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A REGIONAL STRATEGY FOR TRADE AND GROWTH IN WEST AFRICA

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I. Introduction

Most of the countries of West Africa have experienced little or no economic growth over the past few decades. While external factors have played some role in this poor performance, deliberate policy choices on the part of governments have been more important. In most instances, the overall thrust of these policies has been to reduce incentives for producers to look outward; the policies have encouraged, instead, inefficient production for the domestic market. Generally, this market has been very limited in size, constraining growth and inhibiting competition and the exploitation of economies of scale. The result has been economic stagnation and continued impoverishment of a large part of the population.

Some of the worst of these policy distortions have recently been corrected. This creates an opportunity in West Africa for renewed economic growth and a reduction in poverty. Some of this growth is likely to come from traditional exports, which have been penalized for many years by the unfavorable policy environment. There are important constraints, however, on the demand for, and increasingly the supply of, these exports. Sustained economic growth will therefore have to come increasingly from nontraditional exports, such as horticultural, marine, and other primary products, handicrafts, and manufactured goods.

Both traditional and nontraditional exports can be marketed overseas or in neighboring countries on the African continent. Although traditional exports to overseas markets are likely to decline in relative importance because of limitations on both demand and supply, the same does not hold for nontraditional exports, which have been growing quite rapidly for some African countries. These exports constitute only a small share of total foreign exchange earnings, but they are likely to become increasingly important as this sector takes the lead in stimulating economic growth.

Although all countries can benefit to some extent from the expansion of nontraditional exports to overseas markets, this type of growth is likely to be concentrated first in countries such as Cameroon, Côte d'Ivoire, Ghana, Nigeria, and Senegal, which have at least the beginnings of the supplies of trained labor, the transportation and telecommunications infrastructure, the contacts with overseas importers, and the myriad of institutions required for overseas trade. As their exports expand, these countries will become growth poles, with their increased per capita incomes leading to an expansion of their demand for the exports of neighboring West African countries. This increased demand will result in a growth of intra-regional trade, and thus in an increase in income of these neighbors, as long as there are no major barriers to trade between these countries. Also CV

Despite the progress that has been made in reducing policy distortions, there remain many impediments to external trade. The countries of the CFA franc zone, for example, were until very recently faced with a serious problem of overvaluation. This distorted patterns of trade, especially with neighboring non-CFA countries, and led to the imposition of trade barriers as a protection against imports. Now that the CFA franc has been devalued, these barriers must be dismantled to encourage a more efficient pattern of trade. Even in those countries that have maintained realistic exchange rates, eliminated quantitative restrictions on imports, and reduced levels of trade taxation, there remain serious constraints on trade associated with inadequate infrastructure and with legal, financial, administrative, and other institutional barriers to trade.

Over the past decade, many of the trade and exchange rate policy reforms that have been instituted in Africa have been the subject of relatively closed discussions between donors and host country governments. Often these reforms have constituted part of the conditionality associated with foreign aid. While the contribution of these reforms has been significant, the atmosphere in which they have been undertaken has not always engendered widespread public support. Despite this, the reforms have often been tolerated, especially in severely distorted economies with seriously lowered standards of living.

It is unclear whether this approach will continue to succeed after the worst cases of economic malaise have been attended to. Although the need for further reform is widely evident, there are signs that it is becoming increasingly difficult because of the combination of special interests, public resistance, and bureaucratic inertia. In the absence of strong public pressure to continue undertaking reform, governments are content to muddle along and avoid alienating important constituencies. No one speaks for the broader public interest, and the result is continued economic stagnation.

What is needed to accelerate trade and growth and to reduce poverty in Africa is for Africans themselves to identify the problems that exist and to work to reduce or eliminate these problems through analysis, public disclosure, creation of public pressure, and dialogue among competing interest groups, leading to decisions to effect policy reform. This process is beginning in some countries, especially where there has been a move towards democratization and public discussion of major economic issues.

The next section of the paper assesses some of the factors contributing to the poor performance of trade and growth in Africa. It then examines recent policy reforms, how these have affected the current economic environment, and what are some of the existing barriers to trade and growth in the region. Following this, the paper sets out an Action Program for trade and growth in West Africa. The rationale for the Program is presented and its objectives are elucidated for various types of regions. The components of the Program are then discussed and examples are presented of specific country needs for each these components. A number of unanswered questions related to trade and growth in West Africa are then enumerated, followed by a short concluding section

II. Poor Performance of Trade and Growth

A. Changes in the Structure of Incentives

The colonial powers in Africa saw their colonies primarily as a source of primary products that were exchanged for manufactured goods produced in Europe. Emphasis was on bulk commodities such as groundnuts, cotton, coffee, cocoa, sisal, rubber, oil palm, sugar, and various minerals. These were subject to little, if any, local processing. No effort was made to promote the production of food crops. Industrial enterprises were usually established only if this led to large savings of transportation costs, either from processing of primary products or from producing locally products for which value was low in relation to bulk. The major exception, in countries where mining was important, was some light engineering linked to the mining sector.[1]

Following independence, three major changes occurred in the structure of incentives facing these economies. The first was an increase in import tariffs resulting from the need of the newly emerging states to obtain public revenue to finance administrative and development expenditures. The second involved instituting higher tariffs and quantitative restrictions on imports in order to encourage local production of industrial products to replace imports as a means of conserving foreign exchange for developmental needs and of avoiding problems associated with declining terms of trade, slow growth of world demand for primary products, and lack of learning effects and other positive externalities in the primary sector. The third change in the structure of incentives was increased protection and investment applied in many countries to domestic food production as a means of promoting food self-sufficiency.[2] This strategy received a strong boost following the world food crisis of the early 1970s.

B. Industrial Performance

The initial result of these changes was rapid growth in the manufacturing sectors of many countries. In sub-Saharan Africa, manufacturing value added measured in domestic prices grew during the 1960s at more than 8 percent per year. This was almost twice the rate of growth of GDP. By 1973 manufacturing accounted for 15 percent or more of GDP in 18 countries. Although consumer goods predominated, intermediate goods comprised 40 percent of total value added in the manufacturing sector by the end of the 1970s.[3]

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[1]World Bank, *Sub-Saharan Africa - From Crisis to Sustainable Growth; A Long-Term Perspective Study*, Washington: World Bank, 1989, p. 110.

[2]A number of countries tried to promote food production through investment at the same time that they taxed farmers with low producer prices in order to prevent food prices from rising to consumers. The result was stagnation of food production and increased dependence on imports.

[3]*Ibid.*

Despite this, import competing industries remained heavily dependant on imports of intermediate goods, spare parts, and capital equipment. This made them highly vulnerable to shortages of foreign exchange. Furthermore, much industrial growth was possible only because high trade barriers protected inefficient manufacturing firms from imports. This raised domestic prices for these goods compared with world market prices. Had value added been measured in world rather than domestic prices, growth would have been much lower. Although growth could continue for a time, the small size of most domestic markets meant that import substitution was ultimately self-limiting.

