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Mali's Manufacturing Sector: Policy Reforms for Success

Is Mali's manufacturing competitive and what will be the impact of trade liberalization and regional integration on Mali's manufacturing sector?* Regional integration offers Mali opportunities to export to regional markets. Malian manufacturers, through improved efficiency, can take advantage of this integration. Trade liberalization provides new options for reorienting policies and investments to promote competitiveness in manufacturing. The government of Mali should:

- **strengthen the commercial banking system and the financial sector in general;**
- **encourage investment in labor-intensive industries;**
- **reduce tariffs on manufacturing inputs;**
- **invest in infrastructure; and**
- **address macroeconomic imbalances.**

In 1997, through the EAGER project, USAID supported a study to assess Mali's manufacturing competitiveness and the impact of trade liberalization and regional integration on the manufacturing sector. By comparing Malian and Ivorian production costs for similar products, researchers isolated and quantified important information about the relative competitiveness of Malian manufacturers. Through detailed cost analyses, the study addressed the long-term feasibility of manufacturing in Mali and provided a basis for reorienting policy interventions and firm restructuring.

Mali's manufacturing sector is small (9 percent of GDP) but expanding. Principal manufactured goods are cooking oil, batteries, cigarettes, fabric, flour, plastic shoes, and carton. Import competition for these goods is currently minimal, representing less than 5 percent of domestic consumption. Exports account for less than 3 percent of total production.

Mali's manufacturers benefit from protective tariffs that heavily tax imports of competing products and minimally tax imported inputs. The average applied tariff on

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imports of manufactured goods is 10.5 percent. By comparison, average applied tariffs in Côte d'Ivoire are slightly lower (8.2 percent economy-wide and 9.6 percent for manufactured imports).

Import tariffs are an important source of revenue for the government but increase the price of products for consumers. The average implicit tax on household consumption of tradeable goods is 16.8 percent, a rate with negative welfare consequences for Malian consumers. Malian firms benefit from the substantial protection provided by import tariffs. Indeed, applied tariff rates are fairly high on imports of specific manufactured goods produced locally, ranging up to 36 percent in several cases.

Regional integration challenges local manufacturing firms to improve efficiency. Within the recently created West African Economic and Monetary Union (WAEMU), intraregional tariffs have already been reduced by 60 percent on certain products (based on rules of origin). Further reductions are scheduled over the next few years. Given the consequent decline in the prices of competing imports from Côte d'Ivoire, the results of the present study indicate that most Malian manufacturers will be required to cut costs substantially if they are to remain competitive on the domestic market. Despite some scope for policy reforms to help firms reduce costs, most improvements must come from within firms. Such improvements require greater efficiency and possibly the revision of firms' product mix to take advantage of Mali's comparative advantage in labor-intensive activities.

Many Malian manufacturers have the potential to succeed in facing the challenge. By comparing labor, capital, and intermediate input and utility costs, researchers found that the performance improvements required for Malian firms to compete domestically under regional integration are attainable. In many cases, cost reductions of no more than 20 percent are required. These relatively small cost reductions reflect Mali's comparative advantage in producing printed fabric and sheet metal products and its near-comparative advantage in producing five other products: vegetable oil, wheat flour, confectionery, carton and printing. The performance of these industries is partly the result of the natural protection afforded Malian producers by the country's landlocked geographic position and the resulting high transport costs for competing imports. For the three other products studied (plastic shoes, plastic products, and paint), Mali clearly lacks comparative advantage and will have great difficulty in competing after integration.

Regional integration offers opportunities to export to regional markets. While providing natural protection of the domestic market, Mali's landlocked status constitutes a serious obstacle for exports. Although regional integration will improve access to regional export markets, study results reveal little hope for dramatic growth in the export of manufactured goods currently produced in Mali. The sole possible exception is printed fabric, the best-performing industry in Mali's manufacturing sector.

Trade liberalization brings options for reorienting policies and investments to promote manufacturing competitive-

ness. By reducing one of the principal sources of distortion in the economy, trade liberalization encourages a reorganization of production activities according to a nation's fundamental strengths and weaknesses rather than according to its tariff structure. The ensuing restructuring, however, is likely to displace both investments and workers in some industries and can be politically difficult. Yet, it does not necessarily imply the dissolution of all previously protected sectors. Sectors that respond to increased competition by improving their own performance may well be able to compete in a liberalized and regionally integrated market. Those that do not respond appropriately constitute poor investments. Over the long term, restructuring will encourage investment in manufacturing activities and other sectors of the economy that can be profitable without protective tariffs. Averting all manufacturing failures would require public subsidies that may be unpopular both politically and economically.

While the onus is primarily on producers to adjust, it is crucial to ensure that they are not simultaneously penalized by other government policies and that they operate in a favorable economic environment. The government of Mali can assist the restructuring of the manufacturing sector without resorting to direct subsidies. In particular, the government should make efforts to:

- **Strengthen the commercial banking system and the financial sector in general.** Manufacturers need access to both working capital and capital for investment. At present, bank credit is primarily short-term and average lending rates are high (17 percent). Enterprises must often resort to supplier credit and to the informal sector. Generally strengthening the financial sector will improve and reduce the cost of access to capital for investment. In addition, it will help ensure capital flows to profitable investments in the manufacturing sector.

- **Encourage investment in labor-intensive industries.** The government must recognize that, at its present stage of industrialization, Mali's comparative advantage lies in labor-intensive activities. This implies a fundamental rethinking of policies, particularly within the Investment Code, to encourage capital- and material input-intensive activities. Mali has a large labor pool and wage rates that are much lower than its main competitor, Côte d'Ivoire. While labor-intensive activities should naturally emerge on their own and without government policies, such is unlikely to occur where policy is skewed against them.

- **Reduce tariffs on manufacturing inputs.** Mali's manufacturers compete primarily with producers from within the region. Consequently, regional integration directly reduces the prices of competing imports. Thus, in order to compete, Malian firms must reduce their prices, and in order to remain profitable they must cut costs. However, most inputs used by the sector come from outside the region and their prices are not likely to fall as a result of regional integration. This means that the government must keep tariffs on manufacturing inputs as low as possible.

- **Invest in infrastructure.** In Mali, public and semipublic monopolies provide water, electricity, and telecommunications services. Electricity is more expensive in Mali than in some neighboring countries. The reliability and costs of utilities and telecommunications are a limiting factor for the manufacturing sector. Recent investments in the energy sector may alleviate some of the shortcomings of the current infrastructure system.

• **Address macroeconomic imbalances.** Mali's membership in the West African Economic and Monetary Union provides monetary stability, currency convertibility, and a fixed exchange rate relative to the French franc. Mali's trade balance is negative, its current account runs persistent deficits, and its foreign exchange reserves are nonexistent. Evidence suggests that the 1994 devaluation of the CFAF was partially offset by a strong price hike of about 30 percent and was insufficient to completely eliminate overvaluation of the currency. This renders competing imports relatively cheaper while making Malian export prices artificially high.

***This policy brief is based on EAGER Discussion Paper Number 16, *Measuring Competitiveness and the Structure of Incentives in Mali*, 1998, by John Cockburn [john.cockburn@nuffield.oxford.ac.uk], Nuffield College and Centre for the Study of African Economies, Oxford, UK; Eckhard Siggel [siggel@vax2.concordia.ca], Concordia University and CREFA, Montreal, Canada; Massaoly Coulibaly [ena@spider.toolnet.org], Ecole Nationale d'Administration, Bamako, Mali; and Sylvain Vézina [vezina.sylvain@ic.ge.ca], Ministry of Industry of Canada, Montreal, Canada.**

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