BRINGING DOWN BARRIERS TO TRADE: THE EXPERIENCE OF TRADE POLICY REFORM

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ABSTRACT

The record of trade policy reform in Sub–Saharan Africa (SSA) masks substantial variation among countries and a tendency in the region for crucial trade reforms to be stalled or reversed subsequent to implementation. Despite a decade of intensive reform efforts, Africa's trade environment remains constrained. Measures of the impact of reforms on the trade environment suggest that nominal protection remains high, and that many currencies are overvalued while others are subject to hyperinflation/rapid devaluation. In addition, the procedures and regulations surrounding trade remain time-consuming, burdensome, and restrictive. Further, various complementary measures that must accompany trade reforms in order to ensure the realization of the beneficial economic effects of liberalization are lacking. They include physical infrastructure, human capital (especially in technical and managerial areas), and public institutions that regulate markets, assist transactions, and provide safety, quality, and other standards for transactions.

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

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INTRODUCTION

During the 1970s and 1980s, most countries of Sub–Saharan Africa (SSA) adopted policy priorities related to self-sufficiency, nationalization, and centralization. By the early 1980s, substantial empirical evidence demonstrated that, in comparison with more outward-oriented and liberal economies, "statist" economic policies had operated at the expense of economic growth (Bhagwati, 1978; Krueger, 1978; Balassa, 1980; Dollar, 1992). This realization brought about a period of reforms, usually undertaken through World Bank-sponsored "structural adjustment" programs that stressed the liberalization of internal markets and trade, the promotion of private initiative and investment, and the decentralization of power. The reform programs were expected to bring about substantial improvement in both trade performance and economic growth.

Despite reform programs, SSA export trade continued to fall as a share of world trade between 1985 and 1990; over the same period, real export earnings were stagnant or fell for 25 of 33 countries in the region (Svedberg, 1991). Between 1990 and 1994, annual export and import growth were positive (1.9 percent and 2.1 percent, respectively) but substantially lower than population growth for the SSA region, although only eight countries out of 39 showed healthy export growth (in excess of 5 percent) over the period (Barry and Beltchika, 1996). While observers blame SSA's poor performance on a variety of internal and external factors, a growing consensus suggests that a large share of the blame rests with the economic policy environment.

This paper examines the past decade's literature on trade policy reform in Africa and seeks to explain why reform has not yielded greater results. The discussion does not revive the debate over the merits of trade liberalization but rather takes as its point of departure the assumption that trade liberalization is the objective of policy reform efforts in Africa. This assumption is not a point of faith so much as recognition of the common direction of recent policy reform.

The paper is divided into four sections. The first briefly presents definitions of trade liberalization against which the experience of reform can be evaluated and then summarizes the important elements of the typical trade reform programs of the past decade. The second section examines the record of reform, first summarizing the extent of reform adoption and then considering the evidence of the extent of implementation of reforms. The third section reviews evidence of the immediate liberalizing effects of reforms, the extent to which economic actors found liberalization credible in changing the economic environment, and the impact of liberalization on the SSA economies. Finally, the paper draws conclusions regarding the experience of trade reform.

WHAT DOES TRADE POLICY REFORM MEAN?

Definitions of Liberalization

The definition of trade liberalization is ambiguous because of different opinions about what liberalization means and because the appropriate instruments to achieve liberalization are subject to debate. Much of this paper examines the latter issue. First, it is useful to review the characterizations of liberalization by considering two criteria often used as a measure of liberalization: trade neutrality and trade liberality (Dean et al., 1994, Thomas and Nash et al., 1991). Neutrality refers to a reduction in biases caused by policy such that incentives are equalized between exporting and import-substituting sectors. Trade liberality refers to a reduction in the restrictiveness of controls or barriers to trade regardless of the biases that may be introduced or retained. In this vein, Krueger (1978) and Bhagwati (1978) focus on the movement to price-incentive-based policies and away from quantitative restrictions or controls. In Africa, the distinction between neutrality and liberality often goes ignored because both characterizations are usually components of reform programs. Nearly all African countries have used nontariff barriers (NTBs) as well as high tariffs to maintain both a protective environment for importables and a high antiexport bias; therefore, any reforms that imply less intervention are also likely to cause a move toward greater neutrality. These two characterizations are usually consistent in Africa and thus both are retained in the discussion below as indicative of trade liberalization.

Elements of Trade Policy Reform in Africa

Trade reform programs in Africa have shared many common strategies and prescriptions, although the modalities and sequencing of their implementation have varied considerably. Borrowing from several recent accounts of trade policy reform efforts in Africa (Thomas and Nash, 1993; DeRosa, 1993; Nash, 1993; Jones et al., 1994; Dean et al., 1994), the present paper clarifies reforms by organizing them into four principal areas: reforming exchange rate regimes, removing nontariff barriers, harmonizing and reducing import taxation, and removing export restrictions.

Reforming Exchange Rate Regimes. Nearly all SSA countries have struggled with overvalued exchange rates. Before instituting reform, most countries had implemented relatively rigid exchange controls to offset chronic balance of payments problems resulting from increasing fiscal deficits. Nations systematically linked controls to import restrictions by adopting procedures that tied the rationing of foreign exchange to a system of import licensing.

Standard trade reforms such as elimination of quantitative restrictions (QRs) and reduction of import tariffs result in a reduction in import prices that leads to increased demand for imports relative to import substitutes. Increased demand, in turn, translates into deterioration in the current account of the balance of payments unless the supply of domestic money is restricted or demand increases. Devaluation is an important tool for accomplishing the latter and therefore is a typical component of trade policy reform. The combination of trade liberalization and devaluation is what Collier (1995) calls a trade-liberalizing devaluation.

Approaches to reform of exchange rate regimes have included, progressive devaluation or depreciation of the nominal exchange rate to eliminate rationing. Such adjustments, however, have typically been late, halting, and incomplete (Tanzania, Zambia, Zaire). Some countries introduced auctions to allow for market-based revisions of the rate (Nigeria, Ghana, Uganda). Of these countries, some have also authorized private exchange operations (Ghana, Nigeria). Nonetheless, private operations continue to rely on official rates to set their own margins. Another strategy used to increase access to foreign exchange has been the creation of a foreign exchange fund that is accessible to certain sectors and that depending on the size of the fund, is gradually expanded to commodities eligible for imports.

For the first two decades after independence, the countries of the *Communauté Financiere Africaine* (CFA) zone largely avoided the direct costs of rationing foreign exchange by maintaining fixed exchange rates and convertibility agreements with France. Until the early 1980s, the stability provided by this arrangement was credited with the CFA nations' superior economic performance. By the mid-1980s, however, overvaluation of the CFA Franc forced the CFA countries to introduce severe credit-tightening measures as a strategy for reappreciating the CFA Franc. The CFA nations undertook these measures at the expense of domestic investment demand and, ultimately, economic growth. In fact, capital flight and lack of competitiveness in all productive sectors eventually forced a devaluation in January 1994. Another strategy to offset the effects of overvaluation was the adoption of tax imports and the subsidization of exports. However, such a strategy has proven difficult to manage, prone to corruption, and problematic to defend before political constituencies (Nash, 1993; Husain and Faruqee, 1994).