During the 1970s, despite heavy public investment in the industrial sector, the pace of growth slackened considerably. By the mid-1980s, industry in sub-Saharan Africa accounted for 10 percent of GDP, which was only slightly higher than it had been in 1965. Manufacturing output declined in 10 countries during the 1970s and in another 11 during the early 1980s. By the mid-1980s, the industrial sector in most countries was characterized by excess capacity, high costs of production, weak links with the rest of the economy, and lack of incentives to increase productivity.[4]

C. *Agricultural Performance*

Efforts to increase food production in Africa have also met with very limited success. It is estimated that about one-quarter of the population of sub-Saharan Africa obtains on average less than 80 percent of its calorie needs. Severe food shortages, which were exceptional in the early 1960s, are now widespread.[5] Overall, agricultural production in Africa has been rising by only about 2 percent per year, well below population, which has been growing annually at about 3.1 percent. Agricultural exports have declined and food imports have increasing at an annual rate of about 7 percent.[6]

There are numerous reasons for this decline. Many of the irrigation projects, which absorbed a large share of total investment, have been disasters. Among the problems encountered have been low yields, poor water delivery, high capital and recurrent costs, inadequate maintenance and repair of irrigation systems and equipment, lack of motivation to grow a dry season crop, and siltation of dams and irrigation canals. Yet the heavy investment that has been made in irrigation and river basin management has resulted in inordinate efforts to make these projects work at the expense of more effective activities to promote economic growth.[7]

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[4] *Ibid.*

[5] *Ibid*, p. 72.

[6] *Ibid*, p. 89

[7] For a discussion of these problems, see J. Dirck Stryker, *et al*, "Investments in Large Scale Infrastructure: Irrigation and River Management in the Sahel", Fletcher School of Law and Diplomacy, Tufts University and Food Research Institute, Stanford University, January 1981.

Efforts to improve rainfed cultivation in marginal areas have failed equally as badly and have encouraged people to remain in these areas, damaging vegetation and soils, when a more effective policy would have been to induce them to emigrate to more productive areas or to enter lines of endeavor that would put less stress on the environment. At the same time, projects in marginal areas have been very expensive in relation to the benefits achieved. This has been because of the absence of a cash activity that could be used to sustain recurrent costs, the riskiness associated with drought, the lack of a viable technical package, and the high cost of maintaining project personnel and administration in inaccessible areas.

The failure of the strategy to promote food self-sufficiency is illustrated in the Sahel by the changes in the food self-sufficiency ratio (local production/total availability) that occurred from the mid-1960s (1965-67) to the late 1980s (1986-88). In not one single Sahelian country did this ratio increase. In many, especially those for which rice imports are an important component of food supply, it fell markedly, e.g., from 83% to 47% in the Gambia, from 69% to 39% in Mauritania, from 80% to 58% in Senegal. In other countries that consume mostly coarse grains, the self-sufficiency ratio for total cereals fell much less, but that for rice declined to a similar degree.[8]

Greater success was achieved in areas of higher rainfall. Important advances were made in maize production in eastern and southern Africa. The record of cotton production in a few countries was also one of notable success. Burkina Faso, for example, went from 3,000 tons of cotton lint production in 1965 to 71,000 tons in 1990. Mali had a similar experience, increasing production from 8,500 tons in 1965 to 111,000 tons in 1990. Not only did this increase the incomes of farmers, raise the tax revenues of governments, and augment earnings of foreign exchange, but also it helped to increase the production of cereals by providing the capital and cash income that farmers required to purchase intermediate inputs such as fertilizers.[9]

Despite these gains, the real value of sub-Saharan Africa's agricultural exports declined substantially during the three decades following independence. Although some of this decline was due to falling terms of trade, Africa also lost over one-half of its market share of world agricultural exports, suggesting that supply-side factors were more important than those on the side of demand.[10] The decrease in market share was especially severe for cocoa and oilseeds. Detailed analyses of a number of country case studies suggest that export taxes, overvalued

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[8]J. Dirck Stryker, "Economic Growth and Food Security in the Sahel: The Role of Economic Integration", AIRD, January 1993, p. 2.

[9]*Ibid*, pp. 2-3.

[10]Ulrich Koester, Hartwig Schafe, and Alberto Valdés, *Demand-Side Constraints and Structural Adjustment in Sub-Saharan African Countries*, International Food Policy Research Institute, July 1990, p. 41.

currencies, and low real producer prices were among the more important causes of this poor performance.[11]

III. *Policy Reform and the Current Economic Environment*

A. *Recent Policy Reform*

Because of this lackluster performance, a number of countries in sub-Saharan Africa have over the past decade undertaken key policy reforms designed to adjust the structure of their economies in a more efficient direction. A major goal of these reforms has been to reduce the bias against exports resulting from export taxation, trade protection for import-competing activities, and an overvalued domestic currency. Also important have been the freeing up of private markets and the reduction of the weight in the economy of the public sector.

The World Bank and IMF have had a major influence in defining the policy reforms undertaken by these countries. In addition to macroeconomic stabilization measures, these policies have comprised some combination of (1) devaluation, (2) movement towards a more flexible exchange rate, (3) reduction or elimination of export taxes, (4) easing or elimination of import controls, (5) reduction in the magnitude and variability of import tariffs, (6) privatization or reform of government parastatals, (7) elimination of price controls and restrictions on private marketing, and (8) reduction of public sector employment. A major step was taken very recently with the devaluation of the CFA franc. Altogether, these reforms have altered the structure of incentives in the direction of opening the African economies to international trade and have increased the relative importance of the private compared with the public sector.

Whether the reforms have contributed substantially to the ultimate goals of expanding exports and increasing economic growth is less clear, partly because of the effects of other variables. Many of the countries undertaking major reform programs have experienced at the same time a severe decline in export prices, export earnings, and the terms of trade. On the other hand, they have also benefitted from debt relief and increased flows of foreign aid. This has helped to sustain investment at a time when public budgets have been reduced.[12]

B. *Current Policy Environment for Trade and Growth*

The current policy environment in most African countries is much more conducive to trade and growth than it was a few years ago. Exchange rates in most countries, now including those in the CFA zone, are close to their long-term equilibrium levels assuming some need for import tariffs for revenue purposes. Export taxes are lower or nonexistent, and marketing

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[11]Uma Lele, ed., *Aid to African Agriculture: Lessons from Two Decades of Donors' Experience*, Baltimore: Johns Hopkins University Press, 1991.

[12]World Bank and UNDP, *Africa's Adjustment and Growth in the 1980's*, Washington: World Bank, 1989, pp. 27-29.

boards and stabilization funds have been replaced in some countries by liberalized export regimes. Quantitative restrictions on imports have been substantially reduced in most countries. There has also been some progress in lowering import tariff rates and making them more uniform, and in reducing the number and severity of price controls.

Nevertheless, there remain substantial impediments to trade. Although a number of important economic policy reforms have been achieved, others are yet to be undertaken. Within the CFA franc area, for example, numerous barriers to free trade have been erected over the years to avoid these countries being flooded with imports. Many of these barriers take the form of quantitative restrictions that are administrative rather than legislative in nature, and thus are often difficult to identify and eliminate.

Another impediment to trade is lack of adequate infrastructure to support export-oriented activity. After years of neglect, countries like Ghana and Guinea need to rebuild, expand, and modernize their roads, ports, airports, telecommunications equipment, and power-generating facilities. This is especially important for the export trade because of the need for quality control, timeliness, and flexibility in responding to overseas demand.

