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Africa in the Global Trading System

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This paper was prepared by the Trade and Debt Team Comprising of Mr. C.T. Mwalwanda, Ms. A. Gueye and Mr. J.D. Nkurunziza (Task Officer)

Table of Contents

	Page
I. Introduction	1
II. Africa in the Current World Trading System.....	3
III. Review of the Factors Explaining Africa's Trade Performance	11
IV. Africa's Trade Performance: Empirical Evidence	25
V. Conclusion	29
 Bibliography	 33

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Or contact

The Director
Economic and Social Policy Division (ESPD)
Economic Commission for Africa
P. O. Box 3001
Addis Ababa, Ethiopia

Tel: (251-1) 51 72 00
Fax: (251-1) 51 44 16
E-mail: ecainfo@un.org

I. Introduction

1. Africa's development experience over the last four decades following independence has been disappointing. Statistics show that most countries in Africa were better off three decades ago when compared to their current situation. In the 1960s, Africa's growth potential was thought to be much higher than Asia's. According to the World Bank's chief economist, there were 7 African countries that "clearly have the potential to reach or surpass" a 7 percent growth rate (Easterly and Levine, 1997, p.1203). The seven countries in question had a negative growth rate over the period 1965-1990 while, on average, real GDP did not grow in Africa as a whole. In contrast, GDP per capita in Asian countries grew by an average 5 percent while Latin America recorded an average 2 percent growth per annum during the same period.

2. It is difficult to isolate one single factor that explains Africa's poor growth performance during the last 3 decades. However, comparing the policies pursued by Africa and other developing regions and the results achieved in terms of economic development, economists now tend to agree that Africa's poor trade performance during this period explains a major part of the continent's failure to grow. This argument is well covered in Sachs and Warner (1997a); Krueger (1997); Ng and Yeats (1997) and Ndulu and Ndung'u (1997), among others. This view is based on the premise that trade and trade-induced flows of investment constitute the core elements of economic growth. In this connection, one conclusion recent studies have reached is that Africa is more and more marginalised in the world economy due to a number of factors, including inappropriate domestic policies, lack of trade openness, macroeconomic instability and other factors¹.

3. Ndulu and Ndung'u (1997) conclude that Africa is marginalised because it does not "trade enough" due to, among others, low production. They also find that the continent's trade policy stance is very poor. Macroeconomic policies that have an impact on trade such as exchange rate policies, price stability and investment response to the prevailing macroeconomic environment play a prominent role in explaining this poor trade performance. In addition, debt is also found to be a hindrance to trade and growth because it crowds out domestic resources that would be otherwise invested. Debt overhang dampens investors'

¹ These factors and others are discussed later in the paper.

confidence in the economy and low quality of human capital in Africa does not attract foreign direct investment.

4. In light of this evidence, the paper attempts to pursue three main objectives. Firstly, it sets out to discuss the general context in which international trade is taking place, with the objective of showing that Africa's past trade strategies cannot be relied upon any longer. This discussion contrasts the current trend towards globalisation and overall trade liberalisation with Africa's protective policies and differential treatment in export markets. The second objective of the paper is to analyse the issue of Africa's marginalisation. After defining this concept and providing data corroborating this fact, the factors that explain Africa's past trade performance are reviewed. These are presented in 4 categories, namely trade policies, poor growth performance and other macroeconomic policies, physical and infrastructural constraints, and external factors. The third aspect of this study presents empirical results of an econometric analysis based on a panel estimation to explain the determinants of Africa's trade performance. It is a cross-country analysis that covers 99 countries 45 of which are African.

5. The remainder of this study is organised as follows. Chapter 2 presents the main institutional characteristics of the current trading system. While analysing Africa's role within this system, this chapter introduces the issue of Africa's marginalisation. Chapter 3 draws from the existing literature to review the different factors explaining Africa's trade performance over the last three decades. Chapter 4 presents and discusses econometric results of a panel analysis of the different factors explaining Africa's trade performance. These results give a good indication of what should be the future strategy for Africa's integration in the world trading system. Based on these results, chapter 5 concludes the discussion, highlighting elements of what should constitute the future policy directions to enable Africa take maximum advantage of the current world trading system.

II. Africa in the Current World Trading System

2.1 Main Characteristics of the Current Trading System

6. The current trading system has been shaped by two main trends that emerged about ten years ago. These are globalisation and regionalisation of trade. Globalisation has swept away economic borders, emphasising the international dimension of trade and investment. The process of globalisation has been based on three distinct factors, namely increases in cross-border flows of trade, investment and financial resources. Increases in these flows was made possible by tremendous technological improvements in telecommunications and information processing, as well as the adoption of far reaching trade liberalisation policies by most of the countries in the world. Developing countries as a group have taken the most advantage of this economic trend through a better “global division of labour and allocation of savings and investments” (UNCTAD, 1998). However, as is shown later in the paper, there have been regional imbalances in the way globalisation has benefited developing countries, with most of Africa left out of the process.

7. The process of globalization has been criticized on the ground that the race of countries towards making themselves more competitive through reduction of wages, taxes, environmental controls, etc. will benefit more developing countries at the expense of today’s rich economies. A recent survey has shown that 68 percent of employees in France; 51 percent in Germany; 45 percent in Great Britain; 40 percent in Italy; 38 percent in the United States and 22 percent in Spain hold the view that “globalisation” is not good for them². From the other extreme, economists have cautioned that globalization is leaving the most disadvantaged social groups in developing countries completely at the margin of the development process. From the development perspective, the real challenge of globalization is rather how to enable these “marginalised societies” to share in the benefits brought about by globalization and re-integrate the world economic system. Another concern about globalization has been that, given today’s globalised financial markets, the spread of economic havoc will be difficult to contain, as experienced during the European monetary crises of 1992 and 1993;

² L’Expansion, No. 562, 4-17 December 1997.

the Mexican crisis of 1994-1995 and the ongoing Asian crisis that erupted in July 1997³.

8. Trade liberalization has been the engine fueling the process of globalization. This trend has undoubtedly boosted productivity, competitiveness and, in the process, raised living standards in countries that were able to take advantage of it. In general, these countries have been from the most dynamic economies of Asia and Latin America. Since the creation of the General Agreement on Tariffs and Trade in 1947, international trade liberalization has gone a long way. However, Recently concluded Uruguay Round of Multilateral trade negotiations will have the most important impact on the way international trade is conducted. The signing of the Final Act of the Uruguay Round in Marrakesh, Morocco, in April 1994, launched a new era in terms of trade liberalization. The Round made significant progress in terms of tariff reduction, especially in sectors that were either outside the realm of GATT or poorly covered by previous GATT rules. These include the Services sector, intellectual property rights, trade related investment measures, agriculture, as well as textiles and clothing. The Round also made important institutional reforms, the most important being manifested in the creation of the World Trade Organization (WTO) to oversee compliance of its members with the multilateral trading system's rules. Another notable change was the streamlining of the WTO's dispute settlement system, which has boosted the credibility of this multilateral trade organization.

9. These far reaching liberalisation measures have resulted in sharp increases in flows of transborder trade that have led to tremendous flows of investment and movement of financial resources, leading to the current integration of markets for goods, services and finance. For this reason, trade expansion has attracted the attention of development economists and it occupies a prominent place in the current development paradigm. Trade openness and export expansion have been recognised as having played an essential role in successful growth strategies adopted by Southeast Asian economies. Their export-oriented growth model has gained recognition and importance as a result of these countries' tremendous achievements over the last four decades. A country such as the Republic of Korea displayed, in the 1960s, the same level of GDP per capita as Ghana. Now it has made such progress in terms of economic growth and overall development that it has joined the club of the most industrialised countries, namely the OECD. In this context, trade openness and export-oriented growth have become the cornerstone of the current development paradigm.

