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*NEW TRADE OPPORTUNITIES FOR AFRICA:
A SURVEY OF LITERATURE AND EXPERIENCES*

DRAFT

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What Are New Trade Opportunities?

What are "new trade opportunities" for Sub-Saharan Africa (SSA)? How can Africa take advantage of them? What kinds of trade and investment promotion mechanisms have been employed by other countries and trade blocs? What has been their record of success to date? What is the expected effect of recently negotiated international and regional trade agreements on Africa's opportunities for expanded trade? What factors have blocked and continue to constrain Sub-Saharan African countries in their exploitation of new trade opportunities? What topics can be suggested for examination by EAGER/Trade researchers?

This paper will survey several broad bodies of literature to come up with answers to these questions.² The first evaluates the process of identifying trade opportunities, including comparative advantage and competitiveness analyses. The second explores specific trade and investment promotion mechanisms. Another set of writings covers analyses of the expected effects of the Uruguay Round and regional trade negotiations on Sub-Saharan Africa's trade opportunities.

In this paper, we define "new trade opportunities" in three ways. The first is with regard to *new products*. As marketing researchers increasingly nuance their consumer targets, new products, both goods and services, are constantly being identified to satisfy niche markets.³

The second definition of new trade opportunities is from the perspective of *new markets* for traditional and non-traditional exports. Sub-Saharan Africa has traditionally sent its exports to Western Europe. Today, other markets beckon, both far and near. African exporters are developing commercial links to markets around the world. At the same time, they are being encouraged to seek new commercial links in markets just across domestic borders, in neighboring countries, within Sub-Saharan Africa.

¹ Salinger, Senior Economist with Associates for International Resources and Development, is the main author of the paper. Amvouna, a summer intern at AIRD from Cameroon via the University of Clermont-Ferrand, contributed the review of Asian and Latin American experiences with trade and investment promotion. Savarese, a consultant to AIRD, assessed the effect of international and regional trade agreements on SSA's new trade opportunities.

² As with Metzger and Phillips, this survey will limit itself largely to literature produced during the last ten years.

³ Official government statistics on services trade seriously underestimate the extent of international trade. "Services" is a huge catch-all sector, including everything from house cleaning, food preparation, and data processing to tourism, finance, medicine, entertainment, and computer software. "De-integration of service activities," or the outsourcing by manufacturing firms and households of services which were once handled in house, is creating a surge in business opportunities as outside service providers. While many of these activities are transacted solely at the domestic economy level, competition for provision of services is increasingly occurring at the international level. Porter (1990), pp. 239-276.

Finally, "new trade opportunities" also refers to *new modes of trade*. Trade does not come about simply because one country sells a product on the international market which is bought by another. Today, it is increasingly nurtured via subsidiary, partner, strategic alliance, and other off-shore contracting relationships between sellers and buyers around the world. It is being led by new modes of contracting for primary and processed materials, technology sharing, marketing, transmission, and delivery of products and services. And it is being shaped by firms competing on the basis not just of traditional comparative advantage (i.e. lowest factor cost), but also of competitiveness (quality, in the broadest sense of the word).

New Products

The biggest surge in international trade today comes from non-traditional exports, as opposed to bulk commodities. In agriculture, this means a wide range of fresh and processed specialty products, while in manufacturing, office and telecommunications equipments represents the most dynamic trade category, exceeding trade in agricultural or mining products.⁴

"Non-traditional exports" is a commonly used phrase today. Traditional exports from Sub-Saharan Africa include primary food and agricultural commodities and by-products (such as coffee, cocoa, tea, oil palm, groundnuts, cotton), hides, timber, and ores and minerals. "Non-traditional exports" loosely refers to all other products which either have not been traditionally produced in the region or have only been produced for domestic consumption.⁵ As used in this paper, non-traditional exports may comprise non-traditional bulk commodities, high-value foods and non-food crops, semi-processed foods and raw materials, basic and sophisticated manufactured products, including Afrocentric products for the Afro-American and "ethnically-oriented" consumer.

Success stories for agricultural non-traditional exports range from Chilean stone fruits and wine (Barriga, 1990) to Kenyan green beans (Jaffee, 1993) to Thai dried cassava chips. In some cases, trade in these products is growing due to rising consumer incomes in industrial countries, in other cases, in response to policy distortions in importing countries.⁶

⁴ World Trade Organization, "World trade expanded strongly in 1995 for the second consecutive year," *FOCUS*, no. 10 (May, 1996). Trade in clothing, on the other hand, expanded significantly less than the average for all manufactured goods, a phenomenon which was particularly pronounced in China and Hong Kong. See footnote 8.

⁵ "The use of the concept 'non-traditional' is relative. Some products that are 'traditional' exports in one country are 'non-traditional' in another. For example, grapes are now traditional in Chile, but not in other Latin American countries. Given this complexity, some analysts prefer to use the term 'high value' exports when referring to these emerging diversified crops." Bradford Barham, M. Clark, E. Katz, and R. Schurman, "Nontraditional Agricultural Exports in Latin America," *Latin American Research Review*, 1992, vol. 11, no. 26, cited in Thrupp et al. (1995), p. 2.

⁶ In the case of dried cassava chips, for example, Thailand led the surge in this commodity exploiting loopholes in the European Union's (EU) feedgrain import policies which protects domestic grain production, while leaving the tariff door open for oilseed and other feed imports. Africa has followed Thailand into the European market for cassava. However, African cassava shipments to the EU were expected to fall by 37% to 3.4 million tons because of the fall in EU grain prices following reforms to the EU Common Agricultural Policy. See "Africa tops the cassava stakes," *Africa Analysis* (17 November 1995).

Total world exports grew by 4.8% between 1980 and 1991, while total developing country exports expanded by 2% over the same period.⁷ Thirty-one categories of world exports exhibited growth rates in excess of 10% over this period, compared with 91 categories of developing country exports. Table 1 compares the ten fastest growing world and developing country export categories, for all products and for food and agriculture products only. A brief comparison suggests that the fastest growing export categories for both developing countries and global trade are quite sophisticated manufactures; manufactures now account for more than half of all *developing* country exports (IFC, 1990).

Table 1
Top Ten Fastest Growing Export Categories
1980 to 1991

World Exports Category	Growth Rate	% 1991 Trade	Developing Countries Exports Category	Growth Rate	% 1991 Trade
Overall Exports					
<i>Office/adp machinery parts</i>	17.4	1.51	<i>Automatic data proc equipment</i>	42.8	2.22
<i>Automatic data proc equipment</i>	16.7	2.06	<i>Office/adp machinery parts</i>	29.6	1.39
Musical instruments, parts	15.0	0.57	<i>Optical instruments</i>	27.7	0.07
Transistors, valves, etc.	14.8	1.86	Products of condensation etc.	26.2	0.19
<i>Leather etc. manufactures</i>	14.4	0.12	Coal, lignite and peat	24.2	0.13
Articles of plastic	12.4	0.88	Iron, steel castings unworked	23.9	0.07
Perfumery, cosmetics, etc.	12.4	0.31	Polymerization etc. products	23.5	0.87
<i>Optical instruments</i>	12.4	0.12	Knitted, etc fabrics	22.2	0.39
Undergarments knitted	12.3	0.39	<i>Leather etc. manufactures</i>	22.0	0.36
Medical instruments	12.3	0.31	Iron, steel primary forms	20.8	0.55
Food/Agriculture Exports					
<i>Cereal etc. preparations</i>	11.3	0.30	<i>Fish, prepared, preserved</i>	12.8	0.47
<i>Shell fish fresh, frozen</i>	11.1	0.35	<i>Cereal etc. preparations</i>	10.9	0.12
<i>Fish, fresh, chilled, frozen</i>	10.5	0.45	<i>Shell fish fresh, frozen</i>	10.9	0.95
<i>Edible products, preparations</i>	10.3	0.24	Sugar preps non-chocolate	9.7	0.05
Leather	8.7	0.27	<i>Edible products, preparations</i>	9.4	0.11
Chocolate and products	8.6	0.13	<i>Fruits, preserved, prepared</i>	8.5	0.48
Vegetables, fresh, simply preserved	8.5	0.54	<i>Fish, fresh, chilled, frozen</i>	8.4	0.59
<i>Crude vegetable matter</i> (incl cut flowers)	8.3	0.34	Milk and cream	8.4	0.04
<i>Fish, prepared, preserved</i>	8.3	0.19	Live animals for food	7.9	0.22
<i>Fruits, preserved, prepared</i>	8.3	0.27	<i>Crude vegetable matter</i> (incl cut flowers)	5.7	0.30

Note: Categories appearing in both columns are listed in italics.

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1993*

⁷ UNCTAD, *Handbook of International Trade and Development Statistics, 1993* (New York: United Nations), Table 4.3.

In relative terms, exports of food, beverages, fats and oils, and agricultural raw materials represented a declining share of total world exports in 1991 compared with 1970 (from 20% to 12%); see Table 2. In contrast, exports of machinery and transport equipment, textiles/fabrics/ clothing, and other manufactures represented an increasing share of total world exports in 1991 compared with 1970 (from 62% to 71%). For developing countries exports, the trends were the same (food etc. from 36% to 14%; manufactures from 26% to 65%). Yet for the SSA countries, primary commodity exports still represent nearly two-thirds of their total value of exports, estimated as the average share weighted by 1986 GDP per capita (Barry and Beltchika, 1996).

Table 2
Breakdown of Exports by SITC Code
(percentages)
1970 and 1991

	Food, Beverages, Agricultural Raw Materials, Fats/oils, (1)		Manufactures (2)	
	1970	1991	1970	1991
	World	20	12	62
Developing country	36	14	26	65

Notes: (1) SITC codes 0, 1, 2 (minus 27, 28), 4
(2) SITC codes 26, 6 (minus 68), 7, 8

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1993* (New York: United Nations), Tables A.1 through A.11.

As noted above, the "new products" category may also comprise services. While world merchandise exports in 1995 totalled 5,020 billion dollars (\$3,750 billion, excluding European Union intra-trade), world exports of commercial services in 1995 are estimated to have amounted to 1,230 billion dollars, or 25% of merchandise export value.⁸ New categories are also emerging in the services sector. For example, exports of "other private services," such as insurance, banking, and telecommunications, outperformed exports of traditional services, such as tourism and transportation services.

A number of researchers have begun to explore the structural factors contributing to these trends. Jaffee (1993), looking at exports of high-value food commodities, covers fifteen case studies of commodity systems in a range of low-, middle-, and high-income countries. He attributes the increase in their demand to increased disposable incomes, urbanization, and growing health consciousness. In addition, growth is shaped by their positive income elasticities of demand, in contrast with negative income-demand elasticities for staple commodities.⁹

⁸ World Trade Organization, "Overview of world trade in 1995 and outlook for 1996," *FOCUS*, no. 10 (May, 1996).

⁹ Jaffee (1993) cites other sources for industrialized economy income-demand elasticities for cereals of -0.2, compared with +0.25 to +0.38 for meat, eggs, fruit, and vegetables. In developing countries, the

Honma (1991), evaluating the growth in Japan's horticultural trade with developing countries, credits technological advances in transportation and communications, rising marketing sophistication, and increased coordination of regulation enforcement between exporter and importer country for facilitating a growth in demand of developed country consumers for increasingly cosmopolitan products. While price factors have contributed to rising horticultural imports in Japan, Honma cautions that FOB prices typically represent a small portion of the end price paid by Japanese consumers, suggesting that future competition will focus on improving efficiency of domestic and international distribution to reduce cost.¹⁰

One U.S. marketing research firm has identified evolving trends in lifestyles of an increasingly multivariate U.S. population, in turn suggesting new ideas for goods and services and appropriate marketing strategies (see box below).

Consumer Lifestyle Trends in the U.S.

BrainReserve, a U.S. marketing research firm in the U.S. (president, Faith Popcorn), has identified ten important trends in the U.S., which have implications for the kinds of goods and services the U.S. consumer is buying today:

- 1) "cashing out," or the impulse of career persons to downshift to slower paces of life,
- 2) "cocooning," or the impulse to turn one's social attentions inward to the home and family,
- 3) "down-aging," or the tendency for older citizens to act younger than one's age,
- 4) "egonomics," or the trend to participating in narrowly defined interest groups to define one's individuality,
- 5) "fantasy adventure," or the desire to go beyond the boundaries of day-to-day living,
- 6) "99 lives," or the needs of busy people for products to assist in juggling multiple day-to-day roles and responsibilities,
- 7) "save our society," or the desire of some consumers to contribute to improved social and environmental realities,
- 8) "small indulgences," or the desire for affordable extravagances, however small,
- 9) "staying alive," or the trend toward healthy lifestyles, and
- 10) "the vigilante consumer," or the desire of some to do business only with socially responsible commercial entities.

Taken from Faith Popcorn, *The Popcorn Report* (1991), reprinted in Kotler, pp. 152-153.

Other research is beginning to explore some of the environmental, social, and economic problems associated with exploding non-traditional export growth. Thrupp et al. (1995), exploring the impact of non-traditional agroexport expansion (NTAE) in Latin America, argue that such growth has favored well capitalized producers above smallholders by virtue of the investment costs, complexity of production and marketing logistics, and riskiness due to price variability and product

income-demand elasticity of cereals is positive, but low (+0.16), while those of the above mentioned high value commodities range from +0.61 to +1.00.

¹⁰ The price paid for bananas at Philippine ports is just 10 percent of the retail price paid by Japanese consumers; 90 percent of the price goes to distribution costs (p. 75).

perishability. This may have production diversity, distributional, environmental, and worker safety consequences.

With regard to production diversity, while NTAE expansion at the sectoral level can result in increased diversification of production and export revenues, the effect at the producer level may be to *increase*, not decrease, monoculture, in response to market demands and efficiency considerations.¹¹ Distributional effects may be adverse if growth in NTAE production results in decreased use of labor due to industrialization and mechanization of production and to increased concentration of land as the capitalized farms expand their holdings. Such effects are further exacerbated by the more limited access of resource-poor producers to advanced technology, marketing, and entrepreneurial experience. There are also potentially adverse environmental and worker safety consequences of NTAE growth. Production usually relies on more intensive agrichemical applications, absorbing as much as 25 to 35 percent of total production cost. This has several implications. Detection of agrichemical residues by importing countries can result in rejection of shipments and loss of revenue. Moreover, the continued and intensive use of such chemicals over time can lead to pest resistance, on the one hand, and hazardous worker safety conditions, on the other.

Strategies identified by Thrupp et al. to ameliorate these potential "bitter" effects of NTAE expansion include: (1) promotion of truly participatory approaches, including poorer farmers and workers, to sustainable agricultural development; (2) promotion of a policy environment which mitigates the most egregious effects of NTAE expansion, including pesticide regulation, elimination of subsidies for pesticides, the implementation of environmental impact reviews of agro-export programs, provision of equitable access of credit, technical assistance, advanced inputs, and trade and marketing services to all farmers; (3) promotion and development of sustainable agricultural technologies and practices, including integrated pest management, organic practices, and crop diversification; (4) balance policy attention toward local vs export production, placing priority on alleviating hunger and fulfilling local food security needs; (5) assistance to low status producers and workers to overcome barriers and promote equitable opportunities; and (6) increase information and access to it on market conditions and impacts of agroexports.

Other researchers have been less pessimistic about NTAE practices. Von Braun et al. (1989) examined the impact of labor-intensive vegetable production for export in Guatemala. Their study does note the increased vulnerability of small farmers due to the combination of price variability and purchased input intensity. Price variability has been mitigated, however, as investments have been made in diversification of marketing opportunities, improved local processing, and the freezing of fresh produce. Spread effects from the use of modern inputs on the export crop also led to 30% increases in maize and bean yields for participating farmers, thus improving both household nutrition and income. Agricultural employment was also increased by introduction of the export crop.

New Markets

As trade has expanded, not only have the kinds of products being traded changed from bulk commodities to non-traditional agroexports and from textiles/clothing/footwear to more sophisticated manufactures such as automobiles, components, and electric and electronic products, but the network of trade flows has become much more diversified. Interestingly, however, the sources of trade have become *more* developed country focused over time, as indicated in Table 3.

¹¹ This phenomenon is explored in the context of diversification of Bangladesh's agricultural production by J. Metzger and L. Salinger in World Bank, *Bangladesh: Agricultural Growth with Diversification, Prospects and Issues*, Report No. 14315-BD.

Developed countries represent 73% of total exports in 1992, compared with 61% in 1950 and 63% in 1980, as Europe and Asia emerged as important exporters. Although the overall share of developing country exports has declined from 30% to 22% over the forty-two year period, the growth of South and Southeast Asian trade within the bloc is apparent. West Asia's dominance during the oil shock periods has again ebbed somewhat.

Table 3
Spatial Breakdown of World Trade Sources
(% of world trade)

	Imports			Exports		
	1950	1980	1992	1950	1980	1992
Developed Market Economies						
America	20	15	17	22	14	15
Europe	38	44	46	33	40	46
South Africa	1	1	0	1	1	1
Asia	2	7	7	1	7	10
Oceania	3	1	1	4	1	1
Developing Countries						
America	10	6	4	12	5	4
North Africa	3	2	1	2	2	1
Sub-Saharan Africa	3	2	1	3	2	1
West Asia	2	5	4	2	11	3
South/Southeast Asia	9	7	14	11	7	13
Oceania	0	0	0	0	0	0
Europe	1	1	0	0	1	0
Eastern Europe	6	8	3	7	7	2
Socialist Asia	2	1	2	1	1	2

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1993*

While total world trade may increasingly take place among developed countries, Table 4 shows that non-oil exporting developing countries have begun to diversify their trade from 1969-71 to 1990-92 away from developed country markets.¹² Whereas in 1969-70, 71 percent of developing country trade went to developed countries and 21 percent to developing countries, in 1990-92, those figures had shifted significantly to 61 and 30 percent, respectively. This is a higher developing country concentration than for overall world trade, which was still 72 vs. 23 percent in favor of developed countries. In SSA, however, the trend would appear to be the reverse. While 70% of Africa's food exports went to developed countries (EEC, North America, Japan, and others) in 1960, thirty years later in 1990 77% of Africa's food exports were sent to the same (Barry and Beltchika, 1996).

¹² The U.S. is still the single largest market for non-oil exporting developing countries. IFC (1990) argues that the European Community and Japan represent the largest growing markets for manufactured exports from developing countries. This interpretation, however, seems overly focused on developed country markets.

The international trends will be furthered by a number of factors. One is the continued growth in income in developing countries. A stark example is China, which is now turning a corner from being a net exporter of foodstuffs to being a net importer of basic commodities and a growing exporter of manufactures.

Table 4
Network of World Trade

	% of World Trade		% of Non-Oil Exporting Developing Countries Trade	
	1969-71	1990-92	1969-70	1990-92
<i>Developed Countries</i>	71	72	71	61
EEC	35	40	29	21
EFTA	8	6	3	2
Japan	5	6	10	10
USA	13	14	23	24
Other Developed	10	6	6	4
<i>Eastern Europe</i>	9	3	6	3
<i>Socialist Asia</i>	1	2	1	6
<i>Developing Countries</i>	19	23	21	30
OPEC	3	4	3	4
Other Developing	16	19	19	26

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1993*

New Modes of Trade

As trade volumes increase and both the variety of products and services and the network of trading partners diversify, firms are obliged to compete on a variety of new levels in order to maintain their toehold in the international marketplace. These include: new relations between exporter and importer, sophisticated product differentiation, improved efficiency of service delivery, and cost reduction.

Trade is booming because the organization of manufacturing enterprises is changing, resulting in increased off-shore manufacturing of products destined for intermediate or final consumption in another country. Or it may result from changes in manufacturing processes, due to the telecommunications revolution which now allows for product designs and manufacturing specifications to be determined near the final consumer and then communicated electronically to manufacturing sites around the world. The increase in trade can also be understood in terms of intra-firm or intra-partnership exchanges, which happen to extend across borders.

The phenomenon is also not limited to American or European or Japanese firms relocating to lower wage developing countries. For example, in an effort to circumvent the threat of trade barriers in Europe, Turkish, Brazilian, and Korean firms, among others, have established a presence in Europe through joint ventures or the acquisition of existing European companies (IFC, 1990). Components may still be manufactured in the lower cost country of origin, being transferred into

Europe for final assembly.¹³ Similarly, many foreign firms have been setting up manufacturing capacity in Mexico to take advantage of NAFTA and sell to the U.S. market.

In some instances, foreign manufacturers may embark on low cost, low standard activities and eventually graduate to more sophisticated export activities once basic manufacturing and export skills are acquired.¹⁴ Such a strategy, however, may require a change in market destination in order to be successful. For example, the Japanese market is notoriously stringent in its quality and on-time delivery requirements (IFC, 1990). It also has the most integrated trading operations, with the highest degree of intra-firm trade among the developed countries. Thus, a country may "practice" exports of manufactured goods under less stringent market conditions for discount retailers in the U.S., for example, before attempting to manufacture higher quality products. Improvements in quality may then be transferrable to a new, more exacting market like Japan.¹⁵ Another example of such a learning curve is the export of traditional horticultural products from Bangladesh, which initially targeted immigrant consumer communities in Europe. Some of the experience gained thereby may then be gradually transferred to the export of more traditional products to more mainstream European markets. Others would argue, however, that there is no transferable experience because every aspect of product identification, processing, packaging, shipping, and foreign distribution is handled in an informal, non-demanding fashion for the traditional market, precisely the opposite of requirements in mainstream markets.

The positive repercussions from developing and maintaining close, long term buyer-seller relationships is stressed by the World Bank (1990). Buyers are motivated because long term relationships minimize the cost of finding and evaluating new suppliers. Over time, buyers get a better, more consistent product, at lower cost, from a regular supplier. From the sellers' perspective, more accurate differentiation of production and marketing is available because of buyers' informed positions (which they are usually careful to guard for themselves). There are often training externalities involved, both to management and to workers. The relationships may transfer sufficient market savvy to allow the developing country supplier to eventually circumvent the original relationship and solo in the foreign buying market. This by no means implies exclusive relationships between buyers and sellers are emerging. In fact, buyers often sign limited, one-year contracts for a limited percent of their needs, taking care to maintain a diversified roster of suppliers in order to minimize potential supply shocks.

¹³ Local content regulations can thwart this strategy.

¹⁴ This possibility is explored in Biggs et al (1994) with regard to the export of Afrocentric products. The World Bank study hypothesized that entry into mainstream garment production could be facilitated by experience with Afrocentric production first. In fact, however, it discovered that the international search for quota free, low cost producers has already brought several mainstream foreign-owned garment firms to Sub-Saharan Africa (SSA) for manufacture of goods for U.S. retailers.

¹⁵ Japan itself used this process to pull itself up in export quality.

Identification and Evaluation of New Trade Opportunities

New market opportunities are seized every day by business men and women around the world. In some instances, these opportunities are production-driven: a surplus of a commodity or product exists in one place and is sold somewhere else by a trader at a profit. In other instances, it is the entrepreneur who creates a market opportunity, by identifying a niche in the market and setting up the production, processing, marketing, and/or trading channels required to deliver a new product to a new market. Yet increasingly around the world, trade opportunities are demand-driven, driven by international buyers seeking off-shore sources of products, tailored to their specifications.

