
22. Central African Republic	75	85	86	87	88	109	131	252	100	125
23. Kenya	933	1358	1083	1551	958	1437	1200	1613	961	1756
24. Sudan	624	1354	629	1147	367	757	333	961	532	929
25. Comoros	19	25	7	25	16	27	20	41	12	60
26. Lesotho	31	564	29	504	23	363	26	400	40	420

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	1983		1984		1985		1986		1987	
	X	M	X	M	X	M	X	M	X	M
27. Nigeria	10662	9062	12636	5863	13113	6205	6578	5000	7383	3917
28. Ghana	2699	2633	562	580	617	731	862	783	1000	900
29. Mauritania	305	227	297	246	374	234	349	221	428	382
30. Liberia	428	412	452	363	436	284	408	259	382	308
31. Equatorial Guinea	18	25	20	25	25	27	39	41	37	37
32. Guinea	400	300	470	360	480	420	450	430	520	470
33. Cape Verde	3	79	3	71	5	81	5	100	5	124
34. Senegal	534	1039	534	1010	402	826	540	852	580	1170
35. Zimbabwe	1128	1052	1148	959	1109	897	1301	985	1427	1052
36. Swaziland	304	464	237	381	176	281	267	304	311	365
37. Ivory Coast	2067	1808	2698	1511	2939	1742	3325	2054	2900	2300
38. Congo	1066	806	1183	618	1087	598	680	560	900	550
39. Cameroon	939	1217	882	1106	722	1151	781	1705	829	1749
40. Botswana	636	736	674	707	744	583	858	684	1521	849
41. Mauritius	361	435	373	472	459	524	675	675	898	870
42. Gabon	1975	453	2018	888	1974	976	1074	951	1286	785
43. Seychelles	20	88	26	88	28	99	19	106	30	114
44. Angola	1840	682	2069	1000	2200	1400	1800	1160	1500	1120
45. Djibouti	11	221	13	222	14	201	16	201	20	201

Source: UNCTAD 1989, Tables 1.1 and 1.2.

Notes: X = exports f.o.b. in million dollars

M = imports c.i.f. in million dollars

Sub-Saharan total for 45 countries as per World Bank 1989a list

Table A.3 Value of exports from world, developing countries and Sub-Saharan Africa

Region	1950	1955	1960	1965	1970	1975	1980	1985	1986	1987
a. Billions of Current-Dollars										
World	60.7	94.0	128.3	187.2	314.5	875.9	2001.4	1930.4	2127.7	2493.5
Less Developed Countries	18.7	24.0	36.7	56.1	211.8	572.9	461.8	461.8	422.5	507.2
Sub-Saharan Africa	1.9	2.9	3.4	5.0	7.6	19.4	48.2	32.1	27.2	28.8
b. Share of developing countries in:										
World exports	30.8	25.5	21.5	19.6	17.8	24.2	28.6	23.9	19.9	20.3
c. Share of Sub-Saharan Africa in:										
World exports	3.1	3.1	2.7	2.7	2.4	2.2	2.4	1.7	1.3	1.1
Developing countries exports	10.2	12.1	12.3	13.6	13.5	9.2	8.4	7.0	6.4	5.7

Source: Svedberg, 1988. 4 Table 1, UNCTAD, 1989: Table 1.1

Table A.4 Sub-Saharan Africa: Structure of merchandise exports by major categories (percent)

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	Fuels, minerals and metals			Other primary commodities			Machinery and transport equipment			Other manufactures			Textiles and clothing - (sub group of other manufactures)		
	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987
23. Kenya	13	34	21	81	50	62	0	3	2	6	12	15	0	1	..
24. Sudan	1	1	14	98	96	79	1	2	3	0	1	4	0	1	..
25. Comoros
26. Lesotho	0	0	0	91	76	64	0	0	0	9	24	36
27. Nigeria	32	96	91	65	3	8	0	0	0	2	0	1	0	0	..
28. Ghana	13	31	37	85	67	60	1	0	0	2	2	2	0	0	..
29. Mauritania	94	76	31	5	23	66	1	0	0	0	2	2	0	0	..
30. Liberia	72	59	57	25	38	41	1	1	0	3	2	1	0	0	..
31. Equatorial Guinea
32. Guinea
33. Cape Verde
34. Senegal	9	39	25	88	46	60	1	3	4	2	12	11	1	1	..
35. Zimbabwe	45	22	17	40	49	43	1	2	35	15	26	37	6	0	..
36. Swaziland
37. Ivory Coast	2	6	4	93	84	86	1	2	2	4	7	7	1	1	1
38. Congo	5	88	67	32	6	17	2	0	1	61	6	15	0	0	0
39. Cameroon	17	37	51	77	60	40	3	1	5	2	3	4	0	1	1
40. Botswana	18	21	20	78	9	17	2	2	3	2	68	61
41. Mauritius	0	0	0	100	71	59	0	4	2	0	25	38	0	19	..
42. Gabon	50	91	63	39	7	26	1	0	2	10	1	8	0
43. Seychelles	12	74	80	85	23	16	0	1	5	3	3	0	..	0	0
44. Angola
45. Djibouti

Source: World Bank, 1989b:194 Table 16.

Notes: 1. Figures for the South African Customs Union for RSA, Namibia, Lesotho, Botswana and Swaziland excluded.
2. data not available

Table A.5 Sub-Saharan Africa: structure of merchandise imports (percent)

	Food			Fuels			Other primary commodities			Machinery & transport equipment			Other manufactures		
	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987
1. Ethiopia	6	7	4	6	25	18	6	4	3	37	28	37	44	36	39
2. Chad	13	19	3	23	42
3. Zaire	18	19	13	7	8	3	5	5	5	33	32	37	37	36	42
4. Guinea Bissau
5. Malawi	15	7	5	5	15	9	3	3	3	21	34	33	57	41	49
6. Mozambique	17	8	7	24	45
7. Tanzania	10	13	6	9	21	17	2	3	2	34	35	44	45	28	31
8. Burkina Faso	23	19	16	4	13	3	14	4	5	19	29	34	40	34	42
9. Madagascar	19	8	9	4	15	29	2	4	2	25	34	30	48	39	30
10. Mali	20	16	12	6	17	16	5	2	2	23	39	44	47	26	27
11. Gambia	19	11	43	3	7	4	7	3	14	19	19	10	52	60	30
12. Burundi	16	14	12	6	16	5	9	4	5	15	20	23	55	47	55
13. Zambia	9	8	7	10	18	12	3	2	1	33	35	39	45	37	41
14. Niger	12	13	18	6	26	6	6	4	11	21	37	31	55	29	20
15. Uganda	7	5	5	1	23	9	3	2	2	38	39	46	51	32	38
16. Sao Tomé & Príncipe
17. Somalia	31	31	13	5	1	3	8	6	6	24	35	47	33	27	32
18. Togo	15	19	20	3	20	6	5	3	6	31	20	28	45	38	40
19. Rwanda	12	9	12	7	8	15	5	8	7	28	30	30	50	45	35
20. Sierra Leone	17	18	17	9	14	9	3	5	4	30	18	20	41	44	49
21. Benin	18	19	11	6	4	34	7	8	2	17	21	16	53	49	37
22. Central African Republic	13	20	13	7	2	1	2	4	4	29	34	39	49	41	43

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	Food			Fuels			Other primary commodities			Machinery & transport equipment			Other manufactures		
	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987
23. Kenya	10	8	9	11	34	21	3	3	4	34	28	34	42	28	33
24. Sudan	23	26	17	5	13	22	4	2	3	21	29	26	47	31	32
25. Comoros
26. Lesotho	49	17	-7	3	6	-1	7	14	-8	6	14	26	35	49	90
27. Nigeria	9	17	8	6	2	3	3	3	3	34	33	36	48	45	50
28. Ghana	12	9	6	4	27	17	3	4	3	33	30	36	48	31	37
29. Mauritania	9	29	26	4	9	10	1	3	2	56	36	35	30	25	27
30. Liberia	16	18	19	8	28	21	3	3	3	34	28	29	39	23	29
31. Equatorial Guinea
32. Guinea
33. Cape Verde
34. Senegal	36	24	32	6	25	16	4	2	2	15	23	16	38	25	33
35. Zimbabwe	13	15	10	8	17	8	3	3	3	31	30	36	46	35	43
36. Swaziland
37. Ivory Coast	18	17	19	6	17	15	3	3	4	28	28	28	46	35	35
38. Congo	15	18	16	6	14	7	1	3	3	34	23	27	44	42	46
39. Cameroon	11	8	13	5	12	1	4	2	3	28	34	36	51	44	46
40. Botswana	9	8	9	10	13	7	18	17	16	18	17	20	46	45	48
41. Mauritius	34	26	19	5	14	7	3	5	5	16	16	20	43	39	48
42. Gabon	16	19	18	5	1	1	2	2	3	38	37	38	40	41	39
43. Seychelles	36	20	14	13	24	18	3	3	1	16	29	25	33	24	41
44. Angola
45. Djibouti

Source: World Bank, 1989b:192 Table 15.

Notes: 1. Figures for South African Customs Union for RSA, Namibia, Lesotho, Botswana and Swaziland excluded
2. ... data not available

Table A.6*(i) Volume indices of exports (1980 = 100)*

	1970	1975	1981	1982	1983	1984	1985	1986	1987
Developed market economies	54	73	102	101	104	114	118	121	128
Developing countries	96	86	95	89	91	95	93	107	113
Africa: North	99	98	82	76	83	81	83	80	82
Other	96	87	95	87	87	91	88	110	119

(ii) Volume indices of imports (1980 = 100)

Developed market economies	62	74	98	92	100	111	117	126	134
Developing countries	47	72	116	112	109	109	102	101	108
Africa: North	43	98	130	126	131	132	119	115	103
Other	54	69	116	97	85	71	75	72	71

Source: UNCTAD 1989: 40-41 Tables 2.1, 2.2.

Table A.7*(i) Unit value indices of exports (1980 = 100)*

	1970	1975	1981	1982	1983	1984	1985	1986	1987
Developed market economies	33	63	96	92	88	86	86	97	109
Developing countries	10	42	105	97	88	87	85	64	73
Africa: North	7	38	109	99	87	86	86	53	63
Other	15	41	98	90	79	82	81	66	70

(ii) Unit value indices of imports (1980 = 100)

Developed market economies	27	58	98	92	82	86	85	88	87
Developed countries	26	58	96	93	90	89	89	90	97
Africa: North	27	58	94	90	88	87	86	92	89
Other	25	54	95	93	90	88	88	92	99

Source: UNCTAD, 1989: 42-43 Tables 2.3, 2.4 respectively.

Table A.8*(i) Terms of trade indices (1980 = 100)*

	1970	1975	1981	1982	1983	1984	1985	1986	1987
Developed market economies	122	109	98	100	101	100	101	110	111
Developing countries	38	73	109	104	97	98	96	71	75
Africa: North	24	63	116	109	99	99	99	57	64
Other	54	71	103	97	88	94	92	71	71

(ii) Purchasing power indices of exports (1980 = 100)

Developed market economies	66	80	100	101	105	114	119	133	142
Developing countries	37	64	103	92	89	94	98	82	92
Africa: North	38	57	85	80	74	77	73	52	54
Other	56	70	84	72	72	76	76	59	58

Source: UNCTAD, 1989:44-45, Tables 2.5, 2.6 respectively.

Notes

1. Rybczynski theorem states that at constant commodity prices, an increase in the endowment of one factor will increase by a greater proportion the output of the commodity intensive in that factor and will reduce the output of the other commodity.
2. This refers to a situation where a country has moved from the production of consumer goods to the production of intermediate and capital goods.
3. A trade regime is considered to be liberalized if the level and dispersion of protection are reduced, whether explicitly through changes in tariff rates, or implicitly by changing the severity of quantitative restrictions (Blejer and Cheasty, 1988).
4. Since March 1990, overdraft facilities ranging between 20 and 80 percent have been extended to OGL users for cash cover purposes. Small importers are still affected by the high interest rates and face the danger of being skewed out of the OGL system.
5. Such attempts relied more on political decision-making in determining industrial location, in an attempt to attain regional balance, rather than financial and economic feasibility criteria which would take into account the long-term viability of the industrial projects.
6. For further exposition on the issue, see Evans (1989).

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Contents

List of Tables	vi
Acknowledgements	vii
I Introduction	1
II Problems related to quality of trade statistics in Sub-Saharan Africa	4
III General characteristics of trade in SSA economies	6
Export performance in Sub-Saharan Africa	13
The key role of imports (volume, value and structure) and the major influences upon them	17
IV Import substitution <i>vis a vis</i> export promotion	19
Main arguments	19
Effects on industrialization	23
V The instruments of export promotion policy	25
Promotional measures	28
Future export prospects for SSA countries	35
VI Trade liberalization	38
Fiscal effects of trade liberalization	42
VII Sequencing, timing and the stability of trade policy reforms	43
VIII Economic integration as a trade policy instrument	45
IX Concluding remarks and additional areas for future trade policy research in Sub-Saharan Africa	49
Appendix	52
Notes	64
References	65

List of tables

1.	Changing shares of SSA countries in world exports and imports (percentages, for selected years)	7
2.	Percentage share of Sub-Saharan Africa and developing countries in world exports of primary commodities	7
3.	Sub-Saharan Africa: Annual average growth rates of GDP, and changing ratios of exports and imports to GDP (selected years)	8
4.	Sub-Saharan Africa: Growth of merchandise trade. Average annual growth rates (percent) and terms of trade (selected years)	10
5.	Sub-Saharan Africa: Concentration and diversification indices, 1970 and 1985	14
6.	Protection levels and induced bias against exports 1986	23
7.	Trade policy reforms in World Bank Structural Adjustment Loans	26
8.	Summary of export taxes for selected SSA countries	27
9.	Growth in manufacturing output, exports, and capacity utilization before and during reforms	28
A-1.	Shares of world exports and imports by main regions (percentage)	52
A-2.	World trade, X and M and shares (percentage) of Africa and SSA countries	53
A-3.	Value of exports from world, developing countries and Sub-Saharan Africa	57
A-4.	Sub-Saharan Africa: Structure of merchandise exports by major categories (percent)	58
A-5.	Sub-Saharan Africa: Structure of merchandise imports by major categories (percent)	60
A-6.	(i) Volume indices of exports (1980 = 100)	62
	(ii) Volume indices of imports (1980 = 100)	62
A-7.	(i) Unit value indices of exports (1980 = 100)	62
	(ii) Unit value indices of imports (1980 = 100)	62
A-8.	(i) Terms of trade indices (1980 = 100)	63
	(ii) Purchasing power indices of exports (1980 = 100)	63

Note: In Tables 3, 4, 5, A.2, A.4 and A.5 countries are listed (following World Bank, 1989a) in ascending order of their GNP per capita, except Angola, Djibouti, Equatorial Guinea and Guinea for which GNP per capita could not be obtained.

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I. Introduction

The subject of trade policy (commercial policy) originates in the mercantilist philosophy of accumulating national wealth through import controls and export expansion. However, this philosophy was challenged by Adam Smith's argument for free trade and reliance on the "invisible hand" of the market. The notion of import protection was reinforced by the contention that infant industry needed tariff protection as expounded by Friedrich List and Alexander Hamilton in support of the early industrialization process of Germany and the United States, respectively. The infant industry argument for import protection has also been used extensively by the developing countries in support of their industrialization process. This argument became prominent following Raul Prebisch's theory, concerning the secular decline in the terms of trade for primary commodities, and the views of the proponents of industrialization as the engine of growth. The present-day protectionist policies of the developed countries embrace both the mercantilist views as well as import tariff protection for what has been termed "sunset" industries, i.e. industries that cannot compete with those of the Newly Industrialized Countries (NICs). The NICs have skillfully combined elements of protection and export policies to develop an outward-oriented development strategy, while other developing countries are grappling with trade liberalization measures reminiscent of Adam Smith's free trade philosophy, the aim being to remove the anti-export bias of previous trade policies.

The mercantilists used international trade to secure balance of trade surplus. Further, they advocated a commercial policy which included the promotion of exports and prohibition of imports, or at least their reduction to a minimum.

Infant industry protection was meant to protect local industries from cheap imports and promote industrialization but without specific emphasis on export promotion. It was to protect infant import substitutes but not infant export-oriented industries. Hence, the infant industry argument for tariff protection is essentially anti-export biased. Export promotion development strategy as applied by the NICs, on the other hand, applies equal incentives to export promotion and import substitution. In addition, specific export policies that may not necessarily be available to import substitutes are used with a strong government commitment and support to steer the economy towards outward orientation

without interfering too strongly with the market mechanism ("optimum government intervention"). A strong political commitment to an outward-oriented development strategy is essential for the implementation of effective institutional mechanisms. An outward-oriented strategy supports neither inefficient import substitutes nor inefficient export industries, but supports both efficient export and efficient import substitution (Rhee, 1984).

This paper emphasizes the export policy measures that should be applied in the Sub-Saharan Africa (SSA) economies in the process of trade policy reform. Several SSA countries embarked on macroeconomic stabilization and structural adjustment measures in the early-to mid-1980s which would need to be supplemented with trade policy reforms so that such reforms could deliver the anticipated results on the export front. It is in this context that we hope to arouse interest in trade policy research which would produce proposals to alleviate the declining trend in export performance in Sub-Saharan Africa.

