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EAGER/TRADE STATUS REPORTS

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BARRIERS TO CROSS-BORDER TRADE

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Promotion of Mali's Rice Exports towards the West African Regional Markets

Type of Study: Country Study

Countries: Mali

EAGER/Trade consortium member institution(s): AIRD

Principal Investigator(s): Abdoul Barry, AIRD

African Collaborating Institutions:
OPAM/Market Information System
Consult-Evaluation-Formation

African Collaborating Researchers:
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Research Supervision Committee Members:
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Mr. Amadou Camara, USAID/Mali
Mr. Abdoulaye Touré, Ministry of Rural Development
Mr. El Hadj Oumar Tall, Prime Ministry/Delegation chargée de l'Office du Niger
Mr. Hamadaou Sylla, Directeur general KOUMALIM Ltd

Date Field Work Initiated: April 1996

Study Completion Date: September 1998

Abstract/State of project:

The Structural Adjustment Programs introduced in the early 80s have induced a major transformation of the Malian economy, which until recently, depended on a few commodities (cotton, livestock and mining) for the country's export earnings. Thanks to the liberalization policies and the devaluation of the CFA franc in January 1994, Mali is exploring ways to diversify its export base. Rice may help Malian policy makers to achieve this goal.

There is great potential for rice production in Mali. On-farm yields have increased markedly, owing to a host of factors: (a) liberalization of paddy and rice prices under the aegis of

the Cereals Market Reform Program, which enabled a more efficient resource allocation, (b) public investments designed to rehabilitate the irrigation infrastructure, (c) proliferation of small haulers putting downward pressure on processing costs and driving the high-cost industrial mills out of business, (d) devaluation of the CFA franc, which improved the competitiveness of local rice.

The combination of these factors triggered a fall in production and processing costs and helped Mali to export some rice to the regional West African markets. Yet, protective barriers to shield local rice from competing internationally against rice are high, leading to the issue of whether Mali enjoys a comparative advantage in rice production and marketing in domestic and regional markets. If no, what are the factors that prevent Mali from maximizing its economic profitability in the above-mentioned markets? If yes, can Mali export rice reliably to those markets, and what are the institutional and infrastructural factors that hamper rice export from Mali?

Using the Domestic Resource Cost (DRC) method, the study suggests that Mali has a strong comparative advantage in its domestic markets. This comparative advantage appears to extend well beyond Mali's national borders, but it is weak in the large coastal markets of Côte d'Ivoire and Guinea because of high transport cost. Paddy and rice trade seems to yield positive financial return to both farmers and traders. But if producers were to bear the full burden of the rehabilitation cost of the irrigation infrastructure, paddy production would be financially unprofitable, raising the issue of the cost distribution between the State, which is asked to participate less and less in the rice subsector, and the dynamic private sector, which faces financial constraints.

The results of the study reveal that Mali, self-sufficient in rice since the mid-90s, could supply its rice reliably to the neighboring countries. However, its ability to do so is hampered by several constraints. The most important constraints are the institutional factors, including the protectionist behavior of the neighboring markets-- even though Mali and the surrounding countries all belong to ECOWAS, a regional organization designed to foster trade among its members. The rules established by ECOWAS allow free trade in paddy, but trade of milled rice can be subjected to import duties left at the discretion of the importing country. Exports of Malian rice are also hindered by the difficulties encountered by traders in bank transfers across countries, limiting their capacity to take advantage of economies of scale. Compounding the difficulties in rice trade is the lack of market information to enable traders to take advantage of market opportunities in the region. Yet, there exists a Market Information System (MIS) in each country designed to gather market data in order to improve resource allocation. To this end, it will be desirable in the near future to facilitate exchange of market information among the different MIS in a timely fashion.

Dissemination and Utilization:

The results of the paper were presented at the Eager semi-annual workshops in Kampala - June 1996, Accra - February 1997, and Johannesburg - February 1998. The PI and the researchers also presented the report at a roundtable organized by the Research Supervisory Committee, USAID, and the Minister of Commerce, Industry and Handicraft, in November 1998 in Bamako, Mali. Recommendations from this roundtable were implemented under ATRIP I by looking in greater depth at problems of land tenure and financing private sector investment in the Office du Niger. One result of these studies was a pre-feasibility study of a non-bank financial institution for the Office du Niger, which is currently being undertaken under ATRIP II. In addition, the finding that Malian rice was not competitive in Côte d'Ivoire in terms of quality has led to the testing of new equipment for grading and improving the quality of rice milled on small rice hullers.

A Research Report, Discussion Paper and Policy Brief were published in April 1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
The Impact of Adjustment on Agricultural Competitiveness and Regional Trade in Sahelian West Africa

Type of Study: Desk Study

Countries: West Africa

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Abdoul Barry

African collaborating institution(s):
Comité Inter-Etat de la Lutte Contre la Secheresse Sahelienne (CILSS)

African collaborating researchers: Dramane Coulibaly, CILSS

Study completion date: October 1998

Abstract/State of project:

At a time when large economic blocs are being formed in other regions of the world to foster trade among member countries, West African regional organizations are characterized by the failure to achieve their main objectives, as shown in trade statistics. The World Bank (1989) reports that intra-regional trade represents about 6% of total official trade of those economies. Even if informal intra-regional trade is taken into account, regional trade appears to still account for a small share of West African total trade.

Several reasons have been put forward to explain the low level of intra-regional trade in West Africa. In recent years, some analysts have suggested that the Structural Adjustment Programs (SAPs) are to be blamed for the lack of progress in intra-regional trade. The rationale for this line of thought is that the SAPs, which have been negotiated individually by the different African countries, pursue only a budget reduction scheme, without taking into consideration its impact on the productivity of the agricultural sector. The removal of the subsidies on inputs has resulted in a drastic reduction in the demand for chemical fertilizers, leading to a decline in agricultural productivity and adversely affecting the competitiveness of West African agricultural commodities and agricultural trade flows.

The thrust of the present study is to measure the impact of the SAPs on agricultural competitiveness and intra-regional trade and propose measures designed to promote trade and food security in West Africa.

Taking the devaluation of the CFA franc as the culmination of the SAPs and 1994 as the cutoff point between the pre- and post-SAPs, the results of the analysis suggest that the SAPs have had a marginal impact on the productivity and competitiveness of coarse grains in West Africa. The reason for this marginal impact is rooted in the fact that regional production of coarse grains uses virtually no chemical inputs. The most dramatic change triggered by the devaluation is in the rice subsector. Contrary to the argument of the opponents of the SAPs, the productivity and competitiveness of rice have improved markedly, and rice trade has increased after the devaluation. Similar results were obtained for livestock and fruits and vegetables after the devaluation. Thus, the SAPs have had generally positive effects on intra-regional trade and regional food security.

Notwithstanding the positive effect of the SAPs on agricultural productivity and competitiveness, there exist a host of factors that still hamper intra-regional trade. They include the protective barriers in most West African countries, weak input markets, lack of timely exchange of market information among the Market Information Systems, high transport costs, abuse from law enforcement officials, and high storage cost and lack of adequate storage infrastructure. It is essential that these constraints be addressed before further increase in intra-regional trade and regional food security can take place in the long run.

Dissemination and Utilization:

Interim results were presented at the CILSS conference in Bamako, in July 1997. The results of the study were presented at the Eager semi-annual workshop in Johannesburg, February 1998. A Policy Brief and a Discussion Paper were completed by the end of 1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Prospects for Developing Malian Livestock Exports

Type of Study: Country Study

Countries: Mali

EAGER/Trade consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Jeff Metzel, AIRD

African collaborating institution(s):
Ministere de Developpement Rural et de l'Environment
Institut d'Economie Rurale (IER)
Compagnie Malienne de Developpement des Textiles (CMDT)

African collaborating researchers:
Aboud Doumbia, MDRE
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Research Supervision Committee Members:
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Mr. Cheich Dramé, USAID/Mali
Mr. Abdoulaye Touré, Ministry of Rural Development
Mr. Hamadaou Sylla, Directeur general KOUMALIM Ltd
Dr. Mantala Coulibaly, Conseilleur Technique, Office of the Prime Minister

Date field work initiated (approx.): April 1996

Study completion date:
Draft Final Report: July 1997
Revised Final Report: September 1998

Abstract/State of project:

The objective of this study is to examine the long term prospects for increasing net economic returns to Mali's livestock trade. The study research can be divided into four areas of investigation which are characterized by the following questions:

1. *What will be the most important sources of ruminant livestock production growth in Mali?*

The study evaluated influences on herd growth for six production systems distinguished by agroecological zone and the type of agriculture associated with the system. The greatest scope for livestock production growth exists in the agropastoral zones both through raising herd numbers and productivity in these regions. The role of agricultural development initiatives appears to be strongly positive in encouraging livestock production in association with these efforts. The analysis confirms the impact of drought in shifting herds from pastoral systems associated with dryland crops to systems which have dry season crops due either to irrigation or flood recession. The study also found weak evidence based upon aggregate data that herd offtake rates and animal weights have both increased over time. Plausible explanations of each are, respectively, the impacts of public animal health interventions in reducing mortality and raising reproduction performance, and the development of seasonal fattening activities to raise animal weights.

2. *What are trends in red meat supply and demand for Mali, and what are the prospects for continuing exports to the regional market?*

Projections analyses find that if past trends in domestic consumption and production of red meat continue, total consumption will overtake production in the next ten years, and Mali will lose earnings from livestock exports. On the other hand, the analysis also illustrates two important sets of assumptions which each provide feasible scenarios for sustaining the export market. First, on the supply side, the sensitivity of production growth to biological productivity parameters, and the current low level of some of these parameters in comparison to norms in more developed livestock systems suggest that there is ample room to raise productivity above levels that have persisted in the last thirty years. Secondly, price changes are likely to depress demand for red meat. This may occur first due to the emergence of cheaper industrially produced poultry within Mali. Moreover, projected increases in the world prices for red meat could further dampen demand for red meat in Mali, and increase consumption of poultry as a substitute.

3. *What is the potential to add value in the livestock chain for export?*

The study evaluates two important ideas for increasing value added in the livestock sector. First, the study documents a dynamic and relatively new sub-sector that is emerging in central and southern Mali to raise value in livestock through short term seasonal fattening. Economically, the most competitive enterprises are small farm-based enterprises and sheep enterprises because these typically draw on surplus byproducts of the farm and low-opportunity cost labor. Larger commercial fattening operations are also economically attractive, however, and present greater prospects for expanding fattening activities in the long run. Various constraints to growth of the sector identified by the study include: 1) access to protein feed concentrates, particularly cotton seed cake, 2) access to and timely delivery of seasonal financing of fattening, 3) information on prices in source and destination markets, 4) inadequate knowledge or technology to make optimal use of local feed resources in feed rations, and 5) competition with agriculture for access to production factors.

The analysis also finds good prospects for increasing value added through domestic slaughter although under current market conditions, livestock exports remain financially more profitable than either carcass or boxed meat exports to the regional market. The good news for increasing value added through slaughter are twofold. First, due to projections of rapid growth in domestic demand for red meat, the slaughter industry and the byproduct industries that depend on it are assured steady growth. Secondly, a number of policy changes are identified that will make the activity much more attractive for development of export markets.

4. *How can public policy increase economic returns from livestock exports for Mali?*
The study identifies a number of policy measures which can contribute to increasing the value of exports from Malian livestock. These can be summarized under three principal challenges: accelerating production to assure an exportable surplus, increasing the efficiency of marketing , and increasing economic value added in processing.