The identification of new trade opportunities is a task to which the private sector is much more aptly suited than the public sector. Keesing and Singer (1991a) identify several reasons why this is so. First, public servants adapt poorly to the tasks of supplying services to commercial enterprises and promoting business. Second, their fundamental focus is administration, not commercial success. Third, the low status of most trade and industry ministries makes it difficult to recruit the best staff. Fourth, rigid bureaucratic procedures in the public sector make it less conducive to the initiation of timely actions in response to private sector needs. Fifth, in part because public sector officials need to show immediate results of their work, they tend to focus on trade fair participation, sales missions, and the like, rather than the vital preparatory stages of market research and adaptation of firms' production to international market needs.

Comparative Advantage Analysis

Methods for identification and evaluation of potential trade opportunities range from intuitive and serendipitous approaches to more systematic estimations. Project appraisal techniques evaluate the financial and economic profitability, internal rates of return, and net present values of investments.¹⁶ Many of these same techniques are adapted in management texts used to train students of business.¹⁷

In the 1980s attention turned from the evaluation of projects to the structural and sectoral policy adjustments needed to enable an economy to pursue production and trade efficiently, i.e. along the lines of its "comparative advantage." Comparative advantage is a term originally coined by Ricardo in the eighteenth century to explain trade specialization patterns among countries as a function of a nation's resource endowments. Domestic natural resources and factors of production being fixed *in situ*, a country which possessed them could produce a good more cheaply than a country which had to import them. Thus, comparative advantage in essence became a cost-based notion of a country's economic competitiveness, based on the fixity of basic inputs into the production process.

Policy analysts adapted the profitability formulae developed in project appraisal to the analysis of comparative advantage. The ratio of the value of the domestic resource costs used in production to the value-added generated, measured in economic prices, is known as the domestic resource cost, or

¹⁶ See Harberger (1972), Little and Mirlees (1974), Roemer and Stern (1975), UNIDO (1978), Austin (1981), and Gittinger (1982) for detailed methods of project evaluation.

¹⁷ See the discussion of economic cost-benefit analysis in Austin (1990).

DRC, coefficient, an indicator of the economic profitability of an activity.¹⁸ A potential export activity with a DRC of less than one uses fewer domestic resources (typically defined as land, labor, and capital) than the value-added it generates, and is thus said to be an efficient earner of foreign exchange. Pursuit of such a trade opportunity would be economically justified. A potential export activity with a DRC of more than one uses more domestic resources than the value-added it generates, and thus earns foreign exchange inefficiently.

The analysis of comparative advantage, as applied by economists in numerous (although unpublished) World Bank sector analyses, goes well beyond the simple estimation of DRCs. It actually involves the undertaking of detailed market appraisals. This is essentially the same market reconnaissance technique described in business school marketing texts (Kotler, 1994) for use by private sector actors to identify and evaluate new opportunities. A detailed market appraisal consists of a number of analyses will assist in the decision making process to set up a new business or diversify an existing activity into a new product or new market. These include the following components, described in detail for West African entrepreneurs in Salinger and Barry (1996):

- descriptive analysis, to identify the relevant stages in the market;
- supply analysis, to assess issues relating to domestic production and competing imports;
- market analysis, to identify buyers and sellers of raw material, inputs, and final goods, and the networks that link them;
- demand analysis, to assess issues relating to consumption;
- institutional analysis, to identify the jurisdictions and policies of public sector agencies which may have an effect on the activity;
- cost and revenue analyses, to assess unit margins under alternative price and cost scenarios, expected revenue streams under alternative volume scenarios, and net cash flow, under alternative investment and business development scenarios; the estimation of profitability, protection, and comparative advantage indicators is done as part of this stage of the analysis; and
- constraints analysis, to identify bottlenecks along the chain and strategies for remedying them.

Some critics argue that standard comparative advantage theory, which assumes no economies of scale, identical technologies, lack of product differentiation, and fixed labor and capital resources, is inadequate for addressing competitiveness issues faced by private firms. In fact, applied comparative advantage work can analyze these issues, but does so in a static, partial equilibrium framework. Through disaggregation of observation categories and sensitivity analysis, however,

¹⁸ In the 1960s, Bruno and Krueger developed ratios to restate the economic profitability formula. In Bruno's case, the objective was to measure the gain from expanding profitable projects, while in Krueger's, the objective was to measure the cost of maintaining unprofitable activities through trade protection. Comparative advantage and DRCs are discussed in Chenery (1961), Krueger (1966), Bruno (1970), Pearson (1976), Pearson, Stryker, and Humphreys (1981), Tower (1984), Belassa (1989), and Morris (1990). Practical guides to the estimation of DRCs is found in Pearson, Stryker, and Humphreys (1981), Monke and Pearson (1989), Tsakok (1990), and Sadoulet and de Janvry (1995). Masters and Nelson (1995) argue that a simple social cost-benefit ratio is a superior measure of social profitability to the DRC.

some aspects of dynamic comparative advantage (i.e. the effects of changes in factor endowments and state of technology) can be explored.¹⁹

Competitiveness Analysis

In the mid-1980s, the United States began to feel it had lost its edge vis-à-vis Japan in the international marketplace (Bergsten, 1988; Ostry, 1991). In response, a large intellectual effort, referred to here as "the competitiveness school," was mounted to ascertain the pathology of the phenomenon.²⁰

The competitiveness school argues that globalization of firms and factor markets (labor and, increasingly, capital) has decoupled the firm from the factor endowment of a single nation. Low wage rates no longer determine trade flows, as sophisticated modes of production and marketing sustain market share for increasingly differentiated products and services (Porter, 1990). In fact, the direct labor content of most products is decreasing rapidly as automated technologies are used to produce them, and an increasing share of cost derives from research and development, design, marketing, and distribution (Dahlman, 1991). In the words of competitiveness analysts, comparative advantage "has to be created and must [continuously] respond to the changing world environment" (ul Haq, 1991).

"Man-made brainpower industries," which are now in ascendance (compared with resource-based industries, which are said to be in descendance), can be located anywhere (Thurow, 1996). What is needed are entrepreneurial vision and, most importantly, organizational skills. Thurow notes that it is *process*, not product, technologies that are the key to comparative advantage: "To be masters of process technologies a successful business must be managed so that there is a seamless web among invention, design, manufacturing, sales, logistics, and services that competitors cannot match" (p. 69).²¹

Cost factors no longer weigh as predominantly in a firm's ability to compete. Porter (1990) observes that many companies in high wage countries compete successfully on the basis of product design, sales, and service to clients. If a product's distinguishing characteristic is cost, its manufacture will be moved nimbly around the world in search of the lowest cost base of manufacture.

¹⁹ AIRD has generated many such agricultural and agro-industrial comparative advantage analyses in SSA and elsewhere, nuancing DRC estimates by any number of criteria, including quality of product, scale of production, technology of production, region of production, degree of access to public policy benefits, target sales market (domestic or regional or overseas). Sensitivity analysis of the output's reference price, shadow wage rates, shadow cost of capital, shadow value of foreign exchange, etc. also gains a dynamic interpretation for the analyst.

²⁰ The competitiveness literature includes Siggel and Cockburn (no date), Alavi (1990), Porter (1990), ul Haque (1991), World Bank and USAID (1991), Wen and Sengupta (1991), Biggs et al. (1994). A French language survey of related articles is presented in Cockburn and Dostie (1994). A complete bibliography of competitiveness research is contained in Cockburn (1995).

²¹ Thurow observes that while Americans invented video camera and recorder and fax technologies and the Dutch invented the CD player, all have become Japanese products, as the latter have mastered their manufacturing and sales.

For Porter, the challenge is not to be the country with the greatest exports, but the country with the highest share of home bases of operation for multinational companies.²²

Siggel and Cockburn (no date) define a measure of competitiveness which is not unlike the measure of comparative advantage. For them, an export industry is "competitive" if its unit costs are inferior to an international competitor's product of equal quality. Their method analysis is thus a variation of financial and economic profitability analysis. It also allows for careful multiproduct and quality-specific product definitions.

Other attempts to measure competitiveness have been relational, focusing on individual country, industry, or firm performance in relation to a larger cross-section of experiences.²³ Alavi (1990) proposes an indicator of national competitiveness comprised of six sets of quantitative and qualitative factors (macroeconomic dynamism, financial dynamism, market dynamism, infrastructure, human resources, and firm-level attributes). For each set, the quantitative factors are normalized to obtain a weighted average of all factors. Countries are then ranked under each factor based on the weighted average of normalized indicators.

Porter (1990) measures the competitiveness of individual industries within countries. An industry possesses competitive advantage relative to the best worldwide competitors, measured either (1) as the presence of substantial and sustained exports to a wide array of other nations and/or (2) significant outbound foreign investment based on skills and assets created in the home country. For Porter, if an industry's global export share exceeds the average world export share for the entire home country, then that industry is deemed internationally competitive, assuming that such trade is not concentrated among multinational subsidiaries, the related international investment is not strictly of a portfolio nature, and the trade is not just with neighboring countries.

DRI/McGraw Hill (no date) applies the concept of competitiveness to "cluster analysis" of a given sector of the economy. Cluster analysis is the process of examining the network of lead and support industries within a target sector. Competitiveness of the cluster is then measured by a variety of factors, including export share, job creation, life cycle, and economic infrastructure analyses. It then compares the sector's performance with regard to DRI's competitiveness index. Their index is comprised of six dimensions: accessibility of technology, adaptability of human resources, availability of financing, advantages in physical infrastructure, achievability of quality of life, and acceptability of taxes and regulations. The evaluation is then used to forge institutional partnerships between private and public sector institutions to strengthen weak links revealed by the cluster analysis.

Buckley (1992) summarizes the measures of competitive performance proposed by various authors: export market share, share of world manufacturing output, share of domestic manufacturing in total output, balance of trade, firm level measures of export performance, and profitability. Of

²² "Recent estimates suggest that a significant portion of world trade is between subsidiaries of multinationals, and that a meaningful fraction of the imports of advanced nations is accounted for by imports from the subsidiaries of a nation's own multinationals. National success in an industry increasingly means that the nation is the home base for leading multinationals in the industry, not just for domestic firms that export. In computers, for example, America is home base for IBM, DEC, Prime, Hewlett-Packard, and other U.S. companies that have facilities and subsidiaries spread widely in Europe and elsewhere." Porter (1990), p. 18.

²³ See articles regrouped by CODESRIA regarding the definition and measure of competitiveness in Cockburn and Dostie (1994).

these, the latter, especially when interpreted as long run profitability, "is arguably the single most important measure of competitive success," according to Buckley.

Export market share is a somewhat limited measure, failing to consider sales from foreign affiliates and foreign licensed sales. Also, overall export market share may be less interesting than export market share by industry (assuming that certain industries imply higher standards of living than others) or by destination market (assuming that share in lower income markets reflect a less competitive stature than share in advanced country markets). Finally, a focus strictly on export market share ignores the possibility that share can be accrued through underpricing, or dumping.

Measure of the share of world manufacturing output is limited by the fact that domestic demand, as a function of a country's level of economic development, may be the limiting factor. Following the composition of domestic output, by tracking the share of manufacturing as a percentage of total domestic output, assumes that services are a less "desirable" sector. In fact, the performance of manufacturing and services are often directly linked. Moreover, the absolute size of manufacturing may in fact not be in decline, but the declining ratio simply indicates that services are growing more rapidly. The balance of trade is affected not just by domestic performance, but foreign demand, making it a less than desirable measure of competitiveness.

Krugman (1994) argues that the notion of competitiveness is flawed, as applied to a country, or other supra-firm unit of observation. While the competitiveness of a firm is readily gauged by its balance sheet, interpretation of national surpluses or deficits on capital or trade accounts is less straightforward, given that in the absence of intervention international accounts must, by definition balance, or the exchange rate must appreciate or depreciate. The real measure of a nation's competitiveness, writes *The Economist* (April 30, 1994), in response to Krugman, is domestic productivity, which leads to increases in standards of living. Measures of productivity growth across nations, notes the weekly, are reasonable and appropriate.

Many competitiveness authors focus on several layers of competitiveness determinants:

- the first encompasses a nation's macroeconomic (fiscal, monetary, and trade) and incentives/regulatory policies, which provide a base for domestic industries to pursue competitiveness;
- the second is the infrastructure (physical, institutional, socio-political, human) with which firms exploit technology; and
- the third covers many aspects of firm management, which is ultimately responsible for pursuing dynamic strategies for improvements in labor productivity; creative product/service development; quality of product and associated services; technology research, development, and commercialization; worker motivation/flexibility; internal organization; relationships with suppliers and customers, by which competitiveness is achieved.

While the government's role in satisfying the first determinant is clear, much of the debate in the discussion regarding new trade opportunities has focused on the appropriate degree of government involvement in the second and third determinants. Government programs have attempted to redress some of these elements. Investment promotion schemes aim to increase domestic firms' exposure to foreign technologies and off-shore production/ marketing partners, while trade promotion schemes are publicly funded efforts to improve developing countries' export production/marketing abilities. These are discussed below.

Trade and Investment Promotion Mechanisms

Description of Promotion Efforts

Today, the global economy is increasingly becoming an integrated market place. As countries have undergone structural adjustment, they have shifted from an emphasis on import-substitution and directed markets to increased exports and liberalized markets. Although a cross-section of detailed data disaggregated on a country, product, and target market basis is unavailable, the perception is that Sub-Saharan Africa (SSA) has not realized the same success as other developing regions in the realization of new trade opportunities. In SSA anti-export biases have resulted from several decades of experience with high tariff protection, pervasive quantitative restrictions, export taxes, the domination of commodity marketing boards, and currency overvaluation. This section explores some of the institutional reforms which have been introduced, outside of SSA and to a more limited extent within the region, to promote trade and investment and thus the realization of new opportunities.

In an evaluation of "best practices in trade policy reform," a number of "requirements for success" for the development of exports have been identified (Thomas, Nash, et al., 1991). Mentioned again and again as a *sine qua non* for successful export development is a stable macroeconomic environment. This must include facile access both to foreign exchange and to short and long term capital. A second requirement for success is an efficient system for importing inputs in a timely fashion and without trade or indirect tax burdens, quantitative restrictions, etc. A third requirement is for a well-functioning infrastructure for telecommunications, power, ports, transport, and industrial estates. The ability to attract foreign direct investment is also essential. Domestic business regulations should also be reviewed, to ensure a minimum of red tape with regard *inter alia* to business registration, labor relations, industrial siting and regional development. Finally, support services are also critical to exporter survival. These include high-quality accounting, management, production engineering, design, packaging, processing, quality control, warehousing and storage, transport, publications, market research and analysis, advertising, and sales and marketing services, all of which can improve a firm's export record.

Where "pro-trade" policy reform projects to stabilize the macroeconomy and reform exchange rate, trade, and marketing policies have successfully been implemented, it is expected that economic growth, and thus international trade, will accelerate and thus specific export promotion actions are less important, or even unnecessary.²⁴ However, in many instances, reforms have either not been introduced to date or their introduction has been partial or ineffective. Accordingly, governments around the world, particularly outside of Sub-Saharan Africa, have introduced a variety of institutional mechanisms or interventions to enhance exports. These include:

- **modification of trade tariff schemes** to exempt exporters from protective tariffs on imported inputs (duty drawbacks, waivers, exemptions, and rebates; temporary admission; bonded manufacturing warehouses),
- **development of infrastructure or production zones** (sea-/airport development; storage, cold storage, and sorting/packaging facility development; free trade zones export processing zones)

²⁴ See Metzel and Phillips (1996), in which SSA's record in reducing trade policy barriers (including *inter alia* macroeconomic reforms, modification of trade tariff schemes, modification of non-trade tax codes) is discussed.

often seen as a way of providing improved infrastructure most efficiently to a concentration of export activities,

- **foreign direct investment promotion** (tax rebates or holidays, agreements to avoid double taxation, exemption from trade duties, preferential interest rates, unrestricted investment licensing, favorable tax codes, liberal capital repatriation schemes, liberalization of equity capital ownership guidelines, preferential treatment for location in strategic regions),
- **export promotion schemes** (streamlining of export procedures, export market development projects, export promotion boards, trade fairs, exporter training programs, market information systems, establishment of international market information centers, improvement of domestic quality/standards/ packaging/labelling practices to match international market requirements, and preferential financing arrangements such as export incentive schemes, export credit guarantees, directed credits, availability of export financing at preferential interest rates, export foundations to support export technology and market research and development),
- more indirectly, **entrepreneurship or private sector development projects** often include export promotion among their strategic objectives; **labor market reforms** may facilitate private sector development by permitting greater flexibility for movements by firms in and out of the labor market; also, **domestic market reforms** (removal of parastatal marketing boards, domestic pricing controls) may be an important precondition to the expansion of primary sector exports.

In countries where significant macroeconomic distortions still exist (currency overvaluation at fixed exchange rates, restrictions on access to foreign exchange, quantitative trade restrictions), other compensatory mechanisms have been introduced, though "results are generally disappointing" (Thomas, Nash, et al., 1991). Moreover, these mechanisms become redundant once structural adjustment has been implemented. These include:

- **foreign exchange access facilitation**, including exporter retention of foreign exchange earnings and "own funds" import schemes,
- **export subsidies**,²⁵ and
- **tax incentives**, such as income tax rebates.

Hill (1994) outlines two types of argument for export promotion policies. On the one hand, export promotion policies may be implemented as a second-best solution to offset the antiexport bias inherent in the economy, due to other existing policy distortions. On the other, it is argued that export growth presents such an array of positive externalities that its pursuit as a first-best policy strategy is justified to actively encourage exports, not merely to compensate for non-neutrality of policy.

²⁵ Export subsidies, practiced in lieu of devaluation, are usually ineffective, doing more to encourage rent-seeking than exports. They may result in the exporting country becoming the target of countervailing duties by the importing country. Their GATT-legality is also debatable. According to Hill (1994), the GATT does not include a comprehensive definition of subsidy, although it does take positions on specific actions. Rebates or exemptions of indirect taxes is not considered a subsidy, whereas the rebate or exemption of direct taxes is. EPZs, duty rebates or exemptions, and export promotion activities are acceptable to GATT.

Trade and Investment Promotion Experiences

The phenomenal economic success of the newly industrialized (NICs) and other developing countries is often attributed to the trade and investment strategies that were adopted in those countries. The economies of Japan, South Korea, Taiwan, Malaysia, Hong Kong, have experienced high and sustained growth during more than two decades. Similarly, Costa Rica, Chile, and the Dominican Republic have demonstrated strong export growth during the 1980s. Many observers of these successes argue that other developing countries, in SSA for example, should implement the Asian (and increasingly, Latin American) economic development models. For such policies to be successfully undertaken in SSA countries, it is important to understand the advantages and disadvantages of trade and investment promotion tools used in Asian, Latin American, and Caribbean countries.

Duty and indirect tax drawback and exemption schemes. As stated in Harrold, Jayawickrama, and Bhattasali (1996), and by many other observers, mainly in the multiple USAID technical reports²⁶ on trade and investment promotion in Asia and Latin America, the key components of a rational export regime include:

- assuring equal footing with foreign competitors in access to inputs at world market prices;
- assuring equal footing with foreign competitors in financing;
- maintaining realistic exchange rates.

Duty exemption and drawback schemes are sectoral strategies used to ensure that local exporting firms enjoy access to imported inputs on equal footing to foreign competitors. These systems allow governments to refund duties and indirect taxes paid by exporters on their imported inputs, after exports are completed. According to Harrold et al. (1996), there are two different ways in which East and Southeast Asian countries effected these refunds. The two approaches include:

- an individual drawback system of duties and indirect taxes refund, on a case-by-case basis;
- a fixed drawback scheme to refund the estimated duties and indirect taxes that enter the cost of producing exports, according to a preset schedule derived from pre-tabulated technical input-output coefficients.

A simple duty and indirect tax exemption scheme allows exporters to pay part or zero of duties and indirect taxes on their imports of inputs. Both duty and indirect tax rebate and exemption systems aim to provide exporters with imported inputs at world prices. The two systems have some advantages and disadvantages. The main advantage is the provision of free trade status to domestic exporters. But duty drawback and exemption system also present many disadvantages. First, they can discourage domestic production of inputs if local producers of commodities used in production of export goods do not profit from the export incentive system. In other words, when the duty rebate system discriminates between direct and indirect exporters, import inputs will be provided at world prices while domestic producers of inputs will supply at higher prices and then lose their market share. As a consequence, the local industrial sector may be reduced. Thus, producers of export products will tend to use more imported inputs and become even more dependent on foreign

²⁶ U.S. Agency for International Development, A.I.D. Evaluation Special Study n° 69 (Latin America and Caribbean; USAID Technical reports: N° 6 (Indonesia); N° 7 (Korea); N° 16 (India); N° 17 (Thailand); N° 17 (Asia survey)).

suppliers. Finally, a great dependency of domestic exporters on input supplied from abroad may lead, in turn, to problems such as shortage (due to delays, distance or long custom administrative procedures, etc.), and consequently, a reduced production of export goods. For the system to be more effective and successful, domestic producers of inputs used in the production of exports must also benefit from the export incentives and the export sector growth could generate backward linkages in the economy. In some Asian countries, local producers have also provided inputs at world prices to exporters. Korea is one of the best examples where indirect exporters, including producers of commodities used as inputs in production of export goods, and suppliers of export goods to direct exporters, received the same incentives as direct exporters. Taiwan's and China's schemes of encouraging indirect exporters have been rather different from the Korean scheme, but successful too. These are explained in greater detail below. In addition, systems in Malaysia, Indonesia and Thailand for refunding import duties and indirect taxes to exporters have also been successful but to a lesser extent (Harrold et al. 1996).

The Korean duty drawback and exemption system

According to Harrold (op. cit.), the most successful, most "comprehensive in coverage and automatic in access"²⁷ duty drawback scheme has been the Korean system. Administration of the drawback system in Korea was facilitated by three main factors: i) a system of domestic letters of credit, ii) the export financing scheme, and iii) administrative efficiency.

First, the use of a domestic letter of credit was unique to the Korean system. The domestic letter of credit serves both for credits and duty drawback claims by indirect exporters. A domestic letter of credit (see Bhattacharya, 1988) is derived from the direct exporter's letter of credit. A letter of credit in favor of a direct exporter allows him to ask the concerned bank to open another credit account in favor of the indirect exporter. Receipt of the domestic letter of credit provides the indirect exporter with access to all incentives aimed at promoting exports, principally import duty and indirect tax drawbacks, and production loans. Broadly, a domestic letter of credit is a way of financing and subsidizing indirect exporters.

Second, modernization of the financial system helped to establish trade financing procedures such as a "back-to-back"²⁸ credit system through the domestic letter of credit.