³ "One World?", *The Economist*, 18-24 October 1997, pp.103-104

10. A trend somehow contradicting free trade advocates has been the proliferation of preferential trade arrangements in all parts of the world. These include the North American Free Trade Agreement; MERCOSUR in South America; ASEAN and APEC in Asia; the European Union and, a host of sub-regional preferential trade arrangements such as COMESA, ECOWAS and SADC in Africa. At the continental level, African countries have adopted the Abuja Treaty establishing the African Economic Community that entered into force in September 1994. The question that naturally arises is whether this trend is having or is due to have a positive impact on trade expansion and growth in the current context of globalisation. There are two extreme views regarding the impact of regionalism on free trade. The first school of thought views Preferential Trade Agreements (PTAs) as a way of lowering trade barriers among member countries. The view of the proponents of this school of thought is that this constitutes a step forward towards global free trade. The second school of thought contends that partial liberalization agreed upon within a PTA cannot be added up and that, in an economically meaningful sense, this preferential reduction of tariffs may lead to increased total protection due to trade diversion resulting therefrom. This school of thought, spearheaded by prominent economists like Jagdish Bhagwati, considers preferential trade arrangements as an impediment to overall trade liberalization⁴. Our view is that trading blocs are not necessarily neither good or bad; all depends on the way they operate. Regional trading groups that are open to third countries are better than those that are closed to any third party⁵

11. For Africa, the main lesson to be learnt from this brief characterisation of the current world trading system is twofold. The first lesson is that the world trading system is changing. Times when economic alliances were based on the defunct bipolar political environment that ended with the collapse of Socialism are over. Globalisation and overall trade liberalisation that accompanies it have taken over. In this context, competition is the rule of the game by which any country, rich or poor has to abide. This, obviously, poses a big challenge to weak African countries that instead of building competitive economies have so far always relied on a trade preferential system that cannot be sustained any longer. The opening up of world markets is eroding these preferences, resulting in income losses for most African countries. For instance, with the implementation of the Uruguay Round of MTNs, it has been estimated that elimination of the

⁴ See, for instance, Jagdish Bhagwati, "Fast Track to Nowhere", in *The Economist*, 18-24 October 1997, pp.23-26.

⁵ An interesting article discusses this question. See "A Question of preference: Do Regional Trade Agreements Encourage Free Trade?", *The Economist*, August 22-28, p.62.

preferential status by the EU, Japan and the United States may cost the continent up to 4 billion dollars a year (Yeats, 1994). With its traditional exports of primary commodities, Africa will find it more and more difficult to cope with the complexity and competitiveness of current markets. So far, developing countries that have gained the most from globalisation have been the most dynamic economies in terms of exports, including China, India and other Asian countries.

12. The second lesson pertains to the issue of regionalisation. It has been estimated that almost half of world trade is affected by Minilateral Trade Arrangements (Braga and Yeats, 1992). In Africa, despite the momentum of regional integration in the last few years at least in terms of putting in place institutional arrangements for regional integration, the continent has, so far, failed to take advantage of this environment to increase its trade. At 6 percent of its total external trade, intra-regional trade in Africa remains the lowest in the world, despite its huge potential for growth. Despite this, regional integration in Africa still offers an interesting avenue for trade expansion. Studies on the potential offered by intra-African trade show that this is an appealing strategy that should be given serious consideration by the continent's policy makers.

13. With this background in mind, there is a clear need for a fresh reflection on Africa's role in the international trading system. The central objective of such a reflection should be to find means and ways of adapting Africa's current trade strategy to the new environment. At this juncture, a brief overview of the continent's current status regarding its participation in world trade is in order to shed more light on the need for a better strategy capable of integrating Africa into the global trading system.

2.2 Africa's Role in the World Trading System

14. The fact that Africa is marginalised in the world trading system has been highlighted by a number of recent studies (Collier, 1995; Ng and Yeats, 1997; Ndulu and Ndung'u, 1997). It has been argued that slow growth and poor performance of the trade sector have been responsible for Africa's marginalisation. Rodrik (1995) and Ndulu and Ndung'u (1997) have empirically shown that although there is evidence for bilateral causality between economic growth and export performance in Africa, the directional causality from economic growth to export growth is stronger. In view of the fact that Africa has recorded, on average, almost zero growth for the last three decades, it is understandable that the strong relationship between economic growth and trade performance has produced negative results on Africa's trade.

15. Moreover, Sachs and Warner (1997) show that poor trade policies, particularly lack of openness to international trade⁶, appear to have had an important contribution to Africa's slow growth over the last two decades. These authors highlight trade factors such as high trade barriers prevailing in Africa, excessive tax rates that discourage investment, both local and foreign, to be among the most important impediments to Africa's trade and growth. They also rightly mention adverse structural conditions such as Africa's high reliance on natural resource-based exports and inaccessibility to the sea to be important problems. Indeed, it is the current weak supply capacity-- in terms of production and support infrastructure-- as well as the excessive market fragmentation and small domestic market sizes that explain Ndulu and Ndungu's (1997) conclusion that Africa is marginalised because it does not produce enough and, therefore, does not "trade enough". In other words, Africa's marginalisation should be understood in terms of its declining export growth rates in a context of steady growth of world trade⁷.

16. As a result, the continent continues to lose most of its relative importance in the world economic system both in terms of market and product share. Table 1 and Chart 1 below illustrate this. Based on a sample of 10 countries for the table and 7 countries for the chart, for illustration purpose, it is shown that Africa's performance in terms of product export diversification between 1980 and 1994 has worsened. All countries in the sample but Algeria had more diversified exports in 1980 than in 1994. Husain (1993) has estimated the loss associated with Africa's shrinking market shares and loss of competitiveness. He found that if Africa had retained its 1970 market shares and had adjusted the composition of its exports to reflect changes in world trade, notably in terms of switching from raw commodities to manufactures, the continent's current export income would be at least 50 billion dollars higher. However, far from diversifying its exports through product transformation like other developing regions, the continent has gone through a process of de-industrialisation. In the early 1990s, Africa's

⁶ According to Sachs and Warner (1997, p.339), a country is open to trade if it satisfies simultaneously the following five criteria: (i) an average tariff rate below 40 percent; (ii) average quota and licensing coverage of imports of less than 40 percent; (iii) black market exchange rate premium of less than 20 percent; (iv) no extreme controls on exports in the form of taxes, quotas and state monopolies; and, (v) not considered as a socialist country (by standards set in Kornai, 1992)

⁷ We make the assumption that in the long run any economy can import only for an amount equivalent to what it exports. Therefore, we analyse the problem of marginalisation from the export perspective although an assessment of a country's participation in world trade should be based on both its exports and its imports. It is assumed that analysing the problem from only the export perspective only not change fundamentally its nature.

manufacturing sector accounted for only 8 percent of its total exports against 51 percent for other low and middle-income countries. It is not surprising, therefore, that Africa plays a marginal role in the world trading system. The share of Africa in international trade fell from 5 percent in 1980 to about 1.5 percent in the mid-1990s. Most countries in Africa are “falling out of the global economy” and the most worrying aspect of this trend is that Africa’s marginalisation is worsening over time. A study by Netherlands Geographical Studies, quoted by Tom Barry (1997), contends that “Almost the whole of Africa had less structural ties with the world system after 1972 than before”.