This paper focuses on the objectives and instruments of trade policy and promotion which are immediately relevant to the SSA economies. The broad objectives include efficient import substitution, export promotion and trade liberalization, where both exports and imports are encouraged to rise together and through which regional economic integration may be fostered. These issues are covered in Sections IV, VI and VIII. Section VII briefly discusses the sequencing, timing and stability of trade policy reforms.

The main instruments of trade policy are trade taxes, import and export taxes and varieties of quantitative restrictions on trade. These vary from country to country. For example, Sharpley and Lewis (1988) identify five separate elements of trade policy which relate to the industrialization process in Kenya. These are: exchange rate policy, tariffs, import licensing, export compensation schemes, and domestic indirect taxes. "Equal footing" export policies (Rhee, 1990), institutional infrastructure and support services for export development are other instruments. Rhee emphasizes easy access to trade finance, automatic investment licensing and access to know-how and markets as the most important "equal footing" export policies. All these measures except automatic investment licensing are discussed in Section V. Section II deals with problems of quality of trade statistics in Sub-Saharan Africa, while Section III deals with the general characteristics of trade in SSA countries. Trade statistics in Sub-Saharan Africa are often close to useless (Deardorff and Stopler, 1990). With this in mind, we devote a whole section on the quality of trade data in SSA countries which we feel should be the starting point for any trade policy research in the region.

In Tanzania, Uganda and, to a lesser extent, Zambia, a policy to which the international research and policy community (particularly the World Bank and IMF) has paid little attention, is a combination of various export retention schemes, "own funds" imports and Open General Licence (OGL). Section V gives a discussion of this, particularly as it has been operating in Tanzania.

While an appropriate exchange rate policy is important in that it gives the right price signals for efficient resource allocation and for the production of tradeables, issues of exchange rate as a trade policy instrument are dealt with

only to the extent that they reinforce or validate the effectiveness of the trade policy instruments. Hence the focus is on measures that influence the production and consumption of tradeable goods and services other than exchange rate policy issues *per se*.

Another trade policy instrument relevant for SSA economies in this period of structural adjustment but which is not treated in this paper is direct foreign investment. As the SSA economies introduce macroeconomic stabilization and trade policy changes, an appropriate environment is created for direct foreign investment with the potential to increase output and exports, particularly if the changes include special incentives for the promotion of Export Processing Zones (EPZs).

We survey the issues of trade policy and promotion in Sub-Saharan Africa but not in great detail. More importantly, we raise issues that may be of research interest in the main areas of trade policy and promotion. When researched, these issues should produce a comprehensive analysis of trade policy and trade development issues in Sub-Saharan Africa.

II. Problems related to the quality of trade statistics in Sub-Saharan Africa

Yeats (1989) identifies several sources of inaccuracies of trade data reported by the SSA countries. This calls for a cautious use of these data in empirical and policy analyses.

In evaluating the quality of data, Yeats compares values of exports f.o.b. reported by African countries with partner countries' imports c.i.f. to estimate the percentage differences or discrepancies. The discrepancies between data for African countries' exports and matched data for OECD (partner) imports are found to be "wide", with OECD imports in many cases turning out to be greater than reported exports of the African countries. This reflects situations where developing countries are not receiving full value for the products they export due to actions by foreign buyers or false invoicing by their own nationals (Yeats, 1989, p.13).

There are, however, "legitimate", rather common, sources of inaccuracies, such as variations in transport costs, re-exports, diversion *en route*, time lags especially in the availability of up-to-date data, and differences in commodity classification. The latter concerns the level of "product detail" in aggregating trade volumes: not all countries report at a 5-digit level SITC (Standard International Trade Classification): most report at 4-or 3-digit level, resulting in substantial "loss" of trade information.

However, these factors are an inadequate explanation for the observed discrepancies. Other, perhaps more serious, problems include: smuggling, or exporters intentionally under-invoicing to evade taxes or exchange controls, or conversely, exporters over-invoicing, though rarely (reported exports exceeding matched imports), in order to acquire government export subsidies or other attractive forms of export incentives. Thus, in a number of countries, some commodities (oil, coffee, cocoa) would have their reported export quantities and values purposefully under-reported "possibly to conceal non-compliance with internationally agreed production and export quotas" (Yeats, 1989, p.14). Too restrictive trade controls certainly reinforce this kind of "cheating" as they encourage importers to under-invoice and/or smuggle while subsidies would encourage exporters to over-invoice.

Discrepancies in data on intra-African trade were generally found to be considerably larger than those on trade with developed countries, which casts doubts on the usefulness of the statistics for analyzing the level and direction of trade among African countries. Improper recording of country of origin and/or trans-shipment through a second African country are other major causes. For instance, in 1983 Sudan reported some US\$69 million of tobacco imports from Tanzania, while Tanzania reports no exports to Sudan (p.24). It has also been pointed out that in 1978, official imports of Nigeria from Cameroon were 1090 percent of the corresponding Cameroonian exports to Nigeria. No complete data exists for a single year, which makes it impossible to construct a complete trade matrix with independent data for any particular year (Deordorff and Stopler, 1990, p.131).

An important research task is therefore to assess the value of the available trade data, and to improve upon it where appropriate and possible. Research on the dimensions, characteristics of and motivations for unrecorded intra-SSA (border) trade may be especially fruitful.

III. General characteristics of trade in SSA economies

According to many indicators recorded by several international agencies (GATT, UNCTAD, World Bank, IMF), world trade continues to play a key dynamic role in the world economy, with trade-related investment and production amongst the leading sources of growth. In 1988, for example, the volume of world merchandise trade rose by some 8.5 percent. More rapid trade growth relative to output indicates increasing economic linkages between countries, and what has become known as the globalization of production (GATT, 1989).

While recent world economic growth has been accompanied by increasing convergence between a number of developing and developed economies (in terms of GDP per capita, composition of output and other indicators), for several developing countries the issue is one of divergence. Even the best-case scenario in the World Bank Report 1989 envisages no more than a 0.1 percent increase in per capita GDP in Sub-Saharan Africa until 1995, after years of steady decline (Weston, 1989). The 1989 African Development Bank Report suggests that a process of "delinking" may be at work, as the volume of African exports has not expanded in proportion with the economic expansion in industrial countries, compounding shortfalls resulting from price declines, especially of tropical beverages. The Fraser Report (UN, 1990) points out that Africa's poor export performance in the 1980s has been a key factor in its divergent economic path.

Since the mid-1950s through the 1960s, available records show "satisfactory" export performance for most African countries (Lewis, 1986; Svedberg, 1988). Real exports grew at 6 percent per annum between 1954 and 1969 (Helleiner, 1990a, p.24). However, all agree that in the following two decades more SSA countries experienced decline or stagnation as reflected, for example, in their shares in world trade.

The shares of SSA countries in world trade (exports and imports) show a sharp decline since 1980 (Table 1). (See also Tables A-1 and A-2.)

Table 1 Changing shares of SSA countries in world exports and imports (percentages, for selected years)

Year		1970	1975	1980	1982	1984	1987
SSA	exports/	2.4	2.3	2.5	1.8	1.7	1.1
world	exports						
SSA	imports/	2.2	2.2	2.1	2.0	1.4	1.2
world	imports						

Source: Computed from UNCTAD 1989a: Table 1.1.

A number of factors generally responsible for this trend can be identified, but certainly performances in respect of each country vary, depending on the specific policies pursued by a given country.

Table 2 Percentage shares of Sub-Saharan Africa and developing countries in world exports of primary commodities (selected years)

(i) Percent shares of SSA countries in:		1971	1976/1977a	1979	1983	1986
World	All					
Exports	primary					
	commodities	6.6	5.8	4.9	4.0	4.1
	18 IPC					
	commodities	14.9	13.8	11.4	9.6	10.8
Developing	All					
countries'	primary					
exports	commodities	21.3	18.4	16.1	13.1	14.2
	18 IPC					
	commodities	24.8	22.2	18.9	16.6	18.5
(ii) Percent shares of developing countries in:						
World	All					
exports	primary					
	commodities	31.1	31.1	30.3	30.1	28.9
	18 IPC					
	commodities	60.3	62.3	60.5	57.7	58.6

Source: Computed from UNCTAD (1989c), *Commodity Yearbook 1988*: 10–13, Table 1.3; 38–40, Table 1.11.

Notes: ^a 1976 for "All primary commodities" only, and 1977 for "18 IPC commodities" only. 1976 and 1977 are notable for the commodity boom, especially of coffee.

Years were selected on the basis of availability of data for both categories.

^b Integrated Programme for Commodities.

Regarding declining export shares, SSA countries, like other developing countries, faced slow growth in world markets for their traditional primary commodity exports. But they also failed to boost alternative exports, e.g. non-traditional primary products and manufactures. Equally significantly, they lost

their market shares in world markets, especially as production of traditional exports stagnated (Svedberg, 1988, and Table 2). There were also significant declines in the export-to-GDP ratio for most SSA countries (Table 3).

Further, Balassa (1990) shows that within Sub-Saharan Africa, "market-oriented" countries generally gained while "interventionist" countries lost market shares. The economies in the former countries adopted realistic exchange rates, while "interventionist" countries strongly biased the incentives systems against export and let their exchange rates appreciate in real terms.

In Tanzania, for instance, an important factor contributing to losses in export market shares was the increasing overvaluation of the real exchange rate. Other factors were: high marketing margins of state-owned marketing institutions, which led to reductions in the ratio of producer to border prices particularly for coffee and tea; increasing shortage of agricultural inputs, machinery spares and consumer goods and deterioration of transport facilities (Lele, 1984). The same would be true for several other SSA countries.

Table 3 Sub-Saharan Africa: Annual average growth rates of GDP, and changing ratios of exports and imports to GDP (selected years)

	GDP Growth rate (1)		Exports/GDP (2)			Imports/GDP (3)		
	1970-1980	1980-1987	1965	1980	1987	1965	1980	1987
1. Ethiopia	2.6	1.1	12	14	11	12.7	19.5	24
2. Chad	1.8	5.1	19	28	17	11	10	..
3. Zaire	-0.3	1.6	36	24	33	10	11	20
4. Guinea Bissau	2.0	3.7	..	8	6	..	51	53
5. Malawi	6.1	2.6	19	25	24	26	39	25
6. Mozambique	-2.4	-3.8	11	..	38	33
7. Tanzania	4.5	1.7	26	13	13	25	27	37
8. Burkina Faso	1.9	4.1	9	16	17	18	37	33
9. Madagascar	0.6	0.3	16	16	20	21	21	19
10. Mali	3.8	3.4	12	16	17	17	27	23
11. Gambia	5.4	4.6	43	57	63	43	64	63
12. Burundi	3.1	2.9	10	9	9	21	20	18
13. Zambia	1.1	0.0	49	41	47	28	29	37
14. Niger	1.5	-1.9	9	24	19	6	24	19
15. Uganda	-2.4	0.9	26	2	10	..	14	..
16. Sao Tomé & Príncipe	5.4	-5.9	..	46	20	..	14	..
17. Somalia	2.7	1.7	17	31	11	26	73	45
18. Togo	4.1	-0.5	20	32	31	25	56	34
19. Rwanda	3.9	2.4	12	14	8	72	24	17
20. Sierra Leone	1.6	-0.2	30	23	9	11	42	15
21. Benin	2.3	2.7	13	28	15	8	32	27
22. Central African Republic	2.2	2.2	27	26	17	29	30	18
23. Kenya	5.6	3.2	31	29	21	31	43	25
24. Sudan	5.3	-0.6	15	12	8	16	24	9
25. Comoros	-0.9	2.8	11	36
26. Lesotho	8.5	2.2	16	21	10	50	145	168
27. Nigeria	5.4	-1.9	13	26	31	13	17	32

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	GDP Growth rate (1)		Exports/GDP (2)			Imports/GDP (3)		
	1970-1980	1980-1987	1965	1980	1987	1965	1980	1987
28. Ghana	-0.1	1.4	17	8	20	22	25	17
29. Mauritania	1.3	1.6	42	37	50	26	55	56
30. Liberia	2.2	-1.4	50	55	43	39	53	21
31. Equatorial Guinea	42
32. Guinea	4.3	2.8	..	28	30	..	17	..
33. Cape Verde	1.5	6.6	..	22	76	..
34. Senegal	2.1	3.3	24	29	28	20	35	25
35. Zimbabwe	1.5	2.6	..	30	27	35	29	20
36. Swaziland	4.4	3.4	59	77	116	99
37. Ivory Coast	6.1	1.3	37	34	34	31	36	28
38. Congo	2.4	5.2	36	60	43	33	29	27
39. Cameroon	5.3	7.0	24	24	16	17	21	17
40. Botswana	13.8	12.8	32	50	..	46	76	56
41. Mauritius	7.1	5.1	36	51	69	41	64	68
42. Gabon	9.0	0.6	43	..	41	27	16	24
43. Seychelles	5.8	0.7	..	68	..	13	67	45
44. Angola	-6.4	3.3	21	52	38	20	27	14
45. Djibouti	3.0	1.4

Source: Column 1: UNCTAD, (1989a) *Handbook of International Trade and Development Statistics* 1988: 430-433, Table 6.2.

Column 2: Exports of goods and non-factor services/GDP, World Bank (1989a) *Sub-Saharan Africa: From Crisis to Sustainable Growth*: 227 Table 4.

Column 3: Computed as merchandise imports (million dollars). World Bank (1989a): 240 Table 12 divided by GDP (million dollars) World Bank (1989a) *ibid*: 224, Table 3.

Note: ... data not available

Erzan and Svedberg (1989) point out that Singapore, with a population of 2.5 million, had export revenues at par with all of the SSA countries together—the home of over four hundred million people. According to Svedberg (1988), although supply shortcomings were the predominant cause of the poor export performance of most SSA countries, the demand side, specifically the deterioration in the barter term of trade, also had a negative impact on export performance (Table 4). While the terms of trade index declined from 97 in 1982 to 71 in 1987, the purchasing power of export declined from 72 to 58 over the same period (Table 4).

Using a similar method to Svedberg's (1988) to determine the explanatory contribution of volume changes and changes in barter terms of trade to changes in real exports, and applying the analysis for the period 1980-1988, Ndulu (1990), found that while the explanatory shares were 41.1 percent and 58.9 percent for barter terms of trade and quantum respectively from 1980-1985, the barter terms of trade decline (-7.7 percent) more than offset the quantum increases (0.7 percent) from 1985-1988. This suggests that price declines had a greater impact on the decline of export performance, and hence stagnation in economic growth, in Sub-Saharan Africa over the 1985-1988 period. The reason for the poor export performance in Sub-Saharan Africa for the period 1980-1988 may not therefore be solely declining commodity prices. As SSA

countries lost their share of the world commodity market other nations must have gained that share at the same time as commodity prices were declining. Further explanation for the decline in export performance should therefore be sought in the macroeconomic policies, particularly exchange rate policies, pursued at that time for each SSA country. This should form an interesting subject for research.

The export structure of the SSA countries continues to be highly concentrated on a few primary commodities and the direction of their exports by major market grouping has hardly changed (UNCTAD, 1984;1989b, p.64). The attendant economic crisis has, on the other hand, engendered a slow-down in "import growth, further constraining production in particularly import-intensive 'would-be' alternative exports" (mainly manufactures). Nevertheless it would be worth taking stock of the efforts toward diversification (e.g. into non-traditional exports) being vigorously made during the adjustment period.

Table 4 Sub-Saharan Africa: Growth of merchandise trade. Average annual growth rates (percent) and terms of trade (selected years)

	Exports		Imports		Terms of trade 1980 = 100		
	1965-1980	1980-1988	1965-1980	1980-1988	1982	1985	1988
1. Ethiopia	0.5	-0.7	-0.9	7.2	74	99	104
2. Chad	99
3. Zaire	4.7	-2.9	-2.9	0.2	81	82	96
4. Guinea Bissau
5. Malawi	4.1	3.3	3.3	-3.4	106	73	72
6. Mozambique	84
7. Tanzania	-4.0	-5.4	1.6	0.5	86	90	94
8. Burkina Faso	6.8	6.5	5.8	2.2	97	80	69
9. Madagascar	0.7	-3.5	-0.4	-1.8	80	104	95
10. Mali	11.0	7.0	6.2	3.7	102	82	88
11. Gambia
12. Burundi	3.0	8.4	2.0	1.1	..	100	81
13. Zambia	1.7	-3.7	-5.5	-4.8	72	72	107
14. Niger	12.8	-4.9	6.6	-4.2	89	108	83
15. Uganda	-3.9	2.6	-5.3	4.6	74	96	78
16. Sao Tomé & Príncipe
17. Somalia	3.8	-9.7	5.8	-4.1	111	91	91
18. Togo	4.6	-0.3	8.6	-3.8	112	90	80
19. Rwanda	7.7	1.3	8.7	5.8	63	102	103
20. Sierra Leone	-3.8	-3.2	-2.7	-13.1	84	100	94
21. Benin	5.2	2.4	6.7	2.7	75	90	94
22. Central African Republic	-0.4	0.1	-1.1	3.5	90	88	94
23. Kenya	0.3	0.1	1.7	-0.6	87	92	91
24. Sudan	-0.3	2.7	2.3	-7.9	85	90	86
25. Comoros
26. Lesotho
27. Nigeria	11.4	-3.6	15.2	-13.7	103	90	40

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	Exports		Imports		Terms of trade 1980 = 100		
	1965-1980	1980-1988	1965-1980	1980-1988	1982	1985	1988
28. Ghana	-1.8	-1.1	-1.4	-1.4	61	91	78
29. Mauritania	2.7	9.7	5.4	2.4	97	112	104
30. Liberia	4.5	-3.2	1.5	-9.8	92	91	103
31. Equatorial Guinea
32. Guinea
33. Cape Verde
34. Senegal	2.4	7.0	4.1	2.8	89	100	96
35. Zimbabwe	3.4	1.5	-1.8	-6.0	105	84	83
36. Swaziland
37. Ivory Coast	5.6	1.5	8.0	-2.2	91	96	92
38. Congo	12.5	4.6	1.0	-2.1	110	94	49
39. Cameroon	5.2	6.8	5.6	2.5	71	92	64
40. Botswana
41. Mauritius	3.1	12.1	6.4	8.7	..	90	117
42. Gabon	8.1	-2.2	10.5	0.8	..	90	54
43. Seychelles
44. Angola	104
45. Djibouti

Source: World Bank (1989b): 190-191, Table 14 and World Bank (1990): 204-205, Table 14. Terms of trade for 1982 from World Bank, (1984): 234-235 Table 9.