Finally, administrative efficiency was effected through the use of pre-tabulated and published technical input-output coefficients, and proper identification of indirect exporters. In Korea, the same office calculates technical input-output coefficients, and refunds exporters duties and taxes paid on import inputs used in the production of export goods. The flexibility of policy helped to modify, when necessary, the duty drawback system to individual schemes for major imports and fixed schemes for miscellaneous imports. It also allowed importers of inputs used for export production to defer paying tariffs for considerable periods. This set of measures, facilitated by a modernized financial system, led to tax free inputs, and ready access to working capital finance for indirect and indirect exporters. Considerable backward linkage effects have been possible. The case of China and Taiwan in adopting duty drawback regime is a little different but can also be seen as successful.

²⁷ Harrold et al. op. cit., p. 69.

²⁸ Ibid, p. 75.

Chinese and Taiwanese experience with duty drawback regimes

An import duty and indirect tax drawback regime has been implemented in China and Taiwan since 1955 (Thomas, Nash and Associates, 1991), to promote exports of manufactured goods. The main features of this system have been:

- exporters are required to deposit duty liabilities on account to be canceled against evidence of subsequent exports;
- exporters give a guarantee to the bank that duties and penalties will be paid if no exports are effected within eighteen months;
- duties are reimbursed or canceled for exporters by the customs administration when exports are completed;
- either the direct or indirect exporter may collect the entire rebate;
- evidence of actual exports, rather than a domestic letter of credit, is required for rebate claims;
- no bank credit but suppliers credit by post-dated checks, and buyers credit;
- fixed drawback rates for established products and case-by-case system for new products.

The Chinese and Taiwanese duty and indirect tax rebate and exemption system also showed, like the Korean scheme, a flexibility in making decisions and a relatively good administrative machine. The most important differences between Korean and Chinese and Taiwanese duty drawback system derived from the export financing procedures and document, and the assistance scheme to indirect exporters. In Korea, financing of direct or indirect export activities was achieved by involvement of commercial banks through letters of credit, whereas in China and Taiwan, trade partners were the most important source of export credit through post-dated checks. Unlike Korea where duty rebate claims were made on the basis of letters of credit, in China customs documents enable direct or indirect exporters to obtain refunds of their duties and indirect taxes on imports of inputs. Refunds were paid by the customs administration while the technical input-output coefficients were calculated by a different administration. Financing procedures and duty rebate schemes found in China and Taiwan, using post-dated checks, may be more suitable for countries with a weak or non modernized financial system, like SSA countries.

Indonesia, Malaysia, and Thailand duty exemption and drawback schemes

Indonesia, Malaysia, and Thailand are three Asian examples where duty and indirect tax rebate and exemption systems have shown a lot of weaknesses. Tax incentives, duty drawbacks and exemptions, and export and investment financing were experimented with since the early 1970s for Malaysia and Thailand, and since the early 1980s for Indonesia (Harrold, op. cit.). The systems resulted in limited access for small and indirect exporters, with slow and cumbersome procedures.

In the case of Indonesia, pre-tabulated input-output coefficients were replaced by individual declarations which served as the basis for calculating duty rebates, on a case-by-case basis. Such a duty and indirect tax rebate system involved technical knowledge and honesty from export producers. It required a lot of documentation and implied delays for getting refunds. It has resulted in increasing costs to exporters who had to pay interest on their credits. Authorities also had to check self declarations by prior screening, post-monitoring or auditing, that led very often to wasting time. According to Harrold, the system equally suffered from lack of clearance or effective transparent criteria, caused mainly by the non existence of pre-tabulated input-output coefficients for post-auditing or domestic letters of credit such as those used in Korea.

The main inconvenience in Malaysia's duty exemption and drawback system was the presence of quotas on imports of some commodities. Quotas implied the need of an import license and necessitated investigation to assure that the product was available domestically. Broadly, duty and indirect tax drawback systems in Malaysia, Thailand and Indonesia were judged time consuming with cumbersome procedures, and exclusive for indirect exporters.²⁹ Notwithstanding all these inconveniences, the three countries experimented growth of exports of manufactured products. This success is attributed to a favorable macroeconomic environment.

Four main conclusions can be derived from this review: i) duty drawback can rapidly lead to free trade status and increase competitiveness for exporters (Korea, China and Taiwan), ii) different schemes can lead to success (Korea versus China), iii) the effectiveness of their success depends on basic factors such as financial systems, customs administration, economic administration, the financial situation of the state (availability of funds for rebate), export credit schemes, and simplicity of measures; and iv) the case of Malaysia, Thailand, and Indonesia export growth in spite of weak duty and indirect tax rebate and exemption regimes suggests that there are other important factors through which exports and investments can be developed. Such factors include Free Trade Zone regimes, export and investment support services, and macroeconomic fundamentals.

Outside of Asia

In Morocco, a system of rebates based on declarations by exporters is used to compensate for tariffs paid on inputs, with verification by customs officials within six months. Similar schemes have also been initiated in Senegal, Malawi, Tanzania, Uganda, Zambia, and Nigeria. Common complaints regarding such schemes are the delays in receipt of duty rebates. Thomas and Nash (1991) note that such schemes need to ensure both that sufficient quantities of inputs can be imported to satisfy exporter demand and that these imports will not be re-sold (at higher prices) on the domestic market, in order for them to be successful.

Yet another alternative to facilitating access to imported inputs by firms specializing in exports is the bonded warehouse scheme. This involves bringing imported inputs in and shipping products out, under customs seal. Thomas and Nash (1991) report that modern, streamlined in-bond schemes involve only minimal bonding and customs expenses for enterprises, in contrast to antiquated procedures, still widely used, involving the physical presence of customs officers in warehouses and expensive bonds for every shipment.

Export promotion zones. Export processing zones (EPZs),³⁰ involving physically separate facilities with its own customs office to facilitate access to duty-free trade and quick customs clearance, have been developed in at least thirty developing countries. They are an integrated (and GATT-legal) option for the provision of "equal footing" export policies (Rhee, Katterbach, and White, 1990) to exporters in developing countries who are disadvantaged by anti-export biases. In the mid-1980s, 95% of EPZs employment worldwide (mostly unskilled or semi-skilled jobs) was concentrated in 12 countries (Mexico, with close to 20%, Korea, Malaysia, Taiwan, Brazil, Macau, Mauritius, Tunisia, Philippines, the Dominican Republic, Sri Lanka, and Egypt). An additional 33 countries (including Ghana and Senegal), representing the remaining 5% of global employment, have

²⁹ Most African countries that tried to promote export and investment by the same range of measures faced such problems: cumbersome and outdated measures, vulnerable and discretionary policies. Examples are Kenya, Zimbabwe, Ivory Coast. (Harrold et al., 1996, p. 76)

³⁰ Also referred to as export promotion zones or free trade zones in the literature.

EPZs. Kenya, Madagascar, Togo, and Cameroon were also said to be planning EPZ development (Rhee et al., 1990).

Hill (1994) observes that many investors in EPZs in Southeast Asia are in fact textile exporters from East Asia, for whom the Multi-Fibre Arrangement (MFA) quotas on textile and clothing trade have already proven binding. In search of countries with underexploited quotas, these exporters have moved aggressively into Bangladesh, Sri Lanka, the Philippines, Indonesia, and Mauritius to establish new export platforms.³¹

Rhee et al. (1990) examine EPZ success by identifying those industries represented in the EPZ, and examining their contributions to GDP, employment, export earnings over time. They also look for demonstrations of positive trends in backward linkages (input supplier and ancillary service development) and vertical industrial integration. They cite poor data and poor understanding of the process by which backward linkages and dynamic processes are extended as areas for further research.

In general, many of these zones have proven to be poor investments (Thomas and Nash, 1991; Hill, 1994), due to some combination of unfavorable location, high investment costs, mediocre management, or uncooperative customs officials. They also tend to remain isolated from the rest of the economy, thus preventing the very demonstration and spillover effects hoped for as a country enters an export expansion phase.

One alternative to the physical siting of an EPZ, pursued by Mauritius and Madagascar, has been the application of a streamlined duty exemption scheme to any export enterprise, regardless of location. Referred to in Thomas and Nash (1991) as an EPZ, this is really another version of a bonded warehouse scheme, providing EPZ benefits to firms physically located outside of an EPZ. Only about one-third of Mauritian EPZ enterprises are actually located in public or private industrial estates. In Madagascar this "virtual EPZ" concept has proven more popular than the physically sited EPZ. The latter is located on the coast, yet most firms prefer to locate in and around the inland capital city where labor and infrastructure are more developed. Other African countries including Senegal, Liberia, Kenya, Togo, and Cameroon have tried but failed to follow the Mauritian example (Harrold, *op. cit.*).

FTZs are often implemented in the early stage of a country's development to promote export and foreign investment. This has been the case for Malaysia (known as the most successful FTZ regime for export and investment promotion), Indonesia, Mauritius, Sri Lanka, and the Dominican Republic. Korea, China and Taiwan are the best examples of countries where FTZs were established for the purpose of giving an equal footing export policy to export activities that already existed. Studies of Latin American and Caribbean countries also showed that FTZs have been successful to promote investments and expand manufactured exports in some of them. Costa Rica, the Dominican Republic, and Honduras are the most available cases here (McKean and Fox 1994, Louis Berger et al. 1990). The most complete information available of export promotion zone experiences is given by Harrold, Jayawickrama and Bhattasali (1996). From this study, three main country experiences can be considered: Malaysia, China and Philippines.

³¹ Whether the continuation of such a phenomenon (i.e. whether MFA quotas will soon be exploited in Southeast Asia as well) and compensating strategy will bring textile and clothing-related FDI into SSA is explored later in this survey. It will also be examined in a number of EAGER/Trade field activities in Mali, Tanzania, South Africa, and Madagascar.

Evidence from Malaysia's Free Trade Zones

Korea's success in implementing duty and indirect tax drawback and exemption systems is paralleled by Malaysia's in FTZs promotion. To attract foreign investment and develop exports of manufactured goods, Malaysia implemented FTZs and manufacturing warehouses in the early 1970s (Harrold et al. 1996, p. 83). The main factors of its success include three categories of tools:

- *Macroeconomic factors.* Excellent infrastructure, a favorable business and political environment, and policy and macroeconomic stability provided Malaysia with a framework conducive for business.
- *Policy-making: targeting and selectivity.* While more general complementary incentives to promote foreign investment were undertaken, specific measures for the dominant electronic industry were also available. The latter included targeting partners (Japan, other newly industrialized countries, China, Taiwan). Furthermore, trade policy shifted from import substitution to an export oriented strategy, and artificial barriers to exports were removed. Malaysia adopted the Korean type of financing scheme to benefit indirect exporters also.
- *Promoting skills.* Skills promotion was one of the crucial factors of success for FTZs in Malaysia. Training programs specific to the electronic industry and also more generally applicable to the entire industrial sector were put in place by the government through the MIDA (Malaysia Industrial Development Authority) and the PSDC (Penang Skill Development Center), a public-private joint venture.

Malaysia's effort to promote trade and investment were rewarded with exceptional results at the macroeconomic and microeconomic levels. The main macroeconomic results of the Penang FTZ was growth of direct foreign investment from 0.9 % of GNP in 1968 to 6.3% of GNP in 1974. At the microeconomic level, FTZs exports increased from 14% of total exports in 1982 to 24% in 1990; in 1995, Malaysia had twelve FTZs. The FTZs in Malaysia accounted for about 104,000 jobs and for annual exports of US \$1.6 billion. The experience resulted in the development of the electronic industry, with highly capital and technology-intensive processes and forward and backward linkages. Today Malaysia is the world's leading exporter of semiconductors, with the largest installed semiconductor assembly capacities, and the third largest producer of semiconductors in the world. However, an economic cost-benefit analysis of FTZ development in Malaysia concluded that their costs outweighed the benefits.³²

³² Costs of FTZ implementation in Malaysia were relatively low compared to other countries with an internal rate of return of 28%, compared with 26% in Indonesia, 15% in Korea, and -3% in Philippines. Main results: employment (46% of the gross benefits), foreign exchange earnings (39% of the gross benefits), purchases of raw material: 4% of the total raw material (low benefits), local capital equipment used: 10% of total local capital, low administrative costs: -2%, low infrastructure costs: -18% (relative to other zones), cost of subsidized electricity: -22%. In sum, the costs outweigh the benefits (Harrold et al., 1996, pp. 83-85). ANATOLIE TO CLARIFY.

Evidence from China's Shenzhen Special Economic Zone

Unlike Malaysia whose success in exports and investments promotion depends on a strong FTZ regime, or Korea whose policy focused on a duty drawback system, China is one of the Asian countries where export and investment promotion has succeeded through the combination of both duty drawback and FTZs schemes.

Four Special Economic Zones (SEZs) were implemented in the late 1970s in China: in Shenzhen, in Shantou, in Xiamen, in Zhuhai. One of the main factors of success in China's SEZs was optimal location. China's authorities sought to exploit connections with the overseas Chinese commercial community. Thus, the Shenzhen area was chosen for its common border with Hong Kong, to benefit from Hong Kong's urban market. The other factors of success are related, as in the case of Malaysia, to macroeconomic stability, and flexible and targeted policies. These included promotion of labor-intensive manufacturing for exports in electronics, textiles, and light industry, in addition to market-based reforms. The single particularity of the Chinese FTZ system, compared to other Asian countries, concerned its shorter tax holidays scheme (one to five years) (others are set on five to ten or more years). This will turn into an advantage for the fiscal revenue drained from the SEZs. However, more favorable terms for tax holidays to firms bringing new technology, larger investments, and providing internal linkages were conceded.

Strong results were achieved by the Shenzhen SEZ: growth of foreign investments (creation of 1,500 foreign firms), growth of industrial output (50% per annum), and growth of exports (3,5% of Chinese total exports in 1987 and 13% in 1991) (Harrold et al., p. 86). In addition to foreign exchange earnings, creation of jobs, taxes revenues and insurance premiums, China became integrated with the world market. Once more, cost-benefit analysis suggests negative net social benefits from 1979 to 1986, meaning that the costs of subsidized services were socially greater than the social benefits.

Evidence from the Philippines' Bataan Export Processing Zones

While China and Malaysia experiences show strong positive economic results despite a negative social benefits of implementing FTZs, the experience of the Philippines resulted in few negative social benefits.

According to Harrold et al., two main features characterized the Philippines' Bataan Export Processing Zones (EPZs). The first one is the enormous infrastructure cost caused by location of the zone in an isolated area. The second important feature is the heavy cost of subsidized access to the local capital market for firms operating in the zone. The total costs derived from these two main factors were sufficient to overweigh all the benefits generated by EPZs.

EPZ incentives included exemption from export and import duties, exemption from municipal and provincial taxes, freedom to employ foreign nationals, unrestricted degree of foreign ownership, and generous deductions from taxable income (instead of taxes holidays as usual in other FTZs). The EPZs also benefitted from government support through a separate administrative branch of government within the EPZ, which simplified export documents. Government assistance for local manpower training and market development was available as well. The main economic result from the Bataan EPZs has been growth in employment and foreign exchange earnings, while little tax revenue was raised, and technology transfer and the use of local raw material were disappointing (3.7% of total raw material used in the EPZ) (Harrold et al. 1996, p. 85).

FTZs regimes have been useful tools to promote exports and investment in many countries. The above review of experiences has shown that their main economic advantages have been creation of employment and foreign exchange earnings. On rare occasions, FTZs may procure tax revenues if the incentive system does not confer excessively long tax holidays, as in the case of China. However, some inconveniences may arise. The most common problems from using FTZs is related to the costs of subsidized services and infrastructure costs, and sometimes additional costs due to poor location. A well-targeted location can result in lowest costs of infrastructure and support services (China's Senzhen EPZ), but high infrastructure costs due to poor location can overweigh the benefits from the zone, especially when combined with the cost of subsidized services such as energy, local credit, etc. (Philippine's Bataan EPZs). It is interesting to note that FTZs very often involve social losses (see table below), even in cases where they are regarded as successful policies (Malaysia, China). This can be considered as the social sacrifice born by the country for its world-wide expansion. Thus, the most successful FTZs program should be that which focuses on social costs minimization. The best example in this sense is Mauritius, the experience of which demonstrates that an FTZ need not be a physical area, in which case most infrastructure costs can be cut. The FTZ regime in Mauritius includes a system of export incentives to producers that export 100% of their production, wherever they are located. This kind of FTZ regime is likely to work in most SSA countries where infrastructure is a crucial constraint for exporter firms. Another problem related to a geographic FTZ can derive from limited space. Costa Rica faced such a problem by 1986 and the solution was to create privately owned EPZs (Louis Berger, 1990). Table 5 summarizes the main advantages and disadvantages of FTZs.

Table 5
Four Different FTZ Experiences

	MALAYSIA and the Penang FTZ	PHILIPPINES and the Bataan EPZ	CHINA and the Senzhen SEZ	MAURITIUS
Year of implementing	1972		1979	1970
Quality of Location	Convenient geographic area	Isolated geographic area	Convenient geographic area	Non geographic but a system of incentives for firms exporting 100% of their production
Numbers	Twelve zones (in 1994)	Many EPZs	<ul style="list-style-type: none"> • Four SEZs • 1,500 foreign firms in the Senshen zone in 1987 	84 firms in 1976
FTZ's % of total export	<ul style="list-style-type: none"> • 24% (51% of manufactured exports) in 1990 for Penang FTZ 		13% in 1991 for the Senzhen's zone	
FTZ's % of total employment			3.5% for the Senzhen zone	NA (attained natural rate of unemployment)
DFI attraction	<ul style="list-style-type: none"> • 0.9% of GNP in 1968 • 6.3% of GNP in 1974 	<ul style="list-style-type: none"> • Very little DFI • about 80% of private capital raised domestically 	<ul style="list-style-type: none"> • 90% in joint ventures • 42% in manufacturing 	High growth of DFI
Quality of FTZ incentives	Attractive	Attractive	Attractive	Attractive
Quality of duty drawback scheme	Unfavorable	Favorable	Favorable	Favorable
Exchange rate policy	Exchange rate management		Exchange rate management	
Industrial Training Program	Public-private	NA	NA	Public-private
Main disadvantages	<ul style="list-style-type: none"> • high cost of subsidized electricity (•22%) • low purchases of local raw material and low transfer of technology • infrastructure cost (•18%) 	<ul style="list-style-type: none"> • high costs of services • high infrastructure costs • poor location • heavy costs of subsidized local capital • dishonesty of exporters • little transfer of technology 	NA	NA
Main economic results	<ul style="list-style-type: none"> • 28% internal rate of return • 46% share of employment in the gross benefits • 39% share of foreign exchange earnings in the gross benefits 	<ul style="list-style-type: none"> • -3% internal rate of return • large gain from employment • significant foreign exchange earnings 	<ul style="list-style-type: none"> • Foreign exchange earnings and employment • 23% private rate of return on investment • Tax revenues and insurance premiums • 10.7% internal rate of return 	<ul style="list-style-type: none"> • Employment and foreign exchange earnings • Expansion of the manufacturing sector • Natural rate of unemployment
Observations	<ul style="list-style-type: none"> • High positive private benefits • but negative net social benefits 	Negative net present value	Positive private benefits, but negative net social benefits	High positive benefits

Source: Harrold et al. (1996)

Foreign direct investment promotion. Export pessimism and rejection of foreign capital characterized many developing country positions in the 1960s and 1970s. Today it is recognized that access to capital is essential to economic development, yet is often a constraining variable. In order to overcome domestic capital constraints, countries are increasingly turning to international markets for financing. While international portfolio capital transactions are well known for their volatility since the Mexican peso crisis of December 1994, movements in foreign direct investment (FDI) are considered somewhat less volatile. Private capital flows now far outdistance public capital flows, although this is not true in SSA, where public transfers still outpace private by a factor of over 4 to 1 (average, 1991-94; see Table 6).

Table 6
Sub-Saharan African Balance on Net Transfers
(millions of U.S. dollars, current prices)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Avg, 91-94
Private	172	115	190	327	623	90	656	1326	2428	2544	1739
Public	3895	4634	5521	6002	7077	7253	7447	8797	6751	5614	7152

Source: World Bank, *African Development Indicators 1996*, Tables 5-5 and 5-6

Average annual FDI flows to the private sector in developing countries have more than doubled in the period 1990-94, compared with the 1980s, *not including* FDI flows to China in 1994 (IFC, 1995). The bulk of FDI has gone to just a few countries, however. In 1994, three countries (Mexico, Malaysia, and Indonesia) accounted for almost 60 percent of the FDI to developing economies. China, Indonesia, Malaysia, the Philippines, and Thailand accounted for about 50 percent of total FDI to developing countries since 1990. Brazil and Argentina are two important recipients in Latin America.

The relative levels of FDI between Asia and Africa are starkly different. Wells (1994) cites United Nations data which report that in 1990, African countries received about 2.2 billion U.S. dollars, compared with 2.8 just to Korea, Hong Kong, and Taiwan and 11.6 to the six ASEAN countries (including Brunei). Despite the differences in orders of magnitude between Africa and Asia, the relative importance of FDI in each to the respective local economies is also important to bear in mind. Whereas in SSA FDI promotion is now viewed as a potential substitute for declining official development assistance (ODA), in no Southeast Asian country did FDI ever dominate over domestic savings (and certainly not ODA) as the source of investment capital. Yet African countries do not have particularly high savings rates.

The main FDI in SSA recipients from 1986 to the present have been Nigeria and Angola, with far lesser amounts received by Botswana, Zambia, and Namibia. South Africa has only recently reverted to net positive flows. Overall, for SSA however, net FDI was significantly down in 1993 compared with 1989 when FDI to Nigeria was at its peak, though it regained significantly in 1994; see Table 7. Furthermore, Africa's rate of investment as a percentage of GDP lags behind the rest of the world, as can be seen in the same table.

Table 7
Comparative Investment Statistics

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Net Foreign Direct Investment to Sub-Saharan Africa (millions of U.S. dollars, current prices)										
<u>Sub-Saharan Africa</u>	<u>780</u>	<u>568</u>	<u>1212</u>	<u>1089</u>	<u>2473</u>	<u>809</u>	<u>1897</u>	<u>1571</u>	<u>1713</u>	<u>3116</u>
excluding South Africa	1280	688	1372	991	2463	814	1905	1576	1721	3111
excluding S.A.&Nigeria	802	521	769	614	583	226	1193	679	371	1151

Source: World Bank, *African Development Indicators, 1996*, Table 5-8

Investment as % of GDP

World	21.7	21.4	21.6	22.5	23.1	22.6	21.5	21.3	21.0	
Industrial Countries	21.3	21.0	21.1	21.8	22.2	21.6	20.4	19.8	19.6	20.6
Developing Countries	22.5	22.1	22.7	23.8	24.7	24.5	23.6	24.0	23.6	
<u>Africa</u>	<u>20.2</u>	<u>20.1</u>	<u>19.6</u>	<u>19.4</u>	<u>19.7</u>	<u>19.6</u>	<u>18.8</u>	<u>18.7</u>	<u>19.4</u>	
Asia	24.8	24.2	24.9	26.6	27.9	29.9	29.2	29.1	28.0	
Europe	26.3	28.1	26.7	27.1	25.0	20.3				
Middle East	22.7	22.8	21.9	21.9	22.7	23.7	25.8	25.9	23.2	
Western Hemisphere	20.1	18.8	21.0	21.8	22.8	20.3	19.7	20.6	20.8	

Source: International Monetary Fund, *International Financial Statistics 1995*

A large part of the FDI directed to SSA to date has been concentrated in natural resource industries, rather than in manufacturing. What manufacturing FDI has come in, has focused on manufacturing for local consumption (agribusinesses, such as breweries and dairies, for example, or consumer products, such as shoes). However, in many instances, the local market in Africa is of a much more modest dimension than in Asia, given much smaller populations (except for Nigeria).