Table 1: Number of Products exported by some African Countries (80-94)

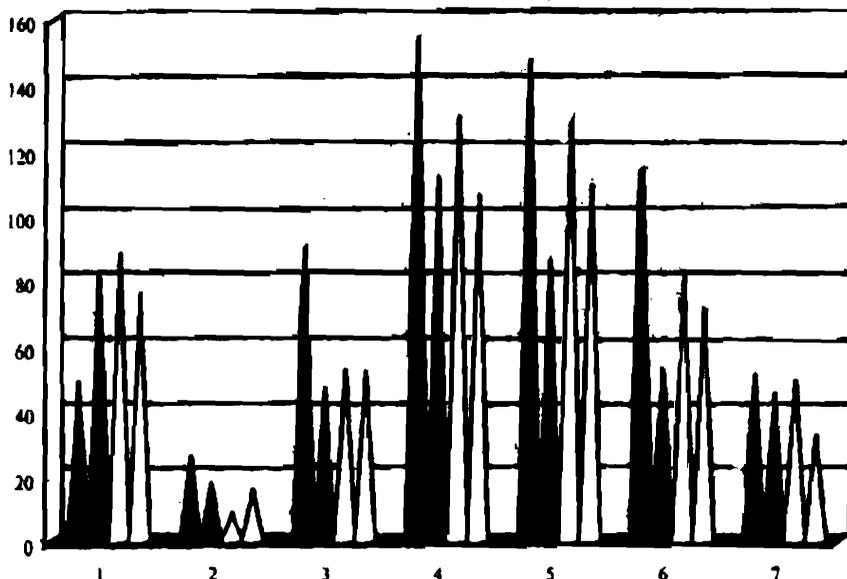
Country	1980	1988	1992	1994	Change %
Algeria	49	81	88	76	55
Burundi	26	18	9	16	-38
Cameroon	90	47	53	52	-42
Cote d'Ivoire	154	112	130	106	-31
Nigeria	147	86	130	109	-26
Senegal	113	53	81	71	-37
Seychelles	11	17	8	7	-36
Sierra Leone	39	16	22	22	-44
Sudan	63	48	59	43	-32
Togo	51	45	49	32	-37

Source: Based on UNCTAD, Handbook of International Trade and Development Statistics, 1990 and 1994

17. Chart 1 presents this information in a visual form. Each country has 4 cones. The first cone represents the number of products that the country exported in 1980, the second one is for 1988, the third one for 1992 and the last for 1994. The objective of the chart is not to show how all African countries have performed in terms of export diversification but rather to give examples of a number of countries that have seen their diversification stance worsening over the years. The chart shows clearly that countries were doing much better in terms of export diversification two decades ago than today. This is another illustration of Africa’s marginalisation due to loss of export markets for a number of products.

The vertical axis of the chart plots the number of products exported while the horizontal axis plots the countries and the 4 periods considered for each country.

Chart 1: Number of Exports of Selected Countries (80, 88, 92, 94)



1 - Algeria; 2 - Burundi; 3 - Cameroun; 4 - Cote d'Ivoire; 5 - Nigeria; 6 - Senegal; 7 - Togo

18. If the current situation as depicted in table 1 and chart 1 is not changed, Africa's marginalisation is expected to continue and maybe worsen in the coming years. This view is based on a number of factors. These include: (i) the current fragility of African productive capacities; (ii) the continent's poor participation in the recently concluded Uruguay Round of MTNs where Africa's interests could not be defended due to a number of reasons⁸; (iii) the fact that Africa emerged as

⁸ A detailed account of the factors that hindered Africa's participation in the Uruguay Round of MTNs may be found in ECA (1996), **Africa's Future Participation in Multilateral Trade Negotiations**, document E/ECA/TRADE/95/15.

a net loser from the negotiations⁹; (iv) further losses of market shares as a result of the erosion of Africa's traditional trade preferences following the implementation of the Uruguay Round agreements; and, above all, (v) the fact that Africa is going to face stiffer competition in world markets but it is not doing much to increase its competitiveness and prepare itself for this difficult future time.

19. The question arises, therefore, whether the current marginalisation of Africa can be reversed and what are the policies that need to be adopted to ensure a bigger share of the continent in the international economic system. Do export-oriented growth strategies have a chance to succeed in Africa as they have in East Asia, or is there any evidence that Africa needs different strategies to attain substantial levels of growth? Drawing from the available literature, a review of the factors explaining Africa's past trade performance may provide an answer to this question. This is the objective of the next chapter.

⁹ Different researchers have given different figures on the value of Africa's loss depending on the methods of estimation and data used. An amount of 2.1 billion dollar was advanced in 1994. In 1997, a study by ECA in collaboration with Purdue University estimated, using GTAP model and database, the amount of the loss to represent 0.1 percent of GDP. It should be noted that what is really important is not just the amount of the loss but, most importantly, the fact that Africa will be the only region to come out of the negotiations as a net loser.

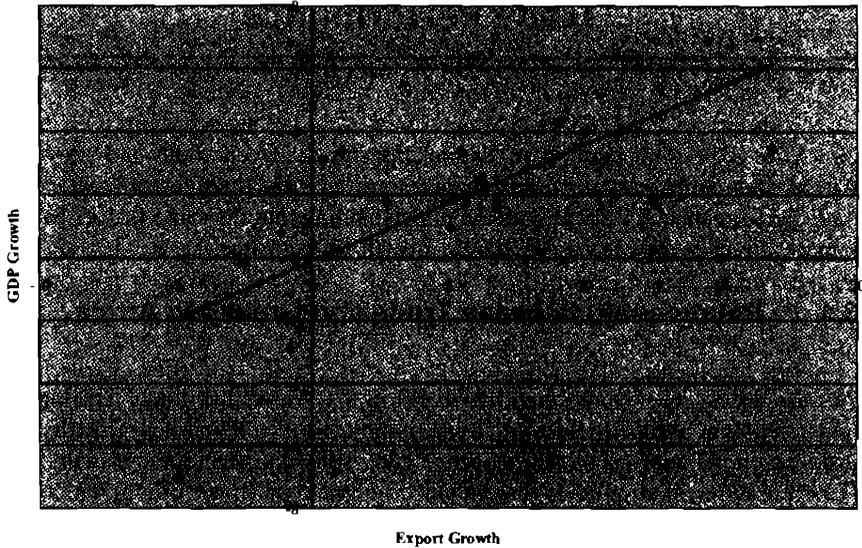
III. Review of the Factors Explaining Africa's Trade Performance

20. After a brief discussion of the relationship between trade and growth in Africa, an attempt is made in this chapter to discuss the main factors that explain trade performance in Africa, with the understanding that the same factors have an impact, direct or indirect, on economic growth performance.

3.1 Relationship between Trade and Growth in Africa

21. Empirical case studies tend to confirm the view that trade development understood in terms of outward trade policy, is an engine for growth. For instance, in his analysis of the impact of geography and economic growth, Sachs (1997) assumes that policies that enhance international trade in a given country have a positive impact on economic growth. In addition, Sachs (1998) shows, based on the results of a survey undertaken for "The Africa Competitiveness Report 1998", that trade variables are key in explaining the business communities' perception of economic reforms and growth in Africa. As already stated, empirical results have shown a strong relation between trade and growth in Africa. Chart 2 below, based on a sample of 18 African countries, is also clear in illustrating the positive relationship between trade and growth.