Investment in knowledge and other forms of human capital is also essential. The development of horticultural exports in Kenya depended on investment in research, training, and extension, yet too many countries have allowed their agricultural research and extension capabilities to deteriorate.[13] Countries such as Mauritius that have been successful with exports of manufactured goods have had to acquire a knowledge of foreign market opportunities, develop linkages with foreign partners, pay close attention to quality control, and develop a pool of competitively priced semi-skilled labor.[14]

Also important is the need for the elimination of institutional barriers to trade, such as those related to compliance with administrative procedures, access to credit, contract enforcement, knowledge of export markets, timing, and quality control. These often result from deficiencies in the public sector and how it interacts with private economic agents. On one hand, excessive regulation inhibits the reallocation of resources necessary to adjust the economy

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[13]Nural Islam highlights the importance for exports of market information, quality control, processing and storage facilities, and agricultural research. He also describes how horticultural exports have served as a natural bridge to exports of nontraditional manufactured goods. See Nural Islam, *Horticultural Exports of Developing Countries: Past Performances, Future Prospects, and Policy Issues*, International Food Policy Research Institute, Research Report No. 80, April 1990.

[14]Foreign firms may play an important catalytic role, here, by providing access to world markets, capacity to package exports, and technical, marketing, and management knowhow. World Bank, Industry and Energy Department, and USAID, Bureau for Africa, *Building a Competitive Edge in Sub-Saharan Countries; the Catalytic Role of Foreign and Domestic Enterprise Collaboration in Export Activities*, December 10, 1991.

in a more outward oriented direction. On the other hand, there is a dearth of appropriate public or quasi-public institutions to overcome market deficiencies and promote export growth.[15]

Many of the major constraints on trade and growth are specific to different sectors of the economy. The following outlines some of the more important of these constraints and how they impede the exploitation of each country's comparative advantage.

1. Agriculture and Livestock

AIRD's recent research on regional economic integration of agriculture in West Africa clearly shows that a number of producing regions have the economic potential to trade competitively across national borders.[16] Under a non-distorted policy environment, for example, rice and coarse grain cereals would flow from Upper Guinea and the Middle and Upper Senegal River Valley into eastern Mali and Mauritania and from southern Mali into northern Ivory Coast. Malian groundnut production would flow to Senegal for processing. Economic analysis also suggests that there exists a strong comparative advantage for Sahelian livestock production in competition with world markets for meat exports to coastal West Africa and for delivery of dairy products to local populations within the Sahel.[17]

Generally, it is the interior of West Africa, and especially the better watered areas, which has a comparative advantage in agricultural and livestock production for the coastal markets and, more broadly, for the region as a whole. Within the West African region, there is already substantial excess demand for vegetable oils, and meat, which the Sahelian countries should be able to supply profitably in competition with imports now that the CFA franc has been devalued.[18] There is also excess demand for rice, but the ability to compete with imports in the coastal markets is restricted to producing regions in close proximity to these markets because of the low world market price of rice and the high cost of transportation within the region. Should growth in the coastal markets be restored to levels that existed during the 1960s, and to a lesser extent the 1970s, there would be a substantial increase in demand for coarse grain cereals, rice, vegetable oils, cotton, meat, and other livestock products. These are products in which the Sahelian countries will have an increasing comparative advantage as the coastal countries specialize in tree crops, forest and marine products, and manufactured goods.

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[15]Examples of these kinds of institutions might include organizations that would assist potential exporters to explore overseas markets or would develop large risk pools so as to facilitate access to credit by exporters with little history of formal banking relations.

[16]B. Lynn Salinger and J. Dirck Stryker, "Regional Economic Integration in West Africa: Potential for Agricultural Trade as an Engine of Growth in the Western Subregion", AIRD, March 1993.

[17]Jeffrey Metzel and Andy Cook, *Economic Comparative Advantage and Incentives in Livestock Production and Trade in West Africa's Central Corridor*, Volume I: Principal Report, AIRD, August 1993.

[18]This assumes that monetary and fiscal restraint will be adequate to assure that most of the devaluation will be preserved as a change in the real exchange rate.

Unfortunately, the actual structure of production and trade within the region does not follow this pattern of comparative advantage. Instead, lack of integration of trade, exchange rate, and agricultural pricing policies has over the years created a distorted incentive structure that has encouraged inefficient allocation of productive resources and wasteful smuggling and other forms of rent-seeking behavior.

The most important of these distortions, the overvaluation of the CFA franc, has now been removed. Left behind, however, are the numerous other policy distortions that were introduced to prevent the CFA countries from being flooded by imports. Within the agricultural sector, these include quantitative restrictions on food imports, wide variation in producer prices between countries, high rates of effective import taxation, large producer subsidies, and a host of other measures. Mali, for example, has over the years used an embargo on rice imports to restrict legal trade. Guinea also restricts rice imports, raising prices to consumers by 50 to 80 percent. Prices paid to cocoa, cotton, and groundnut producers vary markedly between countries, giving rise to intraregional trade despite the fact that this is often officially banned. Senegal effectively taxes rice imports at an implicit tariff rate of over 60 percent and uses the proceeds to subsidize inefficient producers.[19]

Within the livestock sector, the policy distortions consist of taxes on exports and imports of livestock products and a combination of minor subsidies on productive inputs and taxation of livestock marketing. Taxes on transport and marketing have the most important impact on livestock sector costs; these are only minimally offset by subsidies on animal vaccinations. A component of these taxes is illegal distortion to obtain right-of-way for live animals being transported within West Africa. Côte d'Ivoire, Ghana, and Nigeria also have relatively high barriers to imports from overseas. Due to its links with the other French-speaking countries, Côte d'Ivoire has been willing to allow relatively unrestricted imports of livestock products from within West Africa, while Ghana and Nigeria have shown much less interest in promoting intraregional trade. The current health quarantine policy for live animals being imported into Ghana, for example, serves as an effective prohibition of official trade. These restrictions have not caused much tension until recently because overvaluation of the CFA franc rendered imports unprofitable, but the restrictions assume greater importance now that devaluation has taken place.[20]

The distortions that inhibit trade between West African countries and protect domestic production result in a substantial bias away from exports outside, as well as within, the region. Yet there is considerable potential for these exports. Studies are currently underway that indicate the degree to which some of the West African countries have a comparative advantage in exporting agricultural and livestock products outside of West Africa. A study being conducted by AIRD in Ghana, for example, shows that this country has a comparative advantage in the overseas export of pineapples, mangoes, yams, and frozen seafood. The World Bank is undertaking studies of the potential for horticultural exports in Mali, Niger, and Senegal. Côte

[19]Salinger and Stryker, "Regional Economic Integration....", pp. 22-24.

[20]Metzel and Cook, *Economic Comparative Advantage...*, p. vi.

d'Ivoire and Guinea have already demonstrated their comparative advantage in the export of pineapples, bananas, and other tropical fruits. It is likely that this list of both products and countries will be considerably extended.

2. Industry

AIRD is currently in the process of reviewing various studies of comparative advantage and incentives in West African industry. The results summarized here represent only part of what is known regarding policy distortions in this sector. Nevertheless, they should be reasonably representative of the situation within the region since all countries have, until recently, been concerned primarily with protecting themselves against imports of industrial products rather than with promoting manufactured exports.

Most industry within West Africa is concentrated in the coastal countries, especially Cameroon, Côte d'Ivoire, Ghana, Nigeria, and Senegal. The industrial sector in each of these countries was established initially to compete with imports, usually behind high tariff and non-tariff barriers. Only recently have industrial enterprises in Ghana and Nigeria, countries which devalued their currencies some time ago, begun to reach out toward export markets.