Wells (1994) suggests that Asian experiences with FDI offer complex lessons for African countries, that "some of the hopes with respect to foreign investment are probably too high; that the new legislation in Africa favoring foreign investment must be accompanied by more difficult macroeconomic reforms to generate significant inflows of FDI; and that certain of the successes of Asia cannot be repeated because of changes in the structures of the world industries involved" (p. 337).

He also highlights the differences in Asian experiences with FDI for export manufacturing, ranging from joint venture or contracting arrangements for technology use, full production, and/or marketing (Korea, Taiwan), direct manufacture by foreign firms for export (Singapore, Indonesia),

Wells and Wint (1990) categorize three kinds of promotional efforts which can be used to attract foreign investment to local economies. In early stages of outward orientation, a country needs to promote its image as an optimal investment climate for international capital. Once a favorable external image has been acquired, promotional efforts are much more specific as countries, like states in the United States, attempt to offer the most attractive incentives packages to specific firms to woo them, their capital, and their job opportunities. Finally, once acquired, services need to be provided

to investors. The challenge for SSA countries is still to make some inroad into the first level of promotion.

In some instances, governments have independently or via donor funding engaged private agencies to handle advertising and public relations activities related to building the overseas image of a particular developing country economy. Wells and Wint (1990) describe these activities, and offer a few alternative evaluation mechanisms. In one instance, they estimated the cost per new job created of trade and investment promotion efforts. They also compared the investment promotion cost with the cost of offering extended tax holidays, and found the former to be a significantly less expensive way to generate export-related employment. In another, they tracked repeated public opinion polls carried out in target countries to gauge foreign perception of the target country as an investment center. They also interviewed thirty managers involved in FDI-related decisions, twenty of whom found that a long term relationship with representatives of a local investment agency did influence and facilitate significantly or to some extent their decision to invest in the country in question. The preparation of industry profiles and the organization of trade/investment promotion tours in the U.S. did not appear particularly fruitful.

Econometric analysis reported by Wells and Wint, wherein FDI is estimated as a function of investment promotion (specified as a dichotomous variable indicating the mere presence of promotional efforts), controlling for per capita GNP, GNP growth, the current account balance, macroeconomic (inflation) and political stability, indicates that the presence of investment promotion activities does significantly increase FDI. When the data set disaggregates between industrial and developing countries, the impact of FDI promotion is far greater in the former than in the latter. For developing countries, levels of income and political stability would appear to be stronger determinants of capital inflows.

FDI used to mean American or European capital. East and Southeast Asia certainly understand it means Japanese capital. But increasingly the sources of FDI are diversifying, coming from the newly industrializing countries of Asia, the Middle East, and Latin America. South African investors are exploring opportunities throughout SSA, especially in minerals and consumer products sectors. It may be that investors from other developing countries have a different risk tolerance profile than industrial country investors, making them more attractive FDI candidates for SSA. Investors from NICs may also have a better sense of how to get around many of the institutional constraints still posed in SSA. Recognition of this may help to explain the recent Government of Ghana trade and investment mission to Southeast Asia led by the normally reclusive President Jerry Rawlings himself.

Laincz (1995, draft) ascribes a very beneficial role in economic development to FDI, judging from the experience of "second-tier" Southeast Asian nations (i.e. those who emerged as economic powerhouses in the mid-1970s to 1980s). Among the benefits are increased overall investment, increased employment, backwards linkages to the domestic economy encouraging greater efficiency in domestic producers, acquisition of skills for labor, acquisition of management techniques and business practices, acquisition of engineering/technical skills, government learning in handling relations with transnational corporations, acquisition of technology through joint ventures and licensing agreements, access to international marketing channels and knowledge of how to operate in the global economy, and closer integration into the dynamic economies of Japan and the United States.

Several authors focus on trade and investment promotion activities which can occur within the private sector. In Thailand, for example, USAID organized a "miniambassador program," which was a collaborative effort with the Thai Board of Investment (BOI) and the U.S. Chamber of Commerce

in Thailand (Wells and Wint, 1990). Representatives of American businesses already operating in Thailand volunteered to speak to American business groups and distribute BOI literature on behalf of investment in Thailand. Similar activities occurred in Malaysia. The World Bank (1990) also highlights the important spillover effect when a company of international repute enters into a significant buyer-seller relationship in a new country for the first time.

Among the conditions required to promote FDI, even into EPZs, are such incentives as low real wages, easy access to the external market, equal footing export policies, equal footing infrastructure at liberal prices, low political and other risks, and a good business and working environment (Rhee, Katterbach, and White, 1990). Wells and Wint (1990) stress the importance of establishing "one-stop shops" to facilitate the paperwork associated with FDI approval.

Export and investment promotion support services. A synthesis of USAID experiences with export and investment promotion support services in Asia and Latin America is available in McKean and Fox (1994). Their review indicates that such services have had a high payoff in some countries. While detailed cost-benefit analysis of export and investment support service projects is non feasible, Bremer and Bell (1993) argue that foreign exchange earnings, employment creation, and return to local capital may result as "direct benefits". "Indirect benefits," including new or stronger institutions to promote investment and exports, improved policy environment, and externalities, could be significant.

Louis Berger (1990) has classified fifteen USAID export and investment support service projects in Latin America and Caribbean countries, according to approaches used. They define three typologies of service projects including the transmitter approach, the facilitator approach, and the promoter approach.

The transmitter approach aimed to develop and transmit market information, by maintaining databases and answering investor and exporter queries. Its main advantage was the wide distribution of information, while non-targeting appeared to be its main disadvantage.

The facilitator approach focused on establishing general, multisectoral investment and export promotion services. Tools used to achieve this objective included shows and missions to promote products, general training assistance, producer and buyer travel facilitation, and general investor search services. The advantage of this strategy was the delivery of targeted assistance to individual investors in their marketing and production cycle. Problems resulted principally from the degree of qualification of the staff which provided services.

The promoter approach includes projects whose purpose is to provide technical assistance in production, marketing, and brokering services to specific firms. Again, its advantage is the targeting of business goals. Promoter projects very often implemented FTZs and duty drawback and exemption regimes. In many cases, projects started with a facilitator approach and ended up with a promoter strategy. Shifts from one strategy to another have been frequent. The promoter approach, the most often used, seems to have yielded best results.

East and South East Asian country experience

Bremer and Bell (1994) found that export and investment support services in Asia have played a vital role in encouraging new entrants into the export market, and in assisting foreign firms to invest. The study also shows that the first important source of services was the private sector. Private investors and exporters relied primarily on private sector channels for assistance, with limited

use of government services to support their export and investment initiative. Moreover, private sector partners and non profit private services provided most of the non governmental services used.

Furthermore, in distinguishing between foreign and local firms, it appears that for local firms, the most important step in becoming an exporter is finding an interested buyer. The buyer then becomes the most important source of additional support by providing technical assistance for local production, as well as information on foreign market requirements and opportunities. To find buyers, 45% of local firms used outside sources. Government and private sources were also important for locating buyers for 26% of firms. They also used private sources such as personal contacts, chambers of commerce, associations, etc. Information on regulations and markets was given by buyers and partners, and to a lesser extent by government. For foreign firms, government assistance was not credible. Chambers of commerce, associations, and private consultants played a modest role, helping international firms in the earliest stage of business development. Private firms also contributed services to international firm in the later stages by completing feasibility studies, dealing with legal and accounting issues, and obtaining government approval (Bremer and Bell 1994). Prior business or personal contact constituted a typical way to attract foreign investors in Asia. In other words, a former employee of an exporting firm used his previous contacts and experience to find partners and/or buyers for his new business. This was most observed in Taiwan (McKean, Toh, and Fisher 1994).

The export and investment support services of most Asian countries included both facilitator and promoter strategies. For example, since 1965, Korea has targeted exports by firm, industry, and geographic market (Rock 1993). Moreover, Korea policy makers monitor performance relative to these targets and reward firms that meet or exceed them with heavily subsidized credit. Government export support services were mainly assured by a high-level Export Development Committee (EDC) and the Export Promotion Subcommittee (EPSC). The latter was created within the joint Korean-American Economic Cooperation Council (ECC). The EDC and the EPSC were specialized in providing production and marketing assistance to exporters and dealing with administrative and marketing problems faced by them. The high specialization in production and marketing led to the creation of a large number of joint public-private sector efforts.

Indonesia and Thailand employed somewhat different strategies. They experimented with export and investment support strategies based mainly on relationships with buyers (McKean, Toh, and Fisher 1994; Benedict, Ryan and Bell 1993). These relationships were facilitated by the Department of Export Promotion (DEP), which provided high-quality services. In Indonesia, while government policy focused on regulatory, macroeconomic, and sectoral reforms, a majority of export firms relied on internal resources and highly interrelated, often kinship-based seller/buyer relationships. In India, on the other hand, export and investment support services have been unsatisfactory (Fox, Pelay, and Brumer, 1994). Efficient world-competitive production has been prevented in India by government policies still biased against exports, which leads firms operating in the protected environment to misperceive the potential risks and rewards of exporting.

Latin America and Caribbean country experiences

The main difference between East Asian and Latin American country experiences lies in the macroeconomic fundamentals. While most East Asian countries already had a liberal macroeconomic environment, major Latin American and Caribbean economies operated within a constrained macroeconomic environment (Dominican Republic and Honduras are considered here). Costa Rica, on the other hand, is a Latin American example of a country with a successful investment promotion policy where the macroeconomic environment was favorable. Costa Rica, the Dominican Republic,

and Guatemala experienced very rapid growth in non traditional exports during the 1980s (Louis Berger 1990). According to Louis Berger, identification of comparative advantage was crucial for program success in both constrained and favorable environment countries. Targeting assistance was then done through promotion of free trade zones.

The basic advantages in Costa Rica were a highly favorable environment, high levels of management capabilities, high education levels of the labor force and thus high productivity, and finally a modern transportation system. A facilitator strategy was adopted during the first two years of an investment promotion project. But problems arose in not matching project resources with comparative advantage of the economy. The second stage was characterized by shifting to a promoter approach through the use of export processing zones, drawback incentives, and export contracts providing free zone incentives for individual foreign firms located anywhere in the country. The advantage of this new strategy was that it highlighted productive structures in which the country enjoyed a comparative advantage. Overseas offices were also established to sell the country to foreign investors. In the end, the result was an increase of non manufactured export goods.

On the other hand, the Dominican Republic was characterized by an overvalued local currency, limited access to foreign exchange, and other constraints. EPZs have been implemented since the late 1960s and have become the easiest vehicle for investment promotion services. Institutionally, the Dominican Republic focused on investment promotion through the Investment Promotion Council (IPC) project, implemented when EPZs were in expansion. A facilitator approach was first used in the face of strong demand. Targeted and flexible strategies were later put in place in line with the promoter approach. The key success was in matching services with comparative advantage.

In Honduras, exports were promoted through the Foundation for Entrepreneurial Research and Development (FIDE) and the Federation of Agricultural and Agro-Industry Producers (FEPROEXAH) projects. The projects faced a constrained macroeconomic environment and their failure came from trying to achieve too much, too soon, with too many services, and too few priorities in an unstable environment. The facilitator approach focused on trade shows and contacts with buyers, and assisted in the development of two EPZs. Its failure led to the use of a promoter approach which later improved exports by promoting foreign investment in EPZs, and more targeted groups with highest export potential.

Active export promotion. The International Trade Centre of UNCTAD and the World Trade Organization recently surveyed over one hundred trade promotion organizations (TPO) in both developed and developing countries (Jaramillo, 1992). They found that TPOs may be public or private in nature, though the former, either located in a ministry or existing as an autonomous or semi-autonomous agency, is the more prevalent. Autonomous institutions are usually more closely involved with the private sector, and thus more effective. More highly developed TPOs provide the local business community with specialized advisory services (export documentation and procedures, costing and pricing, quality control, product adaptation, export packaging, transportation, marketing techniques, export financing and publicity); relatively few have a research and planning unit to analyze foreign trade conditions or a specialized section to train members of the export community.

Many SSA countries support public TPOs, including Ghana, Kenya, Malawi, Nigeria, Tanzania, the Congo, Senegal, Somalia, Uganda, Zaire, and Zambia (Hill, 1994). The evaluations by Hogan (1991) and Keesing, and Singer (1991a and 1991b) of TPOs in Africa finds them by and large ineffective (they were created while overall economy still highly protected; assigned multiple, conflicting objectives; usually created as public sector, single provider source of export services;

located in Ministries of Trade with limited command of resources; never as specialized as export businesses really require; ignore central issue of export production expertise).

The regional headquarters of the West African Enterprise Network (see next section below) also supports a regional and international trade information center, notable as one of the only private sector-based TPOs in SSA. It distributes international and regional commodity price information by fax and e-mail to members, and advertises regional market opportunities. It eventually hopes to serve as a fee-for-service information center to its membership.

Another alternative TPO format exists in Kenya. While not a traditional TPO, the parastatal Horticultural Crops Development Authority (HCDA), which provides advice on smallholder development, extension, information on international prices, certification of product quality and reasonableness of prices, and marketing assistance, has proven more effective than the conventional TPOs in Africa. The HCDA finances its activities by a direct tax on exported produce and receives no government revenue.

A joint World Bank-USAID study of competitiveness in Sub-Saharan Africa (1991) suggests that African exporters value the following three government interventions most highly: 1) promotion of foreign/domestic collaboration, 2) export policy instruments, and 3) investments in physical trade infrastructure. Great frustration was voiced by exporters in this survey regarding their demand for foreign collaboration which goes unrealized. While foreign governments and donor agencies prefer to send in consultants to "promote exports", SSA's private sector would prefer to receive technical/marketing/management experts provided via actual commercial agreements. Yet foreign suppliers of such collaboration are not forthcoming, due in part to a negative image of Africa overseas. This study also recommended that private match-making mechanisms and export-oriented foreign/domestic enterprise collaboration risk-coverage schemes be explored for bridging the gap between SSA and foreign small- and medium-size enterprises.

In examining the potential to develop an export trading house as an export promotion tool in Sri Lanka, Koskella (1992) considers that the increased globalization of manufacturing today has virtually eliminated the role of trading houses, which previously acted as pure middlemen between domestic producers and the international market place. Control by the foreign buyer dominates international trade today as major buyers and manufacturers have become skilled sourcers. Trading houses today must have either forward (control marketing outlets) or backward (control the production base) linkages to succeed. He observes that the real constraint to export development is the establishment of direct contacts with interested buyers, and thus also concludes that a matching system for linking foreign buyers and investors with the local production base is of utmost importance.

Koskella (1992), in reviewing the potential for expansion of non-traditional exports in Sri Lanka, observes that unless companies achieve a certain degree of scale, they will not be attractive contracting partners to international buyers. Large scale operations, with factory-type production facilities offer efficiency, reliability, and quality control to clients. These can only be developed with appropriate levels of financing.

According to Thomas and Nash (1991), efforts to extend preshipment export credits have not worked. Either the programs are unneeded or have turned into giveaway programs. While Korea has had success with using domestic letters of credit by exporters to identify recipients of export credit, the scheme has yet to work well outside of Korea.

The "catalyst model of development," it is argued by Rhee and Belot (1990), is responsible for export success in the eleven anecdotal case studies they review.³³ The catalyst may be an individual or company or public agency that pioneers an outward-oriented process before anyone else in a sector, packages the needed technical know-how with domestic endowments and external financing, and diffuses the experience to others. In most less developed countries, that know-how is lacking domestically, and thus has to be provided from a foreign source. Rhee and Belot stress the importance of a system for matching local comparative advantage potential with foreign know-how. Lacking systematic matching efforts, many of the anecdotes attribute serendipitous encounters between foreign investors or buyers and local producers for the success stories of export development.

Thomas and Nash (1991) report that technical assistance provided to official trade promotion organization to improve their information services and their support for export marketing has had especially disappointing results. On the other hand, "more promising approaches" include the provision of high calibre technical experts and service providers, perhaps via a matching grant fund, to exporters for technical assistance and training. These experts can provide management, engineering, accounting, banking, insurance, publishing, export market research, production inspection, and product testing advisors and services.

Nothdurft (1992) examines reasons why U.S. small and medium enterprises (SME) do not participate as actively as they might in export markets. He compares these obstacles with European countries' export promotion strategies which are perceived, by virtue of Europe's higher export rates, as more successful than those employed in the U.S. Management constraints are identified as the number one barrier to exporting by SMEs. SMEs must conserve scarce managerial talents by allocating them to the day-to-day management involved in servicing the local market, rather than in exploring export expansion as part of a strategic planning exercise. In addition, exporting is seen by most SMEs as an adjunct to existing activities, rather than a primary activity of the firm. External barriers (market intelligence, setting prices, finding representatives, completing the required export documentation and other paperwork, and negotiating satisfactory payment terms) comprise a second group of constraints.

Europeans, who are intrinsically more export oriented than Americans, have therefore concluded they must target narrowly focused export support activities to SMEs which are "export ready," rather than making generalized export promotion efforts. One example is the British Overseas Trade Board which provides assistance for gathering targeted market intelligence in one of three ways. A firm interested in exporting can apply for funding of 50% of the cost of a private consultant, up to a ceiling of \$40,000, or it can do the research in-house and have 50% of its costs subsidized, up to the same ceiling, or it can simply purchase published research, with the BOTB paying about 30% of the cost. BOTB claims that by helping to fund collection of specific market information as defined by the firm, the success rate measured in terms of exports initiated is high. Other European countries have initiated similar consultancy funds.

Lyakurwa (1991) describes the experiences of a number of Sub-Saharan African countries (Mauritius, Côte d'Ivoire, Tanzania) with these mechanisms as premature. Most countries do not succeed in their export promotion efforts until they offer a stable macroeconomic environment to their economic agents. He also cautions that structural factors, in addition to the enabling environment,

³³ Of the eleven cases examined by Rhee and Belot, two (semi-processed cocoa exports in Côte d'Ivoire and uniform exports from Zambia) derived from African experiences.

can also determine export success or failure.³⁴ Part of SSA's lack of export success to date is also attributed to a lack of entrepreneurship tradition in SSA.³⁵

Hill (1994) describes Kenyan and Botswanan export promotion programs. Kenya utilizes an Export Compensation Scheme to compensate exporters for government taxes on inputs after export, a Manufacturing Under Bond program in which imported inputs and exports are transacted duty free, and other import duty and VAT remission schemes to encourage exports. However, in part because the anti-export bias is simply too great, in part because the overall policy preference is to protect domestic import-substituting production, and in part because the negative revenue effect was too high, the export promotion policies were not well supported within government and simply did not work.

In Botswana, Hill (1994) reports that the extreme outward orientation of the economy has prevented the emergence of anti-export policy biases. It also is an active member of the Southern African Customs Union, promoting free trade among member countries. Manufacturing growth, as a result, has been significant, and while the economy is strongly dependent on traditional exports (meat, diamonds, copper), nontraditional exports have maintained a small but steady share of total exports.

Entrepreneurship or private sector development projects. In recent years, some donor aid has also been directed to the support of private sector associations, with the objectives of building business skills, promoting networking among business men and women both domestically and within a multi-country region, and giving them access to outside advice regarding production, marketing, and international trade issues. Keesing and Singer (1991a) stress that these services should be procured from private sources, to be most effective to actual export businesses.

Aid officials have had to develop creative ways to circumvent the restrictions placed on aid eligibility.³⁶ In some countries, this aid has taken the form of funding of a private sector foundation, which distributes funds to private individuals or firms on request. Such an insitutional arrangement is credited with the launching of Chilean agribusiness in the 1970s (Barriga, 1990). FIDE, a private export promotion organization in Honduras funded with USAID support, is another example of AID's private sector largesse during the 1980s. The International Trade Centre, under the GATT (and now, presumably, the World Trade Organization), has also shifted to an "enterprise-oriented approach" in extending assistance (particularly technical production advise and market research/marketing assistance) directly to selected firms in selected industries in client countries. Few systematic, cross-country evaluations of the impacts of such grant funds have been made. Keesing and Singer (1991b) suggest guidelines for detailed design of a grant fund as part of a donor-funded effort.

³⁴ "A deliberate effort to reduce marketing costs, often the largest share of FOB price, would also encourage exports. Reasons for high costs include overemployment, high transport costs relative to efficient fleet operators, long delays in sales and collection of proceeds (increases finance and storage costs and physical losses), poor management and embezzlement." Lyakurwa, p. 27.

³⁵ "Sound macroeconomic and trade policies are an important base. But in SSA there is not the response that would normally be forthcoming from the business sector in a developed country or newly industrializing country where a tradition of entrepreneurship is established and management skills and specialized services which underpin the expected investment, production and trade-related decisions are far-advanced." Lyakurwa, p. 28.

³⁶ Normally, only public sector agencies are eligible for ODA. One exception is the International Finance Corporation, a subsidiary of the World Bank, which lends at world market interest rates specifically to private firms. In certain countries where penetration of global capital flows is still limited, the IFC remains an important borrowing option for private companies.

In other instances, the aid has been in the form of direct assistance to a private sector association. This has been the case in West Africa, where USAID and other aid partners have given partial support to the West Africa Enterprise Network (WAEN) since 1993.³⁷ The WAEN is an association of national networks of commercial and financial service providers and manufacturers in eleven countries (both anglophone and francophone). With USAID assistance, the Network has also identified and researched constraints to regional trade integration (Salinger and Barry, 1996), trained local network members in international market analysis (WAEN and AIRD, forthcoming), and is pursuing a lobbying program to sensitive local government officials to these constraints and promote regional integration-related policy reforms. Keesing and Singer (1991a) note that in successful exporting nations, such feedback is channeled through a well-developed structure of private representative associations or chambers that continuously and aggressively promote the business community's viewpoint to the government.

Biggs et al. (1994) suggest that a significant degree of indigenization of garments export industries is required to ensure their sustainability once track records are established and real unit labor costs begin to rise. They observe that the process must address the main barriers to entry to local entrepreneurs, including restricted access to trade finance and foreign exchange, and limited technical and management expertise.

To sum up, most evaluations of trade and investment promotion activities find them to be very imperfect substitutes for structural adjustment. Many institutional mechanisms described above entail fiscal and economic costs, result in rent seeking, and yield minimal benefits. In addition, export subsidies increasingly incur aggressive trade counter practices by importing countries. A far more effective way to promote trade and investment in Sub-Saharan Africa, most observers agree, would be to continue along the process of adjustment upon which many countries have already embarked and demonstrate commitment to it from the highest policy making levels.