Notes: 1. Figures for South African Customs Union, i.e. RSA, Namibia, Lesotho, Botswana, and Swaziland excluded.

2. . . . data not available.

The price decline of primary products accounted for about a third of the overall world market share loss of Sub-Saharan Africa. The remaining two-thirds was due to failure to expand export volume (Erzan and Svedberg, 1989). As a result of the sluggish export performance in most of the SSA countries, imports have been compressed which further exacerbate the declining export performance. Of the 38 SSA countries for which data was available, 28 of them experienced declines in their import-to-GDP ratio over the 1980-1987 period (Table 3).

The declines in export-to-GDP ratios of most SSA countries is associated with their poor macroeconomic performance, measured by GDP growth rates. Of the 44 SSA countries for which data were available, 27 experienced declining GDP growth rates over the 1970-1980 and 1980-1987 periods. Four countries experienced very sharp declines in their GDP growth rates between 1970-1980 and 1980-1987: Gabon, from 9 to 0.6 percent; Nigeria, from 5.4 to -1.9 percent; Sao Tomé and Príncipe, from 5.4 to -5.9 percent; and Seychelles from 5.8 to 0.7 percent. Only six countries had growth rates of GDP above 5 percent over the 1980-1987 period: Botswana, Cameroon, Cape Verde, Chad, Congo and Mauritius (Table 3). Helleiner (1990a) points out that although there is no universal "norm" as to the optimal or desirable ratio(s), changes in the export-to-GDP ratios of a country over time may roughly (though not decisively) reflect its development strategy/trade orientation. For instance, it is not purely

accidental that Tanzania, with export-to-GDP ratios changing from 26 percent in 1965 to 7 percent in 1985 (Helleiner, 1990a, p.13 Table 1) happens to be classified as having been strongly inward-oriented. In fact, those countries that had their export-to-GDP ratios decline significantly had adopted anti-export biased development strategies, while those that adopted outward-oriented strategies recorded increasing export-to-GDP shares. But of critical importance to export performance were the incentive structures and the choice of policy instruments; which again differed as between anti-export biased and outward-oriented strategies. While anti-export biased strategies generally taxed exports and applied mainly non-price incentive measures, e.g. quantitative restrictions (QRs) and licensing, outward-oriented strategies more frequently applied price incentive measures, i.e. import tariffs, export taxes and export subsidies that were less anti-export biased. In a theoretical static and perfectly competitive world, there may be little difference between tariffs and QRs in terms of their resource allocation effects. In practice, however, the two operate quite differently. There is no easy measure of inward- or outward-oriented strategies but several writers associate these terminologies with import substitution and export promotion (Rhee, 1990, and references therein). Ocampo (1990) associates inward-oriented strategy with a downward trend of the export coefficient. Some argue that trade performance in Sub-Saharan Africa has been greatly influenced by the efficacy of government expenditures, such as on infrastructure for the agricultural sector, rather than simply by incentive structures (Lele, 1984).

An outward-oriented trade regime has also been defined as a case where the number of units of domestic currency receivable for a unit of foreign currency, which is the effective exchange rate for exports, (EER_x) is equal to the effective exchange rate for imports (EER_m), i.e. $EER_x = EER_m$. An inward-oriented trade regime is one where the effective exchange for exports is less than the effective exchange for imports ($EER_x < EER_m$). Nevertheless, it must be said that evidence of association between outward orientation, however defined, and the rate of economic growth in Sub-Saharan Africa is yet to be found (Helleiner, 1986). Further tests using his data still show no correlation between the rate of growth of output and export growth rate. As reported by Michaely (1977, p.52) in his analysis of the 1950–1975 relationship between export expansion and economic growth, and quoted by Helleiner (1986), no such relationship was observed for the least developed countries.

Plausible explanation for the perceived positive correlation between export expansion and economic growth has to do with externalities, greater utilization of capacity, the potential for scale economies, greater external inflows, the pressure for competition's effects upon X-efficiency and other such influences (Helleiner, 1986; Ndulu, 1990). Empirically, however, the direction of causality between export growth and economic growth in Sub-Saharan Africa remains indeterminate.

However, Fosu (1990), using a pooled cross-sectional *cum* time-series estimation for 1960–1970 and 1970–1980 for selected African countries

including Algeria, Egypt and Morocco, found a positive correlation between export growth and economic growth. On the other hand, his R^2 was quite low, 0.303, indicating low explanatory power of the functional relationship. Although he rules out the issue of mis-specification and hence missing variables, more work is needed on how to model the relationship between export growth and economic growth in Sub-Saharan Africa. The effects of the North African states which are much larger, with a different export composition, may need to be separated out in order to get a clearer picture of the relationship for SSA countries which, except Nigeria, are much smaller and primary commodity export dependent. The amount of foreign resource inflow, e.g. in the form of commodity import support and direct foreign investment, may be an important variable for consideration. Care should be exercised in pooling cross-sectional and time-series data since the extent to which exogenous factors affect growth varies with time and across countries.

Export performance in Sub-Saharan Africa

Most SSA countries export a very small number of products. In 1970, for example, the number of products exported ranged from four in Gambia to 76 in Kenya, 81 in Ivory Coast and 82 in Senegal. By 1985 the number of products exported by Gambia had increased to 14, by Kenya to 104, by Ivory Coast to 120; but Senegal's had declined to 54. Both the concentration and diversification indices of the four countries changed marginally over the same period.

Most of the countries that rely on few primary commodity exports (Uganda, Zambia, Niger, Nigeria, Rwanda, Burundi, Guinea, Congo, Angola and Seychelles) have high concentration indices while countries that export a wide range of products including non-traditional products (Kenya, Sudan, Senegal, Ivory Coast, Cameroon and Tanzania) have low concentration indices. These countries should be able to absorb external shock, arising from primary commodity price changes, more easily than others (unless the prices of all the exports are highly correlated with one another). Ivory Coast's Hirschman concentration index (Table 5), changed significantly from 0.422 in 1970 to 0.372 in 1985. During this period Ivory Coast exported significant amounts of non-traditional exports, especially fruits, to Western Europe but could not keep up the quality standards required. Mauritius, which has transformed its sugar export economy to a significant exporter of textiles, has had its concentration index decline from 0.930 in 1970 to 0.656 in 1985. On the other hand, a number of Uganda's export items disappear from the export scene, and its concentration index jumped from 0.596 in 1970 to 0.932 in 1985. Congo's concentration index rose from 0.486 in 1970 to 0.894 in 1985 (Table 5).

Table 5 Sub-Saharan Africa: Concentration and diversification indices, 1970 and 1985

	1970			1985		
	No. of commodities exported	"Diversification index"	"Concentration index"	No. of commodities exported	"Diversification index"	"Concentration index"
1. Ethiopia	29	0.888	0.603	28	0.902	0.620
2. Chad	15	0.929	0.697	9	0.861	0.617
3. Zaire	34	0.897	0.656	44	0.793	0.417
4. Guinea Bissau	9	0.947	0.847	11	0.929	0.557
5. Malawi	23	0.908	0.473	33	0.933	0.530
6. Mozambique	66	0.791	0.234	46	0.810	0.274
7. Tanzania	47	0.849	0.255	53	0.859	0.359
8. Burkina Faso	14	0.890	0.441	23	0.885	0.541
9. Madagascar	64	0.799	0.321	43	0.856	0.439
10. Mali	33	0.869	0.381	25	0.933	0.578
11. Gambia	4	0.973	0.594	14	0.925	0.520
12. Burundi	11	0.923	0.826	13	0.963	0.776
13. Zambia	22	0.963	0.952	30	0.948	0.844
14. Niger	17	0.909	0.569	27	0.944	0.738
15. Uganda	28	0.916	0.596	17	0.972	0.932
16. Sao Tomé & Príncipe	17	0.879	0.627	14	0.920	0.698
17. Somalia	16	0.907	0.574	18	0.948	0.760
18. Togo	16	0.913	0.482	22	0.928	0.461
19. Rwanda	7	0.956	0.639	8	0.968	0.811
20. Sierra Leone	20	0.897	0.543	22	0.880	0.391
21. Benin	28	0.867	0.342	23	0.771	0.428
22. Central African Republic	18	0.901	0.47	13	0.958	0.452
23. Kenya	76	0.813	0.336	104	0.823	0.340
24. Sudan	19	0.949	0.639	43	0.894	0.345
25. Comoros	6	0.974	0.581	9	0.937	0.780
26. Lesotho	--	--	--	--	--	--
27. Nigeria	34	0.875	0.583	87	0.854	0.843
28. Ghana	24	0.941	0.752	33	0.882	0.544
29. Mauritania	14	0.952	0.864	14	0.947	0.622
30. Liberia	28	0.926	0.709	20	0.957	0.631
31. Equatorial Guinea	--	--	--	12	0.940	0.584
32. Guinea	--	--	--	19	0.970	0.952
33. Cape Verde	13	0.930	0.493	9	0.934	0.568
34. Senegal	82	0.793	0.311	54	0.879	0.311
35. Zimbabwe	--	--	--	82	0.870	0.295
36. Swaziland	--	--	--	--	--	--
37. Ivory Coast	81	0.863	0.422	120	0.796	0.372
38. Congo	18	0.895	0.486	25	0.818	0.894
39. Cameroon	61	0.831	0.371	47	0.752	0.403
40. Botswana	--	--	--	--	--	--
41. Mauritius	9	0.968	0.930	42	0.904	0.656

...continued

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	1970			1985		
	No. of commodities exported	"Diversification index"	"Concentration index"	No. of commodities exported	"Diversification index"	"Concentration index"
42. Gabon	21	0.883	0.500	28	0.824	0.790
43. Seychelles	7	0.973	0.619	8	0.878	0.811
44. Angola	75	0.778	0.365	17	0.826	0.874
45. Djibouti

Source: UNCTAD (1989a): 234-237 Table 4.5.

Notes:

The concentration index discriminates more finely between countries which are relatively more concentrated in their export structure; the diversification index discriminates more finely between countries which are relatively more diversified. Both indices range between zero and 1.0: the latter representing the most extreme concentration.

1. Ranking as of 1985.
2. Number of products exported at the three digit SITC level; figure includes only those products which are greater than \$50,000 in 1970 or \$100,000 in 1985 or more than 0.3 percent of the country's total exports.
3. Absolute deviation of the country commodity shares from world structure, as follows:

$$S_j = \frac{\sum_i |h_{ij}| - h_i}{2}$$

where h_{ij} = share of commodity i in total exports of country j

h_i = share of commodity i in total world exports.

4. Hirschmann index normalized to make values ranging from 0 to 1 (maximum concentration) according to formula:

$$H_j = \frac{\sqrt{\frac{182}{\sum_{i=1}^{182} (x_i)^2}} - \sqrt{\frac{1}{182}}}{1 - \sqrt{\frac{1}{182}}}$$

where j = country index

x_i = value of exports of commodity i

182 = number of products at the 3-digit SITC level

$$X = \frac{\sum_{i=1}^{182} x_i}{182}$$

5. ... data not available

What then are the prospects of countries (in terms of markets and prices to be fetched from such markets) diversifying into other export lines, particularly non-traditional exports? It will depend on each country's policy framework, institutional infrastructure, supportive services and the entry conditions for the selected products in certain markets. However, the whole issue of export diversification is important in the sense that it will play an important role in reducing the variability of export earnings of developing countries and in raising the growth rates of both exports and domestic output.

While export diversification has generally been found to contribute to growth of export earnings, to the reduction of instability in these earnings and to in-

creased domestic economic activity, the *causal* linkages are both more complex and less certain than might initially be supposed (Bond and Milne, 1987). Individual country studies might shed more light on this issue. For example, a country in the process of diversification will find its export growth affected not only by the growth of activity in the individual country but also by exogenous variables, such as changes in international prices of traditional commodities relative to those of non-traditional products, the composition of its exports, the income elasticity of demand of its exports, its geographical location and the export prices of its competitors.

The promotion of non-traditional exports which are not necessarily in the realm of manufacturing is one of the avenues towards export growth that several African countries have discovered recently (Siggel, 1990). To succeed in the development of such niches of specialization it is not usually sufficient to get the exchange rate right. New types of market information, dynamic entrepreneurship and risk capital are needed. Trade policy reforms tend to underestimate the difficulties of creating such new industries, and some form of government intervention may be necessary. Modest amounts of protection for new products in the domestic market and assistance for new exports may therefore be justifiable as incentives when changing economic structures (Lewis, 1986).

The need for government intervention in export development has been emphasized in several writings on the subject: Helleiner (1990a), Rodrik (1988), Ocampo (1990), Rhee (1990), Burton (1989). The transition from import substitution based on import restrictions toward export development may be a difficult and costly exercise. South Korea managed this transition well between 1960 and 1970, when an industrial base founded on import substitution and protection was skillfully manipulated by enlightened government intervention to become export-oriented. We should not forget, though, that South Korea already had half a century of experience in industry and work ethics that few SSA countries have. Nevertheless, that transformation could not have happened at the pace it did, without the intervention and assistance of effective political leadership and an efficient civil service. The need for government intervention can be illustrated by two examples, viz. credit allocation and determination of interest rates for export production, what Rhee (1990) calls "equal footing" export policies. During the transition period from import substitution to export expansion, exporting would not be as profitable as other economic activities (e.g. trading, construction or real estate and services), hence it would be starved of resources without government intervention through credit allocation measures. Likewise, the cost of money (interest rate) is influenced by government policies and by other factors affecting the demand for and the supply of money that have no bearing upon national priorities. Unless the government can effectively intervene to provide viable interest rates for the financing of export-oriented industries, investors and entrepreneurs would be wary of venturing into expansion of production for export.

The extent, form and nature of government intervention as a means of promoting non-traditional exports in each individual country should be interesting research.

The key role of imports (volume, value and structure)
and the major influences upon them

The SSA share of world imports declined from 2.2 percent in 1970 to 1.2 percent in 1987, a reflection of declining export earnings and hence falling purchasing power of exports (Table 1 and Table A-1) and the ensuing import controls. According to the World Bank and many others, efficient, long-term development of exports and output will depend not only on export policies but on import liberalization. This should be taken as a hypothetical case to be explored further in future research in Sub-Saharan Africa. A key issue is whether the link between import volume growth and output growth is sufficiently flexible to justify the expectation that a moderation in the rate of growth of imports will be compatible with anticipated output growth rates.

The import structure of Sub-Saharan Africa consists of consumer goods (mainly food), intermediate goods (including fuels) and capital goods (machinery and transport equipment) (see Table A-5).

Other things being equal, the long-run demand for imports of consumer goods would fall in response to adverse changes in income or the purchasing power of exports, to increases in tariffs or controls on consumer goods imports and to real exchange rate depreciation. Since changes in demand may take time, the level of consumer goods imports associated with a given level of real output may also depend on how long that level of output has persisted.

In many developing countries, households may frequently be unable to act on their demand for consumer goods. With limited export earnings and little external financing, authorities have often rationed foreign exchange while maintaining overvalued exchange rates. Such controls force consumers off their import demand curves, such that observed levels of consumer goods imports fall short of the national demand, a situation characteristic of many SSA countries in the early 1980s. When such constraints are relaxed through trade liberalization, the growth rate of real imports has temporarily overshot its normal level.

In the case of intermediate goods imports, the relationship between the level of output and that of imported intermediate goods is a technological one, captured in the aggregate production function. In many SSA countries, output is rigidly linked to the level of intermediate goods imports as most of the economies are highly import dependent. This has tended to reduce output growth as a result of foreign exchange shortages (Ndulu, 1990). Ndulu further shows that while there was a remarkable stability in the ratio between real imports of capital goods and real investment over the last decade in Sub-Saharan Africa, suggesting a close to fixed proportions relationship, economy-wide ratios of real intermediate imports to value added seem to have shown a compression during the last decade of foreign exchange supply bottlenecks. While the annual growth rate of import volume declined from 7.6 percent in the period 1973–1980 to –5.8 percent in the years 1980–1987, the corresponding decline in the rate of growth of production was much less, declining from 2.5 percent to 0.5 percent, suggesting some range of substitutability (p.4).

