Chapter IV

TRADE, ACCUMULATION AND INDUSTRY

A. Introduction

The major challenge facing a large number of low-income, predominantly agrarian economies in Africa is how to break out of the vicious circle of low productivity and heavy dependence on a small number of primary commodities. The challenge is a long-standing one. Efforts in most countries in the years following independence tended to concentrate heavily on developing import-substituting industries in order to increase productivity and diversify the production structure. Today the emphasis has shifted to improving export performance. It has been increasingly recognized that, given the limited size of domestic markets and the dependence on the import of intermediate and capital goods, expanding export capacity and increasing international competitiveness are vital for rapid growth and development.

Meeting this challenge requires a higher level of investment and establishing a virtuous link between trade and capital accumulation. The pattern of investment is a crucial determinant of such a link. It is evident that the competitive advantage of most economies in SSA lies in the exploitation of natural resources through diversification and increased processing of resource-based products. However, although it reduces risks, diversification as such does not ensure strong and sustained growth. The challenge is to identify, support and expand activities in areas where value-added is greater, productivity growth is faster and demand elasticities in world markets are higher.

For economies at higher levels of development, particularly with better endowments in physical and human capital, improving productivity and international competitiveness depends very much on the rehabilitation of industry, particularly as regards labour-intensive products. Many of the existing manufacturing industries in Africa were established in the context of the import-substitution strategies pursued in the post-colonial era. Much of their capacity is unviable because of rapid shifts over the past decade in the global and national policy environment and changes in some of the key parameters affecting their competitiveness. The lack of a positive response to such shifts reflects, to a great extent, the failure of these industries to advance beyond the infant industry stage and their continued dependence for survival on protection and on provision of foreign exchange earned by the primary sector or secured through foreign aid. Restructuring such industries into efficient and competitive units calls for substantial investment in both physical and human capital.

A strong and sustainable investment recovery is thus a necessary condition for more outward-oriented development strategies in Africa. Linking trade to the process of capital accumulation will mean that policies are based neither simply on a drive for greater openness, nor on "picking winners", but on widening as much as possible the choice of investment opportunities across the spectrum of more dynamic sectors.

The following section analyses the level and composition of Africa's trade. The analysis shows that Africa's marginalization in world trade is a reflection of its inability to sustain a rapid growth

rate. This is followed by an examination of the region's endowments in human and physical capital and natural resources, which suggests that its export potential lies in the primary sector, even though there are unexploited opportunities in manufacturing in some countries. The subsequent section focuses on accumulation and export growth, emphasizing the opportunities for diversification and processing in the primary sector to promote non-traditional exports, and drawing on the experience of successful countries in East Asia and elsewhere. This is followed (in section D) by a brief analysis of the structure and performance of African industry and the potential for manufactured exports. The final section examines the market opportunities for exports from Africa both to the advanced industrial countries and through intraregional trade.

B. Main features of African trade

1. Level of trade

An indication of the marginal status of SSA in the world economy is the very low absolute level of its exports and its decreasing share in world trade during the past four decades, a trend which has worsened markedly since 1970. In 1995, the value of total merchandise exports from SSA, including South Africa, was $73 billion (of which South Africa alone accounted for $28 billion), which is close to the figure for Malaysia ($74 billion) but considerably less than that for the Republic of Korea ($125 billion). As table 47 shows, the trend in exports from SSA is in sharp contrast to that not only of the fast-growing East Asian NIEs, but also to that of most other developing regions. The consequence has been import compression, and, given the reliance of SSA countries on imported capital and intermediate goods, weak productivity and output growth, which adversely affect exports.

In some accounts the resistance of African policy makers to open trade regimes is advanced as an explanation of the poor overall economic performance of the continent,[1] and on this basis the conclusion is drawn that countries in SSA need to rapidly liberalize trade as the surest way of correcting the price distortions and misallocation of resources which have held back economic growth.