Effect of International Trade Agreements on SSA's New Trade Opportunities

The global trading regime has changed dramatically over the last decade. The Uruguay Round (UR) of the GATT, the most significant modification to the multilateral trading system undertaken since its initiation in 1948, was completed and formalized in April 1994 in Marrakech. In another development, regional trade agreements have proliferated throughout the world as trading partners have grouped together to exploit existing economic and political commonalities with the objective of improving economic welfare. International trade agreements, both global and regional, are the major multilateral vehicle by which the world's economies seek to create or expand trade opportunities in new products, markets, and modes of trade.

Sub-Saharan Africa is party to a number of important international trade agreements.³⁸ The Lomé Convention and the Generalized System of Preferences (GSP) are two non-reciprocal

³⁷ Donor support covers minimal outside technical assistance to establish networks, organize the coordination of the national networks at the regional level, and interact with the external environment. Network members increasingly finance Network activities via membership dues, and all members pay their own travel and miscellaneous expenses related to meetings participation. By 1997, it is the goal of donors to make the WAEN a self-supporting membership association.

³⁸ This section of the paper will focus exclusively on the impact of multilateral trade agreements on Sub-Saharan Africa. See Radelet (1996) for an analysis of regional integration efforts in SSA.

international arrangements of which SSA countries have been members since the 1970s. The non-reciprocal nature of these two accords signifies that, in each case, the countries of SSA are not required to offer to their trading partners the same benefits offered to them as beneficiaries. Whereas Lomé is a convention with one standard set of internationally recognized rules and disciplines, the GSP programs are unique to each country offering trade preferences and, therefore, there are differences among the trading regimes facing each recipient country.

The majority of SSA countries have become parties to the recently implemented UR agreements, thus signifying their desire to take a more active role in the global trading system and its institutions. While it is true that a number of SSA countries have been members of the GATT since its inception (see Appendix Table 1, page 70), the UR represents the first time that the developing countries maximized the opportunity to participate actively in an integrated fashion in the shaping of the new system. The increased role of the developing countries is closely related to the heightened importance of trade in their development strategies. The SSA countries' participation in the UR has been mixed, often varying by level of commitment to trade liberalization and success with unilateral economic reforms.

The growth of regional integration efforts largely coincided with the UR negotiations, as many countries felt regional liberalized trade could act as a second best measure in the case of a complete stalling of the global trade discussions. While SSA member countries are party to a significant number of different trading relationships, this paper is primarily concerned with the impact of non-African agreements on the region.

This section will review the literature on the impact of international trade agreements on Sub-Saharan Africa in an effort to answer the following questions:

- What is the current effect of existing trade relationships? Do they reinforce traditional trade patterns or stimulate the creation of new export opportunities?
- What are the anticipated direct effects of the newly implemented UR agreements on SSA's ability to establish new trade opportunities? Does the UR also have an indirect effect on the region's existing trade arrangements?
- What is the effect of the UR on regional arrangements? What is the impact of third party bilateral or regional trade agreements on SSA?

The literature on this topic is less than comprehensive, although some topics are treated in sufficient detail. As might be expected, information on Lomé is relatively available. There is also a plethora of literature available on the global impact of the UR agreements, and even a significant amount devoted exclusively to the developing countries. Several recent pieces have been completed on the impact of the UR on SSA, but this information is directed toward an analysis of SSA's existing opportunities, rather than toward the potential enumeration of more specific new trade opportunities created by the UR. In several cases, a general analysis can be extrapolated from a different developing country's experience and applied to SSA, but there are obvious gaps in the literature related specifically to SSA.

SSA's Existing Agreements

The Lomé Convention. The Lomé Convention links seventy countries in Africa, the Caribbean, and the Pacific (ACP) to the members of the European Union (EU).³⁹ Originally established in 1975, the Lomé Convention is the major vehicle by which the EU offers non-reciprocal trade preferences and official development assistance (ODA) to the ACP countries through the European Development Fund (EDF) and the European Investment Bank (EIB). The Fourth Lomé Convention, which was signed in December 1989 for a ten-year period, brought forward the agreements and concessions of the previous three conventions.⁴⁰

The overall goal of the Lomé Convention was to help the beneficiaries establish the appropriate market conditions to transform the structure of their exports into more processed primary products and manufactured goods as a means of advancing these countries' long-term economic development (Stevens and van Themaat, 1987). It was held that export diversification would generate higher levels of domestic value added and, over time, move the pattern of exports towards those goods with higher income elasticities of demand which, in turn, would help to reduce the instability inherent in the trade of commodity products.

This focus on export opportunities was made an explicit objective of the first Lomé Convention, whose protocol recognized the need for export revenue stability of the ACP countries; the establishment of a system for stabilizing export earnings (STABEX); the abandonment of reciprocity in trade relations, which heretofore had been the norm between Europe and its former colonies; a Sugar Protocol, which effectively set predetermined prices for ACP sugar exports; and, provisions covering industrial cooperation (Grilli, 1993). Lomé I granted ACP countries the ability to export almost 95 percent of their tropical products and manufactures duty-free to the Community. The remainder of ACP exports, virtually all agricultural products, was covered by Europe's Common Agricultural Policy (CAP), but still granted preferential treatment.

As each succeeding Lomé Protocol renewed the terms of the preceding conventions, the list of goals and main areas of cooperation became more extensive and reflective of the ACP countries' global objectives. Whereas Lomé I focused primarily on trade and the stabilization of export revenues, Lomé IV's areas of cooperation include trade, industrial and enterprise development, food security, investment, transport and other services, regional cooperation, energy and the environment.⁴¹ Under the Fourth Protocol, the EU also extended duty-free access to industrial exports and granted further preferences for agricultural products.

In one of the most far-reaching studies to date of the impact of Lomé on ACP states, Babarinde (1994) conducted a multiple regression analysis of two economic dimensions of the agreement, namely trade and foreign investment, on ACP development. The study employs a comparative methodology using a combination of cross-sectional and longitudinal designs, and the

³⁹ The Yaoundé Convention, created in 1960 for France's mainly African colonies, is the forerunner of the Lomé Convention. See Babarinde (1994) for an extensive discussion of the Lomé Convention.

⁴⁰ Lomé II was in effect from 1980-1985 and Lomé III was effective through 1990.

⁴¹ See Grilli (1993), pp.28-29 for a summary of the Lomé accords and their predecessors.

model itself is a combination of aggregate demand and supply variables.⁴² Babarinde concludes that the Lomé agreements are neither success nor failure. The trade regime of the accords appeared to have the intended effect of contributing to the economic development of the ACP countries, most directly in the 1960s (Yaoundé Accords) and the 1970s (Lomé), and most beneficially in the lowest income countries. Conversely, Babarinde concludes that in the 1980s, EC-ACP trade had adverse effects on the economic development of the ACP countries, but the influence of other external factors, such as global recession and ACP external debt problems, must be taken into account. Foreign investment has yielded no across the board positive development results.

Many other critics, perhaps with an eye to the experiences of the 1980s, argue that Lomé has not met its original goals. Grilli (1993) contends that Lomé did not become a new model of cooperation between Europe and the developing countries as was intended. The stagnation of Lomé policy, with the effective content and innovative thrust hardly changed over time, provides the strongest support for the conclusion that the significance of Lomé has become discounted. Despite the apparent expansion of the cooperation areas listed above, Grilli argues that these were nothing more than verbal concessions to ACP concerns with little substance. He further contends that preferential trade with the EC and the receipt of aid have neither helped to deepen Africa's traditional specialization in the production and export of raw materials, nor have they contributed in any visible way to import substitution or to the creation of a modern industrial structure.

Stevens and van Themaat submit that both the European Community and the ACP have expressed disappointment that the Lomé Conventions have failed to alter fundamentally the structure of trade between them. While conceding Lomé's importance in establishing free access to the European market, Stevens and van Themaat suggest that the potentially long-term benefits of this are significantly reduced by quota restrictions on CAP products, the absence of guaranteed access, the imposition of voluntary export restraints on sensitive products, and restrictive rules of origin.

Trade statistics substantiate the argument that Lomé has not created significant opportunities for SSA countries in Europe. Table 8 indicates the decline in the broader ACP countries' share of total European imports contrasted with the impressive growth of the Asian NICs' share over the same period. Total imports from ACP fell almost 50 percent between 1962 and 1988 while imports from the NICs rose 600 percent.⁴³ The declining significance of ACP exports to Europe is even more exaggerated when only imports of manufactured goods are considered. European imports from ACP fell 77 percent as compared to a 535 percent increase of imports from Asian industrializing countries. While total imports from the Mediterranean countries have been more or less stable, this group has successfully increased its share of manufactured goods exports in Europe over the sixteen year time frame under consideration. What is perhaps most striking about these statistics is that the broadest decline in ACP import shares coincides with the existence of the Lomé Convention, thus confirming the theory that the preferential trade accord has done relatively little to create market opportunities.

⁴² Babarinde, pp. 77-101. The author cites Donald Campbell and Julian Stanley (1963) as the principal supporters of this approach. The longitudinal aspect is contained in the fact that the issue at hand is being studied over a period of several years. The cross-sectional dimension is required to model the interests of several ACP and non-ACP countries.

⁴³ Looked at another way, in 1975 the ACP countries supplied 20 percent of total EC imports from developing countries. By 1988 this share had fallen to 14 percent despite the increase in ACP numbers from 46 to 66 members.

Table 8
 Developing Countries' Share of EC Import Market, 1962-1988
 (Percent)

	1962	1970	1975	1980	1985	1987	1988
ACP							
Total	8.8	8.9	7.3	7.3	7.5	4.8	4.5
Manufactured Goods	6.6	6.5	2.8	1.9	1.6	1.5	
Mediterranean							
Total	8.0	9.4	7.5	8.3	10.9	8.6	7.7
Manufactured Goods	2.1	2.7	3.2	3.8	5.0	5.6	
Asian NICs							
Total	0.9	1.5	2.4	3.5	3.5	6.0	6.3
Manufactured Goods	1.7	2.1	3.8	8.6	8.1	10.8	

Source: McAleese, 1992. ACP countries at the time numbered 66. Mediterranean countries (12) included Algeria, Morocco, Tunisia, Israel, Egypt, Jordan, Lebanon, Syria, Lebanon, Cyprus, Malta, and Turkey. The Asian NICs are Hong Kong, Taiwan, Korea, and Singapore.

The EU contends that this decline in market share is not the fault of Lomé's trade provisions, but rather the generally declining competitiveness of SSA products on the world market (*Europe*, 1989). The EU further blames the inappropriateness of ACP macroeconomic policies as reasons for the relative failure of Lomé.⁴⁴ While acknowledging Lomé's relative lack of success, ACP states counter that there are external factors over which they have had no control, including external debt and world recession, regardless of the policy options they have adopted (Babarinde, 1994).

Other critics find that Lomé's current central focus is not trade but aid (*Africa Analysis*, 2/9/96). Nonetheless, there is even some question whether Lomé's official development assistance (ODA) component itself has contributed to development in ACP countries. *Africa Analysis* proposes the argument that Lomé has contributed little from an aid perspective, largely because of the lack of poverty focus inherent in ODA. Moreover, the refusal of several European states to agree to a big increase in EDF funding suggests that the future of even the aid-related aspects of Lomé may be dim.

Despite the criticisms and Lomé's relative lack of success in generating consistent economic progress, Babarinde argues that the Conventions should not be discarded but, rather, allowed to continue as long as improvements can be made. He contends that Lomé has been helpful to its beneficiaries, albeit in ways that are less visible than the more obvious goal of economic development. For example, Babarinde suggests that Lomé has given the ACP countries an unprecedented international forum for the discussion of their goals, which enhances their political influence. The Convention also offers the ACP members the opportunity to coordinate policies and react as a cohesive unit in the international arena. Finally, Babarinde contends that Lomé should be retained because it has encouraged initial efforts among ACP countries to integrate their markets.

The Fourth Lomé Convention is due to expire at the end of the decade, at which point a new Convention will have to be negotiated in order for the program to continue. As it stands, Lomé remains compatible with the recent changes made to the multilateral trade regime in the Uruguay Round of GATT negotiations. While there are no clear calls in the literature for the disbanding of

⁴⁴ See Michael Blackwell. (1985) "Lomé III: The search for greater effectiveness." *Finance and Development*, vol. 22: 31-34 as cited in Babarinde (1994).

Lomé, many ACP observers see the need for improvements that would more appropriately meet member countries' current economic objectives.

The Generalized System of Preferences. The Generalized System of Preferences (GSP), a preferential trade treatment scheme created in the 1970s, embodies the GATT principle of non-reciprocity in trade with developing countries. OECD (1992) states that the objectives of the GSP at its inception were to increase the export earnings of developing countries; to promote their industrialization; and, to accelerate their rates of economic growth. Each preference-giving country has the right to create its own scheme regarding beneficiary countries, product coverage, extent of preferential tariff treatment, safeguard provisions and rules of origin.⁴⁵ Each scheme is negotiated bilaterally between the preference-giving country and the developing country beneficiary. Further, certain countries may receive GSP benefits on a given commodity from one country but not from others, and these same beneficiaries may not receive GSP benefits on all of the products they export to a given market. Finally, developing countries can be graduated from a GSP scheme at the preference-giving country's determination, once a certain level of development is obtained.

It was expected that the operation of the GSP schemes would lead to increased export opportunities and earnings in the developing country beneficiaries which, in turn, would promote industrialization and accelerate economic growth. In economic terms, the results of this preferential system, to which the developing countries had attached a great deal of importance, seem to have been less promising for many countries than originally anticipated (OECD, 1992). According to OECD statistics, incremental trade attributable to the GSP has amounted to less than 0.5 percent of total imports by OECD countries on average, and actual GSP-accorded exports have remained under one half of potential GSP-eligible exports. Furthermore, only a handful of countries have been the major beneficiaries of the program, generating nearly two-thirds of the exports that were accorded GSP treatment in 1987.

OECD (1992) finds several factors responsible for the underutilization of the GSP program. First, the product coverage of the GSP schemes has been limited in terms of the items of export interest for the developing countries and some have been excluded, such as textiles and clothing and the processed forms of natural resource products.⁴⁶ Second, the different schemes have often contained quantitative limits on import either by product or by country in major markets. Third, the application of rules of origin criteria have differed by scheme and their complexity has discouraged developing country utilization. Fourth, lack of transparency in the implementation of safeguard provisions has resulted in uncertainty for developing country exporters. Finally, the effectiveness of the GSP also has been influenced by the existence of a variety of nontariff barriers, which work to offset the GSP tariff preference, and the failure of many developing country exporters to be price competitive.

Although this survey encountered no literature specific to the impact of the GSP on SSA, several issues can be addressed which suggest that the preferences inherent in the GSP have not helped most of SSA create new trade opportunities in any meaningful way. First, the majority of SSA countries do not receive GSP benefits on their goods from the EU since they obtain more

⁴⁵ Between 1971 and 1976, the following countries introduced GSP schemes: Austria, Czechoslovakia, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, the European Community, Canada, Hungary, Australia, the United States, and Poland.

⁴⁶ Most GSP schemes initially covered mostly industrial products but have increased their coverage of agricultural products over time.

significant preferences as a result of the Lomé Convention. The EU's GSP system pre-dated the initial Lomé Convention by four years. When the Lomé Convention entered into force in 1975, there was a wholesale transfer of most non-Asian GSP beneficiaries to the far more advantageous terms of the Convention (Peers, 1995).⁴⁷ Whereas the Lomé Convention offers most SSA exports to the Community the benefit of tariff-free and quota-free entry, GSP tariffs are tiered based on the "sensitivity" of the item in question, thereby making the GSP scheme less preferential. In light of the advances made during the UR, recent changes to the EU GSP system abolished the use of tariff quotas and tariff ceilings. It is important to note that as the EU expands its network of free trade arrangements, prospective free trading partners lose their GSP status but gain clear advantages as a result of their linkage with the larger Union.

The GSP scheme is the principal vehicle by which the United States offers preferential tariff treatment to SSA exports. During 1990-94, the United States imported GSP-eligible items from 41 countries in SSA.⁴⁸ Nevertheless, GSP imports from SSA have represented only a small percentage of U.S. imports from the region, reaching 2.7 percent, in value terms, in 1994. This small share is due to the notable exclusions inherent in the U.S. GSP scheme: most energy-related products, the largest sector for total U.S. imports from SSA; most textiles, apparel, and footwear; and many agricultural goods. Whereas the first three product groups receive relatively high levels of protection in the United States, most SSA agricultural exports enter the U.S. market at zero or very low MFN duty rates.

Despite the low share of GSP-eligible goods relative to total U.S. imports from SSA, certain sectors have benefitted more significantly than others from GSP benefits. For example, a substantial proportion of both miscellaneous manufactures and electronic products traditionally have benefitted from GSP tariffs (34 percent and 27 percent, respectively, in 1994), as shown in Table 9. Nevertheless, two items bear mentioning. First, even these sectors demonstrate a relatively low GSP import share, never reaching much more than one-third. Second, the inclusion of South Africa in the list of GSP-eligible countries in 1994 explains the doubling of GSP imports from 1993 to 1994. Including South Africa, machinery and transportation equipment become additional sectors where GSP benefits are relatively important.

⁴⁷ South Africa is not a member of the Lomé Convention, and therefore receives GSP benefits on many of its exports to the EU including textiles and the full range of industrial products. South Africa receives preferences on its agricultural exports, with some exclusions, and receives no preferences on its exports of goods falling under the aegis of the European Coal and Steel agreement. Negotiations on South Africa's accession to the Lomé Convention are underway, however, they have turned acrimonious due to disagreements on product coverage. See Peers (1995).

⁴⁸ Nigeria, Gabon, and Eritrea are not beneficiary countries. Sudan, Liberia, and Mauritania are beneficiary countries whose eligibility has been suspended due to perceived workers' rights abuses. Guinea-Bissau, Comoros, and Sao Tomé and Príncipe did not export any GSP-eligible products to the United States during this period.

Table 9
U.S. Imports from SSA under the GSP, 1990-94
 (As a share of total imports from SSA by sector; percent)

GSP Imports	1990	1991	1992	1993	1994
Agricultural Products	18.29	13.17	6.99	7.56	15.70
Forest Products	2.54	3.03	4.61	6.16	15.28
Chemicals/Related	1.95	1.06	1.14	1.05	19.67
Textiles/Apparel	0.15	0.10	0.43	0.18	0.51
Footwear	0.00	0.00	3.03	0.00	2.94
Minerals/Metals	1.18	0.34	1.60	3.05	5.67
Machinery	0.24	0.09	1.75	0.41	48.66
Transportation Equipment	0.05	0.02	0.00	3.96	34.94
Electronics	23.64	30.79	20.87	26.23	26.91
Miscellaneous Manufactures	22.84	26.11	36.12	51.78	34.27
Total GSP Imports	1.16	0.84	0.75	1.12	2.73

Source: ITC (1996), with data supplied by the U.S. Department of Commerce.

As noted, other OECD countries offer GSP benefits to developing countries including Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United Kingdom. Since each GSP scheme is nation-specific, however, it is difficult to assess the overall effectiveness of each program for the developing world, and virtually impossible to measure each scheme's success for SSA. Given that the EU and the United States are the region's two largest trading partners, accounting for almost 75 percent of SSA's exports in 1991, it may be sufficient to assess the GSP's relative lack of success in stimulating new export opportunities based on these two programs alone.⁴⁹ It should be noted that South Africa's recent readmission to the GSP scheme clearly has established export opportunities for that country in markets that either previously had been closed off entirely or whose tariffs were significantly higher.

SSA Participation in New International Agreements

GATT/Uruguay Round accords

General Results

The Final Act of the Uruguay Round (UR) was signed at Marrakech in April 1994, and provides for the establishment of the World Trade Organization. Among other agreements, the Final Act includes accords related to trade in agricultural products, market access for manufactured goods, textiles and clothing, services, trade-related investment measures (TRIMs), and trade-related aspects of intellectual property (TRIPs). The Agreement entered into force on January 1, 1995, for members who had filed the appropriate ratification documents.⁵⁰

⁴⁹ Japan, the next largest single-country market for SSA exports, had a 5.6 percent share in 1991. The developing world as a whole took 15.4 percent of SSA exports, but none of them offer GSP benefits.

⁵⁰ By July 1995, 38 out of the 48 SSA countries were members of the GATT, having submitted tariff reduction schedule proposals in agriculture, industry and services, and signed the WTO Agreement. Seychelles and Sudan had made formal requests for GATT/WTO accession by this date. See Appendix Table 1 for a

The UR will boost world income and welfare by its impact on world trade. Annual gains in world income from full implementation are estimated at an average of \$200 billion.⁵¹ This translates into a 10 to 15 percent increase in world trade over the level that would otherwise exist in the absence of the UR results (Harrold, 1995). It is this growth in global demand and the consequent increase in exports that provides the major source of potential trade gains for SSA from the UR of trade liberalization. In addition, the expected improvement in market access, resulting from tariff cuts and the elimination of many non-tariff barriers, holds an important key to the outcome of the UR for the countries of SSA.

The UR represents the first time that so many developing countries have participated in the negotiations to modify the existing international trading order. According to Sorsa (1995) this change is related to the increased role of the developing countries in the world economy, the increased role of trade and openness in their development strategies, and their consequent desire for improved access to industrial country markets and a more orderly functioning of the world trading system. For those developing countries which have been pursuing unilateral economic reforms, the UR provided the opportunity for them to go beyond their own efforts in exchange for multilateral concessions and to demonstrate to their trading partners a commitment to trade liberalization. This commitment is expected to enhance those participants' potential for expanded trade since it enhances the stability of the trading regime by discouraging policy reversals.

The International Finance Corporation (IFC, 1990) reports that in establishing their own commitments during the UR of negotiations, developing country governments, in general, made important decisions regarding trade policy which will affect export prospects for domestic businesses. The extent to which these countries were willing to participate reciprocally in the liberalization of their own trade regimes gives some indication of the promise of improved access to the industrialized markets. Reductions in import protection are expected to benefit export businesses, by making imported inputs more affordable and domestic businesses potentially more competitive.⁵²

The UR Agreements distinguish among obligations of developed countries, developing countries, and least developed countries, where status primarily is determined by per-capita income levels (ITC, 1996).⁵³ Many of the commitments made by the developing countries are lesser in scope than those made by the industrialized countries, and these commitments are permitted a longer transition period before full implementation is expected. Least developed countries are permitted to delay their obligations for an even longer period of time, or, in some instances, are exempted from meeting commitments all together. Developing and least developed countries most notably received differential treatment, *inter alia*, in the Agreements on Agriculture, TRIPs, and TRIMs.

complete listing.

⁵¹ See GATT (1993a and 1994b), Goldin, Knudsen, and van der Mensbrugghe (1993).

⁵² Traditional imported inputs would include capital equipment, raw materials, components, and sub-assemblies. This definition should be expanded in light of the General Agreement on Services (GATS), however, which will now permit liberalized trade in finance, insurance, shipping, and telecommunications, all of which are important inputs for export-oriented firms.

⁵³ Development status in GATT is self-proclaimed and has an impact on the level of obligations within the international trading rules. In the past South Africa has been considered an industrial country, although recently, the maintenance of industrial country status in the WTO has been subject to much debate since South Africa is getting developing country benefits in other areas. Fourteen of the SSA countries are considered developing, and twenty-three are least developed. See Sorsa (1995): 2.