Capital goods imports on the other hand, are likely to be imperfect substitutes for domestically produced capital goods for many purposes, and therefore constraints on the volume of capital that can be imported could lead to a fall in the long-term growth of productive capacity, decline in export earnings and further exacerbate the balance of payment problems (Khan and Knight, 1988). Investment requires capital goods that are not domestically produced and therefore domestic savings cannot be transformed into investment goods unless foreign exchange is available. Critical shortage of foreign exchange has, therefore, led to import compression affecting the growth process of SSA countries.

IV Import substitution *vis-a-vis* export promotion

Main arguments

Import substitution has been described as a development strategy that seeks to accomplish the objectives of learning from and in general gaining from the rich countries, and at the same time protect the domestic economy so that the society can find its own way, create its own form of development and redo its economy in order to function on equal terms in the community of nations (Bruton, 1989). Import substitution is not necessarily synonymous with protection, delinking or the traditional infant industry argument. As discussed in this paper it refers to the *strategy* which involves conscious government policy (measured by import tariffs and quantitative restrictions and the anti-export bias implicit in these restrictions) rather than a *phenomenon* (measured by a decline in the import share of total domestic supply) which occurs naturally as a country develops.

The basic characteristics of a strong economy are flexibility, and the capacity to transform resources into a wide range of products, and the ability to determine its economic destiny. According to Bruton (1989) there are several reasons why a non-growing economy needs protection to develop these characteristics. The proximate source of long-term growth is the increased productivity of labour that is produced by more physical capital and by new knowledge. The new knowledge is either built into the physical capital or is acquired. Bruton then contends that development is essentially and ultimately a matter of learning and searching and that, in this context, protection should extend the opportunities for the learning process.

Thus Bruton (1989) argues (and we think correctly so) that in a world of continuous change in technology, tastes, political affiliation, and ideas of the good life, development is necessarily a matter of trial and error, of moving in one direction today and another tomorrow, and that the capacity to do this at relatively low cost is an essential characteristic of a growing economy, sought and created through import substitution.

How does this view contrast with the current import liberalization without explicit efforts to improve technological capacity in Sub-Saharan Africa? It should be recognized that protected import substitution generally imposes short-

run costs on the economy. This, however, may be a necessary investment cost for increased long-term flexibility of the economy whose operations can lead to increased welfare. The cost and time frame for such investment are the important considerations. As a development strategy, the period of import substitution should be as short as possible but is it economically and politically feasible?

A promising research area is the investigation of the types of infrastructure expenditures, broadly defined, that the market-oriented NICs have undertaken in support of their industrial growth. There is some uncorroborated evidence that they devoted considerable resources to education as well as to the provision of inexpensive housing in order to hold down the cost of living and hence the nominal wages in the exporting sector.

Pack (1988) points out that there has been varied success in relating the impact of policy intervention to the structure of trade. Examples cited include the difficulty in establishing a systematic relation between various measures of the magnitude of protection, such as domestic resource cost and effective rates of protection, and the growth of individual sectors. The following reasons have been offered (Bhagwati and Srinivasan, 1979):

- A given effective rate of protection is compatible with many nominal tariff structures and hence with different effects on consumption and protection;
- Effective rates of protection are measured in a static context with no growth in resources. As growth occurs, relative factor endowments change and the impact on output will be mediated, *inter alia*, through effects described by the Rybczynski theorem);¹
- The marginal returns to further expansion of a sector may be low even where high effective protection exists. Thus, Pack (1988) argues that if a sector has undergone considerable import substitution, the local market may offer few opportunities for profitable introduction of new capacity.

Balassa (in Meier and Steel, 1989) argues that discrimination in favour of import substitution and against exports did not permit the development of manufactured exports in countries engaging in "second-stage" import substitution² behind high protection. The cost of protection is estimated to have reached six to seven percent of gross national product in several developing countries. In contrast, countries pursuing outward-looking policies, defined as the maintenance of the effective exchange rate (EER) for exports relatively close to that of imports (the ratio, even in export-oriented countries, has typically been below unity), had rapid growth in aggregate exports, largely concentrated in manufacturing, and this resulted in rapid growth in manufacturing's share of value added (Pack, 1988).

While advocates of import substitution industrialization expect higher total factor productivity (TFP) growth in manufacturing from their policies, proponents of a neutral trade regime (in which the EER for exports relative to imports is close to unity) predict a higher rate of TFP growth from outward-looking policies. In fact, there is evidence that the growth of TFP was lower in countries en-

gaged in second-stage import substitution than in the industrial countries, with the consequent increase in the economic distance between the two.

Exports have been viewed as generating greater growth of productivity as a result of: greater capacity utilization in industries in which the minimum efficient size of plant is large relative to the domestic market; greater horizontal specialization as each firm concentrates on a narrower range of products; increasing familiarity and absorption of new technologies; greater learning-by-doing insofar as this is a function of cumulative output and exports permit greater output in an industry; and the stimulative effect of the need to achieve internationally competitive prices and quality. These issues may need to be examined in greater detail for individual countries and specific sectors.

The exchange rate is also affected by policy performance in protection. Keesing (in Meier and Steel, 1989) argues that if a country prefers high protection and direct control, a characteristic of several SSA countries, this in itself will push the exchange rate in a direction that discourages exports and natural, unassisted import substitution. Conversely, if the country avoids any but the mildest protection, the resulting exchange rate will be more favourable to exports and make strong protection less necessary. He goes on to say that getting rid of controls and protection requires an exchange rate adjustment or else an equivalent reduction in the price level through use of deflationary policies. Such an adjustment through devaluation, if it can be made real and lasting, can be a substitute or partial substitute for protection.

Mauritius is one of the SSA countries that has successfully made the transition from industrial import substitution to export promotion. Mauritius began promoting industrial development in 1964 with an incentive scheme to encourage import substitution activities through tax holidays, priority access to credit, duty-free entry of capital goods, and protection in the form of tariffs and quotas. It has been pointed out that this approach had little immediate impact on industrial growth (Meier and Steel, 1989, p.147).

There was a change of strategy in 1970 when the Mauritian government began trying to attract local and foreign private investors into export activities through the Export Processing Zones (EPZ) Act, which provided free repatriation of capital and dividends, duty-free entry of inputs, and greater flexibility for exporters in dismissing workers. These policies paid off, and manufacturing value added grew by 17 percent per year from 1970–1977, and manufactured exports grew from nil to nearly 24 percent of total exports.

Mauritius took additional policy measures to stimulate industrial exports in the early 1980s, including an export credit guarantee scheme, agreements to avoid double taxation, and intensified export promotion activities abroad. These measures, together with a series of stabilization and structural adjustment programmes as well as import liberalization measures, have transformed Mauritius from a sugar economy to a manufacturing exporter where manufactured exports now account for well over 60 percent of export proceeds.

Could other SSA countries benefit from the experience of Mauritius? What specific conditions have made it successful that may be lacking in other SSA

countries, some of which have launched EPZs without much success? What should be done to change some of these countries to success stories? Maybe there is no need to introduce such far-reaching changes, and a combination of protection and liberal trade policies may be the preferred options. It may be recalled that import substitution played a more important role than export promotion in fostering economic growth in the early stages of industrialization in Japan and South Korea. Bhagwati (1988) even argues that the credibility of outward-oriented policies is greater, and hence appropriate investment is more likely to be forthcoming when actively promoted by an interventionist state than when they are simply the outcome of a potentially changeable *laissez-faire* approach. This should form interesting research areas in specific SSA countries.

So far the keys to successful expansion of exports seem to have been realistic and stable exchange rates and sustained governmental support, not import liberalization and *laissez-faire* (Helleiner, 1990a). He further argues that raising the quality of public sector management may be more important than privatizing public enterprises or liberalizing markets.

In Colombia, which has significant parallels in its history with recent SSA experiences, Ocampo (1990) has shown that the growth of manufacturing output and export from the 1930s to the mid-1970s resulted more from its integration with the domestic market rather than the use of explicit trade policy instruments. A policy of essentially allowing the (real) value of the currency to rise and fall with export booms and busts was an important contributing factor at the time (p.28).

In Tanzania, protection is provided by both tariffs and non-tariff barriers. Until the early 1970s, tariffs were more prominent in determining the protection structure. However, with the emerging shortage of foreign exchange in the late 1970s and early 1980s, QRs have become more prominent. With the introduction of trade liberalization measures in early 1984, and especially through the "own funds" imports and imports through retained export earnings, QRs have been eased and tariffs now have a bigger role to play.

Table 6 shows that, in general, consumer goods had higher rates of both nominal and effective rates of protection than intermediate and capital goods, indicating that the structure of protection provides relative incentives to import rather than produce intermediate and capital goods. The overall high rates of protection are consistent with the promotion of import substitution and bias against export. However, the penalty to exporters is being corrected through the policy measures introduced to correct for the overvaluation of the exchange rate and through compensatory schemes such as the export rebate/duty drawback, export retention schemes, the "own funds" import scheme and the Open General Licence (OGL).

Given that there have been two rounds of tariff reductions in Tanzania since the Ndulu *et al* (1987) study was conducted and the current enthusiasm to introduce major tax reforms, a revisit of the study might produce interesting results on both industrial protection and the extent of the anti-export bias in the reformed tariff structure. Similar studies in other SSA countries where they have

not recently been undertaken, and particularly where there have been important policy changes, could be very useful.

Table 6 Protection levels and induced bias against exports (1986) in Tanzania

	a	b	c	d	e
	Nominal protection percent	Effective protection percent	Export subsidy coefficient	Tariff induced bias against exports	Nominal effective exchange rate (Tshs/USD)
1. Beverages & tobacco	65.6	83.8	1.02	0.62	74.50
2. Textiles & apparel	43.8	55.4	1.00	0.44	68.45
3. Food products	29.8	65.0	1.03	0.26	66.60
4. Tanneries & leather	28.7	41.3	1.01	0.27	66.50
5. Plastics & pharmaceuticals	26.8	45.4	1.00	0.27	57.6
6. Iron, steel & metals	24.1	28.1	1.11	0.12	59.0
7. Agriculture	23.8	24.0	—	—	64.50
8. Machinery & equipment	22.3	25.0	1.06	0.05	58.00
9. Rubber, glass, wood & cement	19.8	28.0	—	—	59.40
10. Chemicals & fertilizers	8.2	1.6	1.07	0.68	57.40

Sources: B.J. Ndulu, W.M. Lyakurwa, J.J. Semboja and A. Chaligha (1987) for nominal effective rates of protection and nominal effective exchange rates.

M.S.D. Bagachwa, N.E. Luvanga and G.D. Mjema (1990) for export subsidy and tariff induced bias against exports.

Effects on industrialization

A substantial amount of work is to be undertaken in the World Institute for Development Economics Research (WIDER) study of trade and industrialization which includes several countries in Sub-Saharan Africa (Ndulu, and Semboja, 1990; Davis, 1990; Mwega, 1990; and Oyejide, 1990). These studies should show how trade policy has contributed to or hindered industrial development in Sub-Saharan Africa.

In summarizing studies done by Power (1972), Lewis (1972), Hopcraft (1973), and Porter (1973) on import substitution in Kenya, Mwega (1990) points out that policies which encourage the establishment of high-cost industrial structures discouraged industrial exports by increasing the cost of inputs and by depressing the earnings of the relatively unprotected, export-oriented industries. Such trade policies included high import tariffs and quantitative restrictions, the most binding being import licensing and foreign exchange allocation. Exports declined, leading to import compression and decline in total factor productivity. The source of industrial growth in Kenya from 1964–1970 has been domestic

demand (Sharpley and Lewis, 1988), a position shared by Zimbabwe during the UDI period (Davis, 1990). In the case of Tanzania, Ndulu and Semboja (1990) show that both tariff and non-tariff barriers, coupled with the overvaluation of the exchange rate, enhanced protection for import substitution particularly in the post-1973 period. The gap between average effective tariff and the parallel market exchange rate premium widened greatly in the early 1980s, inducing smuggling and capital flight through import over-invoicing but the extent of overvaluation has been reversed since 1986 with the depreciation of the real exchange rate.

Detailed studies on tariff-based industrial protection in Tanzania arrive at fairly similar conclusions regarding the tariff regime and industrial protection. To disperse of effective rates of protection across sectors indicates a structure of protection much in favour of import substitutes, particularly non-durable consumer goods, rather than reflecting the drive towards import substitution deepening (Ndulu, 1990, and references therein) adopted since the mid-1970s with the Basic Industrial Strategy. The extent to which the anti-export bias has been reversed needs to be examined further, taking into account the various export promotion schemes that were begun in the mid-1980s, and whether tariffs are now binding as trade policy instruments. Again, similar detailed studies of other SSA countries, where they have not recently been undertaken, are called for.

The role of the state in the formulation and implementation of trade policy and what signals, appropriate or otherwise, have been flashed to the operators regarding the credibility and sustainability of such policy and possible impact on industrial development and export promotion would be worth future research in SSA countries. Drawing on the success stories of Japan and South Korea, and using the dichotomy of "hard" *vis a vis* "soft" state, trade policy formulation and implementation in individual SSA countries should be examined over time, pointing out possible inconsistencies in implementation, possible reversals in policies, the kind of government in power (whether dictatorial or democratic), and effects of the policy changes on the industrialization process. Lessons from other continents, although valuable, cannot replace the study of the special conditions in Sub-Saharan Africa.

A case in point may be the industrialization process in Zimbabwe during UDI, particularly the specific conditions which resulted in a relatively efficient industrial sector in circumstances under which the opposite might have been expected. Research in this area is already planned. The change between liberal and restrictive trade policies followed by Kenya between 1975 and 1986, and their effects on industrial growth provide an interesting contrast.

V. The instruments of export promotion policy

Most SSA economies are characterized by high levels of tariff protection coupled with pervasive quantitative restrictions. Such barriers restrict exports as well as imports, as they direct resources away from exporting sectors and raise the cost of imported inputs to potential exporters. Exports of commodities have also been discouraged more directly via export taxes and the operation of Commodity Marketing Boards. Currency overvaluation has had a similar effect, although exchange rate policy should, in principle, have had rather different consequences for trade (see Rodrik, 1988; Lyakurwa, 1988; Nash, 1990; Siggel, no date). The reason is administrative allocation of foreign exchange with a much depreciated parallel rate serving as the true marginal cost of foreign currency to import. Consequently, import tariffs and export taxes/subsidies have been rendered redundant.

As a result of the economic crises, many SSA countries have started to implement measures to return trade policy. The major exchange rate and trade policy reforms being undertaken in six SSA countries are listed in Table 7. The key objectives are to raise the price received by exporters, simplify the trade regime and reduce the reliance on QRs. With the devaluation included in the package, import liberalization would amount to an across-the-board export subsidy, and serve the same function as the removal of explicit export taxes (Rodrik, 1988). To the extent that it is effective in real terms, devaluation increases the relative price of tradeables relative to those of non-tradeables. In principle, therefore, it is less selective than commodity specific tax reductions (or subsidy increases) and should be neutral between commodity and other exports and among commodities. However, that purported neutrality assumes equal import content in all sectors of the economy. Although devaluation will reduce the anti-export bias in agriculture, it may not have the same effect in the manufacturing sector (although the overall effect has been positive) because of the differentials in import content. Hence, other incentives such as duty drawbacks and export rebates will need to be worked out in order to further encourage manufactured exports. A real devaluation, accompanied by exchange rate unification where relevant for different goods, should improve incentives for exports and efficient import substitutes.

Table 7 Trade policy reforms in World Bank Structural Adjustment Loans

Reforms	East Africa			West Africa		
	Kenya	Malawi	Mauritius	Ivory Coast	Senegal	Togo
<i>Exchange rate policy</i>						
Maintain flexible rate	—	x	x	—	—	—
Have one-shot devaluation	s	x	x	—	—	—
<i>Import policy</i>						
Lower tariffs: reduce variation in tariffs	x	—	—	x	—	—
Remove QRs, replace with tariffs	x	—	s	x	—	—
Reduce duty exemptions	x	—	—	x	—	—
Remove licences, simplify procedures	x	—	—	—	—	—
Increase tariffs in imported inputs	—	—	x	—	x	—
Increase tariffs for government revenue	x	x	—	—	x	—
<i>Export policy</i>						
Raise price of exports	x	x	x	x	x	x
Create/strengthen export promotion unit	s	x	s	—	—	s
Subsidize credit; increase Export Development Fund	s	—	x	x	—	—
Remove licences; simplify procedures	x	—	s	—	—	x
Reimburse import duties to exporters	—	—	s	—	—	—
Subsidize exports directly	x	—	—	x	x	—
Introduce/improve export insurance	s	—	—	s	—	—
Reduce export taxes	—	—	—	—	s	—
<i>Others</i>						
Reduce variations in Effective Rates of Protection (ERPs)	s	—	s	s	—	—
Introduce/expand free trade zones/bonded warehouses	—	—	x	—	—	—
Do export/import substitution projects	—	—	x	—	—	s
Facilitate direct foreign investment	—	—	x	—	—	—
Assist firms with transitional problems	x	—	—	—	—	—

Source: Meier and Steel (1987), Table 6.2.2. Quoted in Rodrik (1988).

x Included in reform programme

s Study only

— Not included

Devaluation has to be coupled with stable macroeconomic policies (such as low fiscal deficit, low inflation rates), and a stable macroeconomic environment is necessary for an outward-oriented development strategy, Rhee (1990).