But do the economies of SSA indeed trade too little, given their levels of per capita income, population size and geographical characteristics? Generally, the share of trade in GDP tends to be high in small countries because the limitations of the domestic market lead to production structures that are more specialized than in larger countries. Since higher income levels are often associated with larger imports of both primary products and manufactures, a commensurate increase in exports is needed if a country is to avoid balance-of-payments problems; hence, richer countries tend to trade more. Higher transport and transaction costs associated with a number of geographical features such as distance from the world's leading traders, the extent of common borders, weak infrastructure and land-locked status tend to reduce both the competitiveness of a country's products on export markets and the opportunity costs of producing a product at home rather than importing it. The regression results reported in table 48, taking into account these factors, suggest that the ratio of trade to GDP in countries of both sub-Saharan Africa and North Africa is very much in line with their population size and per capita income. Countries in Latin America and the Caribbean on average trade less than expected, while the East Asian NIEs trade more.[2]

It thus appears that the comparatively small share of SSA countries in world trade is primarily a reflection of their small share in global output. Slow growth in traded-goods sectors explains why SSA as a whole experienced a decline in the share of exports in GDP over the past two decades in a period of rapidly growing world trade, starting from a ratio which was similar to that of the East Asian NIEs in the 1970s. It follows that the SSA

Table 47

SHARES OF DEVELOPING ECONOMIES IN WORLD EXPORTS AND IMPORTS, BY REGION, 1950-1995

(Percentages)

	1950	1960	1970	1980	1985	1990	1995
				Exports			
All developing economies	33.0	23.9	18.9	29.0	25.2	23.7	27.7
America	12.1	7.7	5.5	5.4	5.6	4.2	4.4
Africa	5.3	4.2	4.1	4.6	3.2	2.3	1.5
Sub-Saharan Africa	3.3	2.9	2.4	2.5	1.7	1.2	0.8
Asia	15.2	11.5	8.5	18.4	15.8	16.7	21.4
First-tier NIEs[a]	2.8	1.6	2.0	3.8	5.8	7.7	10.4
				Imports			
All developing economies	28.9	25.2	18.8	24.0	23.2	22.2	29.1
America	10.0	7.5	5.7	5.9	4.2	3.6	4.8
Africa	5.7	5.1	3.4	3.7	2.8	2.1	1.7
Sub-Saharan Africa	3.1	3.0	2.3	2.2	1.5	1.1	0.9
Asia	12.6	11.8	8.5	13.4	15.4	15.8	22.0
First-tier NIEs[a]	3.0	2.2	2.7	4.3	5.3	7.5	10.8

Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1997*.
a Hong Kong, China; Republic of Korea; Singapore; and Taiwan Province of China.

countries need to focus on growth-enhancing policies, rather than concentrate on trade liberalization. It is unlikely that a liberal trading regime will by itself generate a greater volume of trade unless it is accompanied by a faster rate of economic growth. An extensive econometric literature on the determinants of economic growth has been unable to confirm an independent role for openness.[3] Moreover, an examination of recent experience in East Asia as well as of specific liberalization episodes in the advanced industrial economies fails to show any direct causal link between openness and faster growth.[4]

2. Export composition and resource endowment

At least two statistical problems hamper the discussion of SSA's export structure: the unreliability of trade statistics for many countries and the arbitrary classification in those statistics of products such as non-monetary gold, uncut precious stones and some natural-resource-based chemicals, which are very important export items for a number of SSA countries, as manufactured exports.[5] Table 49 compares a number of alternative estimates regarding the share of manufactures in SSA countries' exports. Whilst the estimates differ significantly, they all confirm the general impression that manufactures, on average, account for a small share of total exports, but that there is also much variation among countries. Even on the broadest definition, manufactures account for under 15 per cent of total exports in close to two thirds of countries in SSA; on a narrower definition, the proportion is less than 10 per cent in three quarters of the countries and under 5 per cent in half. By contrast, and on most accounts, the share in Mauritius is close to 70 per cent, in South Africa

Table 48

AFRICAN TRADE IN THE 1980s IN COMPARISON: SOME REGRESSION RESULTS

(Dependent variable: Sum of ratios of exports and imports to GDP, 1980-1989 average)