Removing Nontariff Barriers. Regulatory restrictions, most notably import licensing schemes, have typically been used to control balance of payments problems. These schemes have been justified as a means of protecting local import-substituting industries. The logic behind the schemes was often extended to the agricultural commodities that development programs sought to promote. In practice, however, the operation of import licensing has often been highly discretionary. In particular, nontariff barriers have tended to be extraordinarily specific and designed to protect individual firms or end users. They have proven especially damaging not only because they create rampant opportunities for abuse but also because access to the goods is not guaranteed to the most productive uses.

Regulatory restrictions can take several other forms. Monopoly/monopsony positions are often granted to certain domestic firms for the distribution of some–usually "vital"–commodities (fuel, food staples) that are produced by parastatal industries. Other regulations may restrict products based on their sanitary/health or quality characteristics. For example, Ghana restricted imports of subsidized low-quality meat from Europe by imposing limits on the fat content of such meat.

Progress in eliminating NTBs often involves a shift from requiring licenses for all goods to creating open general licensing schemes (OGLs) that automatically grant certain goods approval for foreign exchange allocations. Eventually, the list of goods becomes so extensive that it leads to the creation of a "negative" list in which all goods are free except those on the restricted list (Dean et al., 1994; Nash, 1993). In practice, OGLs have not evolved to be as open or general as planned, and they frequently give rise to several adverse structural effects (Jones et al., 1994). Most importantly, domestic lobbies for local import substitutes fight to retain the substitutes on the "negative" list while freeing the inputs to their industries. In this way, domestic producers effectively increase rather than reduce the protection of import-substitutes. Moreover, the exchange funds associated with OGLs are typically supported by donors and are not linked to the demand for goods eligible for funds. As a result, funds are often rapidly depleted.

Alternative mechanisms for gradually converting to tariff-based protection include auctioning quotas, converting quotas to tariff equivalents, or using tariff quotas (Dean et al., 1994). Import quota auctions appear prone to collusion among import-competing firms that bid up the auction price of quotas to protect domestic production while tariff-equivalence approaches are subject to difficulties in determining tariff equivalents for quotas. Tariff quotas avoid the tariff determination problem by applying a low tariff rate to items that enter within quota levels but imposing a prohibitive tariff rate on items entering above the quota. The high tariff rate can then be lowered toward the lesser rate, ultimately making the quota non-binding.

Direct state control of trading and import prices has clearly receded over the last decade, although discretionary licensing of imports remains an important instrument in some countries (the recent literature mentions Angola, Kenya, Mozambique, and Tanzania as continuing this practice; De Rosa, 1993; Jones et al., 1994; Dean et al., 1994). Nonetheless, import licensing liberalization has not been sustained in all cases; Madagascar and Nigeria, for example, have reimposed licensing requirements in conjunction with reversals of exchange rate liberalization (Nash, 1993). Moreover, interest groups that had benefited from the rents created by these restrictions remain powerful in many countries; in some cases, evidence points to efforts of reversals to seek a return to the former restrictions. This observation suggests the need to develop a better understanding of the effects of import licensing liberalization and reinstatement on both the political economy and those whose rents are eliminated (see section IV).

Harmonizing and Reducing Import Taxation. Beyond providing substantial protection to local import-substituting industries, import tariff policies are designed to raise public revenue. In addition, they have the unintended effect of penalizing export commodities whose production depends on importable inputs. Dean estimates average nominal tariff levels in Africa at 37 percent before reform efforts, with the dispersion of tariffs noticeably large.

Tariff exemptions are also important to the tariff structures of most African countries, which typically grant exemptions for inputs to local import-competing industries and for agriculture. The result is an increase in effective protection, exacerbating high protection for industry but offsetting negative protection for agriculture. State-owned companies, donor-financed projects, and the diplomatic community account for almost all exemptions. While most countries reform efforts have curtailed the privilege extended to state-owned firms, only Eritrea has refused to grant duty-free status to development projects. With an across-the-board import duty of only 5 percent, however, Eritrea’s exemption has gained the acceptance of NGOs and donors.

Tariff reforms undertaken by structural adjustment programs worldwide typically follow a similar path. First, tariff schedules are simplified by reducing the number of rates, eliminating exemptions, and assigning rates according to systematic criteria (Nash, 1993; Dean et al., 1994). The criteria usually categorize commodities as luxuries, standard commodities, or basic necessities, with the respective rates applied at progressively lower levels. An intermediate step in tariff reform may call for removing NTBs and, by way of compensation, raising tariffs, thereby avoiding a strong import shock to local import-substitute-producing firms. A subsequent step then narrows the range between tariff categories, typically through a “concertina” approach that lowers maximum rates and raises minimum rates. Finally, a schedule for lowering all rates is adopted.

Nearly all African countries are still in the midst of the tariff reform process. While most have substantially reduced the complexity of their tariff structures, they have not yet significantly reduced their rates. Moreover, substantial redundancy often remains in the overall protection scheme such that formal tariff rates may be inconsequential in the face of remaining NTBs or particular exemptions. One consequence is that piecemeal removal of restrictive policies is often ineffective in lowering protection, especially given that other protective policies usually remain in place. Identifying redundancies remains an important policy task in realizing the benefits of tariff liberalization.

Another obstacle to conversion to tariff schemes from NTB regimes is the persistence of rent-seeking behavior, which results from rents created by nontariff barriers. For example, M'Wega notes that loopholes in Kenya’s tariff law undermined the tariffication of QRs and tariff reductions. In addition, Kenya’s ability to avoid import duties through corruption and illegal importation remain important problems.

It might be expected that the completion of the Uruguay Round of GATT (Global Agreement on Trade and Tariffs) would accelerate the tarrification of QRs and reduction and harmonization of tariffication. Ironically, given that GATT’s guidelines provide certain developing countries with a generous transition period for compliance, some countries have used the guidelines to argue for a slower pace of rate reduction than was envisioned under specific structural adjustment programs. The implications of these and other multilateral agreements on schedules for tariff reform therefore represent another important issue that demands country-specific research.

Liberalizing Export Policies. As has been the pattern in most developing countries, trade policy and exchange rate overvaluation have penalized exports from Africa (Krueger, Schiff, and Valdés, 1988; Krueger, 1992; De Rosa, 1993). Trade policies have typically taxed both importable inputs to export industries and the exported product itself, thereby adversely affecting exporting industries.
Export taxation has been high largely because it has been a principal source of public revenue. In addition, export licensing and controls propagated by the self-interest of those in control of exports have been widespread. In particular, public marketing boards as well as private exporting markets, have supported export licensing schemes as a means of limiting those who enjoy rights to export. This type of policy scheme is usually justified as “maintaining order in the market,” “assuring quality,” and increasing bargaining power with respect to foreign buyers. In fact, it often increases opportunities for exporters to collude in holding down domestic prices and to underinvoice exports and thus reduce taxation. Bohman, Jarvis, and Barichello (1994) also demonstrate that international commodity agreements for primary commodities have reinforced export controls in order to manage the export quotas specified for each country by such agreements.

Despite a trend toward the reduction or abolition of export taxation and the liberalization of producer prices for Africa's traditional agricultural exports, reforms have been slow to take root (particularly in the case of cocoa in Côte d'Ivoire and Ghana, coffee in Uganda and Burundi, and vanilla in Madagascar). Often, countries adopt various measures to liberalize domestic exporting markets only to see the measures weakened by stipulations intended to ensure that the market remains in the hands of entrenched interests. For example, the Comoros introduced reforms in the vanilla marketing sector to permit more exporters to operate, however, individuals had to guarantee a certain volume of exports in order to obtain licenses (patent) to operate as an exporter, thereby effectively limiting export licenses to only a few individuals.

To offset negative effective protection, countries have instituted direct export subsidies (Kenya, Tanzania, Senegal, Côte d'Ivoire), duty drawback schemes (Senegal, Malawi, Tanzania, Uganda, Zambia, Nigeria), and various investment incentives, including tax holidays or refunds and depreciation allowances (Ghana, Mauritius, Nigeria; see Salinger, 1996). These schemes are typically difficult and costly to administer as well as slow and susceptible to abuse. Often, delays are not procedural but rather are a function of the funds shortages facing the affected countries. Several countries have established export processing zones or bonded production arrangements (Mauritius, Madagascar, Kenya, Nigeria, Togo, Zambia). Processing zones are difficult to administer and have seen limited success in attracting investments. Further, the industries in the zones make only a minor contribution to the domestic economy.

Other Reforms.
Trade policy reform programs have tended to focus on external trade regulations, although obstacles to trade begin with domestic trade and regulatory institutions. Attempts at liberalization of internal markets have largely taken the form of elimination of parastatals' legal monopolies. Private monopolies, which are usually the subject of legal contracts, have been more difficult to curtail. Creating a precedent by breaking contracts could lead to more harm than benefit (e.g., Mauritius). Instead, privatization of public enterprises could potentially contribute the most to trade growth, but Africa has made little progress in this regard. Reforms of financial institutions may also strongly influence trade performance. Most countries have opened up access to foreign exchange and thus have experienced growth spurts in both the formal and informal economies. Given that the financial institutions designed for the old system are poorly equipped to assume today's roles, institutional reform is now beginning to receive attention.

Some official reform policies and their occasional reversals are not components of the programs agreed to with the international financial institutions (IFI), such as the World Bank, and therefore have escaped the scrutiny of program evaluation. In internal parlance, IFI staff refer to the "credit" dilemma, i.e., whether countries that reform before or during loan negotiations or entirely outside the loan/conditionality process should be credited with those reforms for disbursement and evaluation purposes. Some countries, for example, have liberalized bilateral accords between nations while others have terminated such accords (e.g., South Africa with Zimbabwe). Both processes tend to occur outside the purview of the World Bank.

ISSUES IN THE IMPLEMENTATION OF REFORMS

The Record of Adoption of Reforms

In 1994, the World Bank took stock of reform programs initiated from 1987 through 1993. During that period, 29 countries undertook structural adjustment reform programs that included an array of reforms targeted to removing barriers to trade (Jones et al., 1994). The review of the reform efforts found that most African countries moved from trade regimes characterized by rationing imports and foreign exchange to environments dominated by nontariff barriers or, in more advanced cases, to regimes that rely on high tariff-based protection.[1] A few countries skirted the initial rationing phase by maintaining flexible exchange rates or convertible currencies. Only Mauritius is credited with having reached a fourth stage of full liberalization. Despite a degree of progress, several countries, including Kenya, showed almost no movement toward trade reform beyond the nontariff barrier stage. Others such as Madagascar, Zambia, Senegal, and Nigeria had achieved some conversion to tariff-based protection but then reversed course in the early 1990s when the reforms began to have adverse effects on the interests that benefitted from the previous policy structure.

Using a database of compliance with World Bank adjustment lending conditionality, Nash (1993) provides a more quantitative evaluation of the pace of policy reforms between 1980 and 1992.[2] He reports that, over the period, about 12 percent of conditionality in the region pertained to trade or exchange rate policy and that, since 1987, the emphasis on trade or exchange rate policy has diminished. Data for programs outside SSA point to the same trend, suggesting that trade reforms have been among the first trade issues to be addressed globally. Interestingly though, trade issues appear to have been comparatively less important overall within SSA as compared with non–SSA countries.

Examining the record of implementation in SSA, Nash finds that countries were in full or overcompliance with trade policy reform conditionality in 65 percent of the cases, in substantial or partial compliance in 27 percent of cases, and in noncompliance or cancellation in only 8 percent of cases. This record is not markedly different from that in other parts of the world, although it masks substantial variation. In particular, non-CFA African countries showed good performance for minor policies but substantially worse implementation than other countries in the case of "critical" trade reform policies. In addition, given the initial redundancy of policies impeding trade, tariff policy reforms in the early stages of the reform process often did not substantially improve the antitrade bias of SSA countries.

Reform of exchange rates and controls took place, although SSA countries showed substantial backsliding. Other types of reforms in SSA nations have not eroded, but they have exhibited little continued progress after final tranche release under the sponsoring adjustment packages. The trend in SSA differs from that in other regions, where exchange controls have led reform efforts and where reforms initiated under sponsoring programs have continued. These observations suggest that the exchange reforms have been more difficult to swallow in African countries and that bureaucracies are less capable or less committed to reforms initiated by sponsoring programs. Further evidence of SSA's reluctance to adopt reforms is reflected in the poor record of implementation of reforms that were proposed but were not legally required.

Recognizing that aggregates and averages mask wide variation in the experience of implementing reform, the above generalizations are not true for all countries. In fact, critics of the World Bank analyses of the record of implementation point to the failure to acknowledge country-specific variation

[1] Jones et al., 1994. This typology of trade regimes is attributed to Krueger (1978).
[2] He refers to the World Bank's Adjustment Lending and Conditionality database.

and call attention to the sensitivity of the results to the compliance criteria used to categorize countries. Nonetheless, there is little debate that African countries have officially adopted most of the measures prescribed by the structural adjustment programs.

Lessons in Sequencing and Timing of Reforms

Despite similarities in the types of instruments used in trade policy reforms throughout Africa, reform programs reveal important differences when considered in terms of the degree of emphasis on certain changes, the sequence and timing of changes, and the extent of enforcement. For example, whereas the CFA countries pursued trade liberalization in the context of continued overvaluation of the exchange rate, many non-CFA countries focused on devaluation as a principal and often initial component of the steps to reinvigorate their trading environment.

Various authors propose a similar sequence for trade policy reform for countries facing severe foreign exchange constraints, as is the case in most African nations (Thomas and Nash, 1991; Dean et al., 1994; Papageorgiou, Michaely, and Choksi, 1986). The sequence typically involves the following:

- removal of impediments to export through reduced export taxes and restrictions and real depreciation of the domestic currency;

- substitution of price for quantitative controls (conversion of prohibitions to licensing, licensing to free imports, and substitutions of tariffs for QRs on imports, focusing first on those not competing with domestic production and then broadening to others); and

- reduction of protection differentials and levels.

One debate over sequencing focuses on whether trade reform should accompany or succeed macroeconomic reform. In particular, must a nation tackle its fiscal deficit and inflation before addressing trade policy? Thomas and Nash note that trade policy reforms early on in the reform process can assist stabilization efforts through improvements in revenue collection (for example, through changes from QR to tariffication) and reductions in inflation (via reduced deficit and real appreciation of the exchange rate in response to improved trade). On the other hand, consensus suggests that high inflation must be tamed before trade reforms can be effective. A continuing high inflation rate will appreciate the real exchange rate and undermine any attempted reductions in anti-export bias that occur through liberalization.

A second debate over sequencing addresses the pace of reform. Some have argued in favor of moving rapidly to gain credibility for the reformers, thereby stemming any domestic opposition to the reforms. For example, Jeffrey Sachs has pointed to the merits of introducing all reforms immediately and simultaneously. On the other hand, critics of Sachs's approach note that excessive speed in introducing reforms can reduce the likelihood of effective implementation or of internalization by the business community (Rodrik, 1991). The latter may view reforms simply as rubber stamp conditionalities imposed by IFIs, thus increasing the likelihood of subsequent reversal (see discussion of reform credibility below).

Moreover, if changes occur too rapidly, liberalization may induce transitional costs associated with resource reallocation. Musconde et al. discuss the "hysteresis effects" of transition in Zambia, which resulted from the inability of firms to deal with the immediate liquidity problems imposed by the reform program. Hysteresis effects are the permanent costs of temporary phenomena. In other words, the permanent closing of a firm due to a temporary loss of competitiveness not only means a temporary loss of profits but also a permanent loss of income. Rodrik (1993) and Thomas and Nash (1991), however, reiterate the preference for rapid reform implementation. Rodrik stresses that rapid policy change does not imply that responses to reform need to be made rapidly. Rather, economic actors can mitigate transitional costs by adjusting the speed of their own responses to reforms and working to ensure that the policy context is made as transparent as possible.

Problems in Implementation of Trade Policy Reform

Critics of the record of trade policy implementation point to several shortcomings in the design of reforms (Thomas and Nash et al., 1991). One set of arguments suggests that policy makers have devoted insufficient attention to creating the capacity for African countries to undertake reform. The lack of capacity stems from two types of problems that plague implementing bureaucracies. First, human and material resources that must be devoted to the implementation of reforms are inadequate. Second, an administrative ethos characterized by "clientele politics" constrains the behavior of implementing agencies. These constraints become evident in an examination of the specific roles that are needed to make reforms operational. New roles require the design and implementation of reform agendas, the mediation of conflicts in civil society, and the operation of transparent and unbiased regulatory frameworks for markets. Inability to perform these crucial functions is attributable to a context in which bureaucracies have few resources and little autonomy to perform their functions. At the same time, those in power maintain their position by manipulating administrative powers to buy off the opposition and create rents for their supporters.

Two manifestations of the continuation of clientele politics are the persistence of exemptions to policy and the ultimate reversal of policy. Those in power often grant exemptions to parastatals, donors, and other strong interest groups that can make their case to policy makers, even though it is interest groups that are often a principal target of the original reform. Nonetheless, it is extremely difficult for trade decision makers to resist exemption requests when interest groups are sufficiently powerful or the rents associated with exemptions are large. Indeed, some reversals of government policy are to be expected with changes in government or unforeseen economic circumstances. Governments may, however, also reverse their positions as a matter of domestic political strategy. Such a tactic is not surprising in the context of structural adjustment programs in which IFIs have forced policies on governments as conditionality to obtain loans. The section below on reform credibility returns to this issue.

A related critique of reform program implementation is that programs are too similar from country to country despite differences in the economic, social, and political context across nations. As a result, IFIs often impose reform programs that are inappropriate to the local circumstances of various countries. At the same time, the accounts of reforms in the literature are incomplete; in particular, the literature gives little consideration to a country's institutional capacity or political will to implement reforms.

In defense of the design of reform programs, World Bank staff note that the apparent similarity in programs is justified as a reflection of the common problems encountered in each country. Moreover, countries exhibit differences in the mix, sequence, and timing of reforms to account for differences in their economic, political, or social contexts. Technical justifications for specific policy measures, found in the documentation of structural adjustment programs, show consideration of local circumstances, although perhaps not a sufficiently broad view of the context in which reform takes place.

Another critique of reform program implementation notes that programs have failed to ensure a strong commitment to the reforms of African policy makers charged with program implementation. This is termed a lack of "ownership." Policy makers are unconvinced of the benefits of reform or, despite understanding the social benefits, are opposed to reforms for fear that they may threaten their own best interests. In cases where parts of government harbor continuing ambivalence about a policy, policy makers may be able to neutralize a policy by inaction or obfuscation.

To address problems of the domestic political economy, some critics suggest that reforms should incorporate compensating mechanisms for those adversely affected by the process of reform. Such mechanisms may serve several ends and could be useful if implemented endogenously. For reasons explained below, the mechanisms would almost certainly concentrate on job loss.

Compensating losers may be an effective means of buying off the opposition, and more importantly, provide an opportunity to address equity issues. Equity, properly understood in the local political context, contributes to stability, which in turn is a prerequisite for growth. Lyakurwa notes that the greater the institutional distribution of power, the greater is the concern for equity in policy effects. In other words, as regimes mature and democratization takes hold, successful reform needs to pay greater attention to the distributive effects of reforms. In this regard, Lyakurwa proposes a direct approach to compensate losers as a means of offsetting the tendency of powerful losers to attempt to undercut reforms. However, this approach is feasible only where losers can be easily and narrowly defined. Moreover, such compensation should set clear limitations with respect to the period of compensation, maximum compensation per recipient, and criteria for receipt of compensation.

Another strategy for counteracting and thus reducing opposition calls for bundling reforms to permit cross-compensation of winners and losers. One caveat is in order, however. Reform efforts should not be cluttered with minor changes that may overburden the bureaucracies administering them and potentially offset economic benefits.

THE IMPACT OF TRADE POLICY REFORM

This section examines three questions concerning the experience with trade liberalization. First, did liberalization occur, i.e., did the economic environment become more conducive to trade? Second, did the episodes of liberalization prove credible, i.e., did economic actors recognize liberalization as an opportunity to pursue trade opportunities? Third, what has been the impact of liberalization on the economies of reforming countries in Africa?

Did Liberalization Occur?

Despite the implementation difficulties noted above, several nations in SSA adopted trade policy reforms in the last decade. A separate issue, however, is whether the reforms have actually resulted in liberalization of the trade environment. In identifying periods of liberalization, it is difficult to separate the effects of trade policy reform from the effects of other reforms and from exogenous factors. Furthermore, to the extent that many of trade reforms are still undergoing implementation, the search for effects may be premature. Nonetheless, Africa's continent-wide trend toward trade liberalization over the last decade provides a considerable basis from which to examine the trade liberalization experience.

Methods of Identifying Liberalizing Events. Recent case-study research sponsored by the African Economic Research Council (AERC) has sought to evaluate the presence of trade liberalization events in Africa for specific countries (Ghana, Kenya, Tanzania, Zambia, Zimbabwe, South Africa, Uganda, Nigeria, and Côte d'Ivoire).[3] To identify liberalization events, each case study typically includes a descriptive account of policy changes as well as a series of tests to determine the presence of liberalization episodes. The analysis of liberalization effects focuses on macro variables affected by trade liberalization, such as the balance of payments, the fiscal deficit, and inflation. A much-used test of liberalization examines changes in relative prices in the economy after the introduction of trade reforms. One obvious comparison is the difference between domestic and world prices of tradeables at official exchange rates. This comparison reveals the difference between world and domestic prices in response to trade taxes and controls. With liberalization, the wedge is expected to be reduced such that the two prices should converge.

Another price change comparison that may indicate liberalization considers the relative prices of importables, exportables, and nontradeables. Given high initial protection of imports through tariffs and NTBs, trade liberalization should lower importable prices. Inversely, taxed exportables should experience a rise in domestic prices as a consequence of tax elimination. As already noted, however, devaluation often accompanies reforms as a means of preventing deterioration in the balance of payments. Therefore, devaluation alone should raise tradeable costs with respect to nontradeables, but the combination of devaluation with trade policy reforms should unambiguously increase exportable prices relative to nontradeables and importables. Nonetheless, isolating the relative price changes between importables and nontradeables is not obvious, in that the direction of change with devaluation offsets the effects of border policy liberalization.

A final relative price change used to identify liberalization concerns divergences between official and parallel exchange rates. The expectation is that trade liberalization should reduce the gap between these rates devaluation and/or elimination of exchange controls accompany other trade reforms.

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[3] C.D. Jebuni, D. Tutu, and K.A. Oduro Ghana; M'Wega for Kenya; Rajen Dabee and Chris Milner for Mauritius; D. Olu Ajakaiye and Adedoyin Soyibo for Nigeria; D. Fielding, D. and G. Ssemegorere for Uganda; Musonda, Flora, Christopher Adam, and Per-Aake Andersson for Zambia; and Ncube, Mthuli, Paul Collier, Jan W. Gunning, and Kupukile Mlambo for Zimbabwe.

Aside from relative price changes, another type of test for liberalization evaluates changes in trade openness by using trade intensity ratios (share of import and/or export value with respect to GDP or some other measure of aggregate economic activity, see page 2). In general, the expectation is that ratios should, though not necessarily, increase with trade.

A final approach to evaluating liberalization calls for deriving econometric estimates of import demand to predict demand and then comparing the counterfactuals with actual demand. If actual import demand after reform exceeds counterfactual estimates based on prereform behavior, then liberalization is assumed to have occurred.

Evidence of Liberalization. Over the period of adjustment, the IMF and the World Bank point to the liberalization of exchange controls as an area of substantial success. Nash estimates depreciation of the real effective exchange rate (REER) at 24 percent for all of SSA and a reduction in black market premia of 56 percent. Yet, while most countries achieved real devaluation, the improvements were often only temporary (e.g., Nigeria, Ghana, Madagascar). Moreover, large inflows of external assistance often supported the liberalization of import regimes, suggesting that dependence on assistance remains fundamental to exchange rate stability and that devaluation may be temporary if assistance is not ensured.

Evidence on movements in protection rates is contradictory. Nash (1993) finds that for SSA protection declined substantially relative to markedly high levels before trade reforms. His estimates show a reduction in nominal protection of between 30 and 50 percentage points between 1980 and 1992. Dean et al. show a much weaker reduction, with postreform protection representing 94 percent of prereform levels. Nash claims, however, that recent reductions in protection appear to have been more significant. Various authors agree that in comparisons between SSA and East Asia and Latin America, African protection rates generally remain noticeably high for all countries studied (Nash, Dean, De Rosa). De Rosa (1993) finds that SSA countries enforced average tariff rates of about 30 percent and NTB frequency ratios[4] of about 80 percent during the late 1980s while developing countries as a group enforced average tariff rates of about 20 percent and NTB frequency ratios of about 40 percent. Protection and NTB ratios in industrial countries were even lower (5 and 20 percent, respectively).

Particularly in the lowest-income countries, foreign exchange allocation is still not market-driven. As a result, continued high protection exists even as countries enforce their import licensing requirements. The CFA zone countries represent a partial exception owing to their convertible currency, but high nontariff and tariff barriers have kept their overall protection levels high as well.

Nash also finds mixed results for changes in the openness of countries as measured by share of imports in consumption or in GDP. Yet, he shows clear evidence of decreasing protectionism when examining only intensive trade adjusters. However, simultaneous real depreciation of exchange rates have partially offset total incentives to import such that measures of import penetration do not exhibit much improvement. On the export side, Nash finds that producer prices in most countries are still not linked

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[4] NTB frequency ratios measure the percentage of tariff line items affected by a given NTB import regulation.

to export for traditional exports. For nontraditional exports, licensing requirements for foreign exchange repatriation remain a problem. Moreover, countries have yet to put in place the efficient systems that give exporters access to imported inputs. (Again, see the survey of trade opportunities by Salinger, 1996.)

Another observation is that despite devaluation, import prices may not have changed significantly in many countries; before reform, the parallel market was already determining prices. To the extent that the parallel market was able to circumvent policy barriers, liberalization may not have substantially changed the availability of goods and therefore their prices.

Pritchett and Sethi (1993) point out several areas where the evaluation of protection is problematic, thus making it difficult to assess the effects of tariff reform. Irregularities in the application of taxes, the overwhelming importance of exemptions for some categories of commodities, and strategies for avoiding taxes through means such as underinvoicing and illegal importation all lower real protection rates from the levels suggested by statutory tax rates. Efforts to lower trade taxes and reduce exemptions as components of liberalization should decrease the distortions and strengthen the effectiveness of the remaining protective measures. Comparisons based on changes in statutory rates alone would ignore the distortion and overstate the loss of protection due to liberalization.

The Credibility of Reforms

A separate issue from whether liberalization took place is the extent to which it is deemed credible. "Credibility" in economic parlance refers to the degree to which announced policies are perceived to be real and likely to be sustained. The concept is used to explain the reaction of economic actors to policy changes. If economic actors do not modify their behavior as expected in response to a policy change, they may not believe that the policies will persist. Actors base their belief on either the absence of political will or, in the case of extensive political will, the assumption that underlying economic conditions will force a policy reversal. Various measures of credibility of trade test for three principal conditions: macroeconomic compatibility, nonforecastability, and time consistency.

Macroeconomic Compatibility. Macroeconomic compatibility is based on the premise that, given macroeconomic or fiscal conditions, reforms that are not sustainable are unlikely to be deemed credible by economic actors. The criterion hinges on two components: balance of payments compatibility and fiscal compatibility. Balance of payments compatibility means that trade reforms must be accompanied by measures to sustain payment balances, typically by tightening money supply. Balance of payments compatibility also accounts for the fact that once heavily protected countries now subject to trade liberalizations are susceptible to deterioration in the balance of payments as imports rise with liberalization. The typical corrective measure is devaluation, an increase in indirect taxes, or contraction of fiscal and monetary policy to support liberalization.

Fiscal compatibility implies a reduction in import tariffs and, by extension, a potential reduction in public revenues. Trade reforms may therefore be threatened if government is forced to reverse such reforms to sustain revenue. Fiscal compatibility is linked to payments compatibility because a fiscal deficit increases the money supply but weakens the balance of payments. Conversely, a devaluation to counter payments incompatibility can raise revenues in domestic currency units depending on the price elasticity of imports.

Nonforecastability. A second measure of credibility is the degree of "systematic forecastability" of the balance of payments. This measure holds that, in a liberal environment, government is no longer able to manipulate the balance of payments through policies such as the application of quantitative restrictions on imports or licensing foreign exchange. Trade is no longer a function of policy but rather of market forces. Thus, if government continues to set trade or payments targets and to manipulate policy to achieve those targets, the trade reform ceases to be credible to private actors because it remains an endogenous effect of policy decisions. Though proposed by Collier and mentioned by various AERC case-study authors, the nonforecastibility criterion does not appear to figure in their analyses as an argument in their assessments of credibility.

Time Consistency. A final criterion for credibility is time consistency; that is, the likelihood that reforms are permanent given the political regime in power. The essential questions determine the impetus behind changes in trade policy (why were restrictions initially maintained and why were they liberalized), consider whether there was ever a reversal in that impetus, and finally, to ask whether economic actors operated on the assumption that policy would be permanent or, alternatively, would revert. Tests of time consistency rely primarily on policy accounts to answer the first two questions and on the behavior of private agents to respond to the third question.

In the face of policy uncertainty, time inconsistency suggests that economic actors will defer long-term investments and maintain liquid investments. By contrast, belief in the consistency of policy should engender long-run investments commensurate with the stability of the environment. Time inconsistency may also occur when governments temporarily adopt liberalization as a response to conditions favorable to the receipt of program aid but then revert to restrictions. In addition, time consistency may be jeopardized if government has overarching redistributive concerns that weigh against liberalization and doom it to reversal. Finally, where the political process determines policies and there is uncertainty about liberalization's winners and losers, the sustainability of policies is likely to be uncertain.

Critique of the Extent of Liberalization and its Credibility

In most of the AERC case study examinations of liberalization, at least two liberalization events occurred in the last 20 years. In nearly all cases, the initial episodes where short-lived and eventually reversed because of the lack of credibility associated with other public policy decisions. The failures have usually been attributable to a lack of macroeconomic compatibility, particularly with respect to the balance of payments, and a lack of time consistency with respect to other policies. On the other hand, most of the more recent liberalization episodes in each country are deemed to have been largely credible, although in all cases the process continues and in some countries the possibility of policy reversals remain substantial.

Trade liberalization credibility is affected by the credibility of other macroeconomic policies. On the one hand, compatibility with fiscal and foreign currency balances is a measure of the credibility of trade reforms. On the other hand, reform credibility is also an explanation of macroeconomic performance. Thus, Rodrik notes that credibility problems can be self-fulfilling, that is, policy reversals occur because of the belief that a policy will be aborted. Musconde et al. found this to be the case in Zambia. To counter the problem of self-fulfilled policy outcomes, some have proposed slow but steady approaches to liberalization in order to build credibility (cf. cases of South Africa and Mauritius above) while others have proposed exaggerated reforms that send clear signals as to the government's intentions (Rodrik).

The use of both balance of payments and fiscal compatibility to test liberalization credibility have been questioned on the basis of theoretical logic and empirical data. The direction of effect of liberalization can be shown to be ambiguous for both variables, depending in part on the types of reforms pursued and in part on whether the effects are anticipated in the short or longer run (Jebuni, 1993).

Another difficulty in evaluating the credibility of reforms as an explanation for the ultimate reaction to policy reforms is determining just of what economic actors understand about the reforms. Without knowledge of their understanding of the reforms, it is difficult to hypothesize about their reactions. Moreover, while some economic actors may correctly judge the credibility or not of reforms, they may have an important role in allocating resources in response to reforms. Thus, it may be possible that much of the economy reacts naively to reforms despite the nonsustainability of reforms over the long run. These expectations may ultimately alter the impact of the reforms from what economists might predict.

The Impact of Trade Liberalization

Promoting Economic Growth. Despite strong empirical evidence that outward-oriented policies contribute to economic growth, proof is not yet available that the trade policy reforms undertaken in the last decade in sub-Saharan Africa have yielded a positive growth impact. Balassa (1990), however, provides evidence that market liberalization policies in Africa (including international and domestic trade) have increased the value of trade. He demonstrates that market-oriented economies gained while interventionist economies lost export market share during the 1970s. While his evidence is not specific to trade reforms, it does suggest that policies can have a strong role in changing price incentives.[5] Using econometric estimations, he also demonstrates that African exports, particularly agricultural exports, are strongly responsive to price changes. In fact, African export price responsiveness is higher than in the rest of the world. Not surprisingly, export growth has been higher in African countries that have devalued than in those that have not.[6] Based on econometric estimates of the contribution of outward-orientation (as reflected by real exchange rate distortions and

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[5] See also Sanjay Kathuria. *Export Incentives, The Impact of Recent Policy Changes*, World Bank Policy Research Working Paper 1355, September 1994.

[6] See also K.M. Cleaver. *The Impact of Price and Exchange Rate Policies in Agriculture in sub-Saharan Africa*, World Bank Staff Working Paper No. 728 (1985) and Gulhati et al., *Exchange Rate Policies in Eastern and Southern Africa, 1965–1983*, World Bank Staff Working Paper No. 720 (1985).

variability) to growth among a worldwide sample, Dollar (1993) also shows a strong correlation between openness and growth. This is due to the comparative lack of openness in African countries over the period of his analysis (1976–1985), and demonstrates that African countries have the most to gain from liberalizing reforms.

Focusing on macroeconomic reforms, the "World Bank in Adjustment in Africa: Reform Results and the Road Ahead" (Jones et al., 1994) provides an assessment of the impact of reform during the 1980s (1981–1991). The study finds a relatively weak positive correlation between policy stance and growth (an average 2 percent growth rate for GDP of large reformers as compared with 1 percent for small reformers, and -1.6 percent for countries with deteriorating policy conditions). Even so, the analysis has come under criticism on two counts. First, it applies a relatively arbitrary classification of countries among reform categories and does not carefully evaluate the status of those countries at the beginning of the time interval over which it assesses policy stance and economic growth. Second, the results mask wide variation in performance within reform categories. Thus, if the study had considered median growth rates instead of average rates of growth for each category, it would have concluded that the difference in growth rates for small and large reformers is negligible (Anonymous, Electric Library, 1996).

Another critique of the World Bank analysis is that it does not assess the contribution of other factors that might explain changes in growth performance in Africa, including the initial policy stance of countries before reform and factors such as debt burdens, the status of human capital, infrastructure, and institutions, all of which play a major role in growth performance. Tracing the impacts of "trade" reforms on economic performance is also complicated by the need to distinguish effects of trade reform from the effects of other reform efforts and other exogenous shocks to the economy. Thus, for example, Ajakaize and Soyibo reject efforts to link macroeconomic changes to trade liberalization in Nigeria because liberalization episodes on that cou8ntry were not credible. They note that growth indeed increased following Nigeria's last liberalization episode, but not from effects of improved trade policy. Changes in patterns of import composition suggest instead that resource reallocation following liberalization actually ran counter to expectations. Greater shares of capital and raw materials were imported after the episode. To the detriment of consumer goods, the suggestion is that import-substituting firms actually gained during the liberalization period. Positive effects were found only in the realm of agricultural exports for which the removal of export duties reversed the rapid decline in exports and even resulted in some growth for palm kernel and rubber.

Most of the AERC studies of liberalization do not note a strong growth effect in response to liberalization events. This outcome is in part due to the lack of credibility of many of the events. But even after discarding the events judged noncredible, the assessments in Zambia, Uganda, and Ghana all point to disappointing growth effects. Only in Mauritius do Dabee and Milner find steady and rapid growth of GDP and exports associated with trade liberalization. They attribute this growth, first, to a period of increasing factor utilization associated with export industries, particularly through the employment of labor in manufacturing, and, second, to Mauritius's ability to bring into production excess capacity of capital equipment. This progression is also implied in a sharp increase in savings during the initial period of liberalization, followed shortly thereafter by increased investments.

Seeking a reason for the lack of growth in Africa, one may inquire about the expected sources of growth from liberalizing reforms. Economic growth benefits of market liberalization are expected to come from both the "static" effects of better resource allocation and the "dynamic" effects of a more flexible and open economic environment. The static resource allocation effects include a movement of resources away from import-substituting industries and toward exporting industries or nontradeable products, a change in the composition of imports toward consumer commodities and away from raw materials and capital goods that furnish import-substituting activities, and an increase in economic growth rates due to greater efficiency in resource allocation. In addition to these static resource allocation effects, various other effects the literature has identified including dynamic benefits in the form of learning, technological change, and economic growth; improved flexibility of the economy in the face of external shocks; and reduced rent-seeking behavior and related directly unproductive (DUP) activities (Rodrik, 1993; and Edwards, 1991). While the gains from static resource allocation are well founded in economic theory, various efforts to measure them suggest that, in most cases, the benefits are of relatively minor economic value.[7] One explanation holds that even before reforms are imposed, parallel markets emerge to alleviate the extent of distortions that can develop in advance of large static efficiency gains from reform (Roemer and Jones, 1991).

As for the "dynamic" impacts of a more open economic environment, neither economic theory nor empirical research offers much insight. Rather, despite the small documented gains from allocative efficiency, the existence of dynamic impacts is generally hypothesized because of the importance of growth effects of outward orientation.[8] In this context, the lack of growth in response to policy reorientation in Africa suggests that dynamic benefits have not yet emerged.

Inducing a Supply Response. Even where liberalization has been judged successful, researchers have identified various problems that have muted the anticipated impact of trade liberalization on the economy. Such is typically the case where expected supply responses to reform are not forthcoming. For example, Tutu and Oduro note that Ghana's export growth was weak despite a recent liberalization that was deemed credible and compatible. In addition, Ghana experienced no positive employment response to liberalization. In fact, Ghana's formal sector employment continued to fall while real wages stagnated at half of levels of the early 1970s. Even though rapid population growth and downsizing in the public sector contributed to continued high unemployment, the lack of response in the export sector was also factor. Tutu and Oduro explain Ghana's nonresponsiveness to liberalization as due in part to deteriorating terms of trade and a lack of diversification into more value-added commodities.

Ssemogerere (1990) provides an econometric analysis of export crop response to policy reforms in the case of coffee in Uganda. Coffee exports form Uganda did not respond as anticipated to changing border prices because the prices were not passed back to producers. An important contribution of Ssemogerere's paper is its demonstration of the critical role of domestic markets in transmitting to

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[7] Rodrik (1993) reviews the evidence in this regard (pp. 7–8).

[8] Rodrik (1993) reaches this conclusion based on a review of firm-level, cross-industry, and cross-country studies. See also Edwards (1991).

farmers the changing incentives provided by reforms (particularly devaluations). Inefficient internal markets can delay these signals and thereby substantially mute intended supply effects. In the case of important exports such as coffee, inefficient markets can jeopardize the entire reform process.

In Kenya, performance of the export sector has also been poor, growing much more slowly than the economy as a whole (M'Wega, 1995). Moreover, with the exception of some growth in horticulture, diversification has not occurred; in fact, manufactured exports have declined. Much of Kenya’s poor performance is attributable to continued foreign-exchange-based restrictions on intermediate inputs and a persistent anti-export bias in policy.

Musconda et al. note several other factors that help explain why Zambia’s manufacturing and nontraditional export sectors responded slowly to liberalization. In fact, a period of deindustrialization ensued as firms moved out of import-substituting industries that lost trade protection. Zambia’s deindustrialization is attributed to a reduction in competitiveness that resulted from sudden exposure to foreign markets, high capital costs, and temporarily overvalued real exchange rates in the wake of liberalization. Other transitional problems were associated with the lack of synchronization of Zambia's trade reforms with those of its major trade partners. For example, Zimbabwe and South Africa implemented export promotion policies prior to Zambia, which, in turn, prevented Zambia's importable sector from competing profitably against imports from the region. Finally, various market imperfections prohibited many firms from borrowing to finance transitions. The transitional costs were particularly high for national as opposed to multinational firms in Zambia. Yet, the latter firms’ transition was made smoother by their ability to move easily into trade with their international affiliates and their access to international capital markets.

Increasing Economic Stability and Diversity. The argument that trade liberalization increases the ability of the economy to accommodate external shocks requires a distinction between the immediate impact of external shocks, for which more highly protected countries are not surprisingly better buffered, and the ability of the economy to adjust to the shock effects over the long run. For the later case, studies by Balassa and Sachs have shown that outward-oriented economies are indeed better able to adjust. Rodrik concurs but notes that researchers still do not understand why economies with certain configurations of economic policy should be more resilient to external shocks.

M'Wega also argues that export liberalization should contribute to a diversification of exports by making new products exportable and allowing penetration of new markets, which, in turn, lowers economic risks with respect to any specific world market (M’Wega, 1995). On the other hand, he does not find that Kenya has benefitted from diversification to any significant extent, suggesting that trade liberalization alone is insufficient to expand the range of exportable products.

Impact on Public Revenues. The impact of trade liberalization programs on public revenues is often expected to be negative as a consequence of the expected loss of import tariffs with tariff reduction. Such a prospect is especially troubling for African countries whose trade taxes account for a particularly large share of public revenues. For several reasons, however, substantial experience suggests that liberalization measures may not threaten fiscal balance. For tariffs that were initially prohibitive, rate reductions can increase revenues as trade volume increases. Moreover, avoidance of taxation and graft to reduce tax bills may decline with a reduction in statutory rates (Pritchet and Sethi, 1994). Kenya offers a recent example. A halving of statutory tariffication has reportedly doubled that nation's customs revenues.[9] Finally, reforms that have pursued "concertina" strategies (in which the range of tariffs is reduce by raising low rates as well as lowering high tariffs) may well raise revenues from increases in rates for low-tariff commodities.

Another mechanism by which liberalization can raise revenues is through tariffication of QRs, in which case rents of QRs are transferred from foreign exporters to the government treasury. Musconda et al. (1995) found that changes in the basket of traded goods resulting from removal of QRs on foreign exchange had a positive effect on public revenues in Zambia. Before reforms, the administrative allocation of foreign exchange favored essential commodities, for which tariffs were low. The removal of foreign exchange licensing resulted in greater importation of higher-tariff consumer commodities, thereby increasing revenues.

On the export side, the fiscal consequences of reform are more clearly negative to the extent that export taxes are reduced or eliminated. Moreover, in many cases, the weak supply responses of exporting sectors to these reductions have meant that the offsetting revenue effects of increasing export volumes has not been forthcoming.

Using the case of Kenya, Bevan (1995) shows that although the immediate budgetary effects of trade liberalization may be negative when analyses focus solely on the foreign exchange budget, a more comprehensive analysis based on a general equilibrium model can illustrate how liberalization may have strongly positive budgetary effects (Bevan, 1995). The effects occur in part because of shifts in resource allocation toward more taxable sectors.

Reducing Rent-Seeking. The assumption that opportunities for rent-seeking are reduced in countries with more liberal/outward-oriented trade regimes appears to be based in part on the assertion that rent-seekers can more easily manipulate certain popular protectionist instruments (e.g., QRs) in favor of others (e.g., tariffs). Further, experience has demonstrated that liberal/outward-oriented regimes in East Asia have been less affected by rent-seeking problems. Nonetheless, some authors remain skeptical. Recent revelations suggest that rent-seeking in East Asian nations is, in fact, more prevalent than previously perceived and that there is no strong theoretical basis for assuming that rent-seeking is any less attractive under these regimes (Laincz, 1996; Rodrik, 1993). Analysis of changes in the behavior of rent-seekers after liberalization appears to be an important gap in the literature on the impact of reform (the next section addresses this issue in more depth).

CONCLUSIONS: The Current Status of Trade Policy Reform

Research, particularly by the World Bank, suggests that the past decade's record of trade policy reform in sub-Saharan Africa is following the same path as in other regions of the world. Nonetheless, the record masks substantial variation among countries and a tendency in sub-Saharan

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[9] Conversation with Clive Gray, HIID.

Africa for crucial trade reforms to be stalled or reversed subsequent to implementation. Particularly where reforms have not been forthcoming without outside pressure, important differences may be observed between the prescriptions for reform specified in the reform documentation and their actual implementation. Those agencies of government that harbor continuing ambivalence toward a policy can easily neutralize such policy by inaction or obfuscation. In other cases, agencies have implemented policies whose effects on the trade environment have fallen short of expectations. Three reasons for this outcome may be noted:

- Redundancy—Redundancy occurs where a policy reform is made irrelevant by other policies that counter the intended effects of the reform. This is often the case with respect to protective measures against world markets.

- Exemption—Despite reforms, exemptions are often granted to strong interest groups that can make their case to policy makers. Ironically, these interest groups may be a principal target of the original reform.

- Reversal—Some reversals of government policy are to be expected as governments change or unforeseen economic circumstances arise. Governments may, however, also reverse their positions as a matter of domestic political strategy, particularly in the context of structural adjustment programs, in which IFIs force policies on governments as conditionality to obtain loans. Trade liberalization events have also not been credible because of the incompatibility of these reforms with macroeconomic conditions in these countries.

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. Specific areas where recent studies have identified important failures of reform programs are:

- Import tariff rates remain high and variable relative to other developing countries. Quantitative restrictions remain on imports, particularly in many of the CFA countries. These restrictions create opportunities for illicit trade.

- Failure to privatize parastatals that have de jure or de facto monopolies over the most important sectors in the economy, thereby limiting trade opportunities.

- Foreign exchange markets that are narrow, weak, and unpredictable. Foreign exchange controls remain in place while black market premia for foreign exchange are still important in many countries.

- The continued taxation of export crops in many countries. Export crop taxation is sometimes disguised in the margins charged for export by parastatal marketing boards. In other cases, rents created by restrictive export policies are collected by marketing boards or privileged private exporters as marketing margins.

- Trade subject to lengthy regulatory burdens and delays, with the administrative oversight of these policies often arbitrary and corrupt. For cultural reasons, policy makers are reluctant to allow free trade in staple foods.

In addition, various complementary measures, which must accompany trade reforms to ensure realization of the beneficial economic effects of liberalization, are lacking. They include physical infrastructure, human capital (especially in technical and managerial areas), and public institutions that regulate markets, assist transactions, and provide safety, quality, and other standards for transactions. Internal market policy constraints also remain for certain commodities, thus impeding the transmission to producers of incentives created by trade reforms. Finally, reforms of financial, labor, and land markets also prevent investments from taking advantage of new opportunities created by trade reforms.

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