Several SSA countries have taxed income from commodity exports more heavily than income from other sources whether by export taxes or by running up statutory marketing board surpluses. In several cases, such taxation played a major role in bringing about stagnation or decline in output and exports, shifting resources to the production of non-tradeables or heavily protected products as well as encouraging smuggling. Table 8 shows the extent of export taxation for selected SSA countries applicable to two commodities, coffee and cocoa. In some SSA countries, trade taxes constitute, on average, around a quarter of government recurrent revenues and close to half of total tax revenues. The governments in Uganda, Burkina Faso, Sierra Leone, Sudan, Swaziland and Mauritius collect as much revenue from trade as they do from all other sources combined (Rodrik, 1988, p.7).

Deliberate reduction of domestic marketing costs, where this is possible, is another policy for promoting exports. In some SSA countries, marketing costs absorbed the largest share of export proceeds, taxation took the next largest share (although in certain countries, such as Uganda, taxes on coffee exports took the largest share of export proceeds), and growers received the residual share. Reasons for the high marketing costs include overemployment, high transport costs relative to efficient fleet operators, long delays in sales and collection of proceeds (increasing finance and storage cost as well as high physical losses), poor management and embezzlement. Efficient use of resources in the export sector is necessary in order to increase output and exports.

Table 8 Summary of export taxes for selected SSA countries

Country	Commodity	Export taxes
Ivory Coast	Coffee	20–25% of f.o.b. value, including 15% from formal export taxes and 5–10% of Cois Stab operations
Kenya	Coffee	15% of current f.o.b. value, based on a progressive sliding scale
Central African Republic	Coffee	30% of current f.o.b. value, primarily Cais Stab net margin, plus minor taxes such as special transport tax for export commodities
Uganda	Coffee	Over 50% of f.o.b. value mostly from formal export tax
Nigeria	Cocoa	4% of current f.o.b. value state tax of N 250
Ghana	Cocoa	As per cent of current f.o.b. value, net margins of Cocoa Board
Ivory Coast	Cocoa	15–20% of f.o.b. value, including 15% from formal export tax and 0.5% of Cais Stab operations
Cameroon	Cocoa	15–20% of f.o.b. value, including 15% from formal export tax and 0.5% from Cais Stab operations.

Source: Shakolko, R. (1989) *Commodity Export Prospects in Sub-Saharan Africa*. Prepared for the Un Expert Group (August).

The effect on the manufacturing sector has been more mixed (Table 9). In general trade reforms have helped export industries and those that faced constraints because of a scarcity of imported inputs. Highly protected industries—often parastatals—tended to suffer. In some countries, reforms, together with external support, revived the economy so much that even the relatively disprotected industries were not hurt in absolute terms. A survey in Ghana in December 1987 showed that 56 percent of the firms increased their output following the reforms; only 15 percent lowered output (Steel, in Meier and Steel, 1989). Much of the increase came from recovery of export markets and expansion of existing operations, for example in textiles from Ghana and Nigeria to neighbouring countries and cocoa products from Ivory Coast and Nigeria to Europe. Some expansion came from new industries such as garments in Madagascar and glycerol from Ghana. The reforms tended to shift the industrial structure from assembly industries, highly dependent on imported inputs, to resource-based industries (Nash, 1990). However, further research is required on this issue and in particular where reforms have not been supported by large external inflows. This would provide a good contrast to the good performance observed in Ghana following the reforms and supported by substantial amounts of foreign inflow from the World Bank, IMF and the donor community.

Table 9 Growth in manufacturing output, exports, and capacity utilization before and during reforms period

	Output		Exports		Capacity utilization	
	During	Before	During	Before	During	Before
Ivory Coast	-1.8 (1981-1983)	5.8 (1984-1986)	-6.9	12.3	-	-
Ghana ^a	-17.1 (1980-1983)	15.0 (1984-1987)	-10.4	51.3	19	32
Nigeria	-7.8 (1982-1985)	0.2 (1986-1987)	-15.4	18.1	30	57
Zambia ^b	-3.1 (1982-1984)	4.0 (1984-1986)	5.4	7.2	38	54

Source: Nash^c (1990): Table 4, p.16.

Notes: ^a There was substantial inflow of external support, particularly from the World Bank and IMF, for the reform process.

^b External support was withdrawn when the country suspended the IMF programme.

^c Footnotes added

Promotional measures

Sound macroeconomic and trade policies are a necessary foundation for any kind of efficient, cost-effective development aimed at structural adjustment and expansion of exports. But in Sub-Saharan Africa these policies alone do not automatically evoke the responses that would normally be forthcoming from the business sector in a developed economy or from the NICs where a tradition of entrepreneurship has been established and management skills and specialized services which underpin the expected investment, production and trade-related

decisions are far advanced (Helleiner, 1989a; Rodrik, 1988 and 1990; Rhee, 1990; Ocampo, 1990).

A number of systemic deficiencies, imperfections and constraints in both the government and private sectors hamper the operation of general policies in SSA countries. Such general policies need to be supplemented with "equal footing" export policies (Rhee, 1990) so as to be effective export promotion instruments. A word of caution to those researchers who may resort to quantitative analysis in order to explore export development and promotion issues may be in order. Very few issues of export development and export promotion lend themselves to quantitative analysis. Export development involves so many variables both at home and abroad that a "cause and effect" type of equation may be quite difficult to formulate. Hence the analysis may have to be based on more qualitative empirical evidence. This does not make the analysis less valid—provided, of course, that the interpretation of empirical evidence makes sense.

We will now present a brief account of the "equal footing" export promotion measures as applied to Ivory Coast, Kenya and Tanzania.

Ivory Coast

Under external pressure, the government initiated export development measures such as liberalization of imports and reform of the tariff regime, duty drawbacks and temporary duty-free admission of imported inputs needed for export production and producer price incentives for non-traditional export crops. Except for higher producer prices for non-traditional export crops, none of the other policies have been resolutely pursued, partly because of lack of good administrative machinery and lack of government commitment to export diversification into manufacturing and processed products.

The government has also hesitated, particularly because of budgetary problems, to implement some of the export promotion measures. These have been implemented in piecemeal and at times with reversal of government decisions. For example, the main thrust of industrial reform under the third phase of structural adjustment was to achieve an across-the-board effective protection of 40 percent and to give a 20 percent subsidy payment for exports. The export subsidy scheme was to be funded in the 1987 budget. However, faced with a serious fiscal crisis in August 1987 stemming partly from the declining export prices of coffee and cocoa (the main export products), the government decided to increase import duties by 30 percent across the board, thus bringing the effective protection to 52 percent. The export subsidy payments have not been made promptly for the same reasons and the business sector has grave doubts about the continuation of the scheme. Behind success of the NICs is the very strong alliance between government and the business sector and the credibility and sustainability of government decisions which is even more important in fostering export development and promotion than the policies themselves (Rhee, 1990; Rodrik, 1990).

The effects of inertia in the implementation of export policies and the reversal of government decisions affecting the export sector, on the diversification and

promotion of exports in Sub-Saharan Africa should be explored further, particularly at the firm level. A strong national commitment, in both public and private sectors to high export growth rates, non-ambivalence of macroeconomic and trade policies for export development and strategy and a strong institutional infrastructure are essential for export promotion in Sub-Saharan Africa (Lyakurwa and Lindhal, 1987).

Kenya

From the late 1960s to early 1980s, Kenya embarked on a programme of import substitution supported by high import tariffs as well as other restrictions, notably import licensing and foreign exchange allocation. The initial pattern of tariffs produced incentives for import substitution of high duty items using low duty intermediate inputs (Sharpley and Lewis, 1988). There were also domestic taxes in the form of excise taxes and sales tax on both imported and domestically produced goods, levied purely for revenue purposes. Recognizing the potential disincentive effects of the tariff and domestic indirect tax system on the competitive position of export of manufactured goods, in 1974 Kenya introduced an Export Compensation Scheme, designed to provide a 10 percent payment in cash to compensate exporters of manufactured goods for the increased costs arising from the protective effects of tariffs and the indirect taxes (Sharpley and Lewis, 1988, Mwega, 1990). At the same time, the practice of providing duty drawbacks and rebates on imported inputs used in the production of exported goods was discontinued. This change of policy is characteristic of many SSA countries and could be detrimental to rather than assist their export development if not considered credible and/or sustainable by the business sector.

In 1982, the basic rate of export compensation was maintained at 10 percent and an incremental scheme was announced. In 1984, however, the basic rate was raised from 10 to 20 percent of the f.o.b. value and the incremental scheme was later abolished (Sharpley and Lewis, 1988). Surely such changes would be confusing to the business sector and would not lend themselves to any degree of credibility.

As in the case of Ivory Coast, the Kenyan Export Compensation Scheme was plagued by budgetary constraints and there were long delays before payments could be made, if at all. It would be interesting to explore further, particularly at the firm level, the effects of the compensation scheme *ceteris paribus* on the export of manufactured products from Kenya.

Tanzania

Over the years trade policies in Tanzania have favoured import substitution, through high import tariffs and other import restrictions, particularly import licensing and foreign exchange allocation, over export promotion. Industrial development depended on the growth of domestic demand and import protection. In the early 1970s, the initial efforts to promote non-traditional exports were

made in textiles, cigarettes, cement and dry cell batteries but these efforts faltered as they were not backed up by any explicit export policy measures, and the East African market for which these exports were intended fell off with the collapse of the East African Community in 1977. Fresh efforts to promote Tanzania's products abroad had to be sought and the government established the Board of External Trade (BET) as the national focal point for trade development and promotion, with specified functions characteristic of a standard export promotion organization.

The first serious effort at export promotion came in 1981 when the government approved a package of incentives for non-traditional exports including:

- (a) Export rebate/duty drawback ranging between 0–25 percent of the f.o.b. value of exports of non-traditional products;
- (b) Preferential interest rates for export production;
- (c) Export credit insurance and guarantee scheme;
- (d) Special marks for the transport of export products;
- (e) Trade facilitation—rationalization, harmonization and simplification of export documents;
- (f) Presidential Export Awards;
- (g) Export Revolving Fund/Seed Capital Revolving Fund; and
- (h) Preferential foreign exchange allocation for export production.

On paper, this would sound like the beginning of serious export promotion, similar to that of the NICs. However, appropriate macroeconomic and trade policies as well as government commitment and support were lacking. The exchange rate was highly overvalued and QRs in the form of import licensing and foreign exchange allocations were the order of the day. Except for (a), (f) and (g) above, all the other promotional measures have been in abeyance and export earnings have been on the decline. Real export growth declined by 12.4 percent between 1977 and 1986 while the purchasing power of exports declined by 6.8 percent over the same period (Bagachwa, Luvanga and Mjema, 1990). Manufactured exports were affected by the relative profitability of the domestic market as well as the real exchange rate, accounting for about 65 percent of the variations in real manufactured exports (Ndulu and Lipumba, 1989).

Since 1984, there has been a reversal of inward-oriented policies with trade liberalization measures which allow "own funds" imports and exporters retain a portion of the foreign exchange earned. These two policy measures have probably been the most powerful in promoting non-traditional exports in Tanzania. As a proportion of official total exports, non-traditional exports rose from 25 percent in 1985 to 45 percent in 1988 (Bagachwa, Luvanga and Mjema, 1990, p.33). The increase is partly due to an increase in new products (such as horticultural, forest and marine products) and partly due to the officialization of

part of the parallel export flows. While the proportion of export goods seized by customs to total exports was 0.09 percent in 1985, it declined to 0.02 percent in 1986, indicating officialization of parallel flows (Bagachwa, Luvanga and Mjema, 1990, p.94).

Where conditions in other SSA countries are similar to those that existed in Tanzania (critical shortage of foreign exchange, serious import compression, capacity under-utilization, declining export earnings, serious leakage of foreign exchange through smuggling and under-invoicing, shortage of consumer goods, etc.), the above policy measures would be effective if accompanied by an appropriate trade regime and exchange rate management. Specific country research should be undertaken concerning this issue.

A quick assessment of some of the "equal footing" export policies as applied in Tanzania might guide future trade policy research in Sub-Saharan Africa.

i. Export rebate/duty drawback scheme

The duty drawback scheme which was established under the Refund of Fiscal Charges Act, 1970, and which was no longer operational because of the excessive delays in effecting payments and frequent non-payment of refunds was replaced by the export rebate scheme in 1981. The rebate scheme aimed to refund exporters import duties paid on inputs that were used for export production, but the rates, which ranged from 0-25 percent of f.o.b. value of exports were too low to compensate for the duties which averaged over 50 percent. At the same time, the overvaluation of the exchange rate had increased the anti-export bias which could not be compensated for by the rebate scheme. In fact the rebate payments only acted as a windfall gain to those who received them. The scheme was abolished in July 1986 and a duty drawback scheme was instituted to take its place in 1988. Given the current macroeconomic policy environment and the anticipated changes in the tariff regime, it may be opportune to have firm level analysis of the duty drawback scheme as an export promotion policy measure in Tanzania. Such analysis would also be relevant in other SSA countries with similar conditions as Tanzania.

ii. Trade facilitation

Expeditious processing of export documents is essential for export promotion in a competitive business environment. As a result of the establishment of a Trade Facilitation Council, export documents have been rationalized and simplified and the average waiting time reduced from six months to one week. It should be noted, however, that it took over eight years and a Presidential order to have the system operational. In Mauritius it takes a maximum of 24 hours to have all export documents processed, while in Kenya, which is contemplating introducing manufacturing under bond, the system is yet to be rationalized and simplified (Mwega, 1990).

iii. Seed Capital Revolving Scheme

This export incentive scheme makes initial foreign exchange available to start production for export. Exporting firms then retain part of their foreign exchange earnings (retentions varying between 50 and 80 percent) for financing the next round of input requirements. Exporting firms also retain 35 percent of any excess foreign exchange earned over and above the revolving seed fund to expand production. Although the size of the fund is small (US\$3.5 million), the number of beneficiaries has increased from 18 firms in 1985 to 51 firms in 1989, generating US\$14.1 million in non-traditional exports (BET, 1990). The major shortcoming of the scheme is that it encourages the use of imported inputs rather than local resources (as initial as well as subsequent allocations of foreign exchange from the scheme are determined by imported input requirements). An export revolving fund of the Seed Capital Type may be an important export policy measure in Sub-Saharan Africa but may need to be tailored to the specific conditions and requirements of each country.

The other export promotion measures (*viz.* preferential interest rates for export production, export credit insurance and guarantee scheme, preferential allocation of foreign exchange for export production), which may be more important for export promotion than the ones that have been implemented, have not been implemented in full because of the insensitivity of the banking sector to the requirements of the export sector. Without assured access to trade finance for all export activities, Korea could not have achieved its unprecedented export success, even though it could have done as well without export loan interest preferences (Rhee, 1990, p.34). "While the effective exchange rate or effective subsidy formula (used to measure the aggregate index of export buyers for an outward-oriented trade regime) reflects only the negligible aspect of the contribution of Korea's export financing system to its export success, access to trade finance—one of the most important 'equal footing' export policy instruments—was the most important aspect contributing to Korea's tremendous export success," (Rhee, 1990, p.35).

It would be interesting to explore further the extent to which the lack of such policy measures has constrained export development in individual SSA countries. (Of course the effect of such policy measures will have to be evaluated against the background of the prevailing exchange rate policy and tariff regime.) In Colombia, for example, a policy package combining protectionism with active exchange rate management and export promotion policies led to the economy growing at 6.5 percent between 1968 and 1974 (Ocampo, 1990). Although the package relied more on import substitution in its early stages, it played a more important role in export promotion after the process of export diversification took off.

Serious research on trade policy instruments for an outward-oriented development strategy in Sub-Saharan Africa should evaluate, first, the potential loss of export opportunities stemming from the difficulties in access to trade finance, even after receiving confirmed export L/Cs (letters of credit) (and other export

orders). Second, major factors that are responsible for such difficulties should be identified. Third, the need to develop or improve the necessary instruments and the need to build the required institutions or improve upon existing institutions should be articulated.

There are a number of diverse functions and responsibilities essential for export development which may be grouped into two broad categories.

(a) Export promotion and support services to:

- Investigate demand and supply conditions and market exports;
- Participate in trade fairs and exhibitions;
- Establish a well-functioning trade information centre with modern electronic data processing facilities;
- Improve quality, standards, packaging and labelling to match international market requirements;
- Represent overseas trade with competent personnel;
- Give appropriate methods of costing and pricing for exports;
- Provide training on the legal aspects of foreign trade, import procurement and materials management;
- Strengthen the trade promotion organizations by providing them with adequate physical, human and financial resources;
- Process export documents; and
- Develop manpower.

(b) Export development policy and strategy to:

- Formulate macro- and sectoral-policies relevant to the export sector;
- Assess the country's export potential and strengths;
- Formulate indicative export plans, targets and priorities for the benefit of both public and private sectors;
- Formulate proposals for export incentives and provision of such incentives once accepted by government; and
- Monitor implementation of policies, incentives and export plans.

Without these important export services in Sub-Saharan Africa, what should the governments do? An inventory of what already exists should be drawn up, the need and effectiveness of such services at the firm level can be assessed. Depending on the outcome, an inter-ministerial National Export Promotion Council with substantial representation from the private sector could be usefully established. However, further research in this area for individual SSA countries or groups of countries is required to establish the need, structure and functions of such a body, taking into account the two points raised above. As a follow-up, ways and means should be sought to strengthen the trade promotion

organizations if they exist or create them as necessary. Such bodies should then be made effective organs of export promotion.