Furthermore, WTO countries agreed to provide preferential treatment for the least developed and net food importing developing country WTO members in the case of an increase in world food prices due to changes expected as a result of the UR.⁵⁴

Many studies have been conducted, both prior to the conclusion of the UR and in its aftermath, attempting to assess the global welfare impact of the Round. A 1994 analysis by the U.N. Conference on Trade and Development (UNCTAD) is one of the most widely-cited comprehensive studies of the impact of the UR on developing countries.⁵⁵ A concise summary of the study's qualitative conclusions follows:

1. Export-oriented investment in developing countries will probably be stimulated by the strengthening of the global trading system's rules and disciplines, including improved dispute settlement procedures, the elimination of voluntary export restraints, and the phase-out of the Multi-Fibre Arrangement.
2. Despite tariff liberalization in some developing countries and new tariff bindings in others, the group, as a whole, maintains a relatively high level of tariffs, particularly on manufactured goods.
3. The establishment of new rules for agriculture, intellectual property rights, and services may impose short-term costs on developing countries but longer-term benefits.
4. The least developed countries may suffer from the erosion of preferential tariff margins and from the administrative requirements of their obligations under the UR.
5. The dynamic effects of trade liberalization, including reduced unemployment and economic growth in the developed economies, should benefit the developing countries over time.

Sorsa (1995) offers the following summary of the UR's expected impact on SSA. First, she finds that the completion of the UR brought more stability to the world economy. Stability, in turn, should enhance growth prospects and have a direct impact on the demand for exports from developing countries. Economic upturn also should increase commodity prices, all things being held equal. Second, tariff cuts and the removal of nontariff barriers, particularly in the industrialized countries, will improve market access in agricultural and industrial products, although some preferences will be eroded. Third, SSA's own liberalization efforts should increase economic efficiency. Fourth, SSA countries may need to adjust domestic policies to comply with the international rules in such areas as subsidies and intellectual property. In conclusion, Sorsa determines that the full economic impact will depend on how the above forces interact and each country's ability to take advantage of the opportunities created as a result of the UR.

In estimating the global welfare impact of the UR, several authors have isolated the impact of this round of trade liberalization on Africa. Several studies have attempted to quantify the welfare impact of the UR on Africa as a whole. In the best known computable general equilibrium (CGE) model, Goldin, Knudsen, and van der Mensbrugghe (1993), using information available before the UR was actually completed, determined a small net gain for SSA as a whole, although this gain was only about one-third of that for OECD countries. Caution must be exercised in interpreting these

⁵⁴ Formally, the *Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries*.

⁵⁵ See ITC (1996) for a summary of UNCTAD's most important conclusions, p. 4-1.

results, particularly in the case of Africa, given the reliability of CGE models, the lack of clarity surrounding the amount of actual change in tariffs and prices, and the uncertainties about the size of elasticities and quality of African data (Harrold, 1995).

Since the results of the Round have emerged, other simulations have been developed.⁵⁶ Goldin and van der Mensbrugge (1995) reran their earlier model, and found an insignificant welfare loss for SSA on the order of 0.2 percent to 0.5 percent of GDP. An alternative CGE model (Harrison, Rutherford, and Tarr, 1995) found a similar welfare loss for SSA of 0.28 percent to 0.73 percent. Welfare losses are attributable to the lack of domestic reform in SSA countries, reducing welfare gains from price declines elsewhere, and reducing competitiveness in exports (Harrold, 1995). On the other hand, Francois, McDonald, and Nordström (1995) determined welfare gains for Africa of up to 1.4 percent of GDP, largely deriving from non-MFA industrial output growth.

Yeats uses the World Bank-UNCTAD SMART database to simulate the impact of the gains from the UR on countries' exports.⁵⁷ The results of this simulation indicate a strong impetus to developing countries' exports as a whole, which are expected to grow by 11 percent over what would have obtained in the absence of the Round. East Asia is the biggest winner as a result of the UR, capturing 60 percent of the gains. Exports from SSA experience a 2 percent increase, the smallest growth of all the developing regions of the world.

Although the preceding list represents but a small survey of the analyses undertaken on the quantitative impact of the UR, there is a growing general consensus that the impact of the UR on SSA will be relatively modest from an overall welfare perspective as well as from a more narrow trade outlook. In broad terms, analytic conclusions range from negative effects in the short term to positive effects in the longer term. Moreover, the impact of the UR will not be uniform, but rather, SSA countries will experience different results depending on, *inter alia*, their export structure, foreign market dependence, and extent of domestic economic liberalization. The anticipated reversal of the UR's impact over time derives from the fact that many SSA countries have neither the economic infrastructure nor the political institutions necessary to take immediate full advantage of the gains likely to arise from trade liberalization (ITC 1996). In fact, many studies conclude not only that SSA will gain more in the immediate term from the continued pursuit of structural adjustment reforms, but also that *in order* to gain from the UR, the domestic economic environment must be sufficiently open.⁵⁸

Harrold (1995) maintains that African welfare losses as a result of the UR derive primarily from the lack of reform by African countries, which reduces the welfare gains from price declines elsewhere and lowers export competitiveness. Because there are no gains from exports, African

⁵⁶ See Francois, McDonald, and Nordström (1995) for a comprehensive listing of studies assessing the global income effects of the UR.

⁵⁷ The SMART model (Software for Market Analysis and Restrictions on Trade) is a trade projection model developed by the World Bank to simulate the effects of MFN tariff cuts on exports. Yeats (1994) references World Bank (1992), *Global Economic Prospects and Developing Countries, 1992* (Washington: The World Bank, April), and Erzan and Yeats (1992). "Free Trade Agreements with the United States --What's in it for Latin America," World Bank Policy Research Paper No. 827 (Washington: The World Bank) is a source for more information on the SMART model.

⁵⁸ Goldin, Knudsen, and van der Mensbrugge (1993) find that Africa's unilateral liberalization has nearly as positive an impact on real income as a full multilateral liberalization due to assumed efficiencies and export gains.

losses are due to higher prices for agricultural commodities and imported clothing. If SSA countries committed to greater liberalization, Harrold postulates that welfare losses would convert to gains under the UR. In fact, this confirms the ITC findings above which suggest that positive results could be expected in the longer term assuming that SSA countries continued to pursue unilateral reforms.

Sorsa (1995) supports this line of analysis, stating that SSA lost the opportunity to benefit from the UR by not locking its own domestic reforms to an international anchor. This was partly a result of the nature of the agreements concluded, in that many of the trade liberalizing measures were more applicable to the industrialized countries. More importantly, however, the majority of the region's governments opted not to make substantial liberalization commitments on border protection. The countries of the South African Customs Union (SACU) provided the exception in that they used the UR to consolidate ongoing domestic reform programs.⁵⁹ In terms of their own commitments, the majority of SSA countries, like many other developing countries, opted to bind their tariff lines at prohibitive levels, ranging upwards of 100 percent to 300 percent, rather than at the more modest applied rates.⁶⁰

Several explanations might be advanced for why SSA countries as a whole did not undertake meaningful commitments in the UR. First, trade liberalization necessarily results in greater competition in the local market as foreign goods compete with what is often a relatively undeveloped and uncompetitive domestic industry. Second, many SSA countries were looking to maintain some degree of flexibility in setting their bound rates as high as they did. Despite applied rates that often are significantly lower than bound rates, a high tariff ceiling gives each government some room to maneuver in case of unanticipated events which have an impact on trade flows. Third, many SSA countries rely on tariffs and other trade taxes as an integral component of central government revenues. The reduction of border protection, therefore, would have a direct effect on government accounts. Finally, most of the prevalent pre-UR border measures in SSA (including export taxes and import subsidies) were not disciplined under the UR.

Issues of Concern: Higher/More Variable Food Import Prices and Preference Erosion

While most critics do agree that the lack of SSA liberalization has minimized the gains that the region could achieve through the UR, there is strong concern over the impact of two potentially negative forces on Sub-Saharan Africa. The first addresses the impact of agricultural liberalization on world food prices, and the second concerns the extent to which MFN trade liberalization will erode the tariff preferences that many SSA countries currently enjoy under the Lomé Convention and the GSP.

Efforts made to liberalize global agricultural trade were relatively significant given the extent to which this trade historically has been distorted by the use of tariff and nontariff barriers. The principal accomplishments of the Agreement on Agriculture were the binding of all tariffs, minimum access commitments in products where imports were previously banned or restricted, tariffication of nontariff barriers, prevention of new export subsidies, and bindings on the value and volumes of

⁵⁹ The countries of the South African Customs Union include Botswana, Namibia, South Africa, Swaziland, and Lesotho.

⁶⁰ The only bindings made below 50 percent were by Congo (30 percent ceiling), Central African Republic (46 percent ceiling), and by four of the five countries of the South African Customs Union (Botswana, Namibia, South Africa, Swaziland) where bound duties will decline on average to about 40 percent over six years.

existing export subsidies (Ingco, 1995). It is generally agreed that most of the liberalization in this sector will take place in the developed countries.

The consequent reduction or removal of many of the existing forms of protection is expected to have an impact on world food markets and prices, particularly for temperate zone products such as wheat, rice, sugar, meat, and dairy.⁶¹ More specifically, the removal of export subsidies by OECD producers is expected to reduce supply and, therefore, raise the world market price. The least developed countries, many of whom are also net food importers, have expressed concern over the detrimental effect that increased food prices will have on their terms of trade.

Many studies have attempted to quantify the global impact of the UR's agricultural reform, with estimates of potential changes in food prices on general welfare and the terms of trade. As noted above, Goldin and van der Mensbrugge (1995), in one of the best-known quantitative analyses, use a CGE model to ascertain the effects of tariffication in agriculture. Table 10 highlights the results of two of their simulations, which differ on the specifications of the baseline level of protection.⁶² In very general terms, the table demonstrates that prices for temperate zone products, especially wheat and coarse grains, are indeed expected to increase whereas the prices for SSA's more traditional export product prices are expected to decline. Despite these price changes, which on the surface appear to bode poorly for SSA, Goldin and van der Mensbrugge estimate an insignificant 0.2 percent decline in SSA real GDP in 2002 compared with that year's benchmark. The rationale behind this result is that the longer-term benefits of the UR Agreements will ameliorate most of the negative effects on SSA associated with higher food prices.

Table 10
Change in World Agricultural Prices
(Percent Deviation from Baseline in 2002)

Commodity	Scenario 1	Scenario 2
Wheat	1.2	3.8
Rice	-1.5	-0.9
Coarse Grains	0.1	2.3
Sugar	-1.0	1.8
Coffee	-1.7	-1.5
Cocoa	-1.3	-0.7
Tea	-1.6	-1.4
Oils	-0.6	-0.3
Dairy	-1.3	1.2
Wool	-1.1	-0.9
Cotton	-1.3	-1.2

Source: Goldin and van der Mensbrugge (1995)

⁶¹ Brandao and Martin (1993) and Valdés and Zietz (1994).

⁶² Scenario 1 is based on a reference scenario that assumes that the future (1994-2002) levels of protection are the 1982-1993 average levels of protection, and that it is against this base that countries undertake their reforms according to their tariff reduction offers. Input subsidies remain unchanged, and no change in tariffs is observed for developing countries. Scenario 2 is identical to scenario 1 with the exception that the most recent estimates of average protection (1989-1993) are used as the benchmark against which future reforms are evaluated.

In a study looking specifically at 57 developing countries, Eiteljörge and Sheil (1995) find that changes in net food import costs due to the UR will be relatively small in percentage terms, but could be substantial in absolute terms for some of the larger trading nations. Using the Goldin and van der Mensbrugge (1995) price results, Eiteljörge and Sheil provide projections for net food imports of four commodities: coarse grains; wheat; rice; and, sugar. Estimated increases in net food import costs of these food items ranged up to 4 percent for Ethiopia, and in absolute terms, up to \$10 million for Ethiopia and Nigeria. Eiteljörge and Sheil caution, however, that these figures represent upper bounds since many net food-importing nations also receive substantial amounts of food aid, which should be deducted accordingly. In summary, the authors stress that losses incurred as a result of the increased cost of net food imports should be offset by gains in the UR for those developing countries which undertake their own liberalization efforts.

Ingo (1995) suggests that the agricultural reforms agreed to under the UR will not likely have a significant effect on trade flows and prices in the next several years since, in practice, trade probably will be liberalized less than expected. Using a post-UR estimation of tariff equivalents of border measures, Ingo determines that most OECD countries set their tariff equivalents at levels significantly higher than the border protection they replaced in the base period.⁶³ Furthermore, most SSA countries did little to liberalize their own systems of agricultural protection, either because tariff bindings remain high or because SSA policy measures employed in the agricultural sector are not subject to WTO disciplines. There is, therefore, little opportunity for changes in world market prices to pass through to domestic markets, and little chance for net food importers to be hurt by rising import prices.

Harrold (1995) also submits that the burden of higher food bills may be overstated, acknowledging that actual protection in the agricultural sector may not fall substantially. Further, he points out that few studies have quantified, or even noted, the possible supply response of nonsubsidized producers in industrial and developing countries, which could help to mitigate price increases. Finally Harrold points out that Africa as a whole has a positive trade balance in food, with only fifteen African countries experiencing an overall deficit.⁶⁴ A 5 percent rise in the food trade deficit for these countries would only result in a 0.15 percent increase in total imports (p. 18).

Abbott, Tyner, and Cripe (1996) suggest that while greater stability of world agricultural commodity prices was one of the goals of the UR, the compromises struck during negotiations will cause the actual post-UR outcome to deviate from this stated objective. Tariff rate quotas, which act more like quotas than tariffs, depending on how they are implemented, are allowed. Export subsidies (especially those administered by the EU and U.S. Export Enhancement Program) and parastatal marketing boards have not been completely eliminated. Moreover, because tariff binding rates have been accepted at levels far higher than actual implementation levels, countries have the degrees of freedom to experiment with "modified *ad valorem* tariff" schemes, which more closely resemble a variable levy scheme (GATT-incompatible) than a strict *ad valorem* tariff. The net result is likely to be the continued stabilization of domestic prices at the expense of world price stability.

⁶³Ingo refers to this concept as "dirty tariffication", which is the result of the conversion of nontariff barriers into tariff equivalents. This differs from the general developing country practice of binding their tariffs at extraordinarily high levels. In general terms, developing countries do not employ a significant number of nontariff barriers which are now subject to WTO disciplines.

⁶⁴ The most significant of these are Angola, Congo, Gabon, Liberia, Nigeria, Togo, and Zambia.

Table 11
Average OECD Tariffs on SSA's Non-Oil Exports and Preference Margins
(Percent)

SSA Country	EU		Japan		US	
	Tariff	Pref Margin	Tariff	Pref Margin	Tariff	Pref Margin
Angola	0.3	-3.2	1.8	0.0	0.1	-0.4
Botswana	0.1	-2.9	0.0	-2.1	3.5	-1.1
Cameroon	0.1	-2.8	0.0	0.0	2.1	-1.1
C.Af. Repub	0.2	-2.3	0.0	0.0	0.0	-1.1
Chad	0.2	-2.9	2.5	0.0	1.6	0.0
Congo	0.0	-2.2	0.0	0.0	0.3	-0.6
Côte d'Ivoire	0.3	-3.3	1.2	-0.5	3.3	-2.0
Ethiopia	0.1	-1.9	1.5	-1.3	2.0	0.4
Gabon	0.0	-2.7	0.0	0.0	2.9	0.7
Ghana	0.1	-3.1	2.3	0.0	2.6	-0.9
Guinea	0.0	-2.9	1.8	-1.9	1.9	-1.0
Kenya	0.2	-3.5	2.4	-1.1	3.1	-2.3
Liberia	0.3	-1.9	0.0	-0.3	2.5	-1.1
Madagascar	0.4	-2.7	0.8	-0.2	0.8	-1.0
Malawi	0.1	-3.5	0.0	-0.1	5.4	-0.6
Mali	0.2	-3.5	0.0	-1.6	3.1	-2.2
Mauritania	0.2	-3.9	3.6	-0.4	1.2	-1.6
Mauritius	0.2	-3.4	4.8	-1.1	6.4	-1.8
Niger	0.0	-3.0	0.0	0.0	3.3	-1.6
Nigeria	0.1	-2.6	3.7	-0.8	5.2	0.7
Senegal	0.3	-3.5	3.6	0.1	4.9	-1.2
Sierra Leone	0.0	-4.0	2.6	-0.7	2.3	-0.2
Sudan	0.1	-1.9	0.0	0.0	0.7	-1.0
Swaziland	0.5	-4.9	6.7	-3.0	3.5	-1.9
Togo	0.2	-2.8	9.8	-0.8	0.2	-2.8
Uganda	0.6	-3.0	0.0	0.0	2.1	-0.3
Tanzania	0.0	-2.5	1.4	-1.0	0.0	-2.4
Zaire	0.1	-2.4	0.0	-0.5	1.3	-1.1
Zambia	0.5	-2.9	0.0	-0.6	1.4	-1.4
Zimbabwe	0.2	-3.3	1.2	-1.0	4.0	-1.0

Note: Negative values show the average preferential tariff margins that SSA exporter has over all other exporters of the same goods. Positive values indicate that other countries receive greater preferences.
Source: Yeats (1994)

Regarding the issue of tariff margins, the Uruguay Round will lower border protection on an MFN basis, thereby eroding existing trade preferences (Table 11). This could cause preference-receiving countries' competitive position to deteriorate compared with other suppliers while also causing potential trade losses if the reduction in the preference margin causes their exports to be displaced by exports from other non-preference receiving countries. It is widely expected that most SSA countries will experience some preference erosion due to the current level of tariff preferences they receive under such programs as Lomé and GSP. The central question is whether the erosion of preferences on SSA's existing exports could be offset by trade gains engendered by other liberalizing measures undertaken during the UR.

Yeats (1994) argues that due to SSA's existing export structure and its overwhelming export dependence on OECD markets, particularly the EU market where preference margins are the highest,

preference erosion will be significant given a complete liberalization of MFN tariffs.⁶⁵ Using a World Bank/UNCTAD partial equilibrium trade projection model, Yeats determined that SSA would experience a 1.9% decrease in its exports to the EU, a 1.1% decrease in its exports to Japan, and a 4.3% increase in its exports to the United States as a result of preference erosion (Table 12).⁶⁶ In absolute terms, this equates to annual African trade losses in the EU of approximately \$250 million, a \$14 million loss in the Japanese markets, and an \$89 million gain in the United States.⁶⁷ Finally, utilizing an inventory of OECD nontariff measures maintained by the UNCTAD Secretariat, Yeats calculates that the elimination of the nontariff measures facing SSA exports would not offset the losses that these countries will experience due to tariff preference erosion.

⁶⁵ Yeats's study was undertaken prior to the formalization of the UR results at Marrakech. MFN tariffs are not expected to be eliminated completely as a result of the UR so that Yeats's results must be seen as overestimates. Yeats notes that a roughly proportional relationship exists between the depth of the eventual UR tariff cuts and the projections for the EU, p. 14.

⁶⁶ For a description of the SMART model, see World Bank. (1992) *Global Economic Prospects, 1992*. (Washington: The World Bank, April).

⁶⁷ The trade gains in the U.S. market are due to the elimination of the restrictions inherent in the MultiFiber Arrangement. Most of these gains are expected to accrue to Mauritius.

Table 12
Estimated Trade Effect of Elimination of MFN Tariffs on SSA Exports
 (Percent Change in Level of Exports)

SSA Exporting Country	European Union (Percent)	Japan (Percent)	United States (Percent)
Angola	-1.7	0.0	0.2
Botswana	-2.7	-1.0	10.1
Cameroon	-1.9	0.0	0.5
C.Af. Repub	-1.4	0.0	-0.5
Chad	-0.2	---	4.6
Congo	-0.2	---	0.4
Côte d'Ivoire	-3.1	---	---
Ethiopia	-3.8	---	0.7
Gabon	-0.4	0.0	1.2
Ghana	-0.7	0.9	---
Guinea	-0.4	4.9	---
Kenya	-4.5	3.2	1.7
Liberia	---	0.0	---
Madagascar	-2.9	2.0	-0.1
Malawi	-4.6	---	8.6
Mali	-0.4	-0.1	-1.7
Mauritania	-1.3	-4.0	---
Mauritius	-3.5	4.8	41.8
Niger	-0.2	0.0	-0.4
Nigeria	-0.6	3.0	0.6
Senegal	-4.0	3.4	---
Sierra Leone	-1.0	3.8	1.1
Sudan	-0.3	---	0.1
Swaziland	-2.6	-0.2	2.7
Togo	-1.0	0.5	-0.2
Uganda	-4.0	0.0	---
Tanzania	-2.6	0.7	2.7
Zaire	-0.7	-0.3	---
Zambia	-0.2	-1.7	---
Zimbabwe	-3.4	-2.1	4.4
ALL ABOVE COUNTRIES	-1.9	-1.1	4.3

Source: Yeats (1994).

Using the same trade projection model, Harrold (1995) simulated the impact of preference erosion only on the least developed SSA countries, for whom this phenomenon represents a special concern due to their low levels of industrialization, their specialization in relatively few export products, and their generally poor trade performance (p. 26). Table 13 demonstrates that when the actual UR tariff reductions are used to quantify lost exports due to preference erosion, the results are much less onerous than those calculated by Yeats. The 0.1 percent reduction in total least developed exports implies that these goods will continue to receive some preferences in OECD markets as a result of the UR. In absolute terms, this represents roughly a \$7.5 million loss in the three OECD markets, with approximately \$5.4 million occurring in the EU. Harrold finds that even a complete elimination of MFN tariffs, and thus a complete erosion of preferences, would reduce African exports by less than 1 percent, "...suggest[ing] that the impact of preference erosion on African exports will

only have a very small impact on trade."⁶⁸ Furthermore, Harrold finds that gains made through trade creation will more than offset the losses due to preference erosion.

Table 13
**Projected Preference Erosion on
 SSA Least Developed Countries' Exports**
 (Percent)

Exporting Country	UR Reductions	Full MFN Tariff Removal
Benin	0.10	-0.55
Botswana	0.27	0.59
Burkina Faso	-0.07	-0.47
Burundi	-0.06	-2.51
Cape Verde	-0.64	-6.55
Central Afr Repub	-0.05	-1.40
Chad	-0.01	-0.14
Comoros	-0.10	-0.56
Djibouti	0.06	-0.20
Eq Guinea	-0.02	-0.71
Ethiopia	-0.02	-1.93
Gambia	-0.24	-2.00
Guinea	-0.05	-0.27
Guinea-Bissau	-0.11	-2.50
Lesotho	3.38	---
Liberia	---	-0.01
Madagascar	-0.07	-1.74
Malawi	-0.08	-1.35
Mali	-0.13	-0.50
Mauritania	-0.74	-2.49
Mozambique	0.05	-1.31
Niger	-0.07	-0.22
Rwanda	-0.13	-3.76
Sao Tome & Principe	0.07	-2.04
Sierra Leone	0.21	-0.30
Somalia	-1.57	-12.59
Sudan	0.01	-0.21
Togo	-0.03	-1.00
Uganda	-0.16	-3.25
Tanzania	-0.01	-1.42
Zaire	---	-0.46
Zambia	-0.52	-0.97
All Least Devel Africa	-0.10	-0.91

Source: Harrold (1995)

⁶⁸ Harrold, p. 30.