Dissemination and Utilization:
The results of the study were presented at the Eager semiannual workshops in Ghana (1997), Uganda (1996), and Tanzania (1997), and at the Washington conference in July 1996. In addition, summary results were presented at a conference on policy analysis in Senegal in 1998 sponsored by the APAP project. Final results were the subject of a roundtable organized in Mali in November 1998. Recommendations from this roundtable regarding the need for further policy studies on animal feeds were accepted and incorporated into ATRIP I. Some of the recommendations from these studies led to recent policy changes regarding the market for cottonseed and cottonseed cake; other recommendations have been taken up by the Livestock and Meat Federation as part of their lobbying efforts, supported by ATRIP II.

A Research Report and two Policy Briefs were published in 1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Gemstone and Gold Marketing for Small Scale Mining in Tanzania

Type of Study: Country Study

Countries: Tanzania

EAGER/TRADE consortium member institution(s): International Business Initiatives

Principal/co-principal investigator(s): PI: Lucie Colvin Phillips, IBI

African collaborating institution(s):
Economic and Social Research Foundation
Tandiscovery

African collaborating researchers:
Haji Semboja and Godius Kahyarara, ESRF
Roger Sezinga, Tandiscovery

Research Supervision Committee Members:
Grey Mwakalukwa, Commissioner of Mines
Samuel Wangwe, ESFR, Director
Samuel Lwakatare, Chamber of Mines, Chairman

Date fieldwork initiated (approx.): January 1997

Study completion date: September 2000

Abstract/State of project:

The substantial economic potential of Tanzania's mining industry is gradually being appreciated since the country began liberalizing and privatizing the sector a decade ago. As mineral exports largely pass invisibly through what can mildly be called informal channels, official statistics seriously under-estimate the current economic benefits from the sector. Officially, mining accounts for less than one percent of GDP. This study tested the value of GDP generated by mining using all three methods for calculating GDP.

A number of recent studies have surveyed artisanal mining activity and explored its regulatory framework, policy issues, and environmental issues, but none has dealt adequately with marketing. Yet marketing is known to involve smuggling of most minerals out of the country through export markets in Kenya and occasionally through other neighbouring countries. The policy implications of this situation have been unclear, and thus this study focuses primarily on that aspect.

. Funded under the Africa-wide USAID Equity and Growth through Economic Research Program, (EAGER), the study aimed at exploring a sector with substantial economic growth, troubling policy issues, and major implications for future socioeconomic equity. The study methodology began with a commitment to maximize policy impact by working from the start under a Policy Advisory Committee. The Committee, comprising public and private sector representatives, advised the team on policy and geographic priorities. As mineral marketing involves tax evasion, a direct survey using questionnaires was not feasible for the field work. The team therefore used rapid appraisal techniques and informal, semi-structured interviews to trace the activities at every level of the marketing chain. This allowed the team to estimate the proportions of commodities following different routes and to understand the logic of the participants. The price data provided was used to analyse the relative benefits gained by Tanzania and Kenya from the trade in the north. Only the northern half of the country could be covered with the one-year grant available. Thus, the major gem rush area in the south, where 250,000 miners were active by 1995, remains for further study.

The employment and income effects of mineral liberalization have been striking. The numbers employed at least part-time in mining have increased from a few thousand in 1990 to 330,000 in 1993 and 550,000 in 1995. Their earnings are at least six times the reservation wage in agriculture, and the income pyramid extends considerably higher than in agriculture. In a country with only 1.2 million salaried jobs, this has increased the number of people with middle incomes by 46'Yo in just a few years.

Opportunities and constraints in this sector are numerous and complicated. The main opportunities for continued growth with equity are three.

(1) Preserving a balance between modem mining and artisanal mining, or, expressed another way, between capital-intensive and labour-intensive mining.
(2) Attracting more of the trade to Tanzania from current market circuits in Kenya.
(3) Promoting upstream and downstream value-added activities in Tanzania.

Attempts to levy transaction taxes, too many and at too high rates, are primarily responsible for driving trade into Kenya. Other constraints among Tanzanian dealers include insecurity, cumbersome and extremely bureaucratic procedures, and lack of information, skills, and infrastructure. The weight of historical market connections is also important, as Nairobi has been the centre of gem and gold trading in the region for decades.

The study recommends that transaction taxes be eliminated, except for royalties.

Royalties are justified to finance proper stewardship of depleting resources, if they are actually used for that purpose. They must, however, be at a bearable rate. We estimate this to be 1.1% to 1.5 % for gold and 2%-3% for gemstones.

Also recommended is the zoning of reserved mining areas for artisanal mining, with artisanal miners having second choice of reef mining sites and first choice for alluvial mining.

Dissemination and Utilization:

The preliminary and final results of the study were presented at the Eager semi-annual workshops in Accra (1997) and Tanzania (1997), as well as at several roundtables in Tanzania. The results were utilized in the reform of Tanzanian tax policy in the mining sector.

A second phase of the study is being financed under the African Trade and Investment Program. One Policy Brief has been published. A Research Report, Discussion Paper and a second Policy Brief are expected to be published by September 2000.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Ghana: Cross-Border Trade Issues

Type of Study: Country Study

Countries: Ghana

EAGER/TRADE consortium member institution(s): International Business Initiatives

Principal/co-principal investigator(s): PI: Gayle A. Morris, IBI

African collaborating institution(s): University of Ghana at Legon

African collaborating researcher(s): John Dadson, University of Ghana at Legon

Research Supervision Committee Members:
Tawia Akyea, Ghana Export Promotion Council, Executive Director
Haldane-Lutterodt, Ministry of Trade and Industry, Chief Director
Victor Selormey, Ministry of Finance, Deputy Minister
Kwabena Duffour, Bank of Ghana, Governor
JK Richardson
Kwesi Abeasi, Private Enterprise Foundation
G.D.Quamsah, FAGE, Executive Director
Dr. Kuranchie, Agricultural Development Bank, Director
Betty Mould-Iddrisu, COSIGA, Executive Secretary

Date field work initiated (approx.): March 1997

Study completion date(s): August 1999

Abstract/State of Project:

In this research the authors examine the socio-economic relationships that traders utilize to circumvent government obstacles to cross-border trade. The authors conclude that the trade liberalization reform efforts by the Government of Ghana in the 1990s were successful in increasing cross-border trade in general between Ghana and its neighbors, and in increasing the trade of non-traditional exports in particular. The Government of Ghana should build on these trade liberalization efforts by pursuing reforms in the following areas:

- evaluate the rationale for, and frequency of, inspections/roadblocks which impede cross-border trade and increase the costs of cross-border trade;
- increase border cooperation focusing on streamlining procedures to avoid unnecessary unloading and re-packing at border exit/entry points;
- encourage uniform application of existing ECOWAS treaty regulations/procedures;
- strengthen female trader associations.

This 1999 study is part of the EAGER Trade Regimes and Growth research that explores barriers to cross-border trade. Five commodities (iron rods, tomatoes, maize, salt, aluminum cookware) and three border crossing points (Bawku area, Aflao, Elubo) are examined in the research. A structured questionnaire was administered to a convenient sample of formal and informal traders to obtain information on traders' modes of operation. Additionally, a regression model was utilized to estimate total (recorded plus unrecorded) commodity flows. The estimation procedures relied on "experts" (people with specialized knowledge of cross-border trade flows) to provide data using a relatively low-cost methodology to obtain information on total cross-border trade flows. Additionally, a regression model was utilized to estimate total (recorded plus unrecorded) commodity flows. The estimation procedures relied on "experts" (people with specialized knowledge of cross-border trade flows) to provide data using a relatively low-cost methodology to obtain information on total cross-border trade flows.

The Government of Ghana should build on these trade liberalization efforts by coordinating with regional trading partners to streamline border crossing procedures and the uniform application of ECOWAS treaties. The most critical action requiring immediate attention by the Government of Ghana is the evaluation of the current roadblock and inspection policies which impede cross-border trade, and increase the costs of this economic activity. Currently these policies are implemented by a plethora of government ministries and institutions. One policy which rationalizes these activities is required, and only the Government of Ghana can enact it. Historically in Europe, the removal of the medieval roadblocks between principalities marked the beginning of an economic Renaissance. A similar flowering of trade could follow their elimination in Ghana specifically, and Africa generally. Additionally, associations that target female traders should be strengthened by regional or local private sector organizations.

Dissemination and Utilization: Preliminary results were presented at the EAGER semi-annual workshops in Tanzania (1997) and Dakar (1998). A Research Report, Discussion Paper and Policy Brief were published in the first half of 2000. A roundtable is being scheduled for Ghana in early 2001.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER) TRADE REGIMES AND GROWTH

Study title:
The Political Economy of Trade Liberalization: the Case of Vanilla in Madagascar

Type of Study: Country Study

Countries: Madagascar

EAGER/Trade consortium member institution: AIRD

Principal/co-principal investigator(s): PI: Jeff Metzel, AIRD

African collaborating institution(s):
Centre d'Etudes Economiques, University of Antananarivo, Madagascar

African collaborating researchers
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Eric Thosun Mandrar

Research Supervision Committee Members
Daniel Ramarokoto, Secretaire General Technique de l'Ajustement Sectorielle
Claude Andreas, President of the Groupement des Entreprises de la Région SAVA

Date fieldwork initiated (approx.): Madagascar: January 1997

Study completion date: May 1999

Abstract/State of the Study:

The past decade in Africa has witnessed a succession of efforts to reform macroeconomic, sectoral and trade policy. Madagascar was one of the first, and for a while most acclaimed, examples of this "structural adjustment" process. However, as elsewhere in Africa, many anticipated benefits of these reforms have not been forthcoming in Madagascar. In particular the supply response to measures to liberalize markets and trade has not achieved expectations in the period since domestic markets for agricultural products were liberalized in the mid-eighties.

Ironically, vanilla was the only crop for which market liberalization did not occur in this period. Rather, because of Madagascar's natural advantages and large share in world production,

it continued to pursue a restrictive export policy that sought to raise the world market price for vanilla. Moreover, export restrictions were complemented by internal market regulation, which served to hold producer prices down to discourage over-production.

Reform of the vanilla market has been a continuing struggle in the face of the still powerful role held by those who benefited under the former market-controlled structure. The particular issue of this study is to understand the political economy of this reform process and to develop a model which explains how supply response to liberalization has been constrained by these political-economy constraints. Four specific research issues frame the study, they are:

1. To what extent have vanilla market reforms taken effect in reality?

The literature on trade and market liberalization stresses the importance of differences between official adoption of reforms and their effective implementation on the ground. The privatization of the vanilla marketing parastatal (IVAMA)--and its relinquishment of control--is a case in point. There is also confusion among actors in the sector as to how export tax reforms are being implemented. Evidence that effective taxation is very low suggests that implementation is either poorly designed or badly implemented.

2. How have costs and financial incentives changed at each level of actors in the export chain?

The expectation is that trade liberalization will have reduced marketing and processing costs in the vanilla sector by increasing the level of competition among intermediaries. At the same time, however, the potential loss of economies of scale, and inefficiencies due to a general breakdown of services that may have accompanied the transition from a controlled market to a free market may have raised costs. Lastly, to the extent that many anticipated reforms have not actually taken place, (see 1 above) many expected changes in the market structure and therefore in costs many not yet have occurred.