	Sub-Saharan Africa dummy	North Africa dummy	NIEs[a] dummy	Latin America dummy	OECD dummy	Log (Population)	Log (Per capita income)	Log (Distance)	Gravity component of openness	Constant	R-squared	Number of observations
(1)	-3.5	0.4	27.9	-12.1	-5.5	-8.2	6.3			130.7	0.57	110
	(-0.6)	*(0.1)*	*(3.7)*	*(-2.7)*	*(-1.0)*	*(-8.3)*	*(2.6)*			*(4.2)*		
(2)	-2.6	-6.9	26.8	-17.2	-15.3	-8.6	8.0	-8.8		143.3	0.62	83
	(-0.4)	*(-0.8)*	*(3.7)*	*(-3.5)*	*(-2.2)*	*(-6.9)*	*(2.7)*	*(-1.8)*		*(4.1)*		
(3)	-12.1	-6.9	29.7	-16.6	-3.3	-9.8		-7.6		224.3	0.58	87
	(-2.6)	*(-0.8)*	*(4.0)*	*(-3.4)*	*(-0.6)*	*(-8.2)*		*(-1.5)*		*(11.6)*		
(4)	-4.9	-0.7	26.0	-4.6	1.5				0.8	30.4	0.45	116
	(-1.1)	*(-0.1)*	*(3.1)*	*(-0.9)*	*(0.3)*				*(8.8)*	*(7.1)*		

Source: Trade and population data from UNCTAD database; GDP data from Penn World Tables, version 5.6 (http://www.nber.org/pwt56.html); "distance" from R. Barro and J.-W. Lee, "Data set for a panel of 138 countries", 1994 (http://www.nber.org/pub/barro.lee); "gravity component of openness" from J. A. Frankel and D. Romer, "Trade and growth: An empirical investigation", NBER Working Paper No. 5476 (Cambridge, Mass.: National Bureau of Economic Research, 1996).

Note: t-statistics are shown in brackets. Dummy variables for the five country groupings are used to see whether Africa trades less than would be expected taking into account structural characteristics. The analysis was done for 1980-1989 because the availability of purchasing-power-parity-adjusted per capita GDP data is seriously constrained for earlier and more recent years. However, doing the analysis for the periods 1980-1992 and 1964-1992 on the basis of a reduced data set does not change the basic pattern of the results.

a Indonesia, Malaysia, Republic of Korea, Taiwan Province of China and Thailand; Singapore and Hong Kong, China, have not been taken into consideration because their very large share of trade in GDP makes them statistical outliers.

and Zimbabwe around 30 per cent, and in Kenya, Senegal and Sierra Leone around 20 per cent.[6]

The composition of African exports reflects in large part the underlying structural features of African economies, in particular their endowments in labour, human and physical capital, and natural resources. Indeed, it is generally agreed that differences in factor endowments are an important factor accounting for differences among countries in export structure. Moreover, it is recognized that there are strong complementarities between these factors, particularly between human and physical capital, which limit the possibilities of changing production and export structures. However, these factor endowments and their interrelationships are not permanently fixed. In particular, in a process of development the accumulation of capital and skills, and related changes in technological conditions, allow an economy not only to alter its growth path but also to deepen its integration into the world economy. Consequently, it is also necessary to consider the time horizon and the pace of accumulation and development when examining comparative export structures and performance.

Given that most manufacturing activities require a much higher input of capital and skill per worker than of land per worker, countries with a relatively high ratio of capital and skill per worker can be expected to export mainly manufactures, while those with a low ratio of skill per worker and a relatively high ratio of land per worker can be expected to export mainly primary products. SSA's export structure indeed corresponds to this pattern.[7] Among seven regional groupings SSA has been consistently the least skill-abundant, as measured by the number of average years of

Table 49

ALTERNATIVE ESTIMATES OF THE SHARE OF MANUFACTURES IN TOTAL MERCHANDISE EXPORTS OF AFRICAN COUNTRIES

(Percentages)