In the context of the realities of the current world situation (slow growth, high interest rates, unstable exchange rates, and growing protectionism) as well as the conditions in Sub-Saharan Africa (deteriorating terms of trade, critical shortage of foreign exchange, steep rise in debt and debt servicing, underdeveloped institutional infrastructure), a scenario of spectacular export growth within a relatively short time as was possible in the NICs would be unlikely. A slower evolution of a national commitment to export development would be more realistic.

Future export prospects for SSA countries

It is questionable whether the current international economic environment will allow the majority of SSA countries to achieve export growth rates as high as those of the NICs during the 1960s and 1970s. At that time the level of economic activity in the industrial countries was high and booming, trade was expanding with relatively stable exchange rates, protectionist tendencies had not soared, and low interest rates encouraged investment in export production. Such a favourable climate is unlikely to appear again in the foreseeable future. Furthermore, the continuing deterioration in primary commodity exports, coupled with the burden of servicing debts and increasing interest rates, will have an adverse influence on the ability of SSA countries to mobilize adequate investment resources for accelerated export expansion. These factors should be kept in mind when devising national export promotion policies and strategies.

Notwithstanding the unfavourable global trends and the harmful effects of international market conditions created by the actions of some OECD governments, commodity production and export will remain of great importance to many African countries. Some will continue to depend upon mineral exports as their primary source of foreign exchange. Agricultural exports will continue to be a major source of income, employment, foreign exchange earning and government revenue. Recent UNCTAD calculations indicate that agricultural and mining production is the single most important component of GDP for all developing countries except the handful of fast growing manufacturing exporters (e.g. Mauritius). For most, the share in GDP is less than 30 percent as compared to less than 10 percent for 95 percent of all developed market economies, and the share of primary commodity in total export earnings is above 50 percent (Kaonides, 1990). For Sub-Saharan Africa as a whole, export agriculture is equivalent to 7 percent out of GDP; for Kenya, 17 percent; for Malawi, 18 percent; for Ivory Coast, 34 percent. It has been recognized that some recovery of market share will be possible for some African countries. However, this may not be advantageous for all African exporters simultaneously in the face of competition from outside Africa determined to protect its market share. Several constraints facing SSA trade expansion have been noted although opportunities have also been stressed (Lewis, 1986). Some of the constraints include:

- Fluctuations in international demand for SSA primary commodities;
- Inaccessible markets arising from protection, credit terms and lack of knowledge of overseas markets.

According to the Fraser Group (UN, 1990), current policy initiatives should aim to:

- Develop new uses and new markets for established commodities;
- Diversify the commodity export mix, so that African countries become less dependent upon the price and upon the continuing demand for individual primary commodities;
- Further processing of commodities within the countries;
- Identify new export products through product development and adaptation for the regional and overseas market;
- Introduce policies that will enhance the comparative advantage of small producers in certain product lines for the direct benefit of low income groups and structural adjustment and transformation.

A paper prepared for the UN Secretary-General's Expert Group on African Commodity Problems titled "Diversification of African Exports", August 1989, indicates that export of non-traditional export commodities, such as exotic tropical fruits, cut flowers and plants, and off-season fruits and vegetables is governed by the relatively small, upmarket demand in developed countries, the seasonality of such demand and the ability to obtain access to market information, to meet quality specifications and to develop or access market channels and transportation means. These are important points to take into account when devising an export strategy for non-traditional products in Sub-Saharan Africa.

Diversification of exports is highly risky with volatile price and market conditions. Only a few SSA countries have achieved some success: Ivory Coast for fresh pineapples (though recently facing difficulties); Kenya for canned pineapples, pineapple juice, fresh beans and various nuts; Senegal for melon and fresh beans; Burkina Faso for fresh beans. What are Sub-Saharan Africa's most promising non-traditional exports? Among the many primary (or primary-related) product possibilities are: horticultural products (fresh fruit, vegetables and potted plants), fish and fish products, forest products, cassava chips, livestock products (meat, leather and leather products), tourism, selected oilseeds and their oils and cakes. In terms of a percentage of export earnings, however, the returns have been quite small and represent less than 5 percent of export earnings in most cases. Export of fish (fresh and crustaceous) has shown considerable growth in recent years but the markets are quite fragmented and concern has been expressed by environmentalists about over-exploitation (Fraser Group, UN, 1990). These examples serve as initial suggestions of the type of products SSA countries could diversify into but country specific

potentials have to be determined through research. In the identification of export potentials, the sustainability of supply, market prospects, quality requirements and their attainment, prices to be fetched, the prospects of meeting delivery schedules, environmental factors all need to be considered.

Traditionally most African manufactured exports have consisted of processed versions of material previously exported in their raw form. There remains great potential for expansion of value-adding export activities, although, not all of these would be wise at present since some are relatively capital-intensive and/or skill-intensive, and some demand significant scale for reasonable efficiency (Helleiner, 1990b). Given the existing production capacity in Sub-Saharan Africa and the preferential access to the EEC market for SSA countries, manufactured exports through the Lome Convention, textile exports in the form of yarn, grey cloth, fabrics and garments may be possible. However, issues of detail in terms of production capacity, quality standards, institutional framework as well as export support services need to be researched at the firm level in individual countries.

VI. Trade liberalization³

Import licensing, prohibitions, exemptions, quotas, official reference prices, and foreign exchange allocations schemes are common non-tariff barriers dependant on discretionary decisions by the authorities. These make the system less transparent and predictable and encourage lobbying, rent-seeking and corruption. While trade restrictions are invariably rationalized in terms of national welfare, in reality they are usually advocated and made sustainable by those special groups in the nation that stand to benefit from such restrictions. Their detailed functioning must be understood to ascertain their social costs. Even with little or no decrease in protection, the replacement or reduction of non-tariff barriers can probably have major salutary effects. This deserves more careful study, both by documenting the costs and problems of unreformed systems and by examining the effects of reforms. Because tariffs and non-tariff barriers on finished products are usually higher than on intermediate and raw materials and because exemptions are common, effective protection is often high and varies greatly across industries. In most countries, it is generally argued that production efficiency requires that effective protection be reduced, and that the degree of protection (or total subsidy) among imports be made more uniform, taking into account the protective effect of the domestic tax and subsidy system. It has been shown that by co-ordinating tariff reform with domestic tax reform to offset revenue losses, and of course exchange rate policy, deeper reductions in tariffs are more possible than otherwise (Mauritius). Raising low tariff rates (usually on inputs) also increases revenue, allowing high rates to be reduced further (Ndulu, Lyakurwa, Semboja and Chaligha, 1987) and makes effective protection more uniform between inputs and finished goods.

Levels of effective protection in Sub-Saharan Africa differ substantially between export and the domestic market. In Kenya, for example, while production for the domestic market enjoys substantial effective protection, exporting has met a number of disincentives (Siggel, no date). First the average nominal rate of protection of manufactured goods has been computed to be 35 percent (World Bank, 1987), whereas the maximum rate of export compensation, receivable for eligible exports, is 20 percent of the export value. Therefore the effective exchange rate is substantially higher for import substitutes than for exportables. In addition the payment for export compensation is known to be uncertain and

plagued by bureaucratic delays and costs. Second, exports to neighbouring countries often meet financing and exchange problems. Even within the Preferential Trade Area (PTA), where a clearing house exists, foreign payment arrangements have been an obstacle to foreign trade. In 1988 for instance, Mauritius threatened to withdraw from the PTA, as her imports from Kenya were required to be paid for in fully convertible currencies.

Furthermore, this protection creates a bias against exports and agriculture, both of which have the characteristics used to justify protection for infant industry, such as the ability to reduce costs by "learning-while-doing" and imperfections of capital markets. It is not clear then, why policies should be followed that protect import substitutes while dis-protecting export-oriented infant industries.

Siggel (no date) shows that industrial protection in Kenya was provided by both import duties and QRs, the latter mainly in the form of import licensing. Since import licensing was used primarily for the management of foreign exchange, its impact on protection is less well understood and less transparent.

Price control and industrial protection are closely related policies that tend to counteract each other. While liberalization of protection is intended to push prices of restricted imports and their domestic substitutes downwards towards the import parity price, price control liberalization tends to allow prices to increase towards import parity (including the tariff). It has been shown that regulations that make it costly for firms to restructure or shut down have been a factor in failed liberalization attempts in Poland, Turkey (in the early 1970s), and Yugoslavia (Nash, Thomas and Martin, 1990).

Under conditions of extreme economic difficulties—especially import compression, high debt and debt service and dwindling external inflows—the pressure has been to maximize short-term export earnings. For many of the economies in Sub-Saharan Africa which are commodity and natural resource based exporters, this has meant pressure to raise the volume of commodity exports under conditions of falling real global commodity prices. However, the fall in commodity prices has been sharper than quantum increases, thus precipitating a foreign exchange crisis. Under pressure from the prevailing crisis, many SSA countries have started to reform their trade regimes.

Devaluation removes the implicit export tax contained in overvalued currencies, while revocation of export taxes and reduction of marketing board surpluses and increased efficiency enhance exporters' earnings. Liberalization on the import side need not impede the increasing of foreign exchange receipts, but has to be managed more carefully (Rodrik, 1988, p.6). He argues that unlike export liberalization, import liberalization immediately increases the net demand for foreign exchange. To prevent this, a steep devaluation can accompany significant import liberalization. The package of devaluation, together with import liberalization, would amount to an across-the-board export subsidy or, usually, elimination of previous anti-export bias and serve the same function as the removal of explicit export taxes. When appropriately managed, both raise exports and foreign exchange earnings. It has been argued, however, that in Sub-Saharan Africa growth in export capacity has been limited, and the little has

been recorded, has largely represented rehabilitation of existing capacity and/or the clawing back into official channels of previously smuggled exports. Individual country research in this area would certainly direct the issue in its proper setting.

As stated earlier in this paper, in Tanzania export retention schemes and "own funds" imports have shown varying degrees of success, although the time frame is rather short (1985-90) to permit meaningful time-series analysis. These deserve more study.

The export retention schemes originate in the various counter-trade deals of the late 1970s and early 1980s and the special purchase agreements reached between the government and suppliers of important inputs arising from the foreign exchange crisis of the early 1980s. Such agreements were extended to the parastatals existing in 1981/82, when they were allowed to retain 10 percent of their foreign exchange earnings for the importation of essential inputs, particularly fertilizers, pesticides and certain implements. By 1984, several exporters realized that the retention schemes provided a way of getting around the lengthy and bureaucratic system of foreign exchange allocation and started applying to open retention accounts abroad. This, together with the continuing foreign exchange crisis, led the government to initiate a general export retention scheme for non-traditional products in the 1984/85 budget with initial retention levels at 50 percent, subsequently reduced to 35 percent.

Substantial liberalization was thus realized on both exports and imports since exporters of non-traditional products no longer had to surrender all their foreign exchange earnings from exports and they no longer faced with quantitative import restrictions in the form of import licensing (now a formality) and foreign exchange allocations. Minor agricultural export crops (such as cocoa, cardamom and sesame) were deconfined and could now be handled by both public and private exporters including co-operatives which would also benefit from the retention schemes. Exporters of traditional products (coffee, cotton, tobacco, tea and cashew nuts) would obtain their input requirements through the Open General Licence. The OGL system also gives small importers access to foreign exchange through the commercial banks.

Between June 1987 and June 1989 in Tanzania, export earnings retained under the schemes increased from US\$6.3 million to US\$20 million, while imports financed from the scheme increased from US\$1.9 million to US\$12.4 million over the same period. At the same time non-traditional exports as a proportion of total exports increased from 25 percent in 1986 to 45 percent in 1989 (Bagachwa *et al*, 1990).

The "own funds" imports came into effect in 1984, when Tanzanian citizens were allowed to import goods purchased by their "own funds" without their source being questioned. This represented substantial liberalization of imports from the QRs of import licensing and foreign exchange allocation. The scheme has led to a boost in imports in an otherwise import strangled economy and "own funds" imports based on licences issued rose to 53.5 percent of total imports in 1988 before falling to 39 percent in 1989 (URT, Ministry of Finance, 1990).

The OGL is important trade liberalization instrument which has also been applied in Uganda in combination with the Special Import Programmes. It operates on the same principle as the export retention scheme, with automatic import licences issued on listed items.

An OGL operated in Tanzania in the 1970s before it was suspended with the onset of the economic crisis in the late 1970s, early 1980s. A new OGL system was introduced in 1988 as an automatic foreign exchange allocation mechanism aimed at solving day-to-day production bottlenecks of enterprises, especially in the form of vital inputs and spares. Any *bona fide* importer, defined as one with a valid business licence could use the facility, providing the applicant satisfies the conditions which include: a limited range of allowable items, a minimum value of applications per applicant, and 100 percent cash cover up front.⁴ The advantages of the system are:

- Automatic foreign exchange allocation;
- Less bureaucracy; and
- Less government interference.

Drawbacks of the system include:

- 100 percent cash cover up front in the presence of a severe credit squeeze, continuous devaluations and high interest rates which have limited utilization of the facility;
- Low range of allowable items; and
- Necessary import licence.

However, based on import licences issued, OGL imports as a proportion of total imports increased from 3.8 percent in the July/December 1988 period to 9.3 percent in the July/December 1989 period (Mbelle *et al*, 1990, p.31). In the July/December 1989 period, "own funds" imports together with imports under OGL represented about 35 percent of total imports.

The manufacturing sector uses the OGL facility to the greatest extent. On the basis of import licences issued and L/Cs established for the period January/March 1990, the manufacturing sector constituted 31.7 percent of the import licences issued and 30.8 percent of the L/Cs established (Mbelle *et al*, 1990 Table 4.4, p.45), indicating easing up of the import compression which hit the manufacturing sector hardest during the crisis years.

The impact of these policy measures on export development, particularly at the firm level, needs to be explored further. Whether they can be universally applied in all SSA countries would have to be determined on a case-by-case basis depending on the specific conditions prevailing in each country.

There are similarities in the structure of SSA economies as well as specific socio-economic conditions. Very few SSA countries are already exporting substantial amounts of industrial goods, Mauritius being the only known exception. For countries of such industrial structure, rapid liberalization can

easily destroy the acquired industrial sector and thereby reduce income and employment, as well as opportunities for technological learning. The timing and sequencing of reforms therefore deserve special consideration. The dependence of the state budget on trade taxes is another major problem which is particularly strong in Sub-Saharan Africa because of the low income bases for direct taxation, difficulties associated with indirect taxation and the historical reliance of the budget on trade taxes. In Uganda, for example, trade taxes constitute about 50 percent of the total tax revenue. Botswana is a known exception because of its very large mineral revenues. It is thus very important to analyse the fiscal implications of trade policy reforms and to design feasible alternatives to the trade-based sources of revenue.

Fiscal effects of trade liberalization

Trade liberalization affects not only the external sector, production and prices, but also the fiscal balance, through changes in tariff revenue. The consequences of liberalization for the budget, if they have not been anticipated and accommodated by complementary macroeconomic policies, may complicate the process of implementing reforms. This is particularly true in the case of SSA countries where, as we have seen, trade taxes constitute a large share of government revenue.

Trade tax revenue can increase by reducing very high tariff rates if tariff evasion rates fall or if import demand is price elastic. However such increases in tariff revenue do not occur automatically. Nash (1990) points out that in a sample of countries that primarily reformed non-tariff barriers, tariff revenue increased from 2.7 percent of GDP to 3.4 percent. But in a sample of tariff reformers, revenue fell on average from 2.8 percent of GDP to 2.3 percent. Generally the fiscal effects of a devaluation depend on whether the government is a net buyer (Ghana, Sierra Leone, Somalia, Uganda, and Zaire) or seller (Nigeria) of foreign exchange and the country's external debt situation. In countries highly dependent on tariff revenues, therefore, the effects of tariff reductions on revenue should be evaluated before implementing reforms. Measures to reduce expenditure or enhance revenue from other sources (such as consumption taxes) may need to be implemented. Mexico generated additional revenues through tax reform when trade taxes fell; Morocco did not generate new revenues, leading to a partial reversal. Ghana offset losses from devaluation and successfully implemented reforms. However, the Ghanaian case is substantially different from others because of the substantial amount of foreign inflows, particularly from the World Bank and IMF, which were specifically targeted at averting the effects of the devaluation.

In general, the initial impact of trade liberalization on the volume of trade taxes collections may not be predicted in a simple manner (Blejer and Cheasty, 1988). The UNDP/World Bank studies on Mali and Uganda have indicated some directional changes on government revenue as a result of trade liberalization, but further studies in Sub-Saharan Africa are called for in order to concretize the issue.

VII. Sequencing, timing and the stability of trade policy reforms

When a country contemplates introducing trade policy reforms (or any economic policy reform, for that matter), particularly after going through serious economic difficulties as many SSA countries have done, the timing and sequencing, as well as the credibility and sustainability of the reforms are very important. The reforms should be seen, understood and interpreted as a continuous process in the same direction. In terms of sequencing, it must be determined whether inward orientation is to be followed by outward orientation or vice versa and the appropriate timing at each stage in the reform process should be specified.