Studies of Cameroon and Côte d'Ivoire suggest that industrial protection initially took the form of high tariff rates on outputs and lower tariff rates on imported inputs.[21] During the 1980s, quantitative restrictions became increasingly important as overvaluation of the CFA franc threatened the balance of payments in each of these countries. According to one study, by 1989-90, effective rates of protection in Cameroon ranged from -73 percent to +infinity. Most of the products for which effective protection was negative were products in which Cameroon had a natural comparative advantage because of high transportation costs in relation to product value, e.g., salt and cement, but there were other products, principally household linen and clothing, for which protection was also negative. Now that the CFA franc has been devalued, much of the trade protection on Cameroun's industry appears unnecessary. Although Cameroun has a comparative disadvantage in flour production, it either has or is not far from having a comparative advantage in production for the local market of vegetable oil, soap, household linen, blankets, dresses, salt, and cement.

Although the industrial sectors of the interior countries of West Africa are much smaller than those of the major coastal countries, there are some industries in which the former appear to have ~~a comparative~~ advantage. Despite this, many of these industries are highly protected, resulting in substantial waste and a strong bias away from exports. Burkina Faso, for example, has an effective rate of protection on oilseed cake of 175 percent despite a substantial comparative advantage in this industry.[22] Except for agricultural inputs, roofing, shoes, and

[21] D. Bernadette Kamgnia, "L'impact du système des incitations industrielles des années 80 au Cameroun," 1993; World Bank, "Incitations at Coûts Réels en Côte d'Ivoire," 23 May 1975.

[22] Felix O. Kaboré and Mady Koanda, "Évaluation des politiques de protection et d'incitation de l'industrie manufacturière au Burkina Faso," October 1993.

a few pharmaceuticals, all products for which there is a strong political incentive to keep prices to consumers low, effective rates of protection in Mali for industrial products are positive, and in some cases quite high. Despite this, Mali appears to have a comparative advantage in production for the domestic market in cigarettes, soap, animal feed, shoes, bicycle assembly, and roofing, to name just a few products.[23]

The upshot of these studies is that the CFA countries, because of their overvalued currency, have biased their incentive structures in the direction of protecting their local industries against competition from imports, even where these industries appear to have a comparative advantage in producing for the domestic market. This has strongly discouraged them from seeking to export either within West Africa or outside the region. In contrast, Ghana's incentive structure is much more conducive to export growth. Import tariffs are relatively low, there are no quantitative restrictions on imports, and the exchange rate is at a realistic level. Among the manufactured exports in which Ghana has a comparative advantage, either for the regional or the overseas market, are frozen seafood, canned palm hearts, scrap metal, stationary, aluminum utensils, wood products, textiles, clothing, and handicrafts.[24] Although substantial infrastructural and institutional barriers to nontraditional exports remain in Ghana, the atmosphere of entrepreneurial activity is quite different from the CFA countries, with more and more firms being added each year to the list of exporters. The most enterprising of these firms, which generally have found export opportunities overseas, are often of moderate size and somewhat younger than the larger firms that were established originally to service the domestic market and have now expanded their exports to neighboring countries.[25]

IV. Action Program

The examples cited thus far are illustrative only and do not begin to exhaust the actual distortions and other barriers that are impeding trade and growth within and outside West Africa. These can only be fully identified by careful study of the sectors and countries involved. Nevertheless, it is possible to outline a proposed Action Program that could be undertaken by AID to facilitate the adjustment of the West African economies in the direction of a more open orientation based on the expansion of nontraditional exports. Before discussing this program, however, it is important to be clear about the reasons for embarking on it and the underlying assumptions.

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[23]Massa Coulibaly, "L'efficacité des incitations à l'industrie au Mali," October 1993.

[24]Preliminary results of the study currently being conducted by AIRD, with AID financing, on the Costs and Benefits of Eliminating Institutional Constraints on the Expansion of Nontraditional Exports.

[25]J. Dirck Stryker, "Transactions Costs and Structural Adjustment in African Industry," paper presented at the annual meeting of the *Reseau sur les Politiques Industrielles*, Abidjan, December 13-16, 1993.

A. Rationale for the Action Program

The program proposed here is based on the fundamental belief that there are important benefits to be derived by African nations from expanded international trade. The evidence continues to mount from other parts of the world, as well as from a few African countries, that economic growth is closely interlinked with foreign trade. Aside from the usual economic arguments associated with efficiency of resource allocation due to the exploitation of comparative advantage and economies of scale, there are a number of other ways in which trade is seen to contribute to economic growth. These include using trade and associated investment as a conduit for technological transfer, increasing the efficiency of enterprises forced to compete on foreign markets, expanding the commercial and managerial competence of entrepreneurs, augmenting the skills of the work force, creating a market for labor in the face of growing population pressure, increasing foreign exchange earnings that can be used to import capital equipment, and a host of other factors.

Assuming that trade is desirable, the question remains as to whether the benefits from trade accrue equally regardless of whether exports, especially nontraditional exports, are directed at overseas markets or to neighboring countries. Overseas markets present the advantage that their demand for nontraditional exports from Africa is relatively elastic (an hypothesis that needs to be tested), their contribution to the transfer of technology and managerial knowhow is potentially great, and the range of goods that may be exported is virtually inexhaustible. On the other hand, transportation costs can be considerable, standards of quality and timeliness of delivery are high, and contracts may be difficult for African exporters to enforce. Thus there may be an argument for trying to break in first to regional markets before moving on to those that are overseas, even though regional markets may offer fewer opportunities for growth over the longer run.

There are many opportunities for expanded regional, as well as overseas, trade in the products of agriculture, livestock, fishing, and industry. For some countries, especially the landlocked countries of the interior, regional trade is the major avenue for escaping the limited size of the domestic market. Their comparative advantage in livestock, cereals, and other products can play a key role in allowing them to benefit from the growth of coastal markets. There is also substantial potential for regional trade in processed foods and other agricultural and livestock products, as well as a broader range of manufactured goods. Even within the same industry there may be opportunities for the exchange of goods satisfying different standards of quality and taste.

There is a danger in relying too much on the regional market, however, especially if this implies high levels of preferential tariff protection. First, there are the classic arguments that trade preferences are likely to result in costly trade diversion to a much greater extent than beneficial trade creation and that the potential is limited for exploitation of economies of scale.[26] Beyond this, however, there is evidence that intraregional trade in nontraditional

[26]Jaime de Melo and Arvind Panagariya, *The New Regionalism in Trade Policy*, World Bank and Centre for Economic Policy Research, 1992.

exports tends to be a spillover by larger firms that invested originally to supply domestic markets behind relatively high protective trade barriers, whereas the firms that export overseas tend to be established for that purpose, ensuring that they are reasonably efficient and competitive. Finally, much of the effort to promote intraregional trade has focused on deciding how to allocate investment so as to facilitate the exploitation of economies of scale and to avoid excessive competition between countries. This effort has generally been a failure because most countries want to produce all the products that they can at reasonable cost. It also ignores the difficulty of picking the winners in advance and the fact that, because of the desire of consumers for a certain amount of product variety, different countries may export very similar products to each other.