Chanda (1996) provides one of the few generally-available analyses on the impact of the UR on a specific developing country, which in the current case is Kenya.⁶⁹ According to Chanda, Kenya provides a good case study for demonstrating some of the effects of the UR that are shared by other developing countries. The analysis indicates that the UR will not lead to any major changes in Kenya's domestic trade regime and imports, since the country made few significant commitments. On the export side, a simple partial equilibrium exercise, using a static framework, indicates that there will be export gains for a few commodities due to cuts in MFN tariffs. These may be offset, however, by export losses due to preference erosion and the lower world price of certain agricultural commodities. On balance, the results indicate a small negative effect on Kenya's medium-term balance of payments (US\$13 million, or 2% of the current stock of international reserves), with most of the impact occurring in 2000-2001, presumably sufficient time for Kenya to make preparatory adjustments.

Impact on New Trade Opportunities

The prior section attempted to quantify and qualify the general results of the UR Agreements on Sub-Saharan Africa. The general consensus of the literature surveyed is that the UR will have a very modest impact on the region, despite the forecasted increase in world food prices and the erosion of current preferences. This is due, in part, to the dynamic forces of trade creation resulting from increased global demand and to the more progressive trade liberalizing measures to be undertaken by the industrialized nations. In addition, SSA's apparent lack of commitment to extensive trade barrier reductions during the UR implies that few of the region's countries will be affected by increased import competition in the near term.

One of the major shortcomings in the current body of literature quantifying the UR's impact on SSA is that few studies are able to model the dynamic effects of trade liberalization on the creation of new trade opportunities for the countries of SSA. For example, Goldin and van der Mensbrugge (1995), referencing their own work, confirm at the outset that "it at best captures one aspect of the Round. It does not evaluate the long-term benefits associated with the establishment of a comprehensive rule-based trading system...[nor] account [for] the major achievements of the Uruguay Round in embracing the previously neglected, but increasingly significant, trade in services, investment, and intellectual property" (p. 25). Nevertheless, several authors have provided qualitative analyses of the impact of the UR's new trade areas, such as services and intellectual property, on SSA.⁷⁰

Using the definition of new trade opportunities provided in the first part of this paper, this section will attempt to extrapolate from the preceding survey of the general results of the UR the potential effect of the Agreement on SSA's new opportunities, including new products, markets, and modes of trade. This section will attempt to highlight where opportunities are being created as a result of the UR and how existing trading patterns could be modified to reap greater benefits from the changing international trading system. The ability of SSA to take advantage of these opportunities, however, clearly is a longer-term phenomenon whose success is contingent on continued domestic political, economic, and social reform.

⁶⁹ Also see Shiells, Subramanian, and Uimonen. (1996) *Effects of the Uruguay Round on Egypt and Morocco*. IMF Working Paper (Washington: International Monetary Fund).

⁷⁰ See Harrold (1995) and Sorsa (1995) for analyses specifically addressing SSA. Martin and Winters, eds. (1995) contains several chapters on the new trade areas and their influence on developing countries, in general.

New Products. One potential strategy for SSA exporters considering new trade product opportunities is to bias their exports towards those products which experienced large reductions in protection as a result of the UR. Most product opportunities that arise due to changes in the trade regime are likely to be found in the manufactured products sector since most SSA agricultural exports face relatively few tariff barriers. That said, however, it is interesting to note the following tariff reductions on agricultural products which are of interest to SSA (Table 14). Several SSA countries also should benefit from the reduction of nontariff barriers, such as the internal support mechanisms prevalent in the EU Common Agricultural Policy (CAP), and the resulting potential for world market price increases. Mauritius and Swaziland (sugar) and Botswana and Zimbabwe (beef and veal) are among the SSA countries expected to gain from agricultural reform (Harrold 1995). While these products may not represent new trade opportunities, per se, they are products for which SSA may already have a comparative advantage and be well-placed to reap the benefits of reduced protection, chiefly in the OECD countries.

Table 14
Tariff Reductions on Agricultural Products
(Percent)

Products	OECD	EU	US	Japan	Benefiting Countries
Coffee, Tea, Cocoa	35	41	21	n/a	Burundi, Cameroon, CAR, Côte d'Ivoire, Ghana, Kenya, Sierra Leone, Uganda, Zaire
Fruits & Vegetables	36	28	39	33	Swaziland, Cape Verde, Mozambique
Spices	35	43	38	39	Madagascar
Animal Products	32	42	34	30	Botswana
Oilseeds	40	42	42	34	Gambia, Senegal
Tobacco	36	25	41	46	Malawi, Zimbabwe
Other	48	48	51	16	Benin, Burkina Faso, Chad, Mali

Source: Harrold (1995).

The continued liberalization of manufactures trade is extremely important for SSA's new trade opportunity prospects. The preceding analysis, which identifies those products of interest for SSA for which tariffs have been reduced significantly, can be extended to manufactured goods. Table 15 highlights the most important tariff reductions in the three major OECD markets for existing SSA exports. Nevertheless, this table also can be used as an indication of the types of export opportunities that could exist for SSA producers based on advantageous tariff scenarios, assuming that the region's producers also could compete on the basis of product quality, cost, etc. A third use of this information is in the formulation of a market-based strategy which permits SSA producers to isolate open markets for those goods in which they may have a comparative advantage.

Extending this analysis to cover the industrialized countries as a whole, Kirmani et al (1994b) indicate that the highest proportional tariff cuts, ranging from 60 percent to 70 percent, have been made in the following sectors: wood, paper, pulp, and furniture; metals; and, nonelectric machinery.⁷¹ One caveat to this reduction is that it occurred from an already modest base. More

⁷¹ The following SSA countries have high export interest (greater than 20 percent of exports) for these products: Cameroon, Congo, Ghana (wood); Cameroon, Sierra Leone, Zaire, Zimbabwe (metals); Mali (nonelectric machinery).

limited cuts, ranging from 20 percent to 25 percent, pertain to more "sensitive" sectors where current levels of protection are high: textiles and clothing; transport equipment; and, leather, rubber, and footwear. Measured in absolute terms, however, tariff cuts in some of these industries is sizable.

Table 15
Average Tariff Reductions on SSA Manufactured Exports
(\$ million and Percent)

Market	Value	Pre-UR Tariff	Post-UR Tariff	Reduction
European Union				
Industrial Products	3711	1.4	0.8	43
Wood, paper, furniture	216	0.3	0.2	33
Textiles/Clothing	333	2.2	1.8	22
Leather, footwear	118	0.9	0.7	22
Metals	1578	0.1	0.0	100
Chemicals/Photo Supplies	341	4.9	0.6	88
Mineral products	779	0.0	0.0	0
Fish/Fish products	156	15.3	11.0	30
Japan				
Industrial Products	867	5.6	3.1	45
Textiles/Clothing	62	0.3	0.0	100
Leather, footwear	17	0.2	0.0	100
Metals	474	5.4	2.5	54
Fish/Fish Products	275	8.2	5.6	32
United States				
Industrial Products	592	1.2	1.1	8
Textiles/Clothing	27	16.1	14.5	10
Leather, footwear	18	1.9	1.3	32
Metals	278	0.6	0.6	0
Mineral Products	171	0.1	0.0	100

Source: Harrold (1995), p.23. Note that figures do not take into account the phase-out of bilateral quotas under the MFA.

One of the key means of stimulating the creation of new export opportunities for SSA is the reduction of tariff escalation. This is the process that contributes toward keeping developing countries as raw material exporters, and retaining processing in the industrial countries, through tariffs that rise with the share of processing (Harrold 1995). The tariff liberalization achieved through the UR is expected to reduce tariff escalation, particularly given that tariffs on raw materials are already close to zero. The reduction of tariff escalation should create the incentive for existing raw material exporters to move along the processing chain toward those activities which require greater value added and for which the terms of trade may be more stable. Table 16 indicates the degree of absolute tariff reduction for broad product categories for all developing country exports. Tropical industrial products provide the best opportunity for increased exports of higher value-added products due to the more significant reduction of tariffs at the finished product stage.

Table 16
Tariff Escalation on Industrial Countries' Imports
from Developing Countries
(Percent)

	Share of each Stage	Absolute tariff reduction
All indus products (excl petrol)		
Raw materials	22	62
Semi-manufactures	21	47
Finished products	57	32
Total	100	37
All tropical indus. products		
Raw materials	35	100
Semi-manufactures	30	44
Finished products	34	61
Total	100	55
Natural resource-based prods		
Raw materials	44	35
Semi-manufactures	40	43
Finished products	17	25
Total	100	33

Source: Kirmani (1994b)

Harrold further highlights several specific products which are expected to benefit from the reduction of tariff escalation, including wood and paper products, leather products, and tobacco products. The changing tariff structure for these products should prove beneficial, particularly to the exporting countries of West Africa. At the same time, however, the complete elimination of the tariff on cocoa beans actually has increased tariff escalation in cocoa, one of the region's most important products.

The elimination of nontariff barriers, such as voluntary export restraints, import surveillance, and other so-called "gray area measures", will increase export opportunities for SSA producers by improving market access to industrial country markets.⁷² In addition, the gradual phase-out of the MultiFiber Arrangement (MFA) and the removal of other quantitative restrictions will contribute to the expected growth of new product opportunities. In 1992 it was estimated that 10.8 percent of OECD country imports from SSA (excluding fuel) faced nontariff barriers, while the post-UR nontariff barrier coverage will fall to 3.3 percent (Amjadi and Yeats 1995). Among product categories, it is SSA food exports that are most seriously affected by NTBs.⁷³ Fish and fish products are the group most often hit by restrictions, as well as footwear, iron and steel, consumer electronics, textiles and clothing, and agriculture.

The impact of nontariff barrier removal on SSA will vary by country. While the average NTB coverage ratio for SSA (non-oil exports) will fall 7.5 percentage points, Reunion and Mauritius

⁷² See Amjadi and Yeats (1995) for more detailed treatment of this subject.

⁷³ Overall, 23.4 percent of SSA food exports (excluding South Africa) are covered by NTBs, compared with only 5.6 percent of manufactures (Harrold, 1995).

will see their NTB coverage fall 83 percentage points (to 0 percent) and 59 percentage points, respectively (Amjadi and Yeats, pp.31-32). Among the other big winners are Burkina Faso, Cape Verde, Malawi, and Swaziland. Other countries did not face many NTBs in the pre-UR trading environment due to their unique export mix, so few benefits could be expected. The final group of countries, including Cameroon, Congo, Gabon, Nigeria, and Seychelles, should find their positions relatively unchanged because of the exclusion of petroleum and fish products from the UR commitment to remove NTBs.

The elimination of the MFA has been heralded as one of the chief accomplishments of the UR.⁷⁴ The Agreement on Textiles and Clothing (hereinafter the Agreement) establishes clear and transparent new disciplines for trade in this sector over the entire ten-year transition period, at the end of which tariffs will be the main instrument of border protection. The Agreement will contribute to restoring the price mechanism as the principal guide in consumption and production decisions, which will allow trade and investment patterns to better reflect the comparative advantage of producers and contribute to greater economic efficiency (Smeets 1995). Although sector tariffs will decline over time, the trade creating stimulus due to tariff reduction will be small since tariff protection in the industrialized countries has been considerable.

The Agreement is expected to create new export opportunities for developing countries due to the elimination of quantitative restrictions, since a key effect of the MFA has been to restrain developing country textile and clothing exports. In fact, most studies have found the decline in export opportunities due to the MFA restrictions to be substantial.⁷⁵ Since industrial country demand has been suppressed due to the imposition of import quotas under the MFA, global demand is expected to increase and prices are expected to rise for previously-restricted and unrestricted products as a result of the UR (Yang, 1994). It should be noted, however, that the Agreement is heavily backloaded, in that restrictions on 49 percent of the reference import volumes will not be eliminated until the last day of the transition period in 2005. This implies that trade gains will be spread out over the transition period, with the bulk of the benefits accruing in the medium term.

The impact of the MFA's elimination on SSA producers will vary.⁷⁶ Mauritius and Kenya were the only SSA countries facing MFA quotas so these countries' textile and apparel exports should increase under the Agreement as their market shares become less restricted.⁷⁷ The impact on SSA producers who did not face MFA constraints is likely to be more mixed, however. Amjadi and Yeats (1995) suggest that the MFA actually had positive implications for African exporters in that they were shielded from direct competition with competitive countries due to the latter's MFA restrictions.⁷⁸ In

⁷⁴ See the following authors for a more detailed treatment of the subject: Amjadi and Yeats (1995); Hamilton, ed. (1990); Smeets (1995); and, Yang (1994).

⁷⁵ A 1986 UNCTAD study estimated that complete, non-discriminatory liberalization of the textile and clothing sectors could increase developing country exports by 78 percent and 135 percent, respectively.

⁷⁶ Note that Amjadi and Yeats (1995) claim that Mauritius and Nigeria were the only SSA countries facing MFA constraints while ITC (1996) indicates that the United States applied quotas to Mauritius and Kenya. Further, ITC reports that the agreement with Nigeria expired on 12/31/92 and was not renewed.

⁷⁷ Yeats (1994) notes that with only the elimination of MFN tariffs, imports from Mauritius into the United States, most of which are textiles and clothing, are expected to rise by \$72 million, or 42 percent.

⁷⁸ ITC (1996) appears to confirm this in its report showing that U.S. textile and apparel imports from SSA grew by 118 percent over the 1990-94 period with more than 50 percent of 1994 imports originating in non-

fact, they suggest that at the end of the Agreement's transition period, textile and apparel trade will become subject to *aggressive international competition* [authors' emphasis]. Further, the reduction of preferences in the EU for SSA textile and apparel imports will stimulate greater competition with Asian producers.⁷⁹ In addition, foreign investment in SSA countries in the textile and apparel industry, which in the past may have been motivated by quota-shopping producers, may be reduced with the elimination of the MFA.⁸⁰ Yet, since the Agreement has a relatively long transition period, SSA producers could be expected to improve their competitiveness enough to compete evenly with existing suppliers and attract foreign investment on their own merit. In fact, ITC (1996) suggests that several SSA countries are increasingly strong competitors, including South Africa, Mauritius, and Madagascar.

As they are now incorporated into the world trading order, services must be considered as a potential new product. The UR includes a special focus on services trade, called the General Agreement on Services (GATS), which obliges countries to give MFN treatment to foreign service providers. Although developing countries were reluctant to commit to liberalized service trade at the outset of the UR, many began to see new potential both for their exports and for the indirect effect that liberalization could have on improving the competitiveness of export industries, which depend on strong banking and transport sectors, for example (Sorsa, 1995).

International service transactions are conducted as either cross-border transactions, in which services are sold by a firm in one country to consumers in another, or affiliate transactions, in which services are sold by a firm established in a foreign country to that country's consumers (ITC 1996). The channel of delivery is based primarily on the nature of the service. Examples of cross border services are telecommunications, education, and some professional service including construction. Other professional services, which depend more on the strategic implications of being in close proximity to the consumer, are provided on an affiliate basis.⁸¹ Hoekman and Sauv  (1994) further incorporate the movement of individuals, both as consumers and workers, as additional modes of service supply to be monitored under the GATS.

Although services data is fairly limited for SSA, balance of payment statistics indicate that services trade may be of considerable importance. According to Sorsa, the share of services exports in all exports was over 20 percent for more than a third of the twenty-four countries which had made UR commitments by December 1994, with transport, travel, and tourism generating the majority of export revenues (p. 16). Service imports accounted for between 16 percent and 55 percent of total imports. From a sectoral perspective, most SSA service commitments were made in tourism (34 countries), business services (18 countries), and communication (13 countries). Sorsa indicates that ten of the twenty-four countries show a revealed comparative advantage in services, which suggests

MFA countries.

⁷⁹ Note that under the L m  Convention, SSA textile and apparel producers did not face MFA restrictions in the EU markets.

⁸⁰One of the results of the MFA was that it induced producers, whose country's quotas were fully allocated, to invest in those countries which either did not face MFA quotas or did not fully use their existing quotas. The UR's impact on this aspect of foreign investment is uncertain due to the MFA's long phase-out period.

⁸¹ The service sectors listed under the GATS for which commitments could be made include: business, communications, construction, distribution, education, environment, finance, health, tourism, recreation, transportation, and other. See Sorsa (1995).

that liberalization of the global service industry should provide ample export opportunities for Benin, Burkina Faso, Kenya, Madagascar, Mali, Mauritius, Mozambique, Senegal, Swaziland, and Tanzania.⁸² Harrold (1995) suggests that duty-free trade in cross-border computer services, such as data entry, may be the most important aspect of this agreement for SSA countries.

It must be cautioned that the UR Agreements contain measures prohibiting the use of certain policy instruments that might otherwise be used to promote export opportunities. As discussed above, the Agreement on Agriculture commits WTO members to reducing export subsidies. This has limited applicability in SSA, however, since most countries, with the principal exception of South Africa and Nigeria, do not subsidize agriculture, and the least developed countries were exempt from the commitments. In general terms, developing countries must reduce production support and export subsidies by 13.3 percent in aggregate terms over a ten-year period.⁸³ Input subsidies for low-income farmers and subsidies for food security are permitted as are generally available investment subsidies and subsidies related to export marketing and internal distribution (Hoekman, 1995). State trading monopolies and other domestic policies that tax agriculture will not be effected by this Agreement either.⁸⁴

Disciplines regarding industrial subsidies vary by level of per capita income and by type of subsidy.⁸⁵ For example, developing countries with per capita income above \$1,000 have been given eight years to eliminate programs that offer special guarantees or credits to exports, tax breaks for exporters, or any currency retention schemes which offer a bonus upon export.⁸⁶ The use of export incentives can continue for the least-developed countries until their per capita income reaches the \$1,000 level. The main obligation for SSA countries on actionable domestic subsidies, or those which may be subject to countervailing duties (CVD), is their notification to the WTO. A review of domestic subsidy policies might be warranted to avoid the risk of being subject to CVD investigations in their export markets.⁸⁷

⁸² Sorsa (1995) defines comparative advantage as the share of services in total exports of a country to that of services in world exports.

⁸³ Since South Africa is considered a developed country, it must reduce its aggregate level of protection by 20 percent over six years.

⁸⁴ This includes policies that tax agriculture either directly, through explicit export taxes or by maintaining domestic prices below world prices, or implicitly, by providing high protection to industry. See Ingco (1995).

⁸⁵ See Hoekman (1995, p. 19-22) for a partial listing of prohibited, actionable, and non-actionable subsidies.

⁸⁶ Even the higher income developing countries can apply for an extension of the transition period.

⁸⁷ Policies potentially subject to countervailing duties include tax credits or other tax benefits given to specific industries if they can be shown to cause injury to a foreign industry. See Sorsa (1995).

Table 17
**Geographic Destination of SSA Exports,
 1991 or Latest Year Available**

Destination	Percentage
Developed Countries	80.6
Europe	51.2
North America	22.1
Japan	5.6
Others	1.4
Eastern Europe	0.9
Socialist Asia	0.7
Developing Countries	15.4
Developing Africa	7.5

Source: Amjadi and Yeats (1995).

New Markets. One way to assess the impact of the UR on SSA's export opportunities in new markets is to look at those which offered the greatest commitment to trade liberalization during the negotiations. The case of SSA is relatively unique in the developing world, however, in that the overwhelming majority of its exports go to the OECD markets of Europe, North America, and Japan (see Table 17). Amjadi and Yeats (1995) suggest that in analyzing the impact of the UR on SSA's export markets, one should focus on those that are presently the major destination of African exports since they will, in all likelihood, continue to be of major importance in the foreseeable future.

Under the UR, industrial countries will reduce their import-weighted average bound tariffs on industrial products, excluding petroleum, from 6 percent to 3.6 percent in equal annual installments over a five-year implementation period (Kirmani, 1994b). The EU will reduce its average bound rate to 3.6 percent from 5.7 percent while the U.S. bound tariff will fall on average to 3.5 percent from 5.4 percent. Japan, which, along with Switzerland, has the lowest average tariff binding among the industrial countries reduced its rate from 3.9 percent to 1.7 percent. It should be noted that actual applied tariffs may be lower than the bound rates, however.

Developing countries represent a small proportion of SSA's export markets, and it is relatively unlikely that SSA's trade patterns with the remainder of the developing world will change as a specific result of the UR.⁸⁸ Among other reasons, the developing countries did not, as a whole, take the opportunity to participate in significant tariff reductions.⁸⁹ At the same time, however, many of them committed to increase the number of product lines covered by tariff bindings. The coverage of bindings on industrial products will increase from 14 percent to 61 percent of imports (Kirmani, 1994b). Although this may not lead to actual trade liberalization, it increases the predictability of developing countries' trading regimes. Changing global patterns of trade and investment are liable to

⁸⁸For example, Chanda's (1996) analysis of the UR's impact on Kenya focuses only on exports to industrial markets, since no major changes are likely to occur in Kenya's developing country partner markets.

⁸⁹ Some developing country exceptions should be noted including India and Thailand, which both reduced their bound tariff rate below the pre-UR applied rate. Korea and Malaysia reduced their average bound tariff rates to 8.3 percent and 9.1 percent, respectively, which are both lower than Canada's average bound tariff rate. See Kirmani (1994a).

have a far greater impact on SSA's future interaction with the rest of the developing world, making increased predictability important but only secondarily.

It is unlikely that the tariff reductions undertaken in the UR *per se* will act as a stimulus for increased intra-SSA trade since most of the region's countries did not commit to any meaningful trade liberalization under the Round's negotiations. The one possible exception is the case of the SACU, which committed in a more significant way to reducing trade barriers. Not only should trade continue to grow among the members of the Union, but trade between members and non-members could be expected to increase provided that the SACU offers MFN treatment to its SSA neighbors.

One of the major forces which might encourage SSA exporters to locate new markets for their goods is the erosion of preferences which is expected to occur as the industrialized countries lower their MFN tariff rates. For the present, this discussion will focus only on SSA-OECD trade since it is with the countries of the latter group that SSA trades most frequently and who offer the most meaningful preferences. Since Europe still absorbs more than half of SSA's exports and it is the market that offers the greatest tariff preferences, SSA producers have the most to lose in the EU due to eroding trade preferences. Average tariffs for the least developed SSA countries were 0.23 percent in the EU compared with 3.29 percent for the United States and 1.94 percent for Japan. European preferences, offered primarily via the Lomé Agreement, were more than three times as large as those granted from the region's other major trading powers. This translates into a potential decline in SSA export volumes of up to 1.9 percent in the EU as a result of the UR (Yeats, 1994).

The expected, and perhaps preferred, outcome is that the reduction of preferences, notwithstanding other important market forces, will encourage SSA producers to search out alternative export markets both within the industrialized and developing worlds. Harrold (1995) posits that Africa's eventual outcome of winner or loser may depend critically on an ability to react to new market opportunities and diversify away from Europe. ITC (1996) also suggests that the erosion of preferences may encourage the growth of trade between SSA, on one hand, and the United States and Japan, on the other.