Country	UNCTAD	World Bank	Owens and Wood	Wood and Mayer	Amjadi, Reincke and Yeats	IDC[a]
	1990	1990 or 1989	1989	1989-1991	1990 or latest year available	1989-1991
Angola	6.3	0.1	..	0.3	1.0	4.8
Benin	12.4	..	26.9	4.5	3.4	..
Botswana	..	..	..	..	..	9.0
Burkina Faso	11.0	..	9.9	7.2	11.0	..
Burundi	2.0	2.0	8.7	4.0	2.0	..
Cameroon	8.4	8.5	24.7	8.2	15.2	..
Cape Verde	45.1	12.3	2.4	35.0	12.3	..
Central African Republic	48.2	48.2	29.9	2.2	48.2	..
Chad	12.7	9.0	3.8	4.7	9.0	..
Comoros	42.2	26.6	..	13.4	26.6	..
Congo	12.5	12.5	2.3	4.4	6.6	..
Côte d'Ivoire	16.8	16.8	12.3	5.7	16.8	..
Dem. Rep. of the Congo	16.6	16.6	8.7	5.1	16.6	..
Djibouti	..	7.8	11.1	57.2	7.8	..
Equatorial Guinea	..	..	..	8.9	4.0	..
Ethiopia	5.3	5.3	3.9	4.1	5.3	..
Gabon	3.4	3.4	4.8	4.0	3.4	..
Gambia	25.9	25.9	..	0.6	25.9	..
Ghana	13.4	13.4	..	3.2	13.4	..
Guinea	..	..	..	0.7	0.5	..
Guinea-Bissau	..	..	..	4.6	4.9	..
Kenya	17.3	17.3	24.2	21.1	17.3	..
Liberia	30.9	30.9	0.6	22.4	0.1	..
Madagascar	15.2	15.2	9.7	14.2	15.2	..
Malawi	4.8	4.8	8.9	4.9	4.8	9.2
Mali	1.6	1.6	2.7	0.6	6.8	..
Mauritania	0.5	0.5	6.7	0.8	0.5	..
Mauritius	68.1	68.1	26.9	61.2	68.1	64.9
Mozambique	..	17.5	..	46.4	17.5	28.4
Namibia	..	..	..	..	..	9.6
Niger	55.5	..	4.3	1.7	2.0	..
Nigeria	2.1	2.1	0.7	0.9	2.1	..
Rwanda	4.7	4.7	..	0.8	4.7	..
Senegal	22.5	22.5	21.9	13.5	22.5	..
Sierra Leone	26.1	26.1	24.3	2.6	26.1	..
Somalia	1.1	1.1	1.9	5.0	1.1	..
South Africa	34.4	34.4	28.7	28.6	34.4	28.6
Sudan	1.0	1.0	1.1	4.8	1.0	..
Swaziland	..	..	..	..	..	13.4
Togo	9.1	9.1	6.9	8.5	9.1	..
Uganda	1.1	1.1	..	0.8	1.1	..
United Rep. of Tanzania	17.5	11.8	3.6	9.9	11.8	17.8
Zambia	7.5	11.2	1.9	4.0	11.2	3.9
Zimbabwe	30.9	30.9	25.7	34.4	30.9	32.1