Regardless of export destination, there are numerous barriers described earlier to expansion of this trade. These need to be identified in detail, publicized, discussed, and acted upon through investment and policy reform. This may require negotiations between countries. These could take place on either a bilateral or a multilateral basis. Though more comprehensive in formal terms, multilateral trade agreements in Africa have in practice been relatively unsuccessful. This raises the possibility of relying more on bilateral negotiations between major actual or potential trading partners, such as those currently being undertaken in West Africa in conjunction with the Livestock Action Plan, financed by the World Bank and USAID. These negotiations might be based on the concepts of reciprocity and most-favored-nation status, concepts that were the forerunner in the industrial world to GATT. That is, (1) concessions would be negotiated bilaterally on a reciprocal basis by the parties concerned most with a particular set of trade barriers, and (2) these concessions would then be extended unilaterally to third countries, which would be affected less by the concessions.

B. *Objectives of the Action Program*

The Action Program proposed here assumes that the basic economic reforms have been undertaken in most West African countries that are necessary for a resumption of economic growth led by the export sector. To some extent, this growth can occur through the expansion of traditional primary product exports to overseas markets as African nations recapture some of the market shares that they have lost over the past twenty years. Most of the expansion of exports, however, will have to occur through the growth of nontraditional exports and intra-regional trade based on the principle of comparative advantage.

Although it is impossible to predict with complete accuracy the comparative advantage of each country in each specific product, it is possible to describe the general conditions that are likely to contribute to that advantage in different areas and the problems impeding the exploitation of that advantage. The objectives of the Action Program involve overcoming these problems.

1. Arid, Semi-Arid, and Sub-Humid Regions

The major area in which the arid, semi-arid, and sub-humid regions of West Africa have a strong comparative advantage is in livestock production, both for the regional market and possibly also for export overseas. The regional market is already growing, and this growth can be expected to accelerate to the extent that the coastal countries experience economic expansion. As truck transportation has replaced trekking to the coastal markets, the comparative advantage of the interior countries has increased in competition with imports. Now that the CFA franc has been devalued, this advantage has been translated into enhanced private profitability as well.

Although there are limits to the capacity of the arid and semi-arid regions of West Africa to expand ruminant production based on use of pasture and crop residues alone, these limits have not yet been reached except in years of extreme drought. Furthermore, economic analysis suggests that more intensive schemes involving fattening on crop by-products, feedgrains, and cultivated forage are also profitable, with considerable potential for closer links between agriculture and livestock production.[27] There is also some possibility of exporting red meat beyond the traditional coastal markets. This will require lowering the cost of air transport to more distant markets, increasing the value of the product sold, and meeting health and sanitation restrictions on world markets.[28]

There are a number of significant constraints on livestock production and marketing that are amenable to action. First, there is a need to develop a common trade policy throughout the region in order to counter the practice of the EC and other world exporters to "dump" livestock products on the world market. Care must be taken, however, to avoid overprotection, which should not be necessary now that the CFA franc has been devalued. Second, measures should be undertaken to reduce livestock market taxation, simplify trade procedures, and discourage the illegal collection of fees by public officials. Third, there may be a need for some market infrastructure designed to accommodate the special needs of trucked animals. In addition, policies that slow trucking transit times should be eliminated, and ways should be sought to better use railways to provide a more competitive transportation alternative. Research should be undertaken on the intensification of animal production, and the results of this research should be disseminated. Among the topics to be investigated are optimal use of crop by-products and other feeds, cost-effective control of trypanosomiasis, and management options to address labor and land conflicts between livestock and agriculture. There is also a need to identify prospective markets within and outside Africa, to invest in the processes and training necessary to supply products of the appropriate quality to these markets, and to promote these products to potential consumers. This should create opportunities for other value-added activities, including the canning, drying, and freezing of meat and the manufacture of milk derivative products.

The arid and semi-arid regions of West Africa are also particularly suitable for growing horticultural crops under irrigated conditions. Senegal has for years produced a variety of fruits and vegetables for the Dakar and, to a lesser extent, the European market. Mali and Burkina Faso have also made some attempts at exporting horticultural crops. With devaluation of the CFA franc, exports of these products should become much more profitable. In addition, there may be further opportunities for intraregional trade. Niger, for example, has found a market

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[27]Metzel and Cook, *Economic Comparative Advantage...,*" p. v.

[28]*Ibid.*

for its onions as far away as Abidjan. The major constraints include the need for localized research on these crops and problems of quality control, packaging, storage, transportation, and timing of delivery.

The sub-humid, and to a lesser extent the semi-arid, zones have a strong comparative advantage in growing and exporting a wide range of annual crops, such as sorghum, maize, cotton, groundnuts, and cowpeas. Within this area notable successes have been achieved over the past few decades in increasing production of maize, cotton, and cowpeas. This is also the area of greatest potential for integrating livestock with agriculture. Unlike the semi-arid zone of West Africa, which is densely populated in relation to the resource base, the sub-humid zone is an area of generally low population density. As diseases such as river blindness are being overcome, this zone is increasingly able to act as a safety valve for excess population elsewhere. Constraints impeding fuller development of this zone include the numerous maketing constraints, outlined earlier, that have been imposed because of the overvaluation of the CFA franc, the lack of infrastructure (e.g., roads, schools, health facilities), the continued prevalence of trypanosomiasis, inadequate marketing networks for agricultural products and inputs, and poorly developed financial institutions to promote savings and investment.

2. Humid Regions

The humid regions of West Africa have a rich potential for growing and exporting a range of cash crops, including coffee, cocoa, rubber, oil palm, bananas, pineapples, and other tropical fruits. The area also has some further potential for timber production, though this is rapidly being exhausted. Marine products constitutes another important area in which the coastal countries have a comparative advantage. The major constraint in the humid regions is the growing shortage of good land to support these cash crops, which is largely a result of their past expansion and increasing pressure on land for urban uses. World demand constraints are also important for cocoa, and to a lesser extent coffee. In addition, producer prices, which have been kept low because of overvaluation, need to be raised significantly in order to provide incentives that are more in line with the comparative advantage that these countries have in these export crops.

In addition to their comparative advantage in traditional exports, the humid regions also have the potential for increasing profitably their output of products consumed in nearby urban markets. One of the most important of these is rice. The CFA countries have in the past found it very difficult to produce rice profitably in competition with imports without protection because of their overvalued currency. Now that the CFA franc has been devalued, however, some of these countries can compete effectively with imports as long as the areas of production are in close geographical proximity to the urban markets. Other agricultural products in which the humid regions have a comparative advantage for the local market comprise poultry, pig meat, dairy products, roots and tubers, and fruits and vegetables. Major constraints include marketing, storage, plant disease control, and animal health.

3. Industrial Centers

Coastal countries such as Cameroon, Côte d'Ivoire, Ghana, Nigeria, and Senegal are fortunate in having industrial centers upon which to build their manufacturing sectors. These centers possess the infrastructure (e.g., ports, roads, railways, telecommunications), public utilities (e.g., electricity, water), and financial and commercial services that can serve as a basis for further growth. Despite the supporting infrastructure, utilities, and other services in these countries, however, there are numerous problems that need to be overcome.

The CFA countries all have industrial sectors that are strongly protected and are oriented towards supplying the domestic market. Most of these enterprises are relatively capital intensive and depend too much on imported equipment and intermediate inputs, the prices of which have now risen steeply with devaluation. A major effort will be required to refocus these firms away from the domestic market and towards export opportunities within Africa and overseas. This will require, in most instances, making much more use of semi-skilled labor, the relative price of which has fallen significantly since the devaluation.