GDP and Export Growth



22. It is for the above reasons that trade policy (understood in the sense of outer trade liberalisation) is among the 10 elements of John Williamson's "Washington Consensus" (see Rodrik, 1996, p.17). The assumption is that outward trade orientation raises overall efficiency in the economy through, among others, an increase in technology transfer and total factor productivity. In other words, the higher a country or a region's participation in world trade, the better. The share of a country or a region in total world trade is considered a key measure of the country or region's integration in the world economy. An increasing share is viewed as an indication of high integration in the world economy while a decreasing share is an indication of economic marginalisation. In terms of economic growth, more trade is viewed as conducive for growth. This assumption should be kept in mind during the analysis in the remainder of this chapter that attempts to analyse the main factors explaining Africa's performance in international trade over the past years.

3.2 Africa's Performance in World Trade: Explanatory Factors

23. It is interesting to note that an African perspective frequently expressed in international fora, such as United Nations instances, blame protectionism in their export markets for their poor performance while others such as the Bretton Woods institutions blame "inappropriate domestic policies [which] greatly diminished Africa's ability to compete internationally" (Ng and Yeats, 1997, p.889). This dichotomy of views shows that although the fact that Africa is marginalised in world trade is an obvious matter on which everyone agrees the debate on the factors responsible for this situation is still open. Our view is that there are several factors that have concurrently contributed to Africa's current situation. This study groups these factors into four categories: inappropriate domestic trade policies; poor growth performance and other macroeconomic policies; physical geography and infrastructural constraints; and, external factors.

(a) Africa's Domestic Trade Policies

24. The importance of policy in economic development has been stressed in many studies. For instance, Easterly (1995) shows that although the literature acknowledges that growth is very sensitive to surprises or random shocks, empirical statistical evidence has also shown that national policies have a strong effect on a country's long run growth. With respect to trade policy, Krueger (1997, p.1) argues that "changing trade policy is among the essential ingredients if there is to be hope for improved economic performance". Conversely, Rodrik (1992) highlights the limits of trade policy arguing that, at best, good trade policy provides an enabling environment for growth but that there is no guarantee that the environment is taken advantage of. As he puts it, "good trade policy cannot make a poor country rich" (p. 103). This is an important nuance because there has been a tendency to blame trade policy for the poor performance of African economies, implying that good trade policy would be the solution to Africa's economic problems. The analysis in this paper acknowledges the importance of good trade policy for Africa's growth but considers it as one among many factors explaining trade performance in the continent.

25. Up to the early 1970s, the dominant trade model was based on import substitution. This was the period of export pessimism and economic dependency theories¹⁰. In Africa, most countries just gained their political independence in

¹⁰ Krueger, A (1997) has an interesting exposition on how trade policy has evolved during this second half of the 20th century.

the 1960s and tended to adopt policies that would ensure “economic independence” thought to be an essential complement of political independence. The adoption of inward-looking “economic self reliance” policies by African leaders was not only the result of import substitution paradigm but it was also a deliberate choice as it was perceived as a sign of independence.

26. Although the theoretical basis of import substitution policies was undermined by the results of work by Little, Scitovsky and Scott (1970), based on the theory of effective protection¹¹, African countries stuck to their protectionism and inward-looking policies while most countries in other regions adopted export-oriented trade strategies. The latter compelled countries that adopted them to increase competitiveness of their products through more efficient production processes and product diversification. This increased their integration in world trade. On the contrary, African countries imposed very high protective barriers, in terms of both tariff and non-tariff barriers which are still hampering the continent’s trade expansion. A comparison of average tariff and non-tariff barriers between Africa and other regions shows that these are highest in Africa. Average tariff level for Sub-Saharan Africa was 26.8 percent compared with 6.1 for OECD countries¹² and 3.4 percent for high-income non-OECD countries in the period 1992-94. During the same period, the non-tariff coverage ratio was 34.1 for all Sub-Saharan Africa, compared with a value of 3.8 and 4.0 for OECD and high-income non-OECD countries, respectively¹³. There is strong reason to believe that non-tariff barriers were even more harmful to Africa’s trade than tariff barriers¹⁴ not only through higher rates of protection but also because of the nature of the restrictive impact of NTBs on trade expansion. Indeed, while the impact of tariff barriers can be overcome as foreign producers become more efficient and can export to countries with high tariffs, this is not possible with NTBs since, unlike tariff barriers that are based on prices, NTBs are quantity-based as they set import quantity limits. It is within this context that Ng and Yeats (1997) contend that Africa’s protectionist policies caused the continent’s marginalisation in international trade arguing that such policies led to African countries’ inability to remain competitive in international markets. It

¹¹ Little et al. calculated effective rates of protection in a number of developing countries and proved how wasteful and inefficient were import substitution policies.

¹² It should be noted that OECD countries cut their average tariff level from 6.1 to 3.9 percent, a 36 percent decrease, after the Uruguay Round negotiations.

¹³ Statistics are from Ng and Yeats (1997).

¹⁴ On how non-tariff barriers have been more harmful to Africa’s trade, see Yeats et al. (1997).

should, however, be pointed out that a growing number of African countries have made commendable efforts towards adopting more open policies as the export-oriented growth model enjoys a wider consensus among development experts.

27. Another policy development that prevented African countries from facing international competition was the granting of trade preferences to almost all African countries. This came about following the adoption of the Generalised System of Preferences (GSP) within UNCTAD and, even more importantly, after the signing of the Lome Convention adopted by the European Economic Community (EEC) on the one hand and the African, Caribbean and Pacific (ACP) States on the other. Although the original objective of this initiative was to help ACP countries increase their trade with their partners in Europe, its unexpected impact was to isolate further these economies from international competition. Our argument is that this policy has killed the incentive for increasing efficiency in production and trade, and hence competitiveness in Africa. This is because the bulk of Africa's external trade "benefits" from these schemes ¹⁵-- about 60 percent of Africa's exports are directed to Europe and another 20 percent to USA and Japan that grant GSP privileges. Our view is also corroborated by the fact that although these schemes have been in operation for over three decades, the continent's participation in world trade has been declining steadily to their current marginal levels.

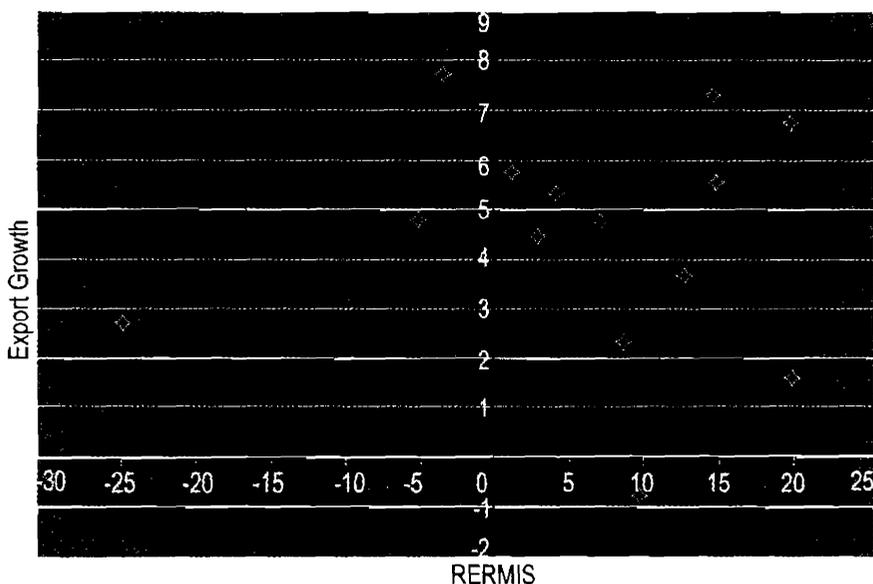
28. One other negative impact of Africa's excessive protection on its trade was currency overvaluation. Through the negative relationship between real exchange rate overvaluation and export promotion, the chances for increasing Africa's export competitiveness were compromised by currency overvaluations in most countries. As Elbadawi (1998b, p.2) notes, the relationship between the real exchange rate (RER), understood as the relative price of tradables to non-tradables, on export promotion has been rigorously investigated in behavioural models of utility and expenditure function in a number of studies. Elbadawi (1998a) shows three channels through which RER affects export performance. These are RER variability, its depreciation and its misalignment. Each of these has its own effect on export performance. The real exchange rate competitiveness is seen as a proxy for profitability of exporting¹⁶ while exchange rate stability is an important determinant of export supply response. The relationship between the real exchange rate misalignment and export growth is illustrated by data for a

¹⁵ Currently, around 95 percent of all Africa tariff lines enjoy duty free access to EU markets while these markets impose taxes as high as 20 percent on products from other developing regions.

¹⁶ Profitability of the export sector is measured in terms of real exchange rate misalignment relative to a RER equilibrium, see Elbadawi (1998a) for more details.

sample of 14 African countries, as shown in chart 3 below. It plots RERMIS as an explanatory variable of export growth. The plot suggests a negative relationship, as expected.

Real Exchange Rate Misalignment and Export Growth



29. In the same connection, Rodrik (1992, p. 95) notes that “an overvalued exchange rate wreaks havoc with macroeconomic balances by spurring domestic spending”. To complement this view, Dornbusch (1992) shows that exchange rate overvaluation taxes exports of traditional commodities while, at the same time, frustrating progress towards the development of an emerging manufacturing sector. Duties on intermediate and capital imports constitute a tax on export activities that use these inputs.

30. This contributes to overvaluation of the currency, which hurts export competitiveness leading to large government deficits and further overvaluation of the currency: the whole process becomes a vicious circle. In the light of this, exchange rate overvaluation has been considered as one of the most important impediments to promotion of the export sector in Africa¹⁷.

¹⁷ Analysts of African economies say that bad exchange rate policy is one of the most

31. The impact of exchange rate regimes on trade may also be captured through the concept of Real Effective Exchange Rate (REER). Because trade taxes on imports and exports increase the “real” exchange rate that is effectively used for international trade transactions, the concept of REER is also informative on the way trade taxes hinder trade expansion. The “true” cost of foreign currency for importers and the true export price need to integrate both import and export taxes that are encompassed in the REER. The REER for a given commodity is given by the following formula¹⁸:

$$\text{REER} = e (1 + t_{M_i} - t_{X_i}) \dots (1)$$

Where e is the nominal exchange rate, t_{M_i} is import tax and t_{X_i} is export tax. The deviation of the REER from the nominal exchange rate depends on the wedge between export and import taxes.

32. Inappropriate trade policies are also responsible for Africa’s failure to adapt its exports to the changing requirements in export markets. One important factor has been the fact that countries in Africa have not developed their manufacturing sector when the market for primary products was becoming threatened by technological advances and high competition from other regions. For instance, industrial countries that constitute Africa’s main export market have now developed industrial substitutes for primary products such as rubber, cotton, silk, mica, leather, timber and jute, most of the latter being still of particular export interest to African countries. In addition, countries in Africa have lost their market shares for commodities like palm oil, oilseeds, fruit and vegetable, sugar and honey, among others¹⁹ to competitors from other regions. As a result, developing countries that were successful in increasing their exports are those that managed to diversify their production –and exports both horizontally and, more importantly, vertically. Countries like the Republic of Korea, Singapore Taiwan, Thailand, Malaysia, Indonesia, etc. managed to maintain an average double-digit annual growth rate for their exports well above the world average of 11.57 percent from the period 1962-64 to 1992-94. For the same period, the average Sub-Sahara Africa’s annual export growth was only 5.41 percent, which represent less than half of the world average.

important factors that have harmed Africa’s competitiveness in the word economy.

¹⁸ For a discussion on REER, see Sadoulet and de Janvry (1995)

¹⁹ This information is based on “Impact of the Uruguay Round Agreements on Trade in Food products”, document E/ECA/TRADE/96/15; see also information contained in FAO’s SOFA Database.

(b) GDP Growth and other Macroeconomic Policies

33. The paper has already discussed the fact that GDP growth is a very important determinant of export growth (Rodrik, 1995; Ndulu and Ndung'u, 1997). We also know that although growth is narrowly associated with initial conditions, random shocks and changes in expectations, the current conceptual views on growth acknowledge that policy is a very important determinant of growth and statistical evidence supports this view (Easterly, 1995). It has been argued that export performance is negatively associated with macroeconomic instability that is often proxied by the rate of inflation, the parallel market exchange rate premium or the level of the fiscal deficit. All these three factors have displayed very high levels in most African countries, hampering the process of economic growth and hence export performance of these countries. Indeed the GDP deflator as a proxy for inflation has been on the rise in Africa since the mid-1970s from an annual average of 51.7 in the period 1975-84 to 182.7 in the mid-1990s. Similarly, the average government primary deficit for Africa as a whole has increased from an average 2 percent of GDP in 1975-84 to 8.8 percent in the period 1990 to the mid-1990s²⁰. These developments are thought to have played against Africa's export development. However, the parallel exchange premium has narrowed in most countries due to exchange policy reforms that have taken place since the 1980s.

34. On the quantitative impact of macroeconomic policies on growth--in some instances through trade--Easterly (1995) summarises interesting findings from recent previous studies. Because we cannot discuss the impact of any single macroeconomic policy on growth and trade performance, we are just presenting this information drawing from Easterly (1995, p.14). The following policy measures constitute a menu of policy choices at the disposal of policy makers to promote economic growth. Each of these policies has the power to raise economic growth by one percentage point:

- ◆ An increase in the years of schooling of the labour force by 1.2 years through increased public provision of primary and secondary education;
- ◆ A reduction in the role of the central bank in credit allocation--reducing the central bank's share in total credit by 28 percentage points;
- ◆ An increase in public investment in transport and communications by 1.7 percentage points of GDP;

²⁰ Data from African Development Indicators 1997.

- ◆ A decrease in the rate of inflation by 28 percentage points;
- ◆ A reduction in the government budget deficit of 4.3 percentage points;
- ◆ A reduction of the parallel market premium by 36 percentage points through unification of the foreign exchange market.

35. The impact of these policies on export growth is straightforward. As already discussed or as this is going to be discussed shortly, trade benefits from educated labour force through schooling, better transport and communications infrastructure, reduction of inflation and the premium, as well as from a decrease in the budget deficit. It is, therefore, clear that combining these policies would produce a powerful result on growth.

(c) Physical and Infrastructural Constraints

36. Sachs (1997) contends that Africa's trade has not only been hampered by bad policies, but also by the physical geography of the continent. He posits that the fact that the majority of Africa's populations live in the interior rather than in the coast is not conducive for trade development, especially in a context of poor infrastructure and poor technology that characterise the continent. This situation is compounded by the "tropical factor" which implies that countries within the tropics (90 percent of Sub-Saharan African countries) suffer from a number of tropical diseases that have been eliminated in other parts of the world. This is, for instance, the case with malaria which, according to Sachs, has been "squeezed

in the tropics". Poor health in such countries which happen also to be too dependent on labour intensive technologies has an obvious negative impact on production and hence on trade.

37. The physical geography factor needs to be understood not only in terms of a given country taken individually, but also in terms of the country's interaction with its neighbours. Sachs (1997) states that "individual countries in Africa are held back not just by their own policies, but also by the policies of their neighbours as well". The "neighbourhood effect" (Easterly and Levine, 1994) is an important factor explaining trade performance of a number of African countries, especially land-locked countries which are heavily dependent on their neighbours' infrastructure and policies. In other words, neighbouring countries impose each other the consequences of their bad policies. For instance, African countries within a region face, both individually and as a group, high inland transportation costs to port facilities due to poor maintenance of either their own transport infrastructure and streamlining of their management systems, or those of their neighbours. In this connection, Nkurunziza (1997) shows that Burundi pays between one-third to half of its export earnings to cover freight costs

pertaining to its international trade. This is very high by any standards. The main reason for such a high cost is that the country is landlocked and, therefore, is heavily dependent on its neighbours' poor infrastructure and transportation policy. There is good reason to believe that Burundi's case is not an isolated example. All landlocked and island countries suffer, in a way or another, from this situation²¹. To compound the problem, uncertainty associated with poor infrastructure means that African firms have to service high inventories, increasing production costs and hence decreasing competitiveness of their products.

38. Reflecting on a possible solution to this problem, Hertel et al. (1998) estimate, using GTAP Model, that if Africa cut its freight cost by 20 percent to bring it to the same level as in other developing countries, export could grow by 8 percent and non-grain crop production by 2.6 percent. These reforms could be achieved at very low financial cost just by putting in place institutional measures needed to cut down delays in customs clearing, problems in coordination and logistics and reduce the high markups by monopoly transporters. Although imports would also rise, it is estimated that net exports would still be positive. This shows that there are possibilities for improvement and some of the policies that need to be initiated would not cost much in terms of financial resources. To put in place such reforms, the main action needed is commitment on the part of policy makers. Sachs (1998) also makes it clear that Africa's hostile geography should not be viewed as a fateful problem against which policy makers are powerless. He actually advocates infrastructure development and appropriate trade policies as a solution to the problem.

(d) External Factors

39. Two categories of external factors are briefly discussed. These are trade protection in industrialised countries and external shocks.

40. Although industrialised countries have cut their tariff rates to an average level as low as 3.9 percent following the Uruguay Round of Multilateral Trade Negotiations, entry for a number of products of special importance to African countries is still highly restricted. This is the case with textiles and clothing, fisheries, some agricultural and livestock products, etc. The form of protection has shifted from tariff to non-tariff barriers. A 1991 World Bank study quoted by Varma (1995) found that, for the period 1966-1986, NTBs increased by 20 percent in USA, 40 percent in Japan and 160 percent in the European Community. Up to 88,500 items from developing countries were facing these

²¹ Note that Africa has the highest number of landlocked countries in the world

barriers. The study also noted that from 1987 to 1991, the percentage of developing countries' exports facing NTBs in these markets increased from 18 to 34 percent. For the year 1992, the following were the average levels of NTBs facing selected categories of products of interest to African countries: clothing: 69 percent; textiles: 43 percent; oilseeds and nuts: 42 percent; food and live animals: 37 percent; and, footwear: 22 percent.

41. Nowadays, environmental and human rights considerations have added a new dimension to trade protection by developed countries. The persistent insistence of industrialised nations to add to the WTO multilateral framework an Environmental and a Labour Standards Agreements illustrates the way these countries are now relying more on NTBs to protect their trade. Therefore, no wonder that products such as fisheries, livestock, leather, and other handicrafts from African countries are currently finding it difficult to penetrate these markets. Other NTBs imposed by industrialised countries include "orderly marketing arrangements, voluntary export restraints, minimum price regime, quantitative restrictions, arbitrary customs valuation, border fiscal charges, documentary controls, consular formalities, marketing and labeling requirements, health and sanitary regulations, stringent consumer safety standards and testing and packaging requirements" (Varma, p.29). In this connection, the recent ban imposed by the European Union on fish imports from East Africa was perceived by exporters in countries like Uganda, Tanzania and Kenya as a way of protecting the European market from competitors from this region.

42. The second category of external factors is the impact of external shocks. Within this category, the terms-of-trade (TOT) shock is one of the most commonly investigated external shocks to African economies²². Terms of trade constitute an important indicator of trade performance because they measure a particular country's gains from trade. As Easterly (1995) explains, growth in developing countries has been volatile as a result of terms of trade shocks, both positive and negative. Using the variance decomposition technique, it is shown that TOT is the second most important determinant of fluctuations on domestic output after domestic supply factors. Similarly, the results of impulse response technique based on a 14-year time span confirm the fact that, in Africa, negative TOT shocks have usually had a long-term impact on output contraction²³.

²² International trade literature distinguishes a number of different concepts of terms of trade. The major ones are: gross barter terms of trade; net barter or commodity terms of trade; income terms of trade; single factorial terms of trade; double factorial terms of trade; real cost terms of trade; and utility terms of trade. The most widely used concept is that of net barter or commodity terms of trade which is adopted in this study, unless otherwise specified.

²³ These results are in tables and figures contained in Hoffmaister et al. (1997)

43. In Africa, the impact of TOT shocks has manifested itself in two ways. The most obvious way has been revenue loss by most countries since the mid-1970s due to TOT deterioration. From 1900 to 1986, the long-term barter terms of trade between primary commodities and manufactures fell by an average 0.6 percent a year (Ardeni and Wright, 1990). This hit hard African countries that rely mainly on primary commodity exports. In a study analysing the sources of macroeconomic fluctuations in Sub-Saharan Africa, Hoffmaister et al. (1997) find that terms of trade in Africa decreased by an average 1.6 percent annually for the period 1971-1993. Similarly, as World Bank (1998) data shows, the period covering the second half of the 1980s and the early 1990s was also characterised by unfavourable terms of trade for African economies. Most recently, between 1990 and 1996, the average annual percentage change in Africa's terms of trade was either zero or negative for more than three quarters of African countries²⁴. As a result, countries in the continent need to export now two to three times their 1970s volume to attain the same level of income. TOT deterioration has led to stricter trade controls, overvaluation of currencies and large budget deficits, hampering the promotion of the export sector.

44. The second way TOT has affected African economies has been through their distortionary impact on the economy. Many countries in Africa, including Nigeria and Côte d'Ivoire, recorded positive but temporary terms of trade shocks especially following the commodity boom of the 1970s. However, these countries failed to manage wisely the resources derived therefrom. As a result of the income effect of these temporary TOT shocks and its poor management, RER appreciated in these countries, harming the export sector and hence economic growth. Indeed, Elbadawi (1998b) states rightfully that, in terms of trade competitiveness, mismanagement of a positive but temporary TOT shock could be the most costly mistake a policy maker could make. This reinforces Easterly's (1995) view that a negative TOT shock can have a devastating impact on the economy comparable to that of a civil war. Most countries in Africa have experienced this situation. In this context, in view of the evidence gathered on the trend of TOT during the 1980s and early 1990s in Africa, it is widely accepted that TOT shocks have had an important negative impact on Africa's trade performance and growth over the last two decades. What made the situation even worse was the fact that TOT shocks were combined with poor economic policy²⁵.

²⁴ See data in World Bank, African Development Indicators 1998

²⁵ It is important to note that in some cases bad policy is a result of unfavourable TOT. This is, for instance, the case with imposition of exchange controls due to the decrease of foreign reserves. In some other cases, bad policy worsens the impact of a negative TOT shock (one example given by Easterly is the poor manner in which Nigeria managed its

45. Aid is another external shock that has had an important impact on Africa's external trade performance. Empirical results in Elbadawi (1998b) support the fact that the impact of aid on growth in Africa follows a Laffer curve pattern. This result confirms the fact that aid helps growth until it reaches a threshold level when it starts becoming a burden to the economy. The threshold level for Africa is estimated to be at 97 percent of GDP. More interesting, Elbadawi (1998a) finds evidence for a Laffer curve effect of ODA on non-traditional exports. In the right part of the Laffer curve, aid hampers the export sector through three channels that are interrelated. First, although normally considered to be a source of economic growth, recent research has underscored the fact that external assistance has tended to substitute to domestic resources. Its immediate result has been to discourage the economy to raise domestic resources, through export expansion among others. This has been due to a number of institutional factors including lack of aid ownership; weakening of local institutions in charge of mobilising domestic resources through the promotion of the export sector, among others; lack of integration of aid in national budgets; etc²⁶. For these reasons, aid has indirectly tended to frustrate African countries' efforts towards widening their export base and their competitiveness. Secondly, empirical evidence shows that unsustainable levels of aid have tended to be associated with exchange rate overvaluation, hindering the countries' export competitiveness as discussed in earlier developments. Thirdly, high levels of aid service have had a crowding out effect on investment and hence on growth and trade expansion in many African countries. It should also be noted that aid overhang has a negative "signaling effect" on foreign investors who associate high levels of aid with macroeconomic instability.

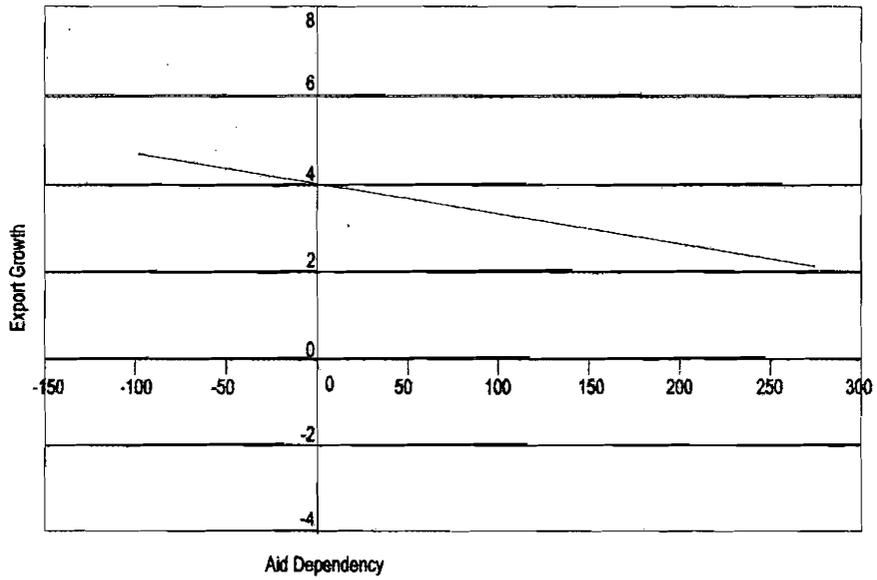
46. The following chart 4 illustrates the negative relationship between aid overhang and export growth. Aid overhang is represented by aid dependency ratios for a sample of 14 countries. The ratios were computed by Elbadawi (1998b), comparing the current level of aid relative to the calculated sustainable level. These ratios are plotted against export growth rates and the result obtained shows a clear negative pattern. This empirical result shows that aid dependency hampers export growth, at least for the 14 countries in the sample²⁷.

negative oil shock in the 1980s, which worsened the impact of the shock on the economy while Indonesia, facing a similar shock, limited its impact through better policy).

²⁶ However, as Collier (1998) shows, aid is still important for Africa's economic growth provided its level falls in the left part of the Laffer Curve. In addition, Dollar and Easterly (1998) referring to work by Dollar and Burnside (1997) suggest that aid is only beneficial in a conducive policy environment.

²⁷ At least half of African countries in the sample appear to be aid dependent

Aid Dependency and Export Groth



IV. Africa's Trade Performance:²⁸ Empirical Evidence

4.1 Framework of the Analysis

47. The objective of this chapter is to run a panel regression of the trade variable on the main explanatory variables identified in the literature review. The panel regression covers 99 developing countries, among which 45 are from Africa. The results of the regression uncover the main determinants of Africa's external trade performance. The regression is based on the following basic equation:

$$\alpha_t = \alpha (X, Y, \Phi) \dots\dots\dots (2)$$

where α_t is the rate of growth of exports at year t ; X is a vector of variables representing domestic policies; Y is a vector of variables representing supply factors in the economy; and Φ represents external factors. The variables of the model are as follows:

- (i) The dependent variable is export growth (XGRO). Use of this variable is based on the fact that, as earlier explained, Africa's marginalisation in world trade has been due to the fact that African countries have not been able to "trade enough". In other words, they have failed to increase their exports in world markets at a pace consistent with the increase in world trade.
- (ii) XGRO is regressed on the following explanatory variables:
 - XGRO lagged one period ($XGRO_{t-1}$) which represents the inertia effect of past export performance on current exports;
 - variation in real GDP growth ($\Delta RGDPGR$) which represents the increase in supply capacity of the economy to back export growth;
 - export price index (XPI) and its one-period lagged value meaning that exports respond to current and price levels; this is consistent with the basic export function;

²⁸ The results in this chapter are based on Ndulu and Ndung'u (1997)

- Inflow of external debt represented by the first difference of the ratio of external debt to GDP (ΔDY); this variable represents the inflow of financial resources into the economy to finance the export effort;
- TOT shocks (TOTSHK) computed as $[(P_{X_t}/P_{X_{base}}-1)*(X/GDP)_{t-1}] - [P_{M_t}/P_{M_{base}}-1]*(M/GDP)_{t-1}]$ where P_x and P_m are export and import price indices, respectively, deflated by the US GNP deflator; $P_{x_{base}}$ and $P_{m_{base}}$ are the average export and import indices, respectively, for the preceding three years; X and M are, respectively, the exports and imports of goods and non-factor services;
- ΔRER represents exchange rate variability (stability) as an important determinant of export supply response;
- RERMIS represents real exchange rate misalignment to account for profitability of exporting
- MGDGPR represents the growth of import to GDP ratio. It is included to capture the impact of imported inputs on export growth;
- inflation (INF) variable is included to account for macroeconomic stability
- A variable on debt service (DSX) is included to capture the “crowding out” effect of debt on investment and hence exports
- A variable on human capital (LSCHOOL) is also included to account for the quality of human capital as an important determinant of export growth. Inclusion of this variable may be explained based on the fact that the quality of labor is directly associated with productivity and hence export competitiveness. High quality human capital also attracts foreign investment, which in turn is an ingredient in the production and marketing of competitive exports. The variable is proxied by the average number of years in school.

48. The expected signs of the different coefficients are as follows:

$$\partial XGRO/\partial XGRO_{t-1} > 0; \partial XGRO/\partial (\Delta RGDGPR) > 0; \partial XGRO/\partial XPI > 0;$$

$$\partial XGRO/\partial XPI_{t-1} > 0; \partial XGRO/\partial \Delta DY > 0; \partial XGRO/\partial MGDGPR > 0;$$

$$\partial XGRO/\partial LSCHOOL > 0; \partial XGRO/\partial TOTSHK < 0; \partial XGRO/\partial \Delta RER < 0;$$

$$\partial XGRO/\partial RERMIS < 0; \partial XGRO/\partial INF < 0; \partial XGRO/\partial DSX < 0.$$

4.2 Empirical Results

49. In view of the fact that there is simultaneity between export growth and GDP growth, the results are derived from an equation of exports which is run simultaneously with a growth equation using basically the same variables. However, we only report, in the following table 2, the results of the export equation. The method of estimation is Full Information Maximum Likelihood (FIML).

Table 2: Regression results of the Export Growth Equation

Variable	Regression Results	t-values
Constant	-5.184	-5.349
XGRO _{t-1}	.862	91.15
ΔRGDPGR	.161	19.59
XPI	.021	3.89
XPI _{it}	.054	11.14
ΔDY	.254	27.11
TOTSHK	-.117	-16.33
ΔRER	-.0429	-6.320
RERMIS	-.0061	-.963
MGDPGR	.427	64.40
INF	.0185	2.74
DSX	-.156	-18.640
LSCHOOL	.0111	1.84
R ²	.91	-

50. All the variables RERMIS and LSCHOOL are highly significant at 5 percent significance level. LSCHOOL is significant at 10 percent significance level. The goodness of fit is satisfactory with an $R^2 = 0.91$. Moreover, all variables have expected signs except for the inflation variable that comes out with a positive sign. A closer investigation may explain this positive sign. It is now accepted that a low level of inflation not only does not have any negative sign on production and exports but it actually boosts them. Inflation becomes a problem when it reaches a certain threshold. Recent empirical studies have considered inflation to hamper growth when its rate exceeds 40 percent (see for instance Sachs and Warner, 1997).

51. In order to determine the relative importance of the variables in the regression, beta-Coefficients are computed, based on the results of table 2²⁹. The results of the computation are summarised in the following table.

Table 3: Beta-Coefficients for the Export Growth Regression

Variable	Beta-Coefficients	Ranking
XGRO _{t-1}	26.75	2
ΔRGDPGR	4.93	8
XPI	6.51	7
XPI _{t-1}	6.82	6
ΔDY	23.65	3
TOTSHK	-6.98	5
ΔRER	-1.53	10
RERMIS	-0.028	12
MGDPGR	35.9	1
INF	0.23	11
DSX	-9.01	4
LSCHOOL	2.186	9
Explained	85.569	
Unexplained	14.431	
TOTAL	100	

52. Based on this table, the most important determinants of African countries' export growth are import growth, exports lagged by one year, financial resource flows into the country, and export prices (both current and lagged). As expected, debt service and terms of trade shocks have a very important negative impact on export growth. Exchange rate variables, namely real exchange rate misalignment and exchange rate instability have a negative but mild impact on export growth; their Beta-Coefficients are the lowest.

²⁹ Beta-Coefficients are computed by multiplying the regression coefficient by the ratio of its standard deviation over the standard deviation of the dependent variable.

V. Conclusion

53. One interesting conclusion of this analysis is that in Africa, although trade and economic growth have been influencing each other, the most powerful relationship is that from growth to trade. In this context, it could be concluded that Africa's marginalisation in world markets has been primarily due to weak production by African countries. This is, indeed, supported by the fact that Africa has often failed to take advantage of its preferential status provided for in such mechanisms like the Lome Convention and the GSP schemes. This situation also illustrates the fact that supply side factors are still key determinants of Africa's performance not only in terms of export growth but also in terms of economic growth in general. Any strategy aimed at helping Africa play a bigger role in the international trading system needs to be, first and foremost, based on a sound policy of increasing the production capacity of African economies. However, to achieve trade expansion, production capacity needs to be complemented by physical and non-physical support infrastructure such as good road networks, reliable telecommunications services, banking services, etc. as well as policies conducive for the development of the export sector.

54. Putting in place right policies is an essential ingredient into the development of the export sector. For instance, it is now widely agreed that "Open economies work better" (Ng and Yeats, 1997); however, despite this fact, African economies are still highly protected relative to other regions. Although commendable efforts have been made towards opening up African economies during the last two decades, there is still a need to push these reforms a step further. Indeed, according to the beta-coefficients computed in table 3, the most important variable explaining export growth is the growth of imports. This result is very much in line with theory since for economies such as those in Africa where technology and capital goods are almost exclusively imported, imports enter as inputs into the production of exportables. Experience both in Africa and in other developing regions has shown that economies that were able to increase their efficiency and competitiveness in the world economy have been those that were able to attract inflows of investments and technologies through minimum protection. In view of this, it should be recommended that trade barriers, both tariff and non-tariff, be further reduced at least to the levels prevailing in other developing regions.

55. Macroeconomic policies that impact on trade are also found to constitute an important hindrance to trade promotion. Price and exchange rate stability has an

important direct effect on the profitability (competitiveness) of exports. As most countries in Africa have liberalised their exchange rate regimes, current efforts should focus on improving the management of the trade and other sectors of the economy to ensure macroeconomic stability as well as a competitive and stable exchange rate. In addition, countries should promote export diversification policies for at least three reasons:

- ◆ diversification of the export sector would reduce the negative impact of terms of trade shocks that have been found to be an important impediment to export growth;
- ◆ diversification also increases the amount of domestic resources available in the economy, decreasing the dependency on external resources, mainly in the form of aid and debt; this would help to avoid their adverse consequences such as their crowding out effect on investment;
- ◆ vertical diversification would introduce new dynamics into African economies by enabling them to enter new and higher value-added product markets. It should be recalled that, as discussed in the paper, one of the reasons why Africa is marginalised is that it has not adapted its products to the new needs of international markets, which have been shifting from primary commodities to processed products.

56. The dynamic effect of export promotion policies is an important dimension in devising trade development strategies. The fact that the lagged value of export value is the second most important variable explaining export growth is quite interesting. It suggests that past policies have an important influence on future performance. To put it differently, once an economy is put on the right path, past performance keeps fueling future performance. Conversely, bad past performance is reflected in future performance. There is, therefore, a time dimension reflected in a compounded effect of past export performance on future performance. In terms of policy, this suggests that reforms aimed at increasing the performance of the export sector should not be delayed because the opportunity cost of delaying such reforms grows at a compounded rate. Countries should be urged to undertake trade reforms as early as possible because their "inertia effect" would guarantee, *ceteris paribus*, their sustainability.

57. The paper, finally, draws the attention of African policy makers on the specific policy actions spelt out in this paper. The most specific among them are those proposed by Easterly (1995) and Hertel et al. (1998) and reproduced in this paper. Most of these actions are institutional by nature and require only commitment and responsible management by African leaders to be implemented. Past experience has shown that to be successful, any reforms need to be

“understood and owned” by those in charge of putting them in place. Currently, in the trade sector, there is not much controversy as to what constitutes good policy. However, a lot still needs to be done in terms of increasing the responsiveness of African policy makers to research conclusions like this one by convincing them that they can benefit from their implementation. One way to achieve this, in our view, is to complement regional studies like this one by specific country studies.

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