3. What has been the performance of the vanilla sector since liberalization?

Econometric models developed in Metzel and Stryker (1994) predicted a strong resurgence of exports, despite a moderate reduction in world prices that would accompany a total liberalization of the vanilla sector in Madagascar. However, there has been no systematic analysis of the actual effects on the sector of the trade liberalization measures that have been taken since 1994. In this regard, two competing hypotheses will be examined with regard to supply response since liberalization:

- Supply response since liberalization has been influenced by changes in producer incentives.
- Structural factors in the internal market have influenced supply response. These factors include: the isolation of production regions from world markets, economies of scale in processing and stocking, the scarcity of capital necessary to finance vanilla exports, continuing power by interest groups, which have distorted the impact of policy reforms on producer incentives.

4. How does the structure of the international market for vanilla constrain the forms of

liberalization which can take place in domestic policy?

As the largest exporter of vanilla, Madagascar, is in a unique position to influence world prices for vanilla, at least in the short run. At the same time, there are only a few important vanilla importers who may also hold power in the market. This raises the question of whether liberalization of the domestic market may actually weaken Madagascar's position with respect to these buyers. Two nonexclusive hypotheses will be examined in this regard:
The export quotas established by the "*Alliance de Vanille*" to sustain world prices imposed an internal quota system on the domestic Malagasy vanilla market. This system resulted in a strong concentration of the market in the hands of a few exporters. These exporters have retained control of the internal market and are still able to hold down prices to producers. Due to the collapse of the "*Alliance de Vanille*" and the proliferation of sellers, buyers are now in an oligopsony position against a competitive selling market. The presence of an oligopsony among world buyers makes it advantageous for sellers to continue to negotiate as a cartel.

Dissemination and Utilization:

Preliminary results were presented at the semi-annual Eager workshop in Tanzania (1997). The draft final results were presented at the semi-annual Eager workshop in Senegal. A roundtable was held in Anatala, Madagascar in October 1999. A Research Report and Policy Brief were published. The Policy Brief on vanilla was the late Dr. Metzel's final professional work, completed mid-January 2000.

EFFECTS ON TRADE OF MONETARY, FISCAL, AND EXCHANGE RATE POLICY

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Monetary and Exchange Rate Policy in Ghana

Type of Study: Country Study

Countries: Ghana

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s):
PI: Dirck Stryker
Co-PI: Charles Jebuni

African collaborating institution(s):
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Research Department, Bank of Ghana

African collaborating researchers:
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Victor Selormey, Ministry of Finance, Deputy Minister
Kwabena Duffour, Bank of Ghana, Governor
JK Richardson
Kwesi Abeasi, Private Enterprise Foundation
G.D.Quamsah, FAGE, Executive Director
Dr. Kuranchie, Agricultural Development Bank, Director
Betty Mould-Iddrisu, COSIGA, Executive Secretary

Study completion date: September 2000

Abstract/State of project:

Over the past 14 years, Ghana has undertaken extensive policy reforms designed to promote economic growth and equity by focusing the country in a more outward-oriented direction. Key to the success of this strategy has been the need to expand nontraditional exports. While some progress has been made, it has been less than what had been originally hoped for. One of the most important constraints on this expansion has been the failure to maintain a competitive real exchange rate. Explanatory factors include the large share of foreign exchange transactions passing through the Bank of Ghana (BOG) and the difficulties experienced by the BOG in trying to contain inflation in the face of strong fiscal imbalances. In addition, there is a lack of knowledge on the part of the BOG of where the real exchange rate should be, and of how monetary and exchange rate policy can be employed to keep it there.

The research proposal sets out a research project designed to assist in understanding better the functioning of the foreign exchange market and the impact that major participants in that market, especially the Bank of Ghana, have on the real exchange rate facing exporters and importers. The proposal begins with a review of the evolution of the foreign exchange market in Ghana over the past decade and a half -- from a time in which foreign exchange transactions were heavily controlled in Ghana to the present relatively free-market regime. The review emphasizes the important role that monetary and fiscal policies have played in determining the real exchange rate. The proposal then looks at existing literature on the real exchange rate and at the issue of what is the appropriate "equilibrium" value of that rate. It also examines some of the literature on models of the monetary system that incorporate the exchange rate, concluding that the portfolio balance model is most appropriate for Ghana. The research questions and hypotheses to be investigated are presented in detail, followed by a discussion of the methodology to be employed. The final products of the study are described, and the target audience is identified.

Dissemination and Utilization:

Preliminary results were presented at the Eager semi-annual workshops in Accra (1997), Tanzania (1997), Johannesburg (1998), and Dakar(1998). The study is tightly integrated into the work program of the Research Department of the Bank of Ghana. Two members of the research team, Joe Abbey and Charles Jebuni, sit on the Board of Directors of the BOG.

A Discussion Paper on "Dollarization and its Implications in Ghana" was published mid-1999. A second Discussion Paper and a Policy Brief were completed during Dr. Jebuni's visit to the United States, May to June 2000. A roundtable is being scheduled for Ghana sometime after the presidential elections in December 2000.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER) TRADE REGIMES AND GROWTH

Study title:

Trade Liberalization in Kenya

Type of Study: Country Study

Countries: Kenya

EAGER/TRADE consortium member institutions(s): HIID

Principal/co-principal investigator(s): PI: Graham Glenday

African Collaborating Researcher(s): Mwaniki Associates, Harris Mule.

Study completion date: early 2000

Abstract/State of project:

This three-paper study analyzes the effect of trade liberalization on (i) economic growth, (ii) custom revenue generation; and (iii) the performance of export platforms in Kenya. Kenya had a closed economy through the 1980's, before it began instituting trade liberalization and price controls starting in 1987, with liberalization reaching a peak in 1993-94. The key finding is that trade liberalization and openness are key prescriptions for attaining economic development.

Regarding trade liberalization and growth in Kenya, the study concluded that trade policy and the exchange rate regime have made significant impacts on Kenya's growth performance. One of the most important impacts has been the loss and regaining of the East African markets for exports. Access to the East African and regional markets has been extremely important for exports of manufactured and processed goods, with significant consequences for manufacturing investment prospects. The imposition of foreign exchange allocations by the Central Bank for all imports in 1983, later removed in 1993, were also key determinants in economic growth. These restrictions effectively constrained import demand to significantly lower levels than existed either prior to their imposition or after their lifting. When imports dropped by some 6% of GDP (1981-92), exports also fell by a similar share in GDP. The removal of restrictions on imports dramatically increased exports of manufactured and processed goods to Uganda, Tanzania and other COMESA countries. Particularly in manufactures, low cost and flexible access to imported raw materials and industrial intermediate goods is critical to export success – increased imports are essential to achieve increased exports of manufactures or merely expanded re-export trade.

As for the relationship between trade liberalization and custom revenues, developing countries typically raise more than two-thirds of their tax revenues from indirect taxes of which about half are collected through import duties. Hence, the loss of customs revenues from trade liberalization is often seen as a major stumbling block to trade liberalization, particularly where it implies a reduction in the average tariff rate on imports. The standard remedy is to recommend the imposition of consumption taxes, or raising the rates of an existing consumption tax, such as a VAT. The case of Kenya shows that customs revenue substitution by consumption taxes may not be necessary, at least in the early stages of trade liberalization. In fact, from 1994 onwards, Kenya managed to increase its customs duty yield while significantly lowering its average duty rate, through a combination of enhancement and reform in customs administration and improved voluntary compliance.

Export platforms were a key element of Kenya's new set of export promotion programs in 1987 designed to respond to a deterioration of export performance over the preceding decade. Kenya has three types of export platforms: two target export-dedicated businesses manufacturing under bond (MUB) and in export processing zones (EPZ); the third is the EPPO program, a generalized and flexible export support program providing import duty exemptions for imported inputs into the production of exports and duty free goods for the domestic markets. Of the three, the EPPO program has been the most important, averaging 35% of total exports for 1993-98. It is noted, however, that the East African Co-operation and COMESA trading partners have committed to phase out export incentives from regional trade within 5 years. In addition, tariff reduction has eroded the incentives from the program substantially. The attraction of the program will continue to diminish as further tariff reductions are implemented. However, given their flexibility, such programs will continue to have a role in (a) supporting direct and indirect exports outside the region, and (b) removing negative protection from the duty free or exempt goods produced for the local market. This flexibility arises from its ability to deal with businesses producing for both local and foreign markets simultaneously, from its lack of special income tax or other capital investment incentives, and because it is accessible to producers outside the strict limits of the manufacturing sector, such as mining and agriculture, which are typically excluded from export-dedicated platforms.

Dissemination and Utilization: The findings from this research were published in 3 Policy Briefs and 3 Discussion Papers in 1999 and 2000. The work was also discussed at the October 1999 EAGER All-Africa Conference in Gaborone and at the workshop in Kenya in January 2000.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Trade Taxes and Producer Incentives in Ghana

Type of Study: Country Study

Countries: Ghana

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Dirck Stryker

African collaborating institution(s):
Center for Economic Policy Analysis
CEPS
Ministry of Trade and Industry

African collaborating researchers:
Nii-Noi Ashong, Ph. D. (Senior Researcher, CEPA)
Franklyn Sackey, Deputy Commissioner for Research, Monitoring, and Planning, CEPS
Kassim Yahya, Head of Trade Policy Analysis Unit, Ministry of Trade and Industry

Research Supervision Committee Members:

Study completion date: Study was terminated in mid-1999 because of the senior Ghanaian researcher was no longer available to conduct the research .

Abstract/State of project:

Ghana's economy has made tremendous improvements following the implementation of structural adjustment programs after 1983. Policy reforms associated with this adjustment included devaluation and adoption of a flexible exchange rate, trade liberalization, and reduction of the role of the public sector in production. They effectively opened Ghana to the international market, increasing the volume of traditional exports (gold, timber, and cocoa) and creating incentives for producers in the nontraditional export sector.

Although the export sector has expanded considerably in recent years, several factors have generated a strong bias against exports. Among the most important of these is the magnitude of taxes on trade collected for revenue, if not protective, purposes. Revenues from import, export, sales, and excise taxes on international trade amount to almost one-half of total government tax revenue. Even if these taxes are maintained primarily for revenue and not for protective purposes, they induce a strong bias in favor of import substitution and away from exports. In addition, the production of nontradable goods and services is encouraged at the expense of exports because of overvaluation of the exchange rate resulting from taxation of imports.

The situation is made more complicated by a number of other factors;

1. Only a limited number of larger firms avail themselves of the opportunities that exist for tax relief on inputs used in the production of exported goods. There is a bias against smaller exporting firms and domestic producers of inputs used in the production of exports.
2. Tax exemptions on imports result in an erosion of tax revenues and adversely affect the elasticity of revenues with respect to the tax base.
3. Sales and excise taxes are not necessarily neutral with respect to trade. Trade is more easily taxed than is domestic production, especially for smaller firms, and this tends to increase the protective effect of the indirect tax regime beyond that resulting from import and export taxes.
4. The Ghanaian tax system is not well diversified and this is affecting its buoyancy.
5. Non-tariff barriers are still present in the tax regime.

More generally, the current tax system in Ghana, while considerably improved over the past few years in terms of reduced complexity and increased efficiency, nevertheless still suffers from its inability to generate adequate revenues for the government at the same time that it biases producer incentives in ways that are not conducive to economic growth. One is the bias against exports. Another is the tendency, because of problems of tax administration, to overtax the formal urban sector and undertax much of agriculture and the informal urban sector There is a need to assure that taxes have as little distortionary effects as is possible. This is generally achieved by keeping rates low and relatively uniform. Second, tariff rates should be as neutral as possible with respect to trade

Issues of diversification, growth in the tax base, and rationalization of the fiscal regime, e.g., to reduce cascading, can be addressed with the imposition of a value added tax (VAT). A VAT should be uniform (imposed both on domestic and imported goods), with a low rate (between 10 and 15%), and should avoid as many exemptions as possible. Exemptions from taxes on inputs used in the production of exports must be part of the fiscal regime.