According to conventional wisdom, unless incentives for export promotion are greater than or equal to incentives for import substitution, no firm would be willing to sell its products in the world market. However, the experience of the NICs suggests that so long as export activities are supported by "equal footing" export policies and infrastructure, firms enter the world market, and often find that it results in better profits, given that the world market is larger than the domestic market and that some elements in the "equal footing" export policies are not available to import substitution (Rhee, 1990). For firms that are assured "equal footing" export policies, therefore, providing export incentives that are not lower than incentives for import substitution would be an added advantage (Rhee, 1990, p.45). Hence the appropriate sequencing of trade policy designed to carry out an outward-oriented development strategy in Sub-Saharan Africa would be "equal footing" export policies followed by equal incentives between export and import substitution at the firm level as a short-term to medium-term objective, depending on other conditions.

Four questions should be raised in the design of trade policy given the special circumstances of the SSA countries:

- (1) Are aggregate equal incentives between export and import substitution desirable and feasible?
- (2) Are "equal footing" export policies practical and required?
- (3) Are "equal footing" incentives between export and import substitution desirable and feasible? and

- (4) What would be the appropriate timing and sequencing of mixing (2) with (1) or (3)?

Attempts to provide answers to these questions, particularly at the firm level, would form an important input in the design of appropriate trade policy for individual SSA countries. With regard to trade liberalization in Sub-Saharan Africa, Helleiner (1990a), citing Choksi and Papageorgiou (1986), suggests the following sequence of liberalizing policy reform:

- (i) Fiscal discipline;
- (ii) Free the labour market (i.e. allowing real wages to fall);
- (iii) Liberalize goods trade, including external trade;
- (iv) Liberalize domestic financial markets; and
- (v) Liberalize the external capital account.

Implicit in this sequence are caveats in respect of import liberalization prior to the restoration of internal balance.

Incentives are stable and predictable over time, an aspect which economic theory and those responsible for the design and formulation of the incentives have until recently ignored. It has always been assumed that once a government chooses a particular trade policy instrument, for example tariff rate, the private sector responds accordingly. In reality, the trade regime and the incentives emanating from them can change frequently (Rodrik, 1990, p.16).

However, if the private sector is to invest in new sectors, it must believe that the incentives would be sustained. If not, firms in previously protected sectors may invest in lobbying efforts until their protection is restored. Once restored, the credibility of the government is put into serious doubt by the private sector, resulting in rent-seeking ("footloose") investment activities rather than long-term investment where returns would take longer to realize. The first steps of reform should be generally clear and decisive, to avoid reversal (Thomas, Martin and Nash, 1990). Reforms are usually easier to introduce after a crisis that discredits old policies. For example, it was much easier to introduce the economic recovery measures in Tanzania in 1986 when old policies could not get the economy out of the crisis. (This, however, does not suggest that governments in Sub-Saharan Africa should wait until their economies reach rock bottom before they introduce corrective measures.)

To increase the credibility and sustainability of trade policy reforms, the government should compensate any losers by introducing worker retraining targeted food assistance programmes (though difficult to administer), re-trenchment benefits and employment programmes.

VIII. Economic integration as a trade policy instrument

Many countries have formed regionally integrated groups due to the potential for expanding trade with neighbours. Members gain from increased trade, take advantage of economies of scale by producing for a regional market and get initial exporting experience under protection. But intra-regional trade expanded little (Economic Community of West African States) or fell (West African Economic Community, East African Common Market) (Nash, Thomas and Martin, 1990). Industries established as a result of integration usually had high production costs, and the experience in marketing to neighbours proved not very useful in exporting to wider markets (the experience of Tanzania after the collapse of the East African Community in 1977). Most regional groups raised barriers against extra-regional trade, discouraging integration into the world economy, where the gains from trade would be greater. Many schemes have broken down as a result of low benefits, high costs, and practical implementation problems. Despite the shortcomings, integration efforts continue. Integration has been more successful among countries with generally outward-oriented economies such as ASEAN (Association of South Eastern Asian Nations) or the European countries (Nash, Thomas and Martin, 1990, p.14).

Several factors have contributed to the rather dismal performance at attempting economic integration in developing countries. These include:

- National concentration on expanding exports and import substitution rather than regional imports;
- Severe regional and global trade imbalances, which prevent significant advances towards the reduction of tariffs and elimination of QRs;
- Feeble attempts at industrial planning to ensure an equitable distribution of benefits among participating members⁵;
- Problems of polarization effects; and
- Lack of convertible national currencies.

The terms of trade for primary commodity exports continued to deteriorate while debt and debt servicing burdens increased. Attempts to accommodate these inefficiencies thus became unsustainable integration arrangements stagnated.

The current trade liberalization and structural adjustment efforts as well as outward-orientation of the countries that have embarked on liberalization should give rise to better conditions for economic integration agreements among the developing countries which should in turn enhance the adjustment and liberalization process.

The need for increased economic integration among SSA countries has been widely recognized throughout the post-independence period. However, progress towards attaining this objective has been disappointing. The aims of the Lagos Plan of Action of 1980 for an eventual common market in Africa are worthwhile, and when coupled with the current trade liberalization efforts should be a useful starting point. As Mansor and Inotai (1990) aptly put it, "... the progress with outward-oriented adjustment in SSA sets the stage for and *should* facilitate the implementation of a new approach to regional integration that emphasizes the complementarity between trade liberalization and regional liberalization of factor markets ... Selectivity and adaptability *should* be the key concepts in implementing the new approach; ... " (p.2)

However, the preconditions for intra-regional trade in Sub-Saharan Africa may need to be generated through co-ordinated trade policy measures (though not exclusively) and accompanying improvements of payments systems, transport and communications facilities, etc.

Siggel, 1990 notes that while North-South trade is driven by different factor endowments, South-South trade, similar to North-North trade, may take the form of intra-industry specialization and trade. Since economies of Sub-Saharan Africa are highly fragmented and small, regional economic integration is necessary to attain economies of scale and product differentiation which are essential in intra-industry trade. This should be explored further in the context of SSA economic and political realities and the changing world political and economic systems.

The success of regional integration schemes can be measured by the share of intra-regional trade to total trade. Increasing shares are identified with success, decreasing shares with failure. In Sub-Saharan Africa, however, officially measured intra-regional trade is substantially lower than what actually takes place in the form of trade between neighbours. In Uganda, for example, "no foreign exchange required" imports were estimated at US\$100 million in 1989, 60 percent of which would come from the neighbouring countries in exchange for exports (Lyakurwa, 1990). There is a substantial amount of trade between neighbours that goes unrecorded; a lot of it on a small scale using several methods of transportation (cattle from Tanzania to Kenya, manufactured goods from Kenya to Tanzania and Uganda, food items from Uganda to Rwanda and Tanzania, coffee from Tanzania and Uganda to Kenya, etc.) but often in an organized manner using modern transportation methods. Diamonds are recorded as exported from

the Congo, gems from Kenya and ivory from Burundi, while it is known that these countries do not produce such products. Such products are smuggled from Zaire to the Congo and from Tanzania to Kenya and Burundi. However, the bulk of smuggled goods are traded in traditional markets where one can buy just about everything, and moreover, in local currencies. "The officially unconvertible currencies at fixed exchange rates are used for illegal trade and thus are made convertible at fluctuating rates" (Deardorff and Stolper, 1990, p.134). They conclude that: "Illegal trade is trade-creating not trade-diverting and that trade among neighbouring SSA countries with similar factor endowments is, or could be, big and profitable for the countries concerned, contrary to current beliefs in the region, and is much bigger than officially claimed" (p.134). Trade liberalization through economic integration would therefore help in reducing the problem of smuggling in Sub-Saharan Africa. It is perceived that a substantial amount of intra-regional trade in food items takes place in Sub-Saharan Africa through smuggling. If it could be legalized, this trade would form substantial intra-regional trade and a basis for economic integration in the region. However, this perception needs to be explored further through in-country as well as cross-country research. The necessary pre-conditions for illegal trade (smuggling) in Sub-Saharan Africa go beyond differences in trade policy to include inflation differentials, differences in the relative overvaluation of the local currencies and the credibility and sustainability of government policy changes which give rise to the prevailing investment climate. Hence, measures to reduce smuggling would need to be explored in the context of both trade policy reforms as well as macroeconomic policy changes.

Deardorff and Stolper (1990) argue that, apart from the marginal improvements that smuggling might yield were it only to circumvent simple taxes and tariffs, one feels that it may have played the role of preventing the collapse of the economies of some SSA countries. This would be difficult to put to an empirical test but it has been shown that smuggling necessarily improves people's welfare at least in cases where production is price elastic (p.121), and that smuggling serves to reduce the adverse effects of the goods market distortion.

Mansor and Inotai (1990) claim that in Sub-Saharan Africa, goods produced using domestic resources and labour intensive consumer products are oriented to the international market, while capital intensive goods and products based on imported inputs have a relatively higher intra-regional share in total exports. This view seems to negate that of Deardorff and Stolper mentioned above.

Domestic inward-looking policies and exchange rate overvaluation rather than tax evasion have been singled out as the main causes of illegal trade, but economic integration (which would legalize the otherwise illegal trade) may be a powerful instrument of achieving outward orientation in Sub-Saharan Africa, given the reluctance to reduce tariffs and to eliminate QRs altogether. Economic integration may also lead to a reduction of barriers on factor movements across national frontiers which in turn would lead to a more efficient allocation of resources within the region, flexibility and efficiency in production.

The experiences of integration efforts have resulted in two noteworthy lessons. First, integration schemes might focus more on improving infrastructure and factor mobility than on trade policy measures. Increased trade should follow naturally. Second, any trade policy measures might focus on reducing barriers to all trade, not just trade among members. In the African context, this would mean making all members' currencies convertible and removing existing artificial barriers to trade among members. Above all, integration should accelerate, or at least not interfere with, reduction of barriers to trade with the outside world. The central American Common Market, for example, has explicitly recognized the need not to impede member countries' progress in overall trade policy reform (Nash, 1990).

All these views need to be explored further through research on economic integration as an instrument of trade liberalization in Sub-Saharan Africa.

To evaluate the various integration experiences in Sub-Saharan Africa, and chart out the future course of action for integration efforts in the region say by the year 1995, it would be worthwhile considering possible scenarios for the various integration schemes. If we take, for example, the PTA and SADCC (Southern Africa Development Co-ordinating Conference), what would their role and function be in a post-apartheid Republic of South Africa (RSA) with RSA as a member or outside these organisations? One of the aims of the SADCC is to reduce external dependence in general and reduce dependence on RSA in particular. This is bound to change with the changing political situation in RSA.

To explore the necessary pre-conditions for Sub-Saharan African Economic Integration by the year 2000 would also be interesting. This could be done by first evaluating the various integration schemes in Sub-Saharan Africa and second, by comparing experiences, pointing out the common features as well as important differences, causes for past failures and the necessary pre-conditions for future success.

IX. Concluding remarks and additional areas for future trade policy research in Sub-Saharan Africa

It has not been possible to deal with all areas of trade policy and trade promotion which are of research interest in the SSA countries. We have attempted to highlight some of the key areas, taking into account the current efforts for structural adjustment and trade policy reforms in Sub-Saharan Africa.

We aimed to point out the salient features of some of the policy measures with a view to arousing interest in the need to take stock of these changes and evaluate their impact on the longer term trade strategy for Sub-Saharan Africa.

For SSA countries that have undergone substantial structural adjustment and trade policy reform programmes it would be pertinent to study further:

- The trade policy instruments that have been used (e.g. changing quantitative restrictions to tariffs, greater uniformity of tariffs, lower levels of tariffs, product-by-product elimination of quotas, auctioning quotas or a tariff-quota system) and their relative impact on: the imports in terms of volume and structure; the general reduction of the anti-export bias; the balance of payments; and the government revenue;
- The effective rates of protection/subsidy allowing for the exchange rate changes;
- Whether infant industries have attained "adulthood" i.e. which ones have learned, become more efficient and turned themselves into successful exporters. Case studies of infant industries that have become successful exporters would be very useful.

It should be remembered that in the specific conditions of SSA countries, selecting which industries are to survive trade policy reforms in the process of structural adjustment may be an important political decision, and the establishment of an institutional framework for economic policies may be as important as trade policy reform itself.⁶

For future policy direction, it would also be useful to examine in greater detail, and particularly at the firm or household level, the effects of the trade policy reforms on:

- Real output and employment;
- Total factor productivity, firm exit, entry and restructuring;
- Terms of trade between the rural and urban sectors and their effects on the rural/urban labour migration;
- Development of human capital and the use of appropriate technology; and
- Income distribution.

The relationship between structural adjustment and trade liberalization has received substantial attention recently, particularly concerning whether trade liberalization should follow macroeconomic stabilization measures or should occur concurrently, and whether import liberalization should come before or after export promotion. The recent experiences in some SSA countries may be relevant here. An associated issue discussed in the paper is the timing, sequencing, and the stability of trade policy reforms. Is it appropriate to introduce reform programmes after disastrous failures of previous policies, as was the case in Ghana, Tanzania and Uganda, or what would be the appropriate timing for the reforms? In addition, it is important to evaluate how stable trade policy reforms have been in each SSA country, pointing out how instability in the implementation of reforms may have led to failures and often policy reversals.

The key issue is to trace the recent structural adjustment and trade liberalization efforts in Sub-Saharan Africa and find out whether the policies as applied to date have been compatible to both structural adjustment and trade liberalization. (Such policies would include: real exchange rate depreciation; liberalizing the capital market where it exists only after liberalizing the goods market; and liberalizing imports when exports are growing or declining.) The relative impact of the policy changes on the SSA economies should be examined carefully in any study of trade liberalization and structural adjustment.

The appropriate use of trade policy instruments for trade development and trade promotion has also been considered in this paper. The relative impact of the different policy instruments needs to be explored further, particularly at the firm level in Sub-Saharan Africa. Where results have shown favourable trends, the contributing factors should be pointed out and evaluated before recommending a replica of such measures in other SSA countries. Where results have not been so favourable, alternatives should be sought. Policy research is also required to determine whether other policy instruments (e.g. direct foreign investment and export processing zones) may be desirable and feasible under the prevailing conditions in Sub-Saharan Africa.

Other research areas include:

- Further possible explanations for the relative decline in Africa's share of world exports/trade—who has gained at the expense of African countries and why? Explanations such as productivity differences as to how other countries gained market shares in primary commodities at the expense of SSA countries at a time of universal decline in commodity prices should be sought. In the case where decline in exports was in favour of food crops, how have incomes and resources been distributed/redistributed between urban and rural dwellers?
- What are future market prospects for Sub-Saharan Africa's non-traditional exports? (One should be aware of the possibility that such products may face restrictive tariffs in developed market economies over time because of increased protectionism, not forgetting, of course, the on-going efforts of GATT negotiations [The Uruguay Round].)

Appendix

Table A.1 Shares of world exports and imports by main region (percentage)

(i) Exports

Year	1970	1975	1980	1985	1987
1. Developed market economies	70.9	65.6	62.6	65.8	69.5
2. Developing countries	18.4	24.5	28.6	23.6	20.3
of which Africa	(4.1)	(4.1)	(4.7)	(3.2)	(2.1)
North Africa	(1.6)	(1.8)	(2.3)	(1.5)	(1.0)
SSA countries	(2.4)	(2.3)	(2.4)	(1.7)	(1.1)
3. Socialist countries	10.7	9.8	8.8	10.6	10.2

(ii) Imports

1. Developed market economies	71.6	67.0	68.2	68.1	71.4
2. Developing countries	17.9	21.6	22.9	20.9	18.7
of which Africa	(3.4)	(4.3)	(3.6)	(3.0)	(2.4)
North Africa	(1.2)	(2.0)	(1.5)	(1.6)	(1.2)
SSA countries	(2.2)	(2.2)	(2.1)	(1.4)	(1.2)
3. Socialist countries	10.6	14.3	8.9	10.9	9.9

Source: UNCTAD, 1989:26,27: Tables 1.9, 1.10.