There is also a need to reduce or eliminate the policy distortions that have grown up as a result of the overvalued CFA franc. These include high rates of effective protection resulting from high tariffs on outputs and low tariffs on inputs, as well as various quantitative import restrictions. Even if much of the protection on import competing firms is reduced, there will still be a need for import tariffs for revenue purposes. This implies that there will continue to be some bias against exports. To offset this bias there will be a need for incentives to aid exporters through duty-free admission of imported equipment and intermediate inputs, direct tax incentives linked to exports, and preferential access to credit.

In the non-CFA countries, and to a lesser extent in the CFA countries, much remains to be done to restore the infrastructure to a condition that is necessary for an expanding industrial sector, especially one that is focused on exports. Telecommunication systems are inadequate, port facilities need to be improved, roads are in poor condition, electrical power failures are frequent, and water supplies are often unsatisfactory. In addition, export shipments are impeded by insufficient air and sea freight capacity and by the high cost of freight transport resulting from low volume and monopoly pricing.

Institutional constraints also act as an important barrier to manufactured exports. Administrative procedures are often cumbersome and subject to abuse; these need to be simplified through scrutiny, private sector lobbying, and public sector response. Access to both post-shipment and pre-shipment working capital needs to be improved, as does access to capital for fixed investment, especially on the part of smaller firms. Contacts with overseas markets and importers need to be facilitated. Legal systems for contract enforcement and loan recovery need to be strengthened.[29]

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[29]AIRD is currently quantifying the importance of these institutional constraints in its study of the Costs and Benefits of Eliminating Institutional Constraints on the Expansion of Nontraditional Exports. For a preliminary analysis of many of the legal impediments to trade and growth, see J. Dirck Stryker,

4. Areas of Overpopulation in Relation to the Natural Resource Base

Although population density in West Africa is generally relatively low, there are areas in which there is overpopulation in relation to the natural resource base, at least given the current productive technology that is in place. The lack of opportunities that this engenders for people living in these areas makes them ready to work hard at relatively low wages in whatever alternative opportunities that exist. In addition, the shortage of land, pasture, and other natural resources often makes people improve their skills and disciplined work habits in order to survive. All of these characteristics create a potential work force that is ideal for low-cost, labor-intensive production of manufactured goods that can compete effectively on the world's export markets.[30]

As West Africa moves increasingly in the direction of the production of labor-intensive manufactured goods for export, it is to these areas that firms will find it advantageous first to look for their work force. Decisions will have to be made, therefore, regarding where to locate industrial firms so as (1) to take advantage of this source of labor; (2) to benefit from the availability of infrastructure, utilities, and commercial and financial services; and (3) to avoid incurring excessive cost of transporting final and intermediate goods. To the extent that these decisions result in locating industrial firms far away from potential supplies of labor, consideration must be given as to haw to facilitate migration and resettlement of workers on either a temporary or a permanent basis.

C. Components of the Action Program

The Action Program includes a number of different components. Some of these components are already in place in some countries. Others may be financed by donors other than AID. Each is an essential element to renewed trade and economic growth.

1. Import Liberalization and Tariff Reduction

A vital element in rendering exports more competitive on world markets and increasing the volume of trade is a reduction in the protection offered to import competing sectors of the economy. This requires a decrease in or elimination of quantitative restrictions on imports, a decrease in the average level of import tariffs, and some harmonization of the structure of these tariffs. In addition, it is important that exchange controls be either abandoned or substantially liberalized. These reforms frequently comprise part of the conditionality associated with lending by multilateral institutions, though AID has occasionally been involved in these types of reforms,

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et al, "Costs and Benefits of Eliminating Institutional Constraints on the Expansion of Nontraditional Exports; A Prototype Methodology," Associates for International Resources and Development, March 1993.

[30]Taking an example from another part of Africa, people who have customarily been involved in the highly labor-intensive cultivation of rice in the highlands of Madagascar are said by employers to be among the best industrial workers in the world.

often in conjunction with food aid or other sectoral programs. In any event, it is important that AID understand the need for these reforms and support the multilateral donors in their efforts to achieve them.

2. Producer Prices of Traditional Exports

While the CFA franc was overvalued, it was extremely difficult for the CFA countries to pay producers of traditional exports an adequate price and still have enough left over to furnish the government with some revenue from this sector. In some years, when world market prices were particularly low, governments even had to incur losses as they subsidized producers in order to keep producer prices from falling too low. Now that the CFA franc has been devalued, it is urgent that these governments raise producer prices in order to recapture some of the shares lost on world markets.

3. Nontraditional Export Promotion Projects

Nontraditional export promotion projects have been developed in a number of countries that have undertaken economic reform, such as Ghana and Guinea in West Africa. These projects usually involve (1) simplification of export and associated administrative procedures, (2) elimination of export taxes, (3) freeing up of foreign exchange controls for exporters, (4) technical assistance to exporting firms, (5) establishment of mechanisms and institutions for the financing of trade, (6) promotion of contacts between exporters and overseas importers, (7) improvements in the storage and transport of exported products, (8) institution of mechanisms for duty-free importation of equipment and intermediate products by exporting firms, and (9) establishment of additional export incentives.

4. Reduction in Barriers to Intraregional Trade

The research underlying this paper has produced evidence regarding the existence of substantial barriers to trade between West African countries. If these barriers remain in place, this will impede the flow of benefits to the interior countries from economic growth along the coast. It will also reduce the gains from trade between coastal countries and between countries in the interior. Reduction in these barriers requires studies to identify them; communication of the results of the studies to policy makers, business interests, professionals, and the public at large; negotiation between the various interested parties, including representatives of neighboring countries; and policy action to reduce or eliminate the barriers. Negotiations between countries might be either bilateral or multilateral, though the former might be more effective given the failure of most multilateral schemes. AID has and should continue to encourage these negotiations by financing some of the studies and by making the negotiations part of the conditionality associated with a regional economic policy reform project.

5. Agricultural Research

As the pattern of demand, both regional and overseas, for the products of West Africa changes, there will be an urgent need for agricultural research in the areas in which demand is growing most rapidly, such as horticultural crops, livestock products including dairy, and marine products. Livestock research is required, for example, related to optimal use of crop by-products and other feeds and cost-effective control of trypanosomiasis. There is virtually no research on horticulture in the arid, semi-arid, and sub-humid regions, including post-harvest as well as pre-harvest technology.

6. Infrastructure in Support of Exports

Critical to the expansion of nontraditional exports is the transportation and telecommunications infrastructure required to support it. There is also a need for investment in power generation and systems for water delivery. Where these are lacking, high priority must be attached to creating the physical conditions required for export growth.

7. Training

Although the level of skills required in labor-intensive export industries is not high, there is a need to educate and train high and middle-level managers and supervisors, as well as the technicians necessary to keep the machinery and other equipment running and to assure adequate quality control. This training should be provided in close coordination with professionals in each sub-sector in order to assure that it is highly relevant for their needs.

8. Professional and Public Support

In order to build professional and public support for the reforms required for expanded trade and economic growth, it is important (1) to enhance the capacity of Africans to develop and undertake the research leading to economic policy reform and to communicate the results of this research to policy makers, business interests, professionals, and the public; and (2) to apply and test research methodologies regarding trade and growth to Africa in order to assess the relevance of these methodologies and to gain insights into how trade expansion can be used as a strategy to stimulate growth.

D. Examples of Specific Country Needs

The following is a preliminary analysis of the specific needs of a few selected West African countries. The list is by no means complete, either with respect to the countries included or the actions proposed. Nor is it suggested that AID should undertake all, or for that matter any, of these actions; in some instances AID does not even plan to have a program in the country concerned. Rather the countries and proposed actions have been selected because of their importance for the development of the West African region.

1. Burkina Faso

Although a relatively poor country, Burkina Faso has a number of areas in which growth has been or could be achieved. Cotton production, for example, has been one of the success stories of West Africa. With devaluation, the profitability of cotton should improve considerably. This will require an increase in producer prices. The country has also attempted, with some success, to produce horticultural products for export. There is also the livestock sector, which offers considerable potential for growth through intensification and linkages with agriculture. Poultry exports to Abidjan, for example, have achieved considerable success. Burkina Faso also benefits from the remittances and capital repatriation of workers who have emigrated temporarily or permanently to Ghana and Côte d'Ivoire. Much of this wealth is being reinvested locally. Given population pressure, especially on the Mossi Plateau, and given the possibility for political reasons that emigration may be less available as an alternative in the future, Burkina Faso needs to work to diversify its export base. Aside from the agricultural and livestock activities already noted, the existence of the densely populated Mossi Plateau may signal the potential for developing labor-intensive manufactures for the export market. Thus there is a need for each of the components of the Action Program listed above.

2. Cameroon

From a strictly economic point of view, Cameroon is in the enviable position of having considerable potential in both agriculture and industry. It has a diversified range of cash and food crops, a large livestock sector, and a significant fishing industry. It also has as major industrial center in Douala, though much of that infrastructure is in need of refurbishing. The country has suffered from severe disequilibrium in its economy, partly because the petroleum boom of a few years ago resulted in a level of real wages that was unsustainable. Given the fixed parity of the CFA franc, any decrease in real wages would have to had come from a reduction of nominal wages, and this was politically very difficult to accomplish. Now that the CFA franc has been devalued, Cameroon's prospects are considerably better on the economic, if not the political, front. In order for Cameroon to restructure its economy, there is an urgent need to undertake each of the components of the Action Program proposed here. The industrial sector, which is strongly biased towards the domestic market, needs to be restructured in an outward direction in order to develop its exports to the regional market and to begin the process of producing labor-intensive exports for overseas. This may take some time because population density is fairly low in relation to the natural resource base, but there is still room for traditional and nontraditional exports of agricultural products to take up the slack.

3. Cape Verde

Cape Verde has a major need for adjustment due to a structural decline in emigrant remittances. Unemployment is also at very a high level. One area of promise is tourism, though its relatively long distance from Europe places the country somewhat at a disadvantage. There is also the possibility that Cape Verde could become an attractive international service center at the crossroads between Africa, Europe, and America. This would require improvements in telecommunications, air and sea transport services, and possibly off-shore banking facilities. To the extent that these activities are unable to absorb all of the work force, Cape Verde clearly needs to develop labor-intensive manufactured goods for export. This will require a nontraditional export promotion project, investment in infrastructure in support of exports, training of middle-level managers and technicians, and development of active professional and public support for this strategy. Although there may be some scope for increasing food production to reduce food imports, Cape Verde's comparative advantage, as that of many other island nations, probably does not lie in this direction, but rather in earning the foreign exchange through other activities that can be used to import food.

4. Chad

Chad is a land-locked country with a fairly large area of arable land and an extensive livestock sector. Cotton and livestock are major exports. The country is heavily influenced by its trade relations with Nigeria, as well as with the CFA countries that surround it. Export diversification could include the development of horticultural exports and intensification of the livestock sector by integrating it more with agriculture. Chad needs to complete the process of trade policy reform and to build the basic infrastructure and institutions that will enable it to trade with its neighbors as well as with potential trading partners overseas. There is scope, therefore, for a nontraditional export promotion project, the reduction of barriers to intraregional trade, agricultural research focused on livestock intensification and nontraditional exports such as horticultural products, investment in infrastructure in support of exports, training, and promotion of professional and public support.

5. Côte d'Ivoire

Côte d'Ivoire is in a position similar to Cameroon, though the extent of the disequilibrium may not be as serious because of the absence of significant petroleum exports. Furthermore, Côte d'Ivoire benefits from a larger industrial base, a developed but ailing traditional export crop sector, extensive infrastructure and public utilities, a reasonably developed financial sector, and a strong agricultural research base. There is a major need, however, for trade policy reform, raising producer prices for traditional exports, the promotion of nontraditional exports, a reduction in the barriers to intraregional trade, training of middle-level management, and professional and public support for policy reform.

6. The Gambia

The Gambia has for the past few years served as a major, if illegal, entrepot for Senegal's foreign trade, largely due to the overvaluation of the CFA franc. This function can now be expected to cease. In its place the Gambia has the potential to expand its nontraditional exports of agricultural and labor-intensive manufactured goods. Aside from trade and price policy reform, which the Gambia has already largely undertaken, the country needs each of the other elements of the Action Program.

7. Ghana

Ghana benefits from about ten years of major policy reform and from active promotion of nontraditional exports over the past few years. Producer prices for cocoa are still low, however, because of the intervention of the Cocoa Marketing Board and because world prices have been at very low levels for several years. Ghana has been sending nontraditional exports to neighboring countries for some time, but there are still significant barriers to intraregional trade, especially of livestock. There is also an urgent need for investment in agricultural research and in infrastructure, since these were severely neglected during the 1970s. Ghana is expanding its nontraditional exports of horticultural crops, marine products, manufactured goods, and handicrafts at a rapid rate and could be one of Africa's first success stories in this respect. Shortages of middle-level managers and technicians poses something of a problem, and there is the ever present need for professional and public support for policy reform.

8. Guinea

Guinea is perhaps the country in West Africa with the greatest unfulfilled potential, following nearly thirty years of economic mismanagement. Its exports comprise bauxite, iron ore, diamonds, coffee, pineapples, and a number of other primary products. These have stagnated over the years, however, as a result of domestic neglect and unfavorable world market conditions. There is considerable potential for expansion of both traditional and nontraditional agricultural exports, and most of the major economic reforms that were required have been undertaken, but there is a desperate need for institutional reform, a reduction in barriers to intraregional trade, agricultural research, investment in infrastructure, a major training program, and professional and public support for further reform.

9. Guinea-Bissau

Guinea-Bissau currently suffers from severe inflation (110% in 1992), the inability of the state to control its finances, and the absence of a unified exchange rate. Thus the essential precondition for a successful strategy of trade and growth -- macroeconomic stability -- has not been achieved. It also appears that Guinea-Bissau's trade policies have been shaped by opportunities to re-export imported rice and other products to the CFA countries. These policies will have to be revised following devaluation of the CFA franc. Guinea-Bissau needs all of the components of the Action Program, but until it gets its macroeconomic house in order, the Program cannot be successfully implemented.

10. Mali

Mali is the country of the CFA zone that needed the least devaluation. Its exports of cotton, livestock, and gold place it in a relatively strong balance of payments position compared to most of the other CFA countries. Nevertheless, Mali needs to embark on a program of export diversification. This might first involve horticultural crops and more intensive livestock production. Like the other CFA countries, Mali needs to complete the process of trade and price policy reform, to initiate a nontraditional export promotion project, and to reduce the barriers to intraregional trade. There is also a need for agricultural research in the horticultural and livestock sectors, as well as for infrastructural development, training, and the development of professional and public support.

11. Niger

Among the countries discussed here, Niger has the fewest natural resources in relation to its population. Its livestock sector can be developed through improvements in animal health and through integration with agriculture, but there ultimately is a constraint on this sector due to the limited biomass that is available as a result of lack of rainfall. There may also be some scope for horticultural exports, such as the Nigerien onions that are currently sold in Abidjan. Cowpea exports to Nigeria may be expanded as well. Because of its limited resource base in relation to its population, however, Niger ultimately needs to consider how it can most efficiently restructure its economy in the direction of labor-intensive manufactures for export. Unless Niger does this at home, population pressure will be relieved, as it has been in the past, through emigration to areas where employment is available. Thus Niger needs all the elements of the Action Program aimed at expanding trade and growth.

12. Nigeria

Nigeria is so big and diverse that it is hard to generalize about its future. Furthermore, the direction being taken recently is a reversal of the reforms of the mid-1980s. As a result of the devaluation of the CFA franc, the numerous bans placed on many imports by Nigeria, and the subsidized prices of petroleum products compared with the those of the rest of the world, there is the potential for major distortions in intraregional trade and for an increase in the barriers to trade involving Nigeria. Thus policy reform in Nigeria must take first priority before the other components of the program outlined here could be implemented.

13. Senegal

Senegal is perhaps the country that can benefit the most from the devaluation of the CFA franc. This is because Senegal's potential for the expansion of traditional exports is very limited, but it has excellent prospects for increasing its exports of nontraditional exports. These include horticultural crops, marine products, manufactured goods, and some handicrafts. Especially striking is Senegal's underutilized industrial establishment. Senegal needs all the components of the Action Program, starting with a dismantling of its import barriers.

14. Togo and Benin

Togo and Benin are treated together because their situations are similar in many ways. Each produces a range of tree and annual crops for export or the domestic market, such as coffee, cocoa, oil palm, groundnuts, and cotton. Each of these sub-sectors has suffered because of low producer prices, a problem that should be corrected now that the CFA franc has been devalued. Benin has profited from reexports to Nigeria, principally because of the Nigerian ban on imports of various foods and other products. At the same time, Benin has imported from Nigeria petroleum products and a range of manufactured goods. Much of this trade has resulted from policy distortions that need to be corrected. Although there is considerable potential for a revival of cash crop agriculture in Togo and Benin, including the expansion of traditional exports, there is also a need to diversify into nontraditional exports of both agricultural and manufactured goods. This, together with the immediate policy reforms just mentioned, will require ultimately each of the components of the Action Program.

V. *Unanswered Questions*

The analysis undertaken thus far has revealed more unresolved questions than it has been able to answer. Without discussing these in detail, it is useful to at least list some of the more important related to trade and growth.

1. To what extent are the gains from trade described earlier applicable to Africa and how do these gains differ as between overseas exports and intraregional exports in comparison with production for the domestic market? Among these gains are:

   a. economic efficiency of resource allocation associated with

      i. the exploitation of comparative advantage, both in a static sense and as this advantage changes dynamically over time, and

      ii. the exploitation of economies of scale;

   b. trade and associated investment as a conduit for technological transfer;

   c. relative technical efficiency of enterprises producing for overseas, regional, and domestic markets;

   d. gains in commercial and managerial knowhow resulting from contact with foreign partners in trade relations;

   e. gains in work force skills in export enterprises compared with those producing for the domestic market;

   f. employment of labor by export enterprises in comparison with those producing for the domestic market;

   g. net gain in foreign exchange earned by export enterprises in comparison with that saved by enterprises competing with imports;

   h. positive externalities associated with trade, such as improved labor mobility, better access to education, and greater competition and integration of the domestic market.

2. To what extent have firms located in non-CFA countries been able to expand their exports to the CFA countries primarily because of the overvaluation of the CFA franc? Or have they been able to export to these countries because their marginal

costs of doing so are relatively low after they have covered their fixed costs in the domestic market? What changes can be expected in these trade patterns now that the CFA franc has been devalued?

3. Now that the CFA franc has been devalued, what trade barriers need to be eliminated that are no longer necessary to protect these countries from being flooded by imports because of the overvalued CFA franc? These barriers include complex trade tax structures and various implicit, as well as explicit, quantitative restrictions and administrative regulations.

4. To what extent can industries in which different countries have a comparative advantage due to ecological conditions, cheap labor, low transportation costs, and other factors be identified as a basis for allocating investment? Or is the concept of comparative advantage useful only for the purpose of identifying very broad areas of economic profitability, with the success of specific investments being very difficult to predict? Does this imply that, over a broad range of activities, African countries will be able to profitably export to each other similar products nuanced by minor differences in quality, packaging, etc., as is true of trade among industrial countries? Is there sufficient demand for product differentiation within Africa to support this type of trade? To what extent does this differentiation already exist? This has important implications for regional integration schemes designed to allocate investment by "picking the winners".

5. What is the relative quantitative importance of different constraints on trade, such as

   a. high costs of production, processing, and marketing;

   b. poor transportation and communications infrastructure;

   c. lack of labor skills and managerial knowhow;

   d. inadequate access to modern technology;

   e. weak linkages with markets overseas and in neighboring countries;

   f. cumbersome and costly administrative procedures for exporting final products and importing intermediate inputs and capital goods;

   g. lack of access to trade finance, working capital, and capital for fixed investment;

   h. poor facilities for storing and transporting perishable goods;

i. absence of an adequate legal system for enforcement of contracts, recovery of loan collateral, protection of property rights, etc.;

j. lack of adequate transportation for timely delivery of exports.

The economic costs of overcoming these constraints must be estimated and a determination must be made as to whether the constraints can profitably be overcome or whether they should simply be considered as costs of doing business in the export market.

6. Within the African context, what are the advantages and disadvantages for different types of countries (larger/smaller, richer/poorer, coastal/landlocked, etc) of the following forms of economic integration:

   a. preferential tariff area;

   b. free trade area;

   c. customs union;

   d. common market;

   e. unified currency area.

In assessing these advantages and disadvantages, it is important to examine the extent to which each of these

   a. leads to trade creation versus trade diversion;

   b. facilitates the exploitation of economies of scale;

   c. enhances competition;

   d. reduces transactions costs;

   e. increases or decreases government revenue;

   f. increases or decreases smuggling and other forms of rent-seeking behavior;

   g. facilitates resistance to shocks due to changes in the terms of trade, variations in rainfall, etc by spreading the impact of these shocks over a broader, more diversified economy.

7. To what extent have African governments successfully promoted exports, in an manner similar to a number of Asian countries, through trade fairs, preferential access to credit and foreign exchange, subsidized search for overseas markets, high-level efforts to simplify procedures involving exports and importation of intermediate inputs, duty drawback or exemption schemes, etc.? To what extent has it been possible for private sector trade and professional associations to undertake some of these tasks?

8. To what extent is the growth of trade inhibited by problems of ethnicity, especially where traders tend to come from a different ethnic group than most of the rest of the population?

VI. Conclusion

This paper is a preliminary version of a report to be written within the next few months based on an extensive review of the literature related to trade and growth in West Africa. It attempts to preview the future as regards the potential evolution of the West African economy following devaluation of the CFA franc, with emphasis on regional linkages and the development of nontraditional exports. The findings as reported here are thus tentative pending confirmation in the larger study currently underway. Nevertheless, they are consistent with the results of many years of experience and research in West Africa.