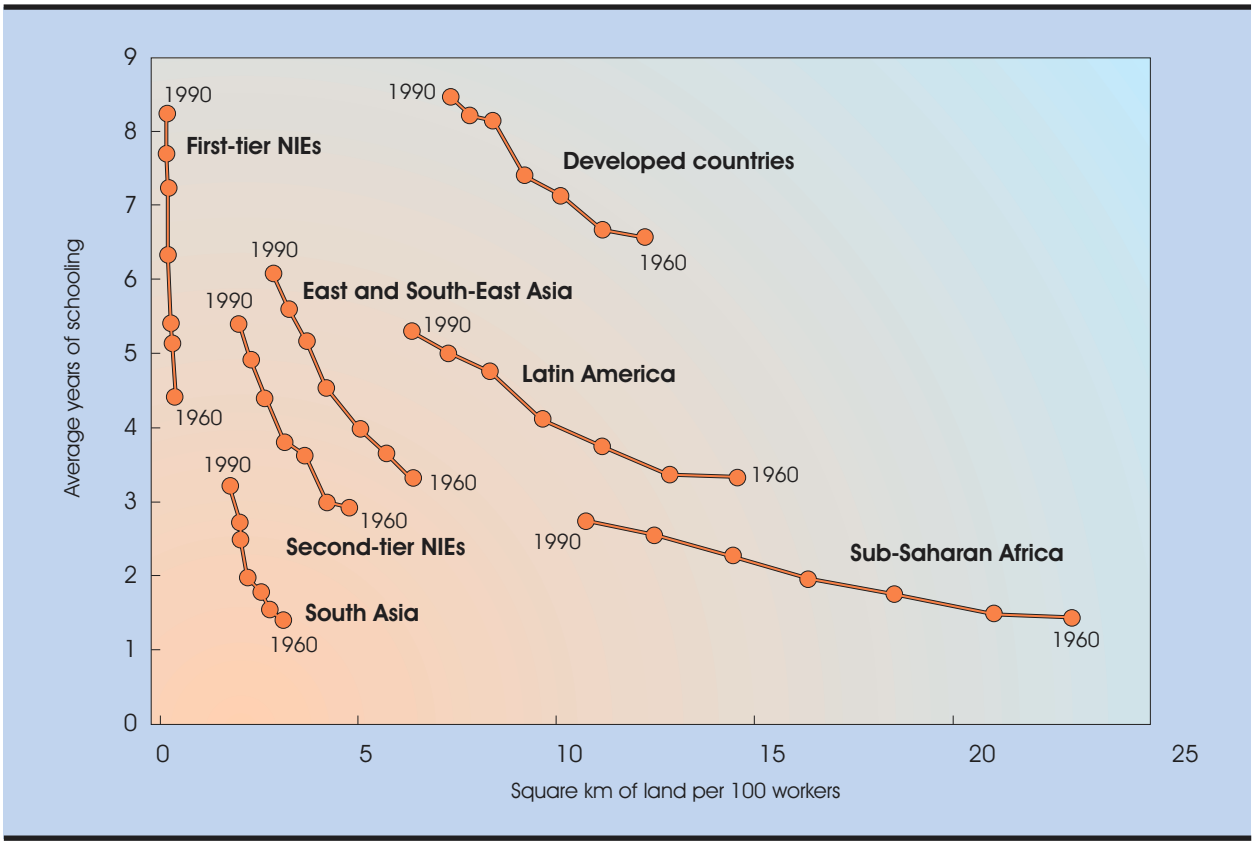
Source: UNCTAD, *Handbook of International Trade and Development Statistics, 1994;* World Bank, *World Development Indicators, 1997* (CD-Rom); T. Owens and A. Wood, "Export-oriented industrialisation through primary processing?", *World Development*, Vol. 25, No. 9, 1997, based on UNIDO data; A. Wood and J. Mayer, "Africa's export structure in comparative perspective" (Geneva: UNCTAD, 1998), mimeo; A. Amjadi, U. Reincke and A. Yeats, "Did external barriers cause the marginalization of sub-Saharan Africa in world trade?", World Bank Policy Research Working Paper No. 1586 (Washington, D.C.: World Bank, 1996).

a Industrial Development Corporation of South Africa.

Chart 24

SCHOOLING AND LAND AVAILABILITY IN DIFFERENT GROUPS OF COUNTRIES, 1960-1990, AT FIVE-YEAR INTERVALS

(Years of schooling and land per worker)