Table A.2 World trade, X and M, (in million USD) and shares (percent) of Africa and SSA Countries

	1970		1975		1980		1981		1982	
	X	M	X	M	X	M	X	M	X	M
World total	315100	328300	875500	903700	2002000	2062100	1976100	0045400	1840000	1910900
Africa	12770	11080	35920	38480	94660	74240	75550	85470	65890	74640
% share of world X, M	4.0	3.4	4.1	4.3	4.7	3.6	3.8	4.2	3.6	3.9
SSA-total X, M	7779	7333	20477	20596	49308	43462	39691	48024	33247	38582
% share of world X, M	2.5	2.2	2.3	2.3	2.5	2.1	2.0	2.3	1.8	2.0
<i>Individual countries:</i>										
1. Ethiopia	122	172	240	296	425	722	389	739	404	787
2. Chad	30	61	48	133	71	74	83	108	58	109
3. Zaïre	781	533	865	905	1639	842	662	672	569	482
4. Guinea Bissau	4	27	7	37	11	55	14	50	12	50
5. Malawi	60	86	139	251	285	440	270	350	245	311
6. Mozambique	156	324	202	417	281	800	281	801	222	836
7. Tanzania	259	318	372	773	508	1225	613	1212	455	1131
8. Burkina Faso	18	49	44	151	90	358	75	338	56	346
9. Madagascar	145	170	294	367	402	600	316	540	310	425
10. Mali	33	47	54	177	205	440	154	385	146	332
11. Gambia	17	18	48	60	31	163	27	122	44	97
12. Burundi	24	22	32	62	65	168	71	161	88	214
13. Zambia	1001	477	810	929	1299	1111	1074	1062	1022	1001
14. Niger	32	58	91	101	566	594	455	510	332	466
15. Uganda	282	172	287	200	345	293	242	345	347	377
16. Sao Tomé & Príncipe	8	9	7	11	20	19	14	17	9	15
17. Somalia	31	45	89	155	133	348	152	512	199	330
18. Togo	55	65	126	174	335	550	211	433	177	391
19. Rwanda	25	29	42	96	112	243	11	256	103	276
20. Sierra Leone	101	116	121	185	204	414	153	312	89	240
21. Benin	33	64	32	197	63	331	34	544	24	464
22. Central African Republic	31	34	48	69	115	81	79	95	109	127
23. Kenya	305	442	644	980	1389	2588	1188	2069	977	1613
24. Sudan	298	284	438	1033	543	1576	658	1578	499	1285
25. Comoros	5	9	10	23	20	33	16	34	20	33
26. Lesotho	6	32	13	160	58	464	50	516	37	524

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	1970		1975		1980		1981		1982	
	X	M	X	M	X	M	X	M	X	M
27. Nigeria	1239	1059	7994	6041	24999	15025	18087	20453	13665	15003
28. Ghana	458	411	807	791	1148	1129	1063	1106	873	705
29. Mauritania	89	56	174	177	194	286	261	265	232	273
30. Liberia	213	150	394	332	589	534	529	477	477	428
31. Equatorial Guinea	25	24	26	20	14	26	16	31	17	42
32. Guinea	42	55	143	165	390	270	490	320	410	310
33. Cape Verde	2	16	2	40	4	68	3	71	4	72
34. Senegal	152	193	460	583	477	1052	500	861	548	992
35. Zimbabwe	367	329	923	802	1423	1290	1406	1472	1273	1472
36. Swaziland	71	60	196	180	369	538	391	506	325	440
37. Ivory Coast	469	388	1182	1127	3142	3015	2535	2384	2235	2090
38. Congo	31	57	179	175	911	545	1073	804	977	807
39. Cameroon	232	243	448	599	1384	1602	1122	1428	1000	1211
40. Botswana	22	49	142	218	503	691	400	799	457	688
41. Mauritius	69	76	298	332	431	19	324	554	367	464
42. Gabon	121	80	942	471	2173	674	2200	841	2160	723
43. Seychelles	2	7	6	32	21	99	17	93	15	98
44. Angola	423	369	1012	422	1902	1341	1874	1678	1645	876
45. Djibouti	21	49	36	147	19	125	9	120	13	226

Source: UNCTAD 1989, Tables 1.1 and 1.2.

Notes: X = exports f.o.b. in million dollars

M = imports c.i.f. in million dollars

Sub-Saharan total for 45 countries as per World Bank 1989a list

Table A.2 World trade, X and M, (in million USD) and shares (percent) of Africa and SSA Countries

	1983		1984		1985		1986		1987	
	X	M	X	M	X	M	X	M	X	M
World total	1817700	1884100	1911100	1992000	1932200	2019600	2127700	2210500	2493500	2573100
Africa	61550	68740	63340	62880	61320	60600	48490	61700	53190	61900
% share of world X, M	3.4	3.6	3.3	3.2	3.2	3.0	2.3	2.8	2.1	2.4
SSA-total X, M	32126	33067	33130	27111	32729	28087	27145	28347	28809	29809
% share of world X, M	1.8	1.8	1.7	1.4	1.7	1.4	1.3	1.3	1.1	1.1
Individual countries:										
1. Ethiopia	402	867	417	942	333	996	477	1097	460	1150
2. Chad	74	117	111	162	62	190	99	170	111	210
3. Zaïre	1134	498	1004	659	947	997	1092	884	975	763
4. Guinea Bissau	9	55	17	48	12	60	15	60	15	70
5. Malawi	229	311	309	269	253	287	245	258	276	296
6. Mozambique	132	636	86	540	77	377	80	440	100	660
7. Tanzania	366	822	378	889	284	1031	346	780	282	928
8. Burkina Faso	57	288	79	207	70	333	83	405	90	415
9. Madagascar	296	387	333	366	274	402	304	353	332	302
10. Mali	165	353	208	375	172	547	206	496	260	493
11. Gambia	48	115	47	98	43	93	35	100	48	128
12. Burundi	80	183	98	186	111	186	169	205	86	212
13. Zambia	825	703	655	608	543	692	403	603	909	739
14. Niger	299	324	274	285	290	345	260	330	310	370
15. Uganda	372	377	399	344	350	327	395	344	320	477
16. Sao Tomé & Príncipe	6	10	7	12	5	13	5	15	5	17
17. Somalia	103	180	46	105	91	112	85	125	90	125
18. Togo	162	284	191	271	190	288	240	340	220	360
19. Rwanda	121	269	144	295	131	294	189	352	114	353
20. Sierra Leone	92	166	148	166	106	154	145	152	132	137
21. Benin	67	588	90	500	110	500	80	500	70	550
22. Central African Republic	75	85	86	87	88	109	131	252	100	125
23. Kenya	933	1358	1083	1551	958	1437	1200	1613	961	1756
24. Sudan	624	1354	629	1147	367	757	333	961	532	929
25. Comoros	19	25	7	25	16	27	20	41	12	60
26. Lesotho	31	564	29	504	23	363	26	400	40	420

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	1983		1984		1985		1986		1987	
	X	M	X	M	X	M	X	M	X	M
27. Nigeria	10662	9062	12636	5863	13113	6205	6578	5000	7383	3917
28. Ghana	2699	2633	562	580	617	731	862	783	1000	900
29. Mauritania	305	227	297	246	374	234	349	221	428	382
30. Liberia	428	412	452	363	436	284	408	259	382	308
31. Equatorial Guinea	18	25	20	25	25	27	39	41	37	37
32. Guinea	400	300	470	360	480	420	450	430	520	470
33. Cape Verde	3	79	3	71	5	81	5	100	5	124
34. Senegal	534	1039	534	1010	402	826	540	852	580	1170
35. Zimbabwe	1128	1052	1148	959	1109	897	1301	985	1427	1052
36. Swaziland	304	464	237	381	176	281	267	304	311	365
37. Ivory Coast	2067	1808	2698	1511	2939	1742	3325	2054	2900	2300
38. Congo	1066	806	1183	618	1087	598	680	560	900	550
39. Cameroon	939	1217	882	1106	722	1151	781	1705	829	1749
40. Botswana	636	736	674	707	744	583	858	684	1521	849
41. Mauritius	361	435	373	472	459	524	675	675	898	870
42. Gabon	1975	453	2018	888	1974	976	1074	951	1286	785
43. Seychelles	20	88	26	88	28	99	19	106	30	114
44. Angola	1840	682	2069	1000	2200	1400	1800	1160	1500	1120
45. Djibouti	11	221	13	222	14	201	16	201	20	201

Source: UNCTAD 1989, Tables 1.1 and 1.2.

Notes: X = exports f.o.b. in million dollars

M = imports c.i.f. in million dollars

Sub-Saharan total for 45 countries as per World Bank 1989a list

Table A.3 Value of exports from world, developing countries and Sub-Saharan Africa

Region	1950	1955	1960	1965	1970	1975	1980	1985	1986	1987
a. Billions of Current-Dollars										
World	60.7	94.0	128.3	187.2	314.5	875.9	2001.4	1930.4	2127.7	2493.5
Less Developed Countries	18.7	24.0	36.7	56.1	211.8	572.9	461.8	461.8	422.5	507.2
Sub-Saharan Africa	1.9	2.9	3.4	5.0	7.6	19.4	48.2	32.1	27.2	28.8
b. Share of developing countries in:										
World exports	30.8	25.5	21.5	19.6	17.8	24.2	28.6	23.9	19.9	20.3
c. Share of Sub-Saharan Africa in:										
World exports	3.1	3.1	2.7	2.7	2.4	2.2	2.4	1.7	1.3	1.1
Developing countries exports	10.2	12.1	12.3	13.6	13.5	9.2	8.4	7.0	6.4	5.7

Source: Svedberg, 1988. 4 Table 1, UNCTAD, 1989: Table 1.1

Table A.4 Sub-Saharan Africa: Structure of merchandise exports by major categories (percent)

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	Fuels, minerals and metals			Other primary commodities			Machinery and transport equipment			Other manufactures			Textiles and clothing - (sub group of other manufactures)		
	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987
23. Kenya	13	34	21	81	50	62	0	3	2	6	12	15	0	1	..
24. Sudan	1	1	14	98	96	79	1	2	3	0	1	4	0	1	..
25. Comoros
26. Lesotho	0	0	0	91	76	64	0	0	0	9	24	36
27. Nigeria	32	96	91	65	3	8	0	0	0	2	0	1	0	0	..
28. Ghana	13	31	37	85	67	60	1	0	0	2	2	2	0	0	..
29. Mauritania	94	76	31	5	23	66	1	0	0	0	2	2	0	0	..
30. Liberia	72	59	57	25	38	41	1	1	0	3	2	1	0	0	..
31. Equatorial Guinea
32. Guinea
33. Cape Verde
34. Senegal	9	39	25	88	46	60	1	3	4	2	12	11	1	1	..
35. Zimbabwe	45	22	17	40	49	43	1	2	35	15	26	37	6	0	..
36. Swaziland
37. Ivory Coast	2	6	4	93	84	86	1	2	2	4	7	7	1	1	1
38. Congo	5	88	67	32	6	17	2	0	1	61	6	15	0	0	0
39. Cameroon	17	37	51	77	60	40	3	1	5	2	3	4	0	1	1
40. Botswana	18	21	20	78	9	17	2	2	3	2	68	61
41. Mauritius	0	0	0	100	71	59	0	4	2	0	25	38	0	19	..
42. Gabon	50	91	63	39	7	26	1	0	2	10	1	8	0
43. Seychelles	12	74	80	85	23	16	0	1	5	3	3	0	..	0	0
44. Angola
45. Djibouti

Source: World Bank, 1989b:194 Table 16.

Notes: 1. Figures for the South African Customs Union for RSA, Namibia, Lesotho, Botswana and Swaziland excluded.
2. data not available

Table A.5 Sub-Saharan Africa: structure of merchandise imports (percent)

	Food			Fuels			Other primary commodities			Machinery & transport equipment			Other manufactures		
	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987
1. Ethiopia	6	7	4	6	25	18	6	4	3	37	28	37	44	36	39
2. Chad	13	19	3	23	42
3. Zaire	18	19	13	7	8	3	5	5	5	33	32	37	37	36	42
4. Guinea Bissau
5. Malawi	15	7	5	5	15	9	3	3	3	21	34	33	57	41	49
6. Mozambique	17	8	7	24	45
7. Tanzania	10	13	6	9	21	17	2	3	2	34	35	44	45	28	31
8. Burkina Faso	23	19	16	4	13	3	14	4	5	19	29	34	40	34	42
9. Madagascar	19	8	9	4	15	29	2	4	2	25	34	30	48	39	30
10. Mali	20	16	12	6	17	16	5	2	2	23	39	44	47	26	27
11. Gambia	19	11	43	3	7	4	7	3	14	19	19	10	52	60	30
12. Burundi	16	14	12	6	16	5	9	4	5	15	20	23	55	47	55
13. Zambia	9	8	7	10	18	12	3	2	1	33	35	39	45	37	41
14. Niger	12	13	18	6	26	6	6	4	11	21	37	31	55	29	20
15. Uganda	7	5	5	1	23	9	3	2	2	38	39	46	51	32	38
16. Sao Tomé & Príncipe
17. Somalia	31	31	13	5	1	3	8	6	6	24	35	47	33	27	32
18. Togo	15	19	20	3	20	6	5	3	6	31	20	28	45	38	40
19. Rwanda	12	9	12	7	8	15	5	8	7	28	30	30	50	45	35
20. Sierra Leone	17	18	17	9	14	9	3	5	4	30	18	20	41	44	49
21. Benin	18	19	11	6	4	34	7	8	2	17	21	16	53	49	37
22. Central African Republic	13	20	13	7	2	1	2	4	4	29	34	39	49	41	43

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	Food			Fuels			Other primary commodities			Machinery & transport equipment			Other manufactures		
	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987	1965	1980	1987
23. Kenya	10	8	9	11	34	21	3	3	4	34	28	34	42	28	33
24. Sudan	23	26	17	5	13	22	4	2	3	21	29	26	47	31	32
25. Comoros
26. Lesotho	49	17	-7	3	6	-1	7	14	-8	6	14	26	35	49	90
27. Nigeria	9	17	8	6	2	3	3	3	3	34	33	36	48	45	50
28. Ghana	12	9	6	4	27	17	3	4	3	33	30	36	48	31	37
29. Mauritania	9	29	26	4	9	10	1	3	2	56	36	35	30	25	27
30. Liberia	16	18	19	8	28	21	3	3	3	34	28	29	39	23	29
31. Equatorial Guinea
32. Guinea
33. Cape Verde
34. Senegal	36	24	32	6	25	16	4	2	2	15	23	16	38	25	33
35. Zimbabwe	13	15	10	8	17	8	3	3	3	31	30	36	46	35	43
36. Swaziland
37. Ivory Coast	18	17	19	6	17	15	3	3	4	28	28	28	46	35	35
38. Congo	15	18	16	6	14	7	1	3	3	34	23	27	44	42	46
39. Cameroon	11	8	13	5	12	1	4	2	3	28	34	36	51	44	46
40. Botswana	9	8	9	10	13	7	18	17	16	18	17	20	46	45	48
41. Mauritius	34	26	19	5	14	7	3	5	5	16	16	20	43	39	48
42. Gabon	16	19	18	5	1	1	2	2	3	38	37	38	40	41	39
43. Seychelles	36	20	14	13	24	18	3	3	1	16	29	25	33	24	41
44. Angola
45. Djibouti

Source: World Bank, 1989b:192 Table 15.

Notes: 1. Figures for South African Customs Union for RSA, Namibia, Lesotho, Botswana and Swaziland excluded
2. ... data not available

Table A.6*(i) Volume indices of exports (1980 = 100)*

	1970	1975	1981	1982	1983	1984	1985	1986	1987
Developed market economies	54	73	102	101	104	114	118	121	128
Developing countries	96	86	95	89	91	95	93	107	113
Africa: North	99	98	82	76	83	81	83	80	82
Other	96	87	95	87	87	91	88	110	119

(ii) Volume indices of imports (1980 = 100)

Developed market economies	62	74	98	92	100	111	117	126	134
Developing countries	47	72	116	112	109	109	102	101	108
Africa: North	43	98	130	126	131	132	119	115	103
Other	54	69	116	97	85	71	75	72	71

Source: UNCTAD 1989: 40-41 Tables 2.1, 2.2.

Table A.7*(i) Unit value indices of exports (1980 = 100)*

	1970	1975	1981	1982	1983	1984	1985	1986	1987
Developed market economies	33	63	96	92	88	86	86	97	109
Developing countries	10	42	105	97	88	87	85	64	73
Africa: North	7	38	109	99	87	86	86	53	63
Other	15	41	98	90	79	82	81	66	70

(ii) Unit value indices of imports (1980 = 100)

Developed market economies	27	58	98	92	82	86	85	88	87
Developed countries	26	58	96	93	90	89	89	90	97
Africa: North	27	58	94	90	88	87	86	92	89
Other	25	54	95	93	90	88	88	92	99

Source: UNCTAD, 1989: 42-43 Tables 2.3, 2.4 respectively.

Table A.8*(i) Terms of trade indices (1980 = 100)*

	1970	1975	1981	1982	1983	1984	1985	1986	1987
Developed market economies	122	109	98	100	101	100	101	110	111
Developing countries	38	73	109	104	97	98	96	71	75
Africa: North	24	63	116	109	99	99	99	57	64
Other	54	71	103	97	88	94	92	71	71

(ii) Purchasing power indices of exports (1980 = 100)

Developed market economies	66	80	100	101	105	114	119	133	142
Developing countries	37	64	103	92	89	94	98	82	92
Africa: North	38	57	85	80	74	77	73	52	54
Other	56	70	84	72	72	76	76	59	58

Source: UNCTAD, 1989:44-45, Tables 2.5, 2.6 respectively.

Notes

1. Rybczynski theorem states that at constant commodity prices, an increase in the endowment of one factor will increase by a greater proportion the output of the commodity intensive in that factor and will reduce the output of the other commodity.
2. This refers to a situation where a country has moved from the production of consumer goods to the production of intermediate and capital goods.
3. A trade regime is considered to be liberalized if the level and dispersion of protection are reduced, whether explicitly through changes in tariff rates, or implicitly by changing the severity of quantitative restrictions (Blejer and Cheasty, 1988).
4. Since March 1990, overdraft facilities ranging between 20 and 80 percent have been extended to OGL users for cash cover purposes. Small importers are still affected by the high interest rates and face the danger of being skewed out of the OGL system.
5. Such attempts relied more on political decision-making in determining industrial location, in an attempt to attain regional balance, rather than financial and economic feasibility criteria which would take into account the long-term viability of the industrial projects.
6. For further exposition on the issue, see Evans (1989).

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