Dissemination and Utilization: There are some project materials. A preliminary report was presented at the semi-annual workshop in Accra in 1997.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Monetary and Exchange Rate Policy in Uganda

Type of Study: Country study

Countries: Uganda

EAGER/TRADE consortium member institution(s):

Principal/co-principal investigator(s):
PI: Marios Obwona, Economic Policy Research Center
Co-PI: Policarp Musinguzi, Bank of Uganda

African collaborating institution(s):
Economic Policy Research Center, Kampala, Uganda
Bank of Uganda

Research Supervision Committee Members:
Management of Bank of Uganda

Currently planned study completion date: *August* 2000

Abstract/State of project:

The study attempts to examine the importance of the 'fundamentals' in real exchange rate determination and to assess whether the exchange rate is affected by monetary policy and whether these effects are permanent or transitory.

The study is an empirical one and first estimates the real exchange rate and investigates whether deviations from the equilibrium real exchange rate are correlated with an expansionary monetary policy or disturbances in the money market. A model where the nominal exchange rate is explained by money supply, domestic price level, domestic output and the level of real exchange rate misalignment is specified and estimated.

Questions addressed by the study include: How do you balance the inflation objective with the export sector competitiveness objective? Do monetary shocks have any effect on the real exchange rate? Is there a long run relationship between nominal money supply and the nominal exchange rate, and do shifts in exchange rate regime have any effect on this relationship? Has monetary policy in Uganda been consistent with the target of achieving international competitiveness?

Dissemination and Utilization:

Report presented at the Johannesburg workshop, February 1998. The study is part of the work program of the Research Department, Bank of Uganda. The head of that Department is Co-Pi. He has subsequently been named as Executive Director for Research, the #3 post in the Bank of Uganda, in part due to the success of his economic work with the project. A Policy Brief and a Discussion Paper were completed mid-2000.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Fixed versus Flexible Exchange Rates in Africa

Type of Study: Desk Study

Countries: Africa

EAGER/TRADE consortium member institution(s):

Principal/co-principal investigator(s): PI: Anatolie Amvouna

Study completion date: July 1998. Update completed November 1998.

Abstract/State of project:
The purpose of this study was to assess the economic performance of African countries according to their exchange rate regimes. The methodology was based on the estimation of an empirical growth model. The model controlled for labor productivity, investment share, initial income per capita, and changes in the external environment (i.e. terms of trade and real exchange rate). The membership of a specific group of the exchange rate regime was represented by a dummy variable.

Within fixed exchange rate regimes, the study distinguished: monetary unions, currencies pegged alone to a single money, and currencies pegged to a basket of money or to the SDR. Countries with floating exchange rate regimes were divided into two groups: managed floating and independently floating. Estimated results revealed the inherent costs of the monetary union membership, in terms of the rate of growth of real GDP or income per capita, while all the others performed better. In other words, low inflation monetary unions did not offset the cost of overvalued exchange rates. Countries with un-pegged currencies benefited from the real effective exchange rate adjustment, mainly the managed floating exchange rate regime countries. For the group of countries that switched to more flexible exchange rate regimes, the subsequent adjustment in the level of the real exchange rate helped to increase the rate of growth in the export share.

The main recommendation, accordingly, is that African countries with fixed exchange rate regimes should liberalize or manage their exchange rates in order to improve their economic growth. Flexible exchange rate regimes are revealed to be superior to fixed ones. But a devaluation of the national currency at the right moment is equivalent to floating.

Dissemination and Utilization:

The results of the study were presented at the Eager semi-annual workshops in Accra (1997), Tanzania (1997, and Johannesburg (1998). An update of the study, including comments on the impact of the EURO on the CFA zone, was presented at the semi-annual workshop in Dakar (1998).

- A Discussion Paper and a Policy Brief were published mid-1999.

NEW OPPORTUNITIES FOR AFRICAN TRADE AND INVESTMENT

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Manufacturing Competitiveness and the Structure of Incentives in Mali

Type of Study: Country Study

Countries: Mali, Ivory Coast

EAGER/TRADE consortium member institution(s):
Centre de Recherche en Economie et Finance Appliquees, Universite Laval, Canada

Principal/co-principal investigator(s):
PI: John Cockburn, CREFA
Co-PI: Eckhard Siggel, Concordia University, Canada

African collaborating institution(s): Ecole Nationale d'Administration, Mali

African collaborating researchers:
Mali: Massa Coulibaly, ENA
Dabitao Kassim and Mamadou Tangara, Mali
Ivory Coast: Oussou Kouassy, Bohoun Bouabre, and Felicien Tebili

Research Supervision Committee Members:
Nafissatou Konare, Direction National des Affaires Economiques
Mr. Abdoulaye Touré, Ministry of Rural Development
Mr. Hamadaou Sylla, Directeur general KOUMALIM Ltd
Dr. Mantala Coulibaly, Conseilleur Technique, Office of the Prime Minister

Date field work initiated (approx.): March 1997

Study completion date: Final Report and Summary Report: September 1998

Abstract/State of project:

Manufacturing activity in Mali remains relatively underdeveloped and lackluster despite several decades of intensive government intervention aimed at fostering its growth (especially the encouragement of import-competing industries). The poor performance of Mali's manufacturing sector indicates a lack of competitiveness, and, more specifically, an inability to produce goods of equal quality at equal or inferior costs to foreign competitors. This is true both on the domestic market and, a fortiori, on export markets. In the past, government policy has concentrated on

rendering local producers artificially competitive on the local market through protectionist trade measures and various explicit or implicit subsidies in the hope that they will increase productivity over time. This does not appear to have been the case. In the current context of trade liberalization, particularly within the region, we must examine the root causes of Mali's lack of competitiveness in order to inform and orient future industrial and trade policy reforms. This report constitutes a summary of a more detailed report available separately.

This report begins with a brief description of Mali's manufacturing sector and its economic environment: the labor and capital markets, the exchange rate, national infrastructure and government trade, fiscal and regulatory policy. Particular attention is paid to the analysis of the impacts of trade policy on the production, import and consumer price structure. We conclude from this analysis that the current tariff structure creates an anti-agricultural and pro-consumer goods bias in domestic protection. Although the average import tax rate is modest, there is considerable variation in tariff rates with particularly high tariffs on textiles and wood products. This global analysis puts into context the following analysis of the impact of trade policy on the incentives offered to Mali's manufacturing sector. An analysis of trade policy in Ivory Coast, where the principal competitors for Mali's manufacturing sector are located, shows generally similar characteristics but with a lower average tariff level.

The core of the study is composed of a detailed analysis of the degree and sources of competitiveness (or lack thereof) in the Malian manufacturing sector. We conclude that Mali has a general lack of comparative advantage in manufacturing. However, the textiles and sheet metal industries constitute exceptions and several other activities could show a comparative advantage with moderate efficiency gains: carton, printing, vegetable oil, flour and confectionery. Our analysis of comparative advantage indicates that, due to low wage rates, Mali has a greater comparative advantage in labor-intensive industries, despite distressingly low labor productivity. Indeed, its poor overall performance is partly due to a choice of capital-intensive activities, particularly for imported inputs. Comparative advantage does not guarantee competitiveness, for firms face numerous prices distortions, some of which benefit them. This is notably the case with domestic protection, which renders nearly all the Malian firms we analyzed competitive, or nearly so, on the domestic market. In the current context of trade liberalization and regional integration, our analysis shows that Malian firms are very vulnerable to outside competition, particularly from Ivory Coast. On the other hand, trade liberalization would reduce input costs, and, possibly, exchange-rate overvaluation, thereby increasing the competitiveness of Malian exports. Only the textiles sector appears in a position to potentially exploit this export opportunity. The impact of regional integration on Mali's regional export opportunities is shown to be negligible. Finally, we point out the important role played by supplier credit, which is obtainable at low or no interest, in reducing production costs.

Dissemination and Utilization:

Preliminary results from this study were presented at the EAGER workshops in Kampala (1996), Accra (1997), and Tanzania (1997). The final results of the study were the subject of a roundtable organized in Bamako in November 1998. The recommendations of this roundtable were subsequently incorporated into the ATRIP work program and were used to assist the Ministry of Industry, Trade, and Handicrafts to analyze the impact of the West African Economic and Monetary Union (UEMOA) on Malian industruy. A Research Report, a Discussion Paper, and a Policy Brief were all published in late 1998.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
International Trade Policy for the Development of South Africa

Type of Study: Country Study

Countries: South Africa

EAGER/TRADE consortium member institution(s):

Principal/co-principal investigator(s): PI: Siphiwe Cele

African collaborating institution(s):

African collaborating researchers:

Research Supervision Committee Members:
Richard Ketley, Department of Finance, Chief Director, Macroeconomic Affairs
Vivienne Lipman, Dept. of Transportation, Director of Research
Neva Magketla, Dept. of Public Administration, Deputy Director General
Guy Mhone, Dept. of Labor, Chief Director, Labour Market Policy
Theminkosi Mhlongo, Dept. of Trade and Industry, Director, Industrial Strategy and Policy Analysis Unit
Pundy Pillay,Financial and Fiscal Commissions, Staff Director
Ex-officio:
Moss Mgoasheng, Office of the Deputy President, Economic Advisor
Chair, Support for Economic Growth (SEGA) Policy Forum
Tracy Simbi, Advisor to the Ministry of Agriculture

Study completion date: July 1999

Abstract/State of project:

This study is an analysis of the structure of effective protection and domestic resource costs in South Africa by industrial sub-branch. The data used for the analysis include the most recent South Africa input-output table and the tariff regime that has been negotiated with the World Trade Organization.

Dissemination and Utilization: This study received final approval in February 1998. It was subsequently suspended due to the demands of the Principal Investigator's schedule.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa

Type of Study: Country Study

Country: South Africa

EAGER/Trade consortium member institution(s):AIRD

Principal/co-principal investigator(s):
PI: B.Lynn Salinger
Co-PI: Haroon Bhorat,
Co-PI: Diane P. Flaherty
Co-PI: Malcolm Keswell

African collaborating institution(s):
University of Cape Town
Development Bank of Southern Africa

Research Supervision Committee Members:
Clothing Federation of South Africa
Textile Federation of South Africa
Department of Trade and Industry, Office of Textiles, Clothing, and Footwear
Department of Trade and Industry, Office of Trade and Industrial Policy
South African Textile and Clothing Workers' Union, Economist

Date field work initiated (approx.): May 1997

Study completion date:
Final report: June 1999

Abstract/State of project:

This study focuses on a new opportunity for trade and investment in Africa, namely, in export-oriented textile and clothing sectors. Two issues, competitiveness and labor productivity, have been of particular focus in this study of South Africa's textile and clothing industries.

The Department of Trade and Industry, the Textile Federation, the Clothing Federation, and SACTWU agreed to an EAGER study of the policy issues involved in promoting competitiveness of the industries. A research team comprised of two American and two South African researchers was constituted, and interviews were conducted in Gauteng, KwaZulu-Natal, and the Western Cape. As of January, 1998, this research team had interviewed 103 clothing and textiles firms. These firms represent a range of sizes, product types, locations, modernity of plant, labor relations, retail channels, and dependence on exports and imports. The majority of firms do both some design and manufacture, although several CMT operations and a few design houses are also included.

Analysis has been conducted to date on two stylized firm types. Further statistical analysis of the survey is ongoing. Policy implications of the interview information are beginning to emerge. They focus around the themes of human capital development, access to capital, policy stability, and export promotion.