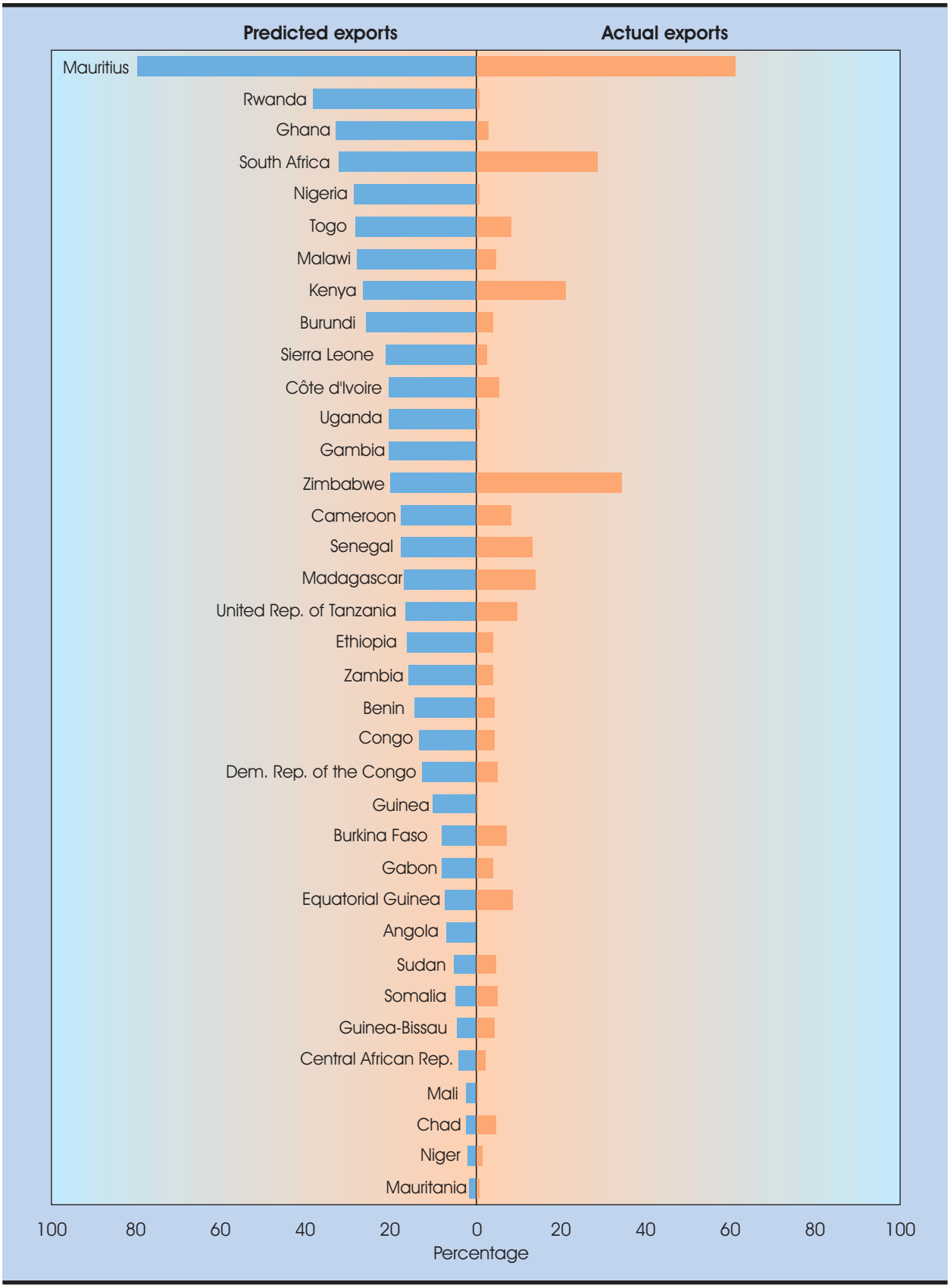
Source: R. Barro and J.-W. Lee, "International data on education" (Cambridge, Mass.: Harvard University), mimeo; and World Bank, *World Development Indicators, 1997* (CD-Rom).
Note: Data are for total land area ("land") and population over age 15 ("workers").

schooling (see chart 24). Its current resource structure is roughly the same as that of Latin America in the 1960s, and its skill-per-worker (but not its land-per-worker) endowment resembles that of the second-tier East Asian NIEs three decades ago. While the endowment structure of SSA is consistent with its low manufacturing to primary exports ratio, that ratio is actually lower than expected in comparison with other regions.

Arguments based on regional averages neglect the internal diversity of SSA. Human and, in particular, natural resources are widely dispersed among these countries. In chart 25 the actual manufactured export shares for SSA countries and South Africa are compared with the shares predicted on the basis of their relative resource endowments. Only one country in SSA – Mauritius – is predicted to be a manufacturing specialist, whilst a large majority of countries are predicted to have a manufactured export share below 20 per cent. The chart indicates, moreover, that the actual share of manufactures is lower than the predicted share for 29 of the 36 countries, equal to the predicted one in four countries, and higher in only three. The negative discrepancies exceed 10 percentage points in 17 countries and 20 percentage points in nine. It thus appears that most SSA countries export fewer manufactures relative to primary products than would be predicted from their resource endowments; this implies that they have some scope to increase the share of manufactures even without further accumulation of human and physical capital.

Chart 25

ACTUAL AND PREDICTED SHARES OF MANUFACTURES IN TOTAL EXPORTS OF AFRICAN COUNTRIES, 1990



Source: A. Wood and J. Mayer, "Africa's export structure in comparative perspective" (Geneva: UNCTAD, 1998), mimeo.

While the discrepancy between actual and predicted shares of manufactured exports may to some extent result from data errors, the evidence of untapped manufacturing export opportunities may also reflect a high degree of underutilization of human and physical capital. This means that manufactured exports may be increased without reducing primary production and exports, and thus be associated with a rise in total export earnings if conditions for greater efficiency and competitiveness can be secured.

The conventional analysis lays stress on inadequate infrastructure, inappropriate economic policies and unfavourable geography in explaining SSA's weak performance. However, the results of an analysis of the correlations for SSA countries of the discrepancies in actual and predicted manufactured export shares with variables which proxy these factors show that lack of openness, the most commonly cited measure of inappropriate policies in conventional analysis, does not provide a significant explanation. By contrast, levels of infrastructure development and the misalignment of exchange rates appear to be much more important.

Much of the unrealized potential in manufactured exports is concentrated in about a dozen countries, while in some two dozen others there is little or no immediate potential. Moreover, even where the potential exists, geographical conditions are likely to be a constraining factor, so that the possibilities of increasing the manufactured export share through improvements in policies and infrastructure may be overstated. Examples are some mineral-rich economies such as Ghana, Nigeria and Sierra Leone, as well as small land-locked countries such as Burundi, Malawi, Rwanda, Swaziland and Uganda, where high transport costs are less of an obstacle to increasing primary exports than manufactured exports, which latter depend heavily on imported inputs.

3. Diversification in the primary sector

Given SSA's resource endowments, the low share of manufactures and the high share of primary goods in its exports are not surprising. Another important aspect of SSA's export structure is that these primary exports are often concentrated on a limited number of traditional products. Consequently, SSA economies are more vulnerable to natural disasters and more exposed to adverse price movements and instability in export earnings than others. Also, they suffer more than other countries from the low price elasticity of demand for many agricultural products.[8]

Export dynamism and diversification away from primary commodities into new products with more favourable price and productivity prospects are often associated with an increasing share of manufactures in a country's export basket. However, this is too narrow an approach, particularly for countries in SSA. In the first place, emphasis solely on rapid diversification into manufactures can prejudice policy efforts aimed at maximizing the rents which arise from effective exploitation of natural resources in the initial stages of development. If properly used for investment in physical and human capital, these rents can provide a strong development stimulus. Moreover, with heightened global competition and the ability of transnational corporations to allocate different stages of production to different countries, some labour-intensive manufactures, such as apparel and computer chips, have begun to exhibit the kind of unfavourable price dynamics previously associated with primary commodities. Indeed, as discussed in *TDR 1996* (Part Two, chapter III), SSA may be particularly vulnerable to unfavourable price movements in these low-skill manufacturing activities. Finally, even though in general primary production has a smaller impact on development than manufacturing, it involves a range of activities of widely differing technological sophistication, and skill and capital intensity. Diversification into more sophisticated agricultural products can consequently provide more dynamic growth effects.

In assessing the scope for diversification within the primary sector, a distinction can be made between processed and unprocessed primary products. Although it is again difficult to avoid classification problems, processed primary products can be defined as those which are identified as manufactures in industrial and employment statistics but as primary products in trade statistics. Such goods are produced in factories but use large inputs of raw materials; they include canned food, cigarettes, paper and aluminium ingots. Processed and unprocessed primary products can be further broken down into agricultural products and minerals, metals and fuels, with a further subdivision of agricultural products into static and dynamic ones. The group of dynamic agricultural products includes items whose income elasticity of

Table 50

SHARES OF DIFFERENT CLASSES OF PRIMARY PRODUCTS IN TOTAL EXPORTS, BY REGION, 1990

(Percentages)

Region	Processed commodities			Unprocessed commodities		
	Minerals, metals and fuels	Dynamic agricultural products	Static agricultural products	Minerals, metals and fuels	Dynamic agricultural products	Static agricultural products
Sub-Saharan Africa	5.9	1.8	4.2	24.9	12.9	39.4
Middle East and North Africa	11.1	1.5	1.1	50.5	4.8	1.8
Latin America	12.3	3.5	4.9	18.5	13.6	19.0
South Asia	0.8	0.3	4.5	1.9	13.3	12.7
East and South-East Asia	3.2	3.6	5.0	13.0	6.0	9.2
First-tier NIEs	5.2	0.8	1.4	0.1	3.5	0.5
Second-tier NIEs	2.6	7.4	6.0	19.8	5.0	8.9
Developed countries	4.2	3.3	6.1	6.0	6.0	3.9

Source: See chart 25.
Note: For the distinction between static and dynamic agricultural products, see text.

demand is greater than unity and much higher than that of traditional agricultural products.[9]

Table 50 shows that agricultural products account for almost 60 per cent of SSA's exports, with nearly 40 per cent of all exports being unprocessed static products. It also shows that the share of processed exports of minerals, metals and fuels is comparable to that in other developing regions. However, processed copper from the Democratic Republic of the Congo and Zambia accounts for the bulk of these exports, and if those two countries are excluded the share is reduced considerably.

C. Accumulation and export growth

While manufactures could make a significant contribution to the growth of total exports in a small number of African countries, most countries will inevitably have to continue to rely on an expansion of natural-resource-based production. This expansion may be achieved in two ways: by increasing productivity and output in traditional products and regaining market shares; and by diversifying into more dynamic, processed primary products. Since attaining these objectives depends on technological change and creation of additional productive capacity, and hence on new investment, a sustainable growth process requires mutually reinforcing dynamic interactions between capital accumulation and exports, resulting in structural changes in the pattern of production and exports.

This dynamic is quite well known and is described in some detail in previous *TDRs* in relation to the evolution of the East Asian NIEs. In the earliest stage, when exports consist largely of primary commodities, the challenge is to maximize the rents and foreign exchange from the exploitation of natural resources, which calls for considerable investment in the primary sector, including public investment. Rising output in the primary sector then allows a surplus to be generated for investment to establish resource-based industries. As the scope for accelerating development through productivity improvement and diversification in the primary sector is exploited, sustaining growth will require a gradual shift to the production and export of manufactured goods, starting with technologically less demanding ones, and then gradually upgrading into more sophisticated products and industries.

Such a process is characterized by rising exports, savings and investment, both in absolute terms and as a share of GDP. Initial constraints on domestic resource mobilization mean that an important part of domestic investment will need to be financed by capital inflows. In this respect FDI can be one important means not only of reducing the resource gap, but also of creating employment and increasing output and exports of natural-resource-based industries. But the precise nature of its contribution will depend on how the increased current revenue and foreign exchange earnings are utilized. Over time, the resource gap should narrow as exports and domestic savings begin to grow faster than investment with the emergence of a strong national entrepreneurial class that is more inclined to reinvest profits.

Such a pattern has characterized the export-investment nexus in East Asian NIEs ever since their initial stages of development. Similar dynamic patterns have not been present in Africa, except in Mauritius and, to a lesser extent, Botswana, Egypt and Morocco (see table 51). Indeed, Mauritius provides an example of how a surplus generated in a traditional primary sector as a result of productivity gains can help to shift resources quickly into manufactured output and exports. At independence in 1968 Mauritius was still essentially a monoculture economy, dependent upon sugar exports for its foreign exchange. However, the accumulation of sugar profits saw the emergence of a local entrepreneurial class, and once the limits of import-substitution industrialization had been reached, government efforts to diversify into textile exports found a ready source of domestic savings which could be used to strengthen private and public investment in support of a more export-oriented industrial drive. In some cases sugar plantation owners themselves went directly into textile production and exports, while in others profits from sugar exports were channelled into investments in textiles through the domestic financial system.[10]

1. Expansion of traditional exports

As discussed in the previous chapters, agro-ecological conditions are difficult in many parts of SSA. However, undercapitalization is certainly a major factor in low productivity compared with other regions. Improvements in irrigation, fertilizