ECONOMIC DEVELOPMENT IN AFRICA
2008

EXPORT PERFORMANCE FOLLOWING TRADE LIBERALIZATION:
Some Patterns and Policy Perspectives
Notes

1 The exchange rate premium is calculated as the parallel rate minus the official rate over the official rate.

2 First, the thresholds for taxes, non-tariff barriers and the premium are arbitrary. This is unavoidable because there is no known perfectly liberalized economy which could be used as a benchmark. Second, the definition of liberalization involves different types of data from different sources, some of which require some level of subjective interpretation. Moreover, relevant information was not available for each criterion and each country, so not all the countries were classified on the basis of all five criteria. This limitation is acknowledged by Sachs and Warner themselves. Third, it is clear that some criteria for trade liberalization are time-sensitive, meaning that they do not have the same relevance across time. For example, with the fall of communism in the late 1980s, criterion (v) lost its relevance in the 1990s and 2000s. The same may be said with respect to criteria (iii) and (iv): official and parallel exchange rates converged in the 1990s in most developing countries, reducing the premium to very low levels. Moreover, State monopolies on exports have largely been dismantled in most countries. Fourth, using period averages of the tariff, non-tariff barriers and parallel market premium variables, and end-of-period information on export marketing boards and socialism variables are very rough measures of the timing of liberalization. It is more interesting to determine the year, not just the decade, during which a country liberalized. Overall, it has been found that the Sachs and Warner measure has a tendency to under-predict trade openness.

3 The coefficient on the variable in the African sub-sample is almost twice that of the group of other developing countries and the two are statistically different.

4 Most of these traditional commodities suffered significant declines in trade volumes, from 18 to 11 per cent, between the period 1980–1981 and the period 2000–2001, even though the volume of international trade in fruit and vegetables increased by about 15 per cent. Internationally traded volumes in the case of rice, chickens and cut flowers increased by more than 40 per cent in each case between 1993–1995 and 2003–2005 (Havnevik et. al., 2007: 26).

5 Despite the strong increases in nominal export prices for a range of primary agricultural commodities in recent years, the overall trend depicts a fall in real prices between the period 1993–1995 and the period 2003–2005 (Havnevik et al., 2007: 26). For a detailed discussion of high price volatility and its impact on African economies, see UNCTAD, 2003a, in particular pp. 2–22).

6 Of the 48 countries for which data were presented for the period 2003–2005, primary commodities made up more than 90 per cent of the total exports of 13 countries, including 8 which are oil exporters; and more than 75 per cent of half the total number of countries. Excluding fuels, primary commodities made up at least 70 per cent of the total exports of one in three countries. Almost all the 10 countries for which primary commodities (including fuels) made up less than 50 per cent of total exports were middle-income countries.

7 The transforming economies in South Asia, East Asia, the Pacific, the Middle East and North Africa have accounted for about two thirds of agricultural growth in the developing world, mainly through productivity gains rather than through expansion in
the amount of land devoted to agriculture. Cereal yields in East Asia rose by 2.8 per cent a year between 1961 and 2004, far more than the 1.8 per cent recorded in the industrial countries (World Bank, 2008b).

“The reform’s main objective is to increase the productivity and efficiency of the cotton sector by successfully moving from a monopolistic structure to a system based on competition. The reform aims at expanding cotton production while spreading the productivity gains and income increases to a larger number of cotton producers and generating multiplier effects within and outside the cotton sector and the rest of the economy.” (Summary of the poverty and social impact analysis (PSIA) of the Benin Cotton Sector Reform, available on the World Bank website, at www.worldbank.org).

In 2007, farmers were able to buy a 50 kg bag of fertilizer for about $6.50, a quarter of the price in 2004.

This is the main conclusion reached by the abundant economics literature on the elasticity of supply of agriculture to price signals, which deals with mostly methodological issues and the quality of data for evaluating supply response in different socio-economic contexts. However, this is not discussed here as it is not directly related to the analysis in this section.

Unless otherwise stated, the discussion in this section is based on UNCTAD, 1998a, chap. III.

These include consumer goods such as soap, textiles, sugar, cooking oil, tinned milk, matches, roofing sheets, radios and bicycles, which were in short supply because of the collapse experienced by many countries prior to the implementation of adjustment programmes.

This much has been acknowledged by the Independent Evaluation Group that reviewed World Bank assistance to agriculture in sub-Saharan Africa in 2007 (World Bank, 2007).

This is defined as the agricultural value added less the total consumption of agricultural producers.

It is still an open question whether tenure systems encourage or discourage investments and agricultural innovation. There is some evidence that indigenous land-tenure systems, including rules of inheritance that necessitate the division of a deceased’s farm among numerous heirs, have often reduced farms to sizes that are too small — or, where the deceased had several farms, have led to scattered plots that are too far apart — to justify any meaningful investment. On the other hand, it has also been suggested that investments to improve land are actually increased under this system because they can increase the security of user rights (UNCTAD, 1997b; 1998a).


This proportion is far lower than the level attained by other developing regions, even in the early 1960s.

This excludes dry land agriculture.

For detailed discussions on market access issues and subsidies, see UNCTAD, 2003a, pp. 22–26.

Despite the fact that the true preference margin for Africa is negative (on average, African exports are given lower preference than those from the rest of the world), its market access is still good because of the preferential market access it enjoys, which
decreases its average export tariffs (the so-called “composition effect”). This effect outweighs Africa’s negative “true preference margin” (Bora et al., 2007).

21 Exports from Benin, Malawi, Mauritius, Swaziland and Togo, for instance, are penalized because they are mostly highly protected products, and preferences do not fully compensate for the loss. In contrast, those of Chad, the Democratic Republic of the Congo and the Libyan Arab Jamahiriya are not, as these are mainly oil, gas and mineral products (Bora et al., 2007).

22 The developed countries have been accused of “box-shifting” of domestic subsidies, whereby many of these subsidies subject to reduction commitments have been reallocated to the “green box” (Das, 2006; Sharma, 2006).

23 The SPS sets out the rules on food safety and animal and plant health standards. While it allows countries to set their own standards, it also stipulates that regulations must be based on science; and should be applied only to the extent necessary to protect human, animal or plant life or health. They should not arbitrarily or unjustifiably discriminate between countries where identical or similar conditions prevail. Member countries are encouraged to use international standards, guidelines and recommendations where they exist. However, members may use measures which result in higher standards if there is scientific justification. The objective of the TBT is to ensure that regulations, standards, testing and certification procedures do not create unnecessary obstacles. However, this agreement also recognizes countries’ rights to adopt the standards they consider appropriate. The agreement says the procedures used to decide whether a product conforms with relevant standards have to be fair and equitable. It discourages any methods that would give domestically produced goods an unfair advantage. Despite all these built-in safeguards against misuse, there is some evidence that both Agreements have been to use to serve protectionist ends.

24 Except where otherwise stated, the discussion in this section is based on UNCTAD, 2003a.

25 The governance of these global value chains (which defines the functional division of labour along the chain) determines the chain membership and obliges other actors to perform unwanted value-added activities, or else excludes them. Redistribution takes place in the global value chains along the axes of marginalization/exclusion and inclusion/upgrading (Gibbon and Ponte, 2005).

26 However, country-specific analysis would be necessary to shed more light on the nexus between Africa’s agricultural export performance and trade liberalization, as there are differences in agro-ecological conditions and in the quality of implementation of trade liberalization policies by different Governments, as well as in the initial conditions prevailing in different countries.

27 It should nevertheless be pointed out that the socio-economic structures that determine access to land, the gender division of labour, the control of resources and the distribution of returns from farming do not lend themselves easily to simple policy solutions in the short to medium term.

28 Specific explanations of the failure to produce large quantities of manufactured exports are provided in the section dealing with microeconomic issues.

29 For more on this specific point, see “Commodity dependence and development” by Action Aid and the South Centre available at: http://www.southcentre.org.
The sophistication index is based on the assumption that richer countries export more sophisticated products because these products must allow their high-wage producers to compete in world markets. Such products are characterized by high technology content, low transport costs, good infrastructure, marketing, etc. The sophistication index is a combination of all these factors. For details on the computation of the sophistication index, refer to Lall et al. (2006).

The least productive goods are primary commodities exported by a number of African countries. They include vegetable products, sisal and agave, cloves, and vanilla beans. The most productive goods are not produced in Africa. They include some types of iron and steel coated with aluminium, sheet piling of iron or steel, tyre cord fabric of viscose rayon, and foil of refined copper, not backed (see table 3). Interestingly, these are products that could be produced in Africa using the continent’s raw materials.

Hausmann et al. (2007) describe the concept of “cost discovery” as a process through which an entrepreneur trying to produce a product for the first time in a developing country faces a level of cost uncertainty that is much higher than the one faced by subsequent entrants. Indeed, if the first entrant is successful, he sends a signal to other potential entrepreneurs that the product can be profitably produced, reducing their search costs. In such a case, social returns are very high. On the other hand, if the first entrant fails, he bears the total cost. Therefore, in order to encourage more entrepreneurs to engage in this “cost discovery” process through which new products are “discovered”, produced and eventually exported, and given the positive externalities associated with a successful search, first entrants must be properly compensated.

Technical efficiency relates a firm’s actual production to the production frontier or the maximum possible production, taking technology as given and considering a set of inputs. Allocative efficiency, on the other hand, refers to the efficiency with which a firm allocates its production factors to minimize cost.

The issue of non-tax entry barriers is discussed in chapters 1 and 2.

The issue of credit rationing is discussed in detail later in this section.

For a detailed discussion of these policies, see UNCTAD, 2003a; UNCTAD, 2003b; and NEPAD’s Comprehensive Africa Agriculture Development Programme at http://www.fao.org/docrep/005/Y6831E/y6831e-01.htm#TopOfPage.

Considering that most Governments have already fallen short of this target, the timeline for meeting it should, perhaps, be extended to 2015.

The following measures are permitted under the agreement: increasing expenditure for agricultural research, extension, training for specific food crops (including the provision of the means to facilitate the transfer of information and results of research to producers), pest and disease control and even marketing. Sub-Saharan African Governments could also provide infrastructure in support of agricultural development without falling foul of the provisions of the agreement. These include: physical infrastructure to promote agricultural activities — including roads, electricity, water, dams and drainage schemes — environmental programmes and assistance for deprived regions. The calculation and application of the aggregate measurement of support is not product-specific, and as such guarantees some flexibility in domestic support policies, as long as global commitments reflected in individual country schedules are not exceeded. Under the special and differential treatment accorded LDCs and other poor developing countries, including sub-Saharan Africa, Governments are also free
to use a special category of production support policies, which are exempt from the calculation of a country’s current total aggregate measure of support. These policies encompass agricultural input subsidies to low-income or resource-poor producers, investment subsidies, and government assistance to encourage agricultural and rural development. These exemptions allow considerable leeway for sub-Saharan African Governments to support their agricultural sectors (Gayi, 2007; Hodge and Charman, 2007).

39 Considering the distortions that “project funds” could introduce into the budgetary process, such a fund could be disbursed through national budgets, but earmarked specifically for diversification activities.

40 For a discussion of some specific proposals on how the ongoing negotiations of the Doha Round could help improve the agricultural sector, enhance exports and address sub-Saharan Africa food security concerns, see Gayi, 2007: 313–316.

41 For some examples of United States support in the area of investment and trade in Africa, see the Statement of the United States delegate to the forty-fourth Executive Session of the UNCTAD Trade and Development Board on 9 July 2008.

42 The Comprehensive Africa Agriculture Development Programme is the outcome of a joint institutional effort by FAO, the World Food Programme, and the World Bank/Forum for Agricultural Research in Africa Partnership. The programme covers three mutually-reinforcing “pillars” with the objective of addressing the crisis in Africa’s agriculture expeditiously: (a) extending the area under sustainable land management and reliable water control systems; (b) improving rural infrastructure and trade-related capacities for improved market access; and (c) increasing food supply and reducing hunger. It also contains one long-term “pillar” on agricultural research, technological dissemination and adoption, and addresses other issues such as institutional reform, capacity-building and the role of women in agriculture. See http://www.fao.org/docrep/005/Y6831E/y6831e-01.htm#TopOfPage (assessed 12 June 2008).


44 This problem was highlighted during discussions in Burundi and Zambia in the context of UNCTAD workshops on “Enhancing the role of domestic financial resources in development” in April 2008. This is a project funded under the fifth tranche of the United Nations Development Account.
References


Export Performance Following Trade Liberalization


FAO (2008a). *FAOSTAT Online statistical database*.


**Economic Development in Africa series:**

2000 *Capital Flows and Growth in Africa* – TD/B/47/4 – UNCTAD/GDS/MDPB/7
Contributors: Yilmaz Akyüz, Kamran Kousari (team leader), Korkut Boratav (consultant).

2001 *Performance, Prospects and Policy Issues* – UNCTAD/GDS/AFRICA/1
Contributors: Yilmaz Akyüz, Kamran Kousari (team leader), Korkut Boratav (consultant).

2002 *From Adjustment to Poverty Reduction: What is New?* – UNCTAD/GDS/AFRICA/2
Contributors: Yilmaz Akyüz, Kamran Kousari (team leader), Korkut Boratav (consultant).

2003 *Trade Performance and Commodity Dependence* – UNCTAD/GDS/AFRICA/2003/1
Contributors: Yilmaz Akyüz, Kamran Kousari (team leader), Samuel Gayi.

2004 *Debt Sustainability: Oasis or Mirage?* – UNCTAD/GDS/AFRICA/2004/1
Contributors: Kamran Kousari (team leader), Samuel Gayi, Bernhard Gunter (consultant), Phillip Cobbina (research).

2005 *Rethinking the Role of Foreign Direct Investment* – UNCTAD/GDS/AFRICA/2005/1
Contributors: Kamran Kousari (team leader), Samuel Gayi, Richard Kozul-Wright, Phillip Cobbina (research).

2006 *Doubling Aid: Making the “Big Push” Work* – UNCTAD/GDS/AFRICA/2006/1
Contributors: Kamran Kousari (team leader), Samuel Gayi, Richard Kozul-Wright, Jane Harrigan (consultant), Victoria Chisala (research).

Contributors: Samuel Gayi (team leader), Janvier Nkurunziza, Martin Halle, Shigehisa Kasahara.

Copies of the series of reports on *Economic Development in Africa* may be obtained from the Division for Africa, Least Developed Countries and Special Programmes, UNCTAD, Palais des Nations, CH-1211 Geneva 10, Switzerland (fax: 022 917 0274; e-mail: africadev@unctad.org). The reports are also accessible on the UNCTAD website at www.unctad.org.