At this stage, there is every evidence that many South African firms are learning to compete. While firms may complain of policy instability, one clear policy message is definitely getting through. This is that South Africa, having rejoined "the family of nations" on the political front, intends to integrate its economy and its body of economic regulation with international standards as well.

While the degree of tariff reduction currently anticipated is still quite protective (effective protection, despite firms being taxed on tradable inputs, is well over 100% due to heavy nominal protection on outputs), South African firms understand that liberalization is the wave of the future, and are reacting to it in various ways. Some are quite concerned, and fear they will not survive, others are taking the necessary training, reorganization, and modernization steps to prepare not just to react but even to shape their own futures within South Africa and on international markets. For those firms seeking assistance in export market penetration, several government programs now offer resources in a spirit of partnership with the sector.

Thus, there is considerable optimism in the industry today that collaborative efforts are beginning to yield an export strategy that will be good for business in South Africa. To the extent that the message of the link between progressive use of labor by management and improved productivity and competitiveness can be communicated widely, then there is some real hope that labor may share in the gains of export orientation as well.

Dissemination and Utilization:

The preliminary report was presented at the EAGER project workshop held in South Africa February 4-6, 1998. Presentations were also made at the Clothing Federation's management committee meeting, and, at the request of the Federation, to a larger group of activist members in Cape Town. Provincial associations and the SACTWU economist were briefed as well. CloFed also suggested to the authors that further dissemination work be undertaken at the level of the South African Parliament, in order to sensitize lawmakers regarding competitiveness issues and constraints facing South African manufacturing firms, and also be carried out in further depth with the Department of Trade and Industry and with the Department of Labour. This level of outreach has not yet been realized, due to resource limitations.

A Discussion Paper reporting part of the results under the title "Learning to Compete: Innovation and Gender in the South African Clothing Industry" was published in July 1998. A Research Report, Discussion Paper and Policy Brief were all published late 1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
New Trade Opportunities for Africa

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s):
PI: Lynn Salinger, AIRD
Co-PI: Deirdre Savarese, AIRD

African collaborating institution(s):University of Yaoundé in Cameroon

African collaborating researchers: Anatolie Amvouna, University of Yaoundé in Cameroon

Study completion date: October 1996

Abstract/State of project:

This paper explores the new products, markets, and modes of trade of which African business must be aware in order to compete in the global marketplace. In addition, the authors cover techniques of market analysis and the literature on competitiveness. Trade and investment promotion experiences, including export promotion zones, duty and indirect tax exemption, drawback, and rebate schemes, foreign direct investment promotion, export and investment promotion support services, and entrepreneurship or private sector development projects, often used by governments as second-best measures in the absence of complete and effective macroeconomic and sectoral policy liberalization, are examined. Last, the paper also explores the expected effect of international trade agreements on Sub-Saharan Africa's (SSA) new trade opportunities, concluding that SSA participation in the Uruguay Round (UR) of international trade negotiations has had mixed results.

There is growing consensus that the impact of the UR on SSA will be modest and that further opening of the domestic economic environment is essential to maximize gains from the UR. Most new product opportunities will be in manufactures, since SSA agricultural exports already face relatively few tariff barriers. With regard to markets, it is expected that reductions in preferential access to traditional markets will encourage SSA producers to search out alternative export markets within the industrialized and developing worlds. Finally, new agreements with

respect to trade-related investment measures (TRIMs) and trade-related aspects of intellectual property rights (TRIPs) will affect how SSA does business in the future.

The survey concludes that SSA will have to introduce massive changes in economic and business thinking if it is to take advantage of new trade opportunities. Researchers therefore must focus on upstream issues, such as reskilling of workers, and downstream issues, such as the effect on growth, employment, incomes, distribution of incomes, consumption, nutrition, the environment (water and air quality, urban transport infrastructure), worker health and safety, etc. of expanded recourse by SSA to new trade opportunities; the impact of the UR on trade, investment, and growth; on new non-tariff forms of protection which may thwart opportunities for Africa; and on developing an African entrepreneurial sector in SSA capable of competing internationally.

Dissemination and Utilization:

This work was first presented at the EAGER conference in Washington in July 1996. It formed the basis of presentation and lively debate at the Ghana EAGER workshop in 1997. An edited version of this paper has been submitted to the Journal of African Finance and Economics for publication in a forthcoming special edition. A Discussion Paper with the results of the study was published in July 1998.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Foreign Direct Investment in Kenya and Uganda

Type of Study: Country Study

Countries: Kenya, Uganda

EAGER/TRADE consortium member institution(s): International Business Initiatives

Principal/co-principal investigator(s): PI: Lucie Colvin Phillips

African collaborating institution(s):
Economic research Policy Center, Uganda
University of Nairobi, Kenya

African collaborating researchers:
Marios Obwona, EPRC
Aloys Ayako, University of Nairobi

Research Supervision Committee Members:

Study completion date: June 1999. Project suspended due to demands on researchers' schedule by home institutions.

Abstract/State of project:

Dissemination and Utilization:
Preliminary country reports were presented at the Eager semi-annual workshop in Tanzania in 1997. Limited working papers available.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Manufacturing Competitiveness and the Structure of Incentives in Kenya and Uganda

Type of Study: Country Study

Countries: Kenya, Uganda

EAGER/TRADE consortium member institution(s): CREFA

Principal/co-principal investigator(s):
PI: Eckhard Siggel, Concordia
Co-PI: John Cockburn, Univeristy of Laval

African collaborating institution(s):
Uganda: Makarere University
Kenya: University of Nairobi

African collaborating researchers:
Uganda: Germina Ssemogerere, Makarere University
Kenya: Gerrishon Ikiara and Benjamin Nganda, University of Nairobi

Research Supervision Committee Members: TBD

Study completion date: June 2000

Abstract /State of Project:

The main objective of this project is to analyze the sources of and obstacles to manufacturing competitiveness in the two countries in view of further regional integration. In Kenya, where the manufacturing sector is relatively developed, data available for 1984 permit a comparison in time and the changes of competitiveness under various policy changes in the early 1990s. In Uganda, historical data are not available, but the newly collected data should permit us to make comparisons with Kenyan firms who are the major regional competitors.

The project has involved the design of a questionnaire and a computer programme adjusted to the specific needs of the project. Empirical results of the investigation of competitiveness in 1997/98 based on new data from manufacturing firms are not yet available, since too few questionnaires were returned by the firms in both countries. Also, in nearly all cases of returned questionnaires, the data had severe flaws that needed to be eliminated through further discussion

with the managers.

At this moment, the research team has data from 9 Kenyan and 10 Ugandan firms. Although in most of these cases some clarifications are still necessary, preliminary conclusions can be drawn after team members meet with representatives of the firms during April 1999. Data collection should also be complete by late spring 1999 and preliminary conclusions will be discussed with the team members in Kenya and Uganda, as well as with officials of the responding firms and the interested government departments. The latter objective should be realized through a meeting with the steering committees in both countries. Subsequently, the final report will be drafted to be available for the end of June 1999.

Dissemination and Utilization:

A preliminary report on the global analysis of the incentive structure in both countries, the method of analysis, and the findings based on a sub-sample was completed for the Dakar workshop in November 1998. Two Research Reports and Two Policy Briefs completed in early 2000.

REGIONAL INTEGRATION IN EAST AND SOUTHERN AFRICA

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Global Trade Analysis for Southern Africa

Type of Study : Country Study

Countries: South African Customs Union (SACU; South Africa, Botswana, Lesotho, Namibia, Swaziland), Southern African Development Community (SADC; SACU plus Angola, Mozambique, Tanzania, Zambia, and Zimbabwe).

EAGER/TRADE consortium member institution(s): Purdue University

Principal/co-principal investigator(s): PI: William Masters

African collaborating institution(s):

South Africa:
- Department of Trade and Industry, (DTI)
- Trade and Industrial Policy Secretariat (TIPS)
- Department of Agriculture (Ag.)
- Industrial Development Corporation (IDC)
- National Institute for Economic Policy (NIEP)
- University of South Africa (UNISA)
- University of Stellenbosh

Zambia:
- Ministry of Commerce, Trade & Industry (CTI)
- University of Zambia (Dept. of Economics)

Zimbabwe:
- Reserve Bank of Zimbabwe (RBZ)
- University of Zimbabwe (UZ) (Dept. of Econ., Dept. of Ag. Econ & Extension)

Other
- U.N. Economic Commission for Africa

African collaborating researchers:

South Africa:
- DTI: Themba Mhlongo, Simon Mpele, Fanie Gagiano, Ethel Teljeur
- TIPS: Rashad Cassim, Thembi Dlamini
- Ag.: Tracey Simbi, Ezra Steenkamp, Madime Mokoena
- IDC: Gerrit van Wyk, Steven Ntambi, Kenneth Guarara
- NIEP: Kennedy Mbekeani
- UNISA: Arrie Bijker
- Stellenbosch: Le Roux Burrows

Zambia:

CTI:	Daniel Mauzu
U.ofZam.	Inyambo Mwanawina, Alasford Ngwengwe

Zimbabwe:

RBZ:	Kasanda Sibanda
UZ	Rob Davies, Chrispen Sukume

Other

UN ECA	Abdoulaye Niang, Anne-Marie Bakyono, David Kamara

Study completion date: June 2000

Abstract/State of project:

This project was initiated in June 1996 with pre-proposal travel to South Africa, and was completed in March 1998. Project results include:

1. Widespread availability, including free download from the World-Wide Web, of a new database and modeling software permitting analysis of South Africa's trade relations with the rest of SADC, the rest of Africa, Europe and the world.
2. Institutional capacity-building through training of 15 South Africans, 3 Zambians and 3 Zimbabweans in the use of the Global Trade Analysis material, through an 8-day short course held in Johannesburg in January 1998.
3. A case study based on the new data to analyze the impacts of changing capital flows to and from South Africa, finding that changes in capital flows cause large swing in South Africa's real exchange rate and its internal economy, but have relatively little impact on the rest of SADC.
4. A case study of a possible SA-EU trade agreement. The key finding of this analysis is that the trade agreement's impacts depend heavily on exactly what liberalization is undertaken. Several scenarios actually reduce economic efficiency in South Africa, but a widespread liberalization could lead to large gains.

Dissemination and Utilization:

Project results were presented and discussed at the EAGER semiannual meeting in Johannesburg, South Africa by the P.I. and two African collaborators in February 1998. Two Policy Briefs and a French-original Discussion Paper, intended for a French academic journal, were published between mid-1999 and mid-2000. Final Report submitted June 2000.

Subsequent dissemination activities involved incorporation by David Evans of intra-SADC trade data into the GTAP model, which will permit extensive utilization of the model by SADC members. The model will also be used in the September 2000 Regional Symposium sponsored by South Africa's Trade and Industrial Policy Secretariat.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Regional Integration and Cooperation in Sub-Saharan Africa: Are Formal Trade Agreements the Right Strategy?

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): Harvard Institute for International Development

Principal/co-principal investigator(s): PI: Steven Radelet, HIID

Study completion date(s): Final Report: May 1997

Abstract/State of project:

This paper examines the potential for success for trade-focussed regional integration agreements in sub-Saharan Africa, with a particular focus on southern Africa. The paper surveys the existing literature on regional integration, and attempts to distill the most relevant lessons about success and failure for the current integration initiatives in the region. It finds that there is little reason to expect significant economic gains from formal trade agreements at this time. Such agreements, in and of themselves, are unlikely to yield appreciable benefits unless they are preceded by decisions within member countries to follow more general open trade strategies. Indeed, it is possible that they could be detrimental to the economies involved, either because they might encourage import substitution on a regional basis (as has happened in the past) or simply because they absorb scarce administrative and financial resources.

More open trade policies coupled with more disciplined fiscal and monetary policies (and hence more economic stability), perhaps augmented by regional cooperation efforts on transportation and communications infrastructure, appears to be a more promising initial strategy.

Dissemination and Utilization:

This paper was presented at the Washington EAGER conference, July 1996.
A Discussion Paper was published by HIID.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Modeling Electricity Trade in Southern Africa

Type of Study: Country Study

Countries: Botswana, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe

EAGER/TRADE consortium member institution(s): Purdue University

Principal/co-principal investigator(s):
William A. Masters, Purdue University
F. T. Sparrow, Purdue University

African collaborating institution(s):
BPC, Botswana
EDM, Mozambique
NamPower, Namibia
Eskom, South Africa
SEB, Swaziland
ZESCO, Zambia
ZESA, Zimbabwe
Zimconsult, Zimbabwe

African collaborating researchers:
B.R.F. Moore and M. Badirwang, BPC
Mario Houane, EDM
Udo HE.Kleyenstuber, NamPower
Ferdi Kruger, Eskom
Bongani Mashwama, SEB
Roland Lwiindi, ZESCO
Alison Chikova, ZESA
Peter B. Robinson, Zimconsult

Research Supervision Committee Members:
Southern Africa Power Pool Planning Sub-Committee
Chair: David Mazikand

Date fieldwork initiated (approx.): Feb. 1997 (pre-proposal travel)

Currently planned study completion date(s):

A final report on first year activities was circulated in March 1998.
An interim report on second-year activities was circulated in September 1998.
A final report on second-year activities was circulated in February 1999.
Activities authorized to continue through September 2000.
Principal Investigators requesting authorization for no-cost extension to continue through March 2001.

Abstract/State of project:

The first year of work (1997-98) focused on the potential gains from trade reforms using existing electricity generation and transmission infrastructure. To estimate the effects of reform, a model of the SAPP electricity grid was constructed, in close collaboration with the members of the SAPP planning subcommittee and analysts from each member utility. Initial visits by Purdue staff to Southern Africa were followed by a 15-day modeling workshop at Purdue in August-September 1997, attended by a dozen representatives of nine SAPP utilities. The data and modeling approach were finalized during the workshop, and subsequent model results indicated that total gains from reforms were on the order of US$70-100 million per year.

A second year of activity (1998-99) has been funded by USAID/Washington, using ATRIP funds as a buy-in to EAGER/Trade, to assess the gains from investment in new infrastructure in the context of liberalized trade. A modeling workshop to implement the required analysis was held in Cape Town, South Africa, in June-July 1998. This workshop was attended by 23 delegates from nine countries (Angola, Botswana, DRC, Mozambique, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe), plus six course instructors from Purdue and an additional seven instructors from South Africa participating in the course. Final results from the data and modeling approach developed during the workshop will be available by early 1999.

Dissemination and Utilization:

These findings were presented and discussed at the EAGER semiannual meeting in Johannesburg, South Africa, in January 1998 by the P.I. and one of the African collaborators. Study results were debated in other forums over the subsequent months, leading to widespread interest in implementing trade reforms. The second-year report was circulated in February 1999. A Research Report (the SAPP Users Manual), Discussion Paper and Policy Brief were published in 1999.

The long-term power-sharing model was widely utilized at the Southern Africa Power Pool (SAPP) workshop held in Cape Town in July 2000. Enthusiasm for the model was sparked by the development under EAGER of a Windows interface. The South African utility ESKOM is using the model for the SAPP 20-year pool plan. Work under this project will be presented by Purdue University at the SAPP management meeting in February 2001.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
West Africa Electricity Project

Type of Study: Country Study

Countries: The 14 ECOWAS members: Benin, Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo

EAGER/TRADE consortium member institution(s): Purdue University, AIRD

Principal/co-principal investigator(s):
Daniel J. Plunkett, AIRD
Brian Bowen, Purdue University
F. T. Sparrow, Purdue University

African collaborating institution(s):
ECOWAS Secretariat.
National energy ministries for 14 countries.
National electrical utilities for 14 countries.

African collaborating researchers:
Amadou Diallo, ECOWAS Secretariat
Djibril Salifou, Benin
Daouda Kane, Mali
Dr. Kwame Ampofo, Ghana

Research Supervision Committee Members:
Frank Ofei, ECOWAS Secretariat
Mike Enders, USAID/West Africa Regional Program
David Dod, USAID/Washington

Date fieldwork initiated (approx.): October 1999

Currently planned study completion date(s):
A data collection workshop was held in Ghana in March 2000.
A modeling and training workshop are to be held in Lomé in September 2000.
A final report on first-year activities will be circulated in September 2000.
Activities expected to be authorized to continue through September 2001, including workshops in January 2001 (in collaboration with the World Bank) and September 2001.

Abstract/State of project:

The first year of work (1999-2000) focused on data collection for the modeling activity and also on laying the groundwork for the ECOWAS member countries to make use of the research findings to further development of their West African Power Pool. The modeling demonstrates the potential gains from trade reforms using existing electricity generation and transmission infrastructure. To estimate the effects of reform, a model of the WAPP electricity grid is being constructed, in close collaboration with the ECOWAS Secretariat and ministry and utility representatives from each member country. Training activities have included data collection training in Ghana for the researchers, followed by a 10-day training activity at Purdue in August 2000 for the key ECOWAS Secretariat official. The data and modeling approach are to be finalized during the workshop, and presented during the September 2000 workshop for the ECOWAS member country ministries and utilities. A plan of action is to agreed at that time.

A second year of activity (2000-2001) is expected to be funded by USAID's West Africa Regional Program, using ATRIP funds as a buy-in to EAGER/Trade, to assess the gains from investment in new infrastructure in the context of liberalized trade. A workshop to be held in conjunction with the World Bank is planned for January 2001, focusing on the lessons learned from the Southern African Power Pool. A second workshop is to be held in September 2001 for ministry and utility officials. Additional activities include supporting the conceptual development of the Project Development Committee of the West Africa Power Pool and working to augment the analytical capacity of regional research and service institutions.

Dissemination and Utilization:

The findings from the initial modeling research are to be presented and discussed at the September 2000 training workshop at the ECOWAS Center in Lomé, Togo.

A Discussion Paper and Policy Brief were completed in mid-2000.

CHALLENGES TO TRADE

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Lessons from East Asia for Promoting Trade in Africa

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Karen Engel

Study completion date(s): April 1996

Abstract/State of project:

This paper examines alternative views of the relevance of the East Asian experience for promoting trade in Africa, especially from the perspective of the role of the state. The neoclassical school sets out the reasons why an outward-oriented strategy in East Asia contributed to economic growth. These include efficient resource allocation based on comparative advantage, exploitation of economies of scale, and exposure to international competition so as to induce technological change. Among the policies essential for this to occur were stability and realistic valuation of exchange rates, free access by exporters to world markets, and absence of incentives biased against exports In addition, relatively free labor and capital markets were also important. Government's major role, according to the neoclassicists, was providing a stable macroeconomic environment, facilitating access to information on export markets, keeping real interest rates positive, investing in and maintaining infrastructure, and providing education and training for the work force.

The statist approach argues, on the other hand, that governments in South Korea and Taiwan intervened quite extensively in their economies through competitive, performance based financial and fiscal incentives that favored export growth in selected industries at the same time that import substitution was also encouraged, especially for inputs feeding into the production of exports. These interventions were successful because of the high quality of the bureaucracy that administered them, the absence of strong political and interest group pressures, and the political legitimacy of the elite, which was to a large degree based on economic success. Peter Evans refers to the East Asian state as being embedded in a set of social ties that binds it to society and provides channels for continued re-negotiation of goals and policies. This contrasts with the short-term clientelism and rent-seeking behavior that too often characterize African, and even Southeast Asian, societies.

The appropriate role of government in East Asia, according to the World Bank's market-friendly strategy, has been to assure adequate investment in education, to provide a competitive business climate, to maintain openness to international trade, and to provide stable macroeconomic management. The Bank acknowledges, however, that the nations of East Asia have used a variety of policies, some of which have been more interventionist than others. Nevertheless, the Bank argues that East Asian success with "picking the winners" failed to guide industrial development along paths that it would not have taken if it had been guided by market forces alone. Regardless of the role of the state in furthering outward-oriented growth, the World Bank argues that East Asian exports have contributed to sustained growth by interacting with human capital to help these economies adopt and master international best practice technologies. Yet questions have been raised concerning the empirical validity of the East Asian miracle based on data suggesting that much of the growth has been due to factor accumulation rather than to increases in total factor productivity. This accumulation occurred because of large increases in savings rates, growth in labor force participation rates, and a shift of labor out of low productivity agriculture and into higher productivity industrial production. If growth in total factor productivity has not been much higher in East Asia than in other developing countries, a finding disputed by the World Bank, doubt is cast on the thesis that outward-oriented growth leads to large increases in productivity.

The new institutional economists argue that growth in East Asia has been greatly facilitated by a type of quasi-internal organization that permits close cooperation and the sharing of information between government and enterprises. This has resulted in a substantial reduction in bureaucratic, legal, and other transactions costs. Partly as a result of the state-versus-market debate, the emerging consensus has been to view East Asia as a continuum of development strategies, with a common denominator of stable macroeconomic environments, realistic exchange rates, and flexible and responsive factor markets. In looking at the relevance for Africa, there is a tendency to consider the experience of the Southeast Asia countries to be more applicable than that of East Asia because they tend to be rich in natural resources, are ethnically diverse, and lack the human capital and bureaucratic capacity to manage trade in the fashion of Korea or Taiwan. To insulate exporting firms from the high cost of protection and rent-seeking, these countries have resorted to export processing zones, duty drawbacks and exemptions, and government support for marketing.

In the final analysis, there is no clear prescription for state intervention in Africa based on the Asian experience. What is clear is that where government intervention in East Asia has been successful, this has been because government leaders have seen their interests as closely identified with overall economic growth and development.

Dissemination and Utilization: This paper was disseminated at the Washington workshop, July 1996. Further work on the project, specifically, updating in order to take into account the lessons from the Asian crisis, was suspended due to demands on the schedule of the Principal Investigator's home organization.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Bringing Down Barriers to Trade: The Experience of Trade Policy Reform

Type of Study: Issue Paper

Countries: Africa

EAGER/Trade consortium member institution(s): AIRD

Principal/co-principal Investigator(s):
PI: Jeff Metzel
Co-Pi: Lucie Phillips (International Business Initiatives)

Study completion date: October 1996

Abstract/State of project:

The record of trade policy reform in Sub Saharan Africa masks substantial variation among countries and a tendency in Sub-Saharan Africa for crucial trade reforms to be stalled or reversed subsequent to implementation. Given these problems, despite a decade of intensive reform efforts, the trade environment in Africa remains constrained. Measures of the impact of reforms on the trading environment suggest that nominal protection remains high, many currencies remain overvalued, others are subject to hyperinflation/rapid devaluation and the procedures and regulations surrounding trade remain slow, burdensome and restrictive. In addition, various complementary measures, which must accompany trade reforms in order to get the beneficial economic effects of trade reform, are also missing. These include physical infrastructure, human capital (especially in technical and managerial areas), and public institutions to regulate markets, assist transactions, and provide safety, quality and other standards for transactions.

This paper begins by briefly presents definitions of trade liberalization against which the experience of reform can be evaluated and summarizing important elements of typical trade reform programs of the past decade. A second section then examines the record of reform, including the extent of reform adoption, and the degree implementation of these reforms. The third section reviews evidence of the immediate liberalizing effects of these reforms, their credibility to economic actors, and their impact on the economies of SSA. Finally conclusions regarding the experience of trade reform are identified.

Dissemination and Utilization

Presented at the Washington Conference, July 1996. Submitted for Publication to the Journal of African Finance and Economic Development. Presented in Kampala, July 1996.

A Discussion Paper with the results of the study was published in July 1998. A Policy Brief was published mid-1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
The Political Economy of Trade Policy Reform

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): International Business Initiatives

Principal/co-principal investigator(s): PI: Lucie Colvin Phillips, IBI

Study completion date: September 1996

Abstract/State of project:

This paper offers a new theory of the political economy of trade reform in Africa, based on an analysis of transition in economic and political culture. Economic culture, as defined here, includes: (1) mental paradigms about how an economy operates; (2) goals of economic management; and (3) the process of decision-making. African policy-makers, it is argued, operate in highly corporatist socioeconomic structures, derived from the logic of a historically agrarian mode of production and strongly hierarchical political structures. African statist economies practiced a modem version of administered trade, once common worldwide. Monetization of economies entails a paradigm shift, which imposes a new way of thinking about economics.

Meanwhile, African leaders still operate in cultures in which most people view economic management quite differently from economic reformers. The goals of market-oriented economic management focus on four points: (1) make GDP grow; (2) keep inflation low; (3) maintain a favorable current account balance; and (4) keep unemployment low.

In contrast, African economic management goals focus on:
(1) achieving growth in the loyal community of followers,
(2) ensuring that all members work and produce sufficient food,
(3) producing a food surplus and local specialties that fimnel to the top (minerals and cash crops),
(4) trading the communal surplus for luxuries,
(5) exchanging gifts and offering generous hospitality.

This disparity in economic goals helps to explain why certain reforms have been widely

resisted, notably those that involve loss of jobs, privatization of parastatals, speedy administrative procedures or liberalization of food exports. Recognizing the cultural roots of the resistance offers an opportunity to focus debate and foster change, not an excuse for delay.

Dissemination and Utilization:

This study was presented at the Washington conference in July 1996. It has been submitted for publication as part of a special edition of the Journal of African Finance and Economic Development. A Discussion Paper with the results of the study was published in July 1998.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Promoting and Sustaining Trade and Exchange Rate Reform in Africa

Type of Study: Country Study

Countries: Uganda, Senegal, Ghana, Tanzania, Kenya, Zambia

EAGER/TRADE consortium member institution(s): HIID

Principal/co-principal investigator(s): PI: Malcolm McPherson, HIID

African collaborating institution(s):

MA Consulting, Kenya
Centre de Recherches Economiques Appliques, Senegal
Research on Poverty Alleviation (REPOA), Tanzania
Makerere Institute of Social Research, Uganda
Department of Social Sciences, University of Zambia
[Collaborators in Ghana to be determined by subcontractor, AIRD]

African Researchers:

Ngure Mwaniki, MA Consulting Group
Joseph Semboja, REPOA
John Munene, MISR
Abdoulaye Diagne, CREA

Research Supervision Committee Members:

Kenya:
- Harris Mule, Tims Ltd.
- Graham Glenday, HIID
- Jimnah Mbaru, Dyer & Blair Ltd.

Tanzania:
- Benno Ndulu, AERC
- Enos Bukuku, Office of the Prime Minister
- A. J. Shah, Confederation of Tanzanian Industry

[Others to be added]

Study completion date: December 2000

Abstract/State of project:

Work is ongoing in Kenya, Senegal, Tanzania and Uganda. The Ghana and Zambia work is in the process of being organized. The Zambia work, being undertaken by Professor Catharine B. Hill at Williams College and Dr. Ndulo at the University of Zambia, involves a review of trade barriers and how to overcome them.

Dissemination and Utilization:

An overview paper by Rachel McCulloch and Malcolm McPherson was revised for presentation at the Dakar conference in 1998. Its title is "Promoting and Sustaining Trade and Exchange Rate Reform in Africa: An Analytical Framework". One Research Report was completed in early 2000 and 2 Discussion Papers and 2 Policy Briefs are still expected. There is also to be a volume with six chapters:

1. Introduction (Malcolm McPherson)
2. Promoting and Sustaining Trade and Exchange Rate Reform in Africa: An Analytical Framework (Rachel McCulloch and Malcolm McPherson)
3. Promoting and Sustaining Trade and Exchange Rate Reform in Africa: Lessons for Macroeconomic Management (Malcolm McPherson)
4. Alternative Exchange Rate Regimes for Sub-Saharan Africa (James Duesenberry and Malcolm McPherson)
5. Trade and Growth in Sub-Saharan Africa: Empirical Evidence (Malcolm McPherson and Tzvetana Rakovski)
6. Strategic Issues in Infrastructure and Trade Policy in Africa (Malcolm McPherson)

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Structural Barriers to Trade in Africa

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): Harvard Institute for International Development (HIID)

Principal/co-principal investigator(s):
PI: Joseph Stern
Co-PI: Mary Kay Gugerty

Study completion date: October 1996

Abstract/State of project:

The economic performance of Sub-Saharan Africa (SSA) over the past two decades has been disappointing. The initial explanation for this poor performance focussed on deficient macroeconomic policies. However, a number of SSA countries have undertaken and sustained a reasonable measure of macroeconomic reform and still see no significant expansion in the growth of manufactured exports. This suggests that a stable, credible, and consistent macroeconomic environment may be a necessary but not sufficient condition for export growth.

This paper reviews the literature dealing with other constraints, including poor infrastructure, lack of appropriate human capital, a failure to develop a variety of export support services, and the impact of an unresponsive civil service. We conclude that while there are clearly numerous structural barriers to exports in SSA, no systematic analysis has been undertaken that would assist policy-makers in determining which constraints are most important.

Dissemination and Utilization:

This paper was presented at the Washington Workshop, July 1996.
A Discussion Paper was published by HIID.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Foreign Direct Investment and its Determinants in Emerging Economies

Type of Study: Desk Study

Countries: Africa

EAGER/Trade consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Saskia K.S. Wilhelms

Study completion date(s): January 1998

Abstract/State of project:

This study analyzes determinants of net foreign direct investment inflows in emerging economies between 1978 and 1995. Its theoretical framework is the concept of Institutional FDI Fitness, developed by the author Saskia K.S. Wilhelms based on integrative theories of foreign direct investment, portfolio investment, and development. The Institutional FDI Fitness theory stipulates that FDI is determined less by intransigent fundamentals such as population size than by institutional variables more amenable to change, namely policies, laws, and their implementation. The four institutions contributing to FDI Fitness are government, markets, education, and socio-culture.

The FDI Fitness concept is tested in an econometric cross-section across 67 emerging economies. The econometric analysis shows government and market variables as the most significant determinants of FDI inflows. Governmental fitness is reflected in (a) economic openness minimizing trade and exchange rate controls, and (b) legal and administrative equity and transparency resulting from a strong rule of law and low corruption. Market fitness is represented by high trade volume and low taxes as well as high urbanization and availability of credit and energy.

Since these determinants reduce incentives for discretionary behavior and rent-seeking, the results demonstrate that, while investors are willing to negotiate, they seek stability and transparency, preferring clear-cut and consistently implemented regulations to individual privileges gained through wheeling and dealing.

The regression analysis hence corroborates the Institutional FDI Fitness theory: how policy-makers handle institutions, policies, laws, and their implementation matters far more to foreign

direct investors than relatively intransigent factors such as population size or socio-culture. This offers every nation the opportunity to identify and expand its competitive strengths to increase its share of global foreign direct investment.

Dissemination and Utilization:

The results of the study were presented at the semi-annual Eager workshop in Dakar, Senegal, November 1998. A Discussion Paper and a Policy Brief were published in 1998 and 1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Does Africa Grow Differently?

Type of Study : Desk Study

Countries: Africa

EAGER/Trade consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Steven A. Block

Study completion date:
November 1998
First Draft of Final Report: June 1998
Final Report: May 1999

Abstract/State of project:

Most empirical studies of economic growth begin and end with a reduced form growth regression in which it is assumed that the factors determining countries' growth rates operate in Sub-Saharan Africa exactly as they do elsewhere. This paper demonstrates that several potentially important differences distinguish the growth process in Africa from that of other regions. In particular, certain policy distortions and exogenous factors are more costly to growth in Africa than elsewhere, while the growth benefits of certain reforms are more limited in Africa than elsewhere.

The analysis proceeds in two stages. In the first stage a set of equations is specified with the goal of identifying the mechanisms through which such common explanatory variables as openness to trade and institutional quality actually operate to affect growth. The goal in the first stage is thus to explain the explanatory variables in a typical reduced form growth regression. Having specified this set of equations, the second stage of analysis is to abandon the assumption that these mechanisms operate with the same parameters in Africa as elsewhere.

Allowing the African parameters to vary from the rest of the sample reveals several key differences, most of which are only apparent when one looks beyond the initial reduced form growth regression. Key differences include the following: being closed to trade is more costly to growth in Africa than in other regions; reducing fiscal deficits does not bring the same growth benefit in Africa as elsewhere; marginal returns to gross investment are lower in Africa, but returns to foreign direct investment are higher than elsewhere; population growth is more

detrimental to growth in Africa, and population growth in Africa is not reduced by increased life expectancy at birth and an increased labor force share of the population, as is the case elsewhere. In addition, investment appears to be less price-sensitive in Africa than elsewhere, suggesting that the benefits from reductions in investment price distortions may be smaller in Africa. Also, institutional quality improvements in Africa have a substantially greater impact on reducing fiscal deficits, but similar institutional improvements have substantially less impact in promoting trade reform in Africa.

The recognition that there are important differences in the mechanisms of economic growth in Africa raises more questions than it answers. This study contributes to identifying African differences, but only begins to explain them. Yet, such explanations will be essential if future efforts to promote economic growth in Africa are to be more successful than past efforts.

Dissemination and Utilization:

A Discussion Paper was published in 1999.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Pursuing the Africa Growth and Opportunity Act: Countering the Threat of Textile and Apparel Transshipment through Africa

Type of Study: Desk Study

Countries: Africa

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: B. Lynn Salinger, AIRD

Study completion date(s): October 1997

Abstract/State of project:

The *Africa Growth and Opportunity Act* (hereafter *AGOA*), now before the U.S. Congress, asserts the intention of the U.S. government to establish a free trade area with Sub-Saharan Africa (SSA). Among the measures proposed in the bill is the removal of import tariffs and quotas currently applied on imports of African textile and apparel into the U.S. and the promise not to reinstate the same through January 2007. This preferential treatment would be available to SSA countries that strongly commit to economic reform programs aimed at their integration with the world trading community.

It is the position of the EAGER/Trade project that this bill offers significant market opportunities to African manufacturer/exporters of textiles and apparel, and thus could be an important catalyst for investment, trade, economic growth, and ultimately, employment expansion and poverty reduction in the region. Overcoming U.S. industry opposition to the bill, stemming from its fears of rising illegal transshipments from Asia, is key to the success of the bill.

Opposition in the U.S. to the *AGOA* bill is voiced by certain subsectors of the American textile and apparel industry. U.S. textile and apparel manufacturers take a protectionist stance against the *AGOA*. They argue that U.S. textile and apparel employment would suffer due to a rise in legitimate imports from Africa and illegal imports from Asia, transshipped through leaky African customs regimes. *However, U.S. textile and apparel industry opposition to the bill is not uniform.* Textile and apparel importers and retailers are on record supporting the *AGOA*. Moreover, U.S. manufacturers already accept the "managed trade" concept of outward processing traffic (OPT), and some have informally indicated their willingness to consider such

an arrangement vis-à-vis Africa.

This paper argues that the U.S. Congress could enhance likelihood of passage of the *Africa Growth and Opportunity Act* by requiring third party verification by internationally reputable preshipment inspection firms of country of origin prior to shipment of textiles and apparel from Africa to the U.S. Both export visa and independent country of origin verification would be required for entry into U.S. ports. Strengthening this requirement should help to appease *AGOA* opponents in the industry and insure that African countries alone benefit from the *Africa Growth and Opportunity Act.*

Dissemination and Utilization:

This paper was prepared in response to the U.S. Congress debate on the subject, and its importance for African exporters. The paper was distributed to members of the relevant U.S. House of Representative and U.S. Senate committees debating the bill, and to the Department of Commerce's Office of Africa and Office of Textiles and Apparel. Further work on this project would depend on additional funding.

OTHER SURVEY PAPERS AND DESK STUDIES

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
Trends in African Trade

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Abdoul Barry

Study completion date(s): May 1996

Abstract/State of project:

The findings of the paper suggest that sub-Saharan Africa (SSA) has lost an important share of the world market for primary products. Even though bad weather and the dwindling terms of trade may have contributed to this decline, policy-induced factors played a more significant role in SSA's lackluster export performance. Distortions introduced by macroeconomic and trade policies made primary export products unprofitable to producers and as a result, they retracted from making the investment necessary to enhance productivity and supply. These policies also adversely affected the food subsector. They discourage domestic food production and encouraged commercial food imports and food aid to fill the gap between the declining per capita food production and the surge in food demand, resulting from the increasing population.

Macroeconomic policies geared toward import substitution and inward-looking strategies had a heavy bearing on SSA's manufacturing sector. The policy-induced distortions encouraged the creation of inefficient industries that could compete in domestic markets only, thanks to heavy protection. The inability of this sector to compete in foreign markets was compounded by the lack of technical and managerial skills that made it difficult to adapt available foreign technology to local conditions. In addition, they suffered from the lack of adequate physical infrastructure and telecommunication facilities.

The policy reforms initiated in the early 1980s to make SSA's economies more flexible and competitive have resulted in relatively efficient nontraditional export products: horticulture and labor-intensive goods. SSA can diversify into horticultural products because it has at its disposal the natural conditions to supply these products all year round without interruption, thus

making it possible to take advantage of the opportunities provided by the niche markets. Diversification into labor-intensive products is also possible because SSA's labor has become relatively cheaper than that other regions, owing to its rising labor force resulting from the increased population. Moreover, the lackluster economic performance in SSA, in contrast to economic growth in other regions, has induced declining or at best stagnating wages. However, additional factors hinder the nontraditional export products: (1) the lack of marketing finance, (2) the lack of market information system to help exporters understand the functioning of world markets for nontraditional products, and (3) a weak institutional base that contributes to high transaction costs.

The paper recommends that SSA governments invest in both human capital (formal education and on-the-job training) and physical infrastructure (transport, port, railroads, etc.), create the enabling environment to induce competition in factor and output markets, and avoid meddling in the marketing activities because the private sector is generally better equipped to response to market opportunities. Moreover, SSA governments need to focus their attention on encouraging foreign and joint venture investments to facilitate transfer of production and processing technologies to SSA. Achieving this goal means streamlining foreign investment procedures, setting up investment incentive programs, and reducing tariff and non-tariff barriers.

Trade among countries in SSA can serve a useful ground to learn how to compete in the non-African market. Yet, the level of intraregional trade is still marginal, notwithstanding the comparative advantage of different countries in different agricultural commodities. There is, however, a vacuum in comparative advantage studies in livestock and mining products. Future research in these products may shed some light on the extent to which intraregional trade may be promoted. Additional research in the manufacturing sector is also needed, on the grounds that specific bottlenecks have not been identified and that very little is known about SSA's present and future comparative advantage.

Dissemination and Utilization:

The study was disseminated at the Eager semi-annual workshop in Kampala and at the Washington conference, July 1996. A working paper is available.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

Study title:
The WTO Agreement and Financial Services in African Countries:
A Review of Policy and Research Issues

Type of Study: Issue Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): International Business Initiatives

Principal/co-principal investigator(s): PI: Michael J. Isimbabi

Study completion date(s): Final Report: July 1998. Second phase materials submitted May 2000.

Abstract/State of project:

The financial systems of most African countries are weak and underdeveloped. This hampers their ability to mobilize savings, and stimulate domestic and foreign investment. They are not able to allocate capital efficiently to foster private sector development and sustained economic growth. Reforms over the last decade have resulted in only very limited progress in the development of financial sectors.

Multilateral trade and investment initiatives such as the GATS/WTO Agreement on financial services present opportunities for African countries to build stable and well-functioning financial systems, integrate domestic financial markets with global markets, and attract foreign investment. There is also the concern, however, that globalization could result in even further marginalization. The challenge for African countries therefore is to determine how they can best take advantage of available opportunities. This study provides a review of the literature and identifies the relevant policy and research issues that need to be addressed in this regard.

The liberalization of capital flows, investment, and financial services in both developed and developing countries over the last decade has resulted in an increasingly integrated global financial system. This has presented developing countries with opportunities to attract much needed foreign capital to finance economic growth. Countries must, however, meet the challenge of creating and maintaining conducive economic, regulatory, and institutional environments that will enable them to attract and retain private capital and utilize it to foster equitable economic growth..

The African financial sectors remain underdeveloped for several reasons among which persistent financial repression; weak prudential regulation and supervision; unnecessary and harmful political control and interference; slow progress on restructuring and privatization; inadequate physical and human infrastructure; limited competition and diversification; underdevelopment of capital markets; a poor environment for private investment by financial services providers.

Foreign investment in African financial services sectors, through the establishment of subsidiaries, joint ventures, or full branches, can help to foster the development of more stable and efficient financial systems. Recent trends in global trade and investment in financial services indicate that investment in developing country financial markets by foreign financial services providers can facilitate competition that helps to bring about greater efficiency in financial services delivery.

The investment environments in most African countries, however, remain uncompetitive relative to other developing regions. The continent continues to be perceived as highly risky and therefore has been unable to attract significant diversified foreign investment. Oil, mining, power and telecommunications have dominated recent investment, all sectors that provide quick and high returns. In particular, African countries are unable to attract critical long-term capital required for infrastructure development. Firms' capital projects rarely find funding and venture capital is scarce for financing small and medium-size businesses.

In light of the emerging globalization trends, and the weak and fragile political, economic, and social environments in much of the continent, African countries face a daunting challenge with regard to developing their financial services sectors and fostering private investment. This challenge needs to be addressed with the utmost urgency and dedication, especially as Africa is still seriously handicapped by lack of good leadership and governance and poor education, health, and social welfare infrastructures. To ensure that they benefit optimally from the WTO and other multilateral initiatives on trade and investment in financial services, African countries must take the risk of formulating and implementing sound policies and strategies to open up their financial services markets. This is crucial for attracting foreign investment and building globally integrated sound financial systems. Equity considerations must be taken into account. To ensure long-term political, economic, and social stability, policies must be designed to foster equitable economic growth and improvement in the economic conditions of the poor, who constitute the majority of the African population. This requires effective financial services delivery to the private sector, including the informal sector, in areas that can have a direct impact on poverty alleviation, for example: the growth of small- and medium-sized businesses, export trade, micro enterprise development, infrastructure development, agricultural and rural enterprise development, housing and transportation.

The study argues that policies and strategies should focus on the elimination of the impediments to the proper functioning of financial systems and to private investment so as to foster entrepreneurial risk-taking by prospective financial services providers. Also essential is the determination of how the WTO Agreement and other multilateral and regional initiatives can best facilitate financial sector development and foreign investment. Countries have to study the multilateral context and determine how it affects their opportunities.

There is therefore a need for research on the following issues:

a. The prospects for the evolution of competitive environments for private investment in financial services.
b. The opportunities represented by innovations in financial services and the prospective returns to investors from investment opportunities.
c. Trends in multilateral and regional trade/investment initiatives, foreign investment, and international financial markets, and their implications for African countries
d. The experiences of other developing regions--Asia, Latin America, and Central/Eastern Europe--countries in trade/investment and financial liberalization and the relevance and applications of lessons learned to African countries.

Such research, analysis and strategic policy thinking should lead to recommendations regarding the types of financial intermediaries, innovation, and regulatory structures that are necessary for the development of a strong financial infrastructure that truly serves the countries' key economic sectors; the areas of financial services delivery in which foreign investment should be particularly encouraged; the creation of a conducive financial and investment environment to stimulate domestic and foreign investment in the financial sector and facilitate entrepreneurship and innovation in financial services; integration of domestic financial systems with international financial markets, through removal of restrictions on cross-border capital flows and provision of market access to financial services providers; and regional financial integration and coordination within the context of African regional trade liberalization and economic integration initiatives such as the SADC, ECOWAS, AEC. These have the potential to create larger integrated markets, harness resources, improve negotiating capacity and leverage in the multilateral arena, and facilitate integration with global markets; the best strategies for African countries for participation in the WTO, the OECD's Multilateral Agreement on Investment (MAI), and other multilateral agreements.

Dissemination and Utilization:

This study was presented at the Eager semi-annual workshop in Tanzania in August 1997. A Policy and a Discussion Paper are available.

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER) TRADE REGIMES AND GROWTH

Study title:
Implications for Africa of Initiatives by the WTO, the European Union and the United States

Type of Study: *Conference* Paper

Countries: Africa

EAGER/TRADE consortium member institution(s): AIRD

Principal/co-principal investigator(s): PI: Daniel J. Plunkett

Study completion date(s): Final Report: September 1999.

Abstract/State of project:

A remarkable convergence of forces is in the process of re-shaping Africa's relationship with the rest of the world. As efforts at economic integration gain ground at the regional and multilateral level, Africa's trading relations with the United States, the European Union and other partners are under the most comprehensive review since the colonial era. In this rapidly-changing global context, Africa's own prior efforts at regional integration are now re-invigorated, as the EU, for one, would prefer to negotiate the post-Lomé trade and aid arrangements with regional organizations, rather than with individual countries.

The Third Ministerial Meetings of the World Trade Organization (WTO) in Seattle at the end of 1999 heralded the start of a period of uncertainty for the 38 African WTO members. The African countries were largely left out of the fray in the Uruguay Round, to the point that African participation was "much more symbolic than real" (Oyejide, 1999). Events went differently than planned in Seattle.

As in the Uruguay Round, the upcoming WTO negotiations will aim to provide the framework in which new and innovative economic trends can thrive. Liberalization in emerging areas may provide African entrepreneurs with the opportunity to create the rapid economic growth deemed necessary to raise a substantial portion of the population out of poverty. Yet as the poorest aggregate region, Sub-Saharan Africa is most humanly affected by changes in the policies, technologies, and flows of food.

Agriculture and food are on the agenda internationally, in a much more open way than ever before. Events such as the World Food Summit, the signing of a new Food Aid Convention and international action on poverty reduction and debt relief are focusing attention on policy

coherence between agricultural trade and food security. The overarching priority is to ensure that a change in food policy among the wealthier members of the WTO does not negatively affect food security in Africa.

Dissemination and Utilization:

This study was prepared for the Eager All-Africa conference in Gaborone, Botswana in October 1999. It was distributed and discussed at the Implementation Group meeting of the Informal Network on Poverty Reduction of the Development Assistance Committee of the OECD in Paris, September 1999. A Policy Brief and a Discussion Paper were published.