New modes of trade. As discussed above, new modes of trade are, in large part, responsible for the tremendous boom in international trade volumes. In fact, it remains a foregone conclusion that if Sub-Saharan Africa wants to participate actively in the global trading system it must make itself attractive to firms and other investors anticipating new trade opportunities. Since it can be assumed that foreign direct investment is a key cornerstone of a successful export-oriented strategy, one must analyze how the UR will influence SSA's ability to attract much-needed foreign investment. This analysis is two-pronged: first, is a consideration of the institutional implications resulting from certain UR agreements; and second, is a more indirect view of how the UR's impact on global investment patterns might affect SSA.

One of the achievements of the UR was the completion of the Agreement on Trade-Related Investment Measures (TRIMs), which seeks to limit the use of discriminatory measures in the area of foreign direct investment. Article 1 of the TRIMs Agreement states that its coverage applies only to investment measures directly related to trade in goods, thereby excluding investment incentives and other performance requirements, including technology transfer and licensing. The former include such tools as local content rules, foreign exchange or trade balancing requirements, or domestic sales requirements which many SSA countries utilize in their dealings with foreign investors. These measures are prohibited when they are found to be trade distorting, affecting importation or exportation, and/or that their application discriminates against imports relative to domestic production (Morrissey and Rai, 1995). The TRIMs agreement does not add to existing GATT disciplines, but it

does require that WTO developing-country members eliminate measures that are inconsistent within five or seven years, depending on the level of development.⁹⁰ The agreement will be reviewed within five years of the establishment of the WTO to determine the need for more general disciplines on investment policy and potentially for expanding the list of prohibited TRIMs.

How does the TRIMs Agreement affect SSA's ability to attract foreign direct investment with the ultimate goal of creating new trade opportunities? On one hand, it may be viewed as a positive obligation which does not require a considerable compliance effort. Sorsa (1995) indicates that the Agreement mainly enforces existing GATT disciplines, and the long transition period for developing countries and the possibility of extension puts few immediate obligations on SSA countries. Furthermore, Sorsa argues for fuller SSA participation in the Agreement since the elimination of many of the indicated policy measures would realize efficiency gains. Finally, SSA compliance provides an indication to foreign investors of a more stable and predictable investment environment.

On the other hand, Morrissey and Rai argue that the prohibition on the use of TRIMs effectively limits the policy options available to developing countries in their dealings with multinational corporations (MNCs). The authors argue that some developing countries resort to these measures as a response to restrictive business practices on the part of the MNCs, and not necessarily as a means to generate greater domestic resource gains. Finally, Morrissey and Rai contend that developing countries need to retain the ability to utilize TRIMs as bargaining tools in their negotiations with foreign investors.

Another UR agreement that could have an impact on SSA's ability to attract foreign investment is the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement. The TRIPs Agreement provides for MFN treatment of intellectual property rights, minimum standards of protection, and the need for appropriate enforcement in the following areas: copyrights, trademarks, industrial designs, patents, and trade secrets. Harrold (1995) submits that the expected benefits of the TRIPs agreement are higher returns to innovation, increased foreign investment and transfer of technology, as patents would be protected. At the same time, he acknowledges that the potential gains for SSA are indeed small, at least in the short run. In the longer term, Sorsa (1995) expects that the benefits of technology transfer, investment, and higher returns to local research will benefit all of SSA, but especially the more advanced countries.

Several authors have found that the opportunity cost for SSA of participating in the TRIPs agreement will be high. Sorsa points out that for those countries with minimal national research capacities, the agreement is likely to mean the transfer of rents to richer countries. In addition, there are costs involved with administering the system and, in countries with scarce administrative capacity, dedicating human resources to the implementation of the agreement. Ringo (1994) contends, in fact, that African states may not freely implement or enforce the provisions of the agreement due to these costs, and the WTO will have to engage in technical assistance as a result.

Aside from the institutional impact of the UR on SSA, the Agreements could be expected to have a more indirect impact on modes of trade due to changes in production patterns which result from modifications of the global trade regime. As mentioned above, however, SSA's ability to take advantage of these shifting investment patterns depends, to a very large degree, on its commitment to

⁹⁰ The main immediate obligation is the notification of TRIMs to the WTO, which is a requirement of benefiting from the transition periods. As of May 1995, only Mauritius, South Africa, and Zambia had submitted notification to the WTO of TRIMs, but only South Africa stated that it had any. This suggests that the majority of SSA countries have foregone the right to a gradual adjustment pending a WTO challenge.

domestic political, economic, and social reform. The following summary provides several examples discussed in more detail in ITC (1996):

- The Agreement is likely to have an impact on investment decisions in the **textiles and apparel industry** as a result of the elimination of the MFA. The new trading regime in this sector should foster further investment in low-wage apparel producing countries. This investment is most likely to come from firms in the traditional Asian textile and apparel exporting countries, including Hong Kong, Korea, and Taiwan; Japanese trading companies; and large global apparel firms in the United States and the EU.
- SSA's active participation in the TRIPs agreement could encourage investment in the **chemical industry**, particularly from agricultural chemical and pharmaceutical producers assuming that countries provide sufficient protection for intellectual property rights, particularly patents.
- Adherence to the TRIMs agreement's requirement of national treatment for foreign investment could contribute to greater investment in the **mining industry** in SSA. Foreign investors in this industry are particularly sensitive to liberalized host country foreign investment laws for the protection of their investments.
- The Agreement on TRIMs contains several measures which might encourage further foreign investment in the **transportation equipment sector**. These include such measures as prohibitions on local content and minimum export requirements. Other GATT agreements will provide for increased transparency, consistency, predictability, and harmonization for the auto, construction, and mining equipment sectors.⁹¹
- SSA participation in the TRIPs agreement may stimulate increased investment in the **electronics industry**, by reducing copyright infringement concerns on such items as software and audio/video recordings. The TRIMs agreement is also expected to improve the investment climate in certain SSA countries where local content requirements and export minimums discourage investment in this industry.

Prospective International Trading Agreements

Given the diminished popularity of the one-sided Lomé Agreement and the widespread example of active developing country participation in the Uruguay Round, it seems safe to assume that any future international trade negotiation involving SSA likely will demand reciprocity as one of its objectives, with the ultimate goal of integrating all of Africa into the global trade regime. Although exemptions or longer transitions continue to be made for the least developed economies, as occurred in the Uruguay Round, developing country preferences have been minimized.

US Congressman Jim McDermott (D-WA), co-chair of the bipartisan African Trade and Investment Caucus, recently presented a new trade and investment proposal for Africa.⁹² Its intent is

⁹¹ See the following GATT agreements: Rules of Origin; Government Procurement; Preshipment Inspection; and, Import Licensing Procedures.

⁹² This proposal represents the African Trade and Investment Caucus's response to U.S. President Bill Clinton's recent submission to Congress of a report called "Comprehensive Trade and Development Policy for the Countries of Africa" on February 5, 1996.

to create a comprehensive trade and investment strategy for Africa's "frontline" countries with the ultimate goal of establishing a U.S.-Africa Free Trade Area by 2010. In addition, the Caucus proposes an investment partnership that will provide seed money for two privately managed equity and infrastructure funds that will leverage private financing for small- and moderate-sized African businesses.

This type of proposal, if it were approved, could have a significant impact on the creation and expansion of new export opportunities for SSA. First, it represents a shift away from the traditional forms of U.S. official development assistance in that it emphasizes the private sector and the market as the principal actors responsible for creating growth strategies in the region. Second, the proposal calls for the early elimination of quotas in the U.S. textile and apparel market, which would offer African producers preferred access to the market and the opportunity to strengthen their own competitiveness prior to the complete elimination of the MFA. Third, the investment component of this proposal focuses especially on manufacturing, agribusiness, and women entrepreneurs, three areas that could potentially create a wealth of new export opportunities. Finally, the proposal supports the development of African infrastructure through project finance opportunities in sectors like telecommunications, an area whose improvement is vital for any new trade opportunities to exist and for the attraction of foreign direct investment.

It should be noted that the Caucus recognizes that not all African countries will be able to benefit from this type of trade and investment strategy. For the least developed nations of SSA, traditional aid is expected to continue for sustainable development issues, as will food security and disaster relief assistance.

Impact of third party regional agreements on Sub-Saharan Africa. Since the second half of the 1980s, some important new regional trading arrangements have emerged, and many others were reactivated, particularly in Europe and the Western Hemisphere. The impetus behind the trend toward increased regional integration was due to a number of factors including: enhanced economic growth; enhanced political cohesion and cooperation; frustration with the slow progress of the UR negotiations; countries' desire to lock in domestic reforms and guarantee access to preferred markets; and, the growing opportunity cost of remaining outside a regional group.⁹³ Kirmani (1994b) submits that while the completion of the UR may lessen some of the impetus toward regionalism, indications are that interest will remain strong.

This issue is pertinent to new trade opportunities for Sub-Saharan Africa for two reasons. First, SSA is a member of the Lomé Agreement, and, as such, must understand the implications that the UR may have on the status of preferential trade accords.⁹⁴ Second, the proliferation of regional trading agreements over the last decade for the most part has bypassed Africa, despite the region's historical efforts at developing its own intra-African trade agreements. The implications of this regionalization for SSA must be grasped in order to conceptualize the region's new trade opportunities.

Although the *raison d'être* of the WTO and the multilateral trading system is to encourage nondiscrimination in the application of trade policy by member countries, both the GATT and the GATS explicitly allow for free trade, customs unions, and more far-reaching economic integration

⁹³ See Hamsen and Leidy. (1994) "Regional Trading Agreements," in Kirmani (1994b).

⁹⁴ Many SSA countries are also involved in regional trade agreements. The implications of the UR on these agreements will not be discussed in this paper.

agreements (Hoekman, 1995). Article XXIV of the GATT established the multilateral rules regarding these trading arrangements by requiring that: (1) trade barriers after integration not rise on average; and (2) agreements eliminate all duties and other restrictions on commerce on "substantially all" trade in products originating in the relevant territories (Hoekman, 1995). In the UR, negotiators reaffirmed Article XXIV's basic intent, adding language intended to clarify existing gray areas. Article V of the GATS, entitled Economic Integration, extends the concept of regional integration to the service sector.

While the UR has not changed significantly the intent of Article XXIV, it may lead to an increased focus on oversight and enforcement. Changes to the Article include a requirement that all transitional arrangements be transitioned within a ten-year timeframe. Any notification of a new or enlarged regional agreement must be examined by a working party, with the WTO holding ultimate approval authority. Certain technical procedures have also been modified referencing dispute settlement issues and customs union external trade barriers.⁹⁵

Recent regional integration arrangements have attracted a great deal of interest because they are broader in scope than previous experiments in integration and because they often encompass North-South reciprocal arrangements (Hughes Hallett and Primo Braga, 1994). *The OECD Observer* highlights the European Union as an example of an integration agreement which surpasses in scope most of its predecessors, not only from a content standpoint but also from a geographic coverage perspective. The North American Free Trade Agreement (NAFTA) marked a second step forward, primarily on account of the political dimension it conferred on regional integration and the crossover obtained between industrialized and developing countries (*The OECD Observer*, February/March 1995). The plans for transforming the Asia Pacific Economic Cooperation Council (APEC), which unites a large group of developing countries with Japan, the United States, and Australia, into a free trade area within the coming twenty-five years represents a further example of current regional integration efforts.⁹⁶

Of the above-mentioned regional agreements, it is clearly the European Union and its own extended network of regional agreements that stands to have the greatest impact on SSA. By June 1995, the expanded EU (fifteen members) had signed or initialed free trade agreements or customs union agreements with fourteen countries (Peers, 1995). The latter include the European Economic Area (EEA), association agreements with several Central and East European countries, cooperation and partnership agreements with the Baltic countries, and a customs union with Turkey (Kirmani, 1994b). The EU is also in the process of negotiating agreements with some of the Mediterranean countries, particularly those of northern Africa, and even with several countries in Latin America.

As Europe continues to expand its trade network, particularly with the Mediterranean and Eastern European economies, on a reciprocal basis, the risk of trade diversion becomes much greater. Notwithstanding the pre-existing preferences that SSA enjoys under Lomé, the inclusion of the Mediterranean and Eastern European countries in an EFTA-like agreement would create substantial overlap with the products that SSA typically exports to Europe (Tovias, 1990). If SSA has been

⁹⁵ See Harmsen and Leidy (1994) in Kirmani (1994b).

⁹⁶ Clearly, these few examples do not begin to cover the widespread nature of regional agreements, although they highlight some of the more interesting developments occurring in world trade. Kirmani (1994b) provides a comprehensive index of all regional trading agreements including their membership, objectives, and recent progress toward integration.

relatively unable to compete in Europe under the current format, its chances of sustaining market share are diminished with the inclusion of other trading partners under the European umbrella.

There is scanty existing analysis on the impact of some of the other regional trading agreements on SSA. Nevertheless, some conclusions can be drawn that have some relevance to the region from other analyses. For example, much work has been completed on the impact of NAFTA. Hufbauer and Schott (1993) conclude that NAFTA complements the GATT process because it formalizes an important pre-existing trade relationship, one in which Mexico already enjoyed relatively free access to the U.S. and Canadian markets, thereby limiting the scope for potential trade diversion. The authors deemed several sectors would generate more trade diversion than others, however, including textile and apparel; autos and parts; and, agriculture. Nevertheless, the changes wrought by the UR are likely to minimize the trade-diverting impact of this agreement, particularly after the gradual elimination of protection in textiles and apparel, probably the one sector from the above with the greatest interest for Africa.

Both Plummer and Imada Iboshi (1994) and Kim and Weston (1993) look at the impact of NAFTA on the developing countries of East Asia. Both conclude that, despite the widespread concern over NAFTA among the ASEAN countries, the agreement is expected to have a relatively modest aggregate impact. Kim and Weston, using a quantitative method based on East Asian export intensity and product overlap between East Asia and Mexico, find that the trade-diverting effects of NAFTA will be small--less than 0.5 percent of exports to the United States. Plummer and Imada Iboshi, employing a partial equilibrium estimation, concur with Kim and Weston's relatively modest aggregate impact, but find that the impact is much stronger at the sectoral level. Non-manufacturing sectors where the impact is expected to be relatively significant include petroleum, fish products, coffee and cocoa, and fruits and nuts where tariffs are low but nontariff barriers are high. With respect to manufactured goods, the major items facing trade diversion are textiles and apparel, wood manufactures, electrical machinery, and non-electrical manufactures, among other things.⁹⁷

Conclusions

Much of the literature surveyed argues for Africa's greater participation in the world trading regime, particularly if its interests lie in trying to capture new trade opportunities. OECD (1992) argues for the fuller integration of all developing countries in the multilateral trading system in order to help strengthen the system itself and take greater advantage of its benefits. For many observers, the Uruguay Round represents the best opportunity for the developing world to tie its own economic reforms to the liberalization efforts being made on a global basis.

Nevertheless, the general tone of the literature suggests that the UR, in and of itself, will not enhance SSA's economic development; rather, unilateral liberalization and continued domestic reforms are the key to SSA's ability to expand and create export opportunities. While some observers argue that SSA "missed the boat" by not undertaking more substantial reforms in a multilateral setting, others contend that SSA's apparently more gradual approach will give the region the opportunity to adjust to its own commitments before opening borders to greater competition.

While greater participation in the multilateral system is considered the first best option, no one is suggesting that existing preferential agreements are unimportant or inconsequential. On the

⁹⁷ It must be remembered that even though most of the ASEAN countries receive GSP preferential treatment, each country has its own unique regime with the U.S. Therefore, the results of this analysis will vary by country, and we cannot extrapolate directly from the results in applying them to SSA.

contrary, the recent increase in regional integration agreements demonstrates that trading partners' objectives are multi-faceted and some are better served on a more local level. Even the Lomé Agreement, which has been criticized for its apparent lack of trade-creating opportunities, continues to offer African exporters important incentives. Europe and Africa still share important concerns: stability, security, democracy, and development (*Africa Analysis*, February 1996). Africa, on its part, needs Europe not just for cultural reasons and historical links, but for continued access to European markets. The key, however, is that this type of preferential agreement is not the first best option for SSA in terms of stimulating the appropriate environment for the expansion of new export opportunities.

Survey Conclusions and Areas for Future Research

While Barry and Belchika (1996) have explored trends in African trade relative to world markets, this survey has explored trends in global trade and trade practices relative to Africa. What emerges is the image of a "trade experience learning curve" on which other countries or regions of the world stand higher than Sub-Saharan Africa. World trade is no longer commodity focused, yet in Africa there is still talk of how to regain global market share in commodities for which Africa has a comparative advantage. Trade is not in most cases initiated by suppliers with a surplus to sell, but by purchasers with a need to procure low cost, reliable goods. World trade is decreasingly impersonally transacted, but rather is arranged for either intra-firm but across borders or among subsidiary, joint venture, or partner firms among countries. Trade in finished products, such as footwear and clothing, is growing less quickly than trade in sophisticated component manufacturing for office and telecommunications equipment; the value of trade in higher value food products is superceding the value of commodity trade. Finally, trade *without* investment is almost unthinkable, especially when investment is interpreted at its broadest to include the development of commercial and human resource linkages across borders. Trade and investment opportunities for Africa are increasingly going to come from middle income, newly industrializing economies, from new corners of the world and from private business sources rather than from the traditional OECD countries and public aid sources.

Trade policy reform helps to set the stage for Sub-Saharan Africa to embark on the learning curve of modern trade. It is not a sufficient condition, however. Political and social conditions must be sufficiently stable in order for sufficiently attractive economic conditions to lead to increased foreign direct investment. If a country can offer reasonable conditions on all three planes, then a directed promotional campaign with targeted personal efforts in a small number of potential investor countries can aspire to attract new investment monies, contract orders, and thus trade-related employment opportunities.

Many issues remain. For instance, with regard to ameliorating differences in labor productivity between SSA and other developing countries, research needs to focus on the kinds of training and management strategies to be developed to increase firm competitiveness and worker productivity, and whether those already applied in Asia can be adapted with similar effect on African labor productivity. Incentives structures should be evaluated as to whether they encourage increasing capital or labor intensity of production.

Attention should also be focused on downstream issues. Researchers need to examine the effect on growth, incomes, distribution of incomes, consumption and nutrition, the environment (water and air quality, urban transport infrastructure), worker health and safety, etc. of expanded recourse by SSA to new trade opportunities. Countries at different levels of per capita income may

have different preference functions regarding "social issues" such as child labor and the environment, implying that a simple pass-through of standard OECD regulations is probably inappropriate. However, at the extreme, research needs to consider what kind of regulatory structures should be anticipated to "guide" growth in trade and investments without restricting it, i.e. to avoid the most egregious abuses (*inter alia*, worker safety, environmental degradation) which have accompanied similar growth in Asia.

With regard to assessing the impact of international and regional trade agreements on SSA, there are a number of areas which have been relatively understudied. For starters, with but one or two exceptions, there appears to be a virtual dearth of country-specific case studies on the impact of the UR on trade, investment, and growth. Moreover, what analyses have been done have tended to focus on the goods-related trade impacts. No model, for example, simulates the effects of non-goods related measures adopted during the UR on trade flows. More importantly, foreign investment flows have remained either an exogenous variable or outside the scope of the models (including CGE) built to evaluate UR scenarios. Research on the relationship between foreign investment (both direct and portfolio) and trade is required. There is also a need to understand the dynamic implications of UR effects on trade patterns and flows, particularly with regard to labor markets.

SSA countries will have to implement a variety of institutional reforms to ensure compliance with UR disciplines (TRIPs, TRIMs). Research is required to evaluate their potential effect; for example, whether they will be sufficient, on an institutional basis, to attract investment. Evaluation should also be made of the potential costs of these agreements and whether they can be expected to generate sufficient returns.

As with any new body of regulation, attention will have to be paid by researchers in terms of monitoring the emergence of new forms of protection; i.e. GATT-accepted loopholes designed to thwart unwanted protection. For example, with regard to textiles and apparel (assumed to be important to SSA as a potential new export opportunity), will industrialized producers/importers find alternative means of protecting their domestic producers, i.e. developing safeguard or social clauses with regard to environmental or social issues which will act as new non-tariff barriers against imports from developing countries.

Finally, little is known about "the private sector" (both domestic and foreign) in SSA and its ability to pursue new global trade opportunities:

- Who comprises the entrepreneurial sector in Sub-Saharan Africa today?
- What motivates these business men and women to explore commercial relations with a foreign country, and vice versa, what motivates foreign investors to pursue relations in Africa? Are investors from South Africa or Southeast Asia less resistant to the riskiness of the African investment climate than investors from OECD countries?
- Are African entrepreneurs experienced and capitalized at a sufficient level to reassure foreign investors that they can deliver on order?
- Are African entrepreneurs able to undertake the required market analysis, strategizing for the medium and long term (as opposed to traders who tend to think short term), in order to target foreign commercial relations for new products, new markets, and new modes of business?

- How effective are existing trade and investment promotion mechanisms in SSA countries where the underlying fundamentals (economic liberalization *cum* political and social stability) may still be lacking?
- How can better *targeted* promotion mechanisms be introduced which respond to the real needs of African entrepreneurs and foreign entrepreneurs in Africa?
- What systematic criteria can be developed for measuring these in a timely fashion in order to provide rapid, informed assessments to policy makers?

Appendix Table 1
GATT and WTO Status of SSA Countries

COUNTRY	YEAR OF ACCESSION	WTO MEMBERS	DEVELOPMENT STATUS
Angola	1994	NO	D
Benin	1963	NO	LD
Botswana	1987	YES	LD
Burkina Faso	1963	YES	LD
Burundi	1965	NO	LD
Cameroon	1963	NO	D
Central African Republic	1963	YES	LD
Chad	1963	NO	LD
Congo	1963	NO	D
Côte d'Ivoire	1963	YES	D
Djibouti	1994	YES	LD
Gabon	1963	YES	D
Gambia	1965	NO	LD
Ghana	1957	YES	D
Guinea	1994	NO	LD
Guinea Bissau	1994	YES	LD
Kenya	1964	YES	D
Lesotho	1988	YES	LD
Madagascar	1963	NO	LD
Malawi	1964	YES	LD
Mali	1993	YES	LD
Mauritania	1963	YES	LD
Mauritius	1970	YES	D
Mozambique	1992	NO	LD
Namibia	1992	YES	D
Niger	1963	NO	LD
Nigeria	1960	YES	D
Rwanda	1966	NO	LD
Senegal	1963	YES	D
Sierra Leone	1961	NO	LD
South Africa	1948	YES	IND
Swaziland	1993	YES	D
Tanzania	1961	YES	LD
Togo	1964	YES	LD
Uganda	1962	YES	LD
Zaire	1971	NO	LD
Zambia	1982	YES	LD
Zimbabwe	1948	YES	D

Note: D = developed; LD = less developed; IND = industrial
Source: Sorsa (1995) and ITC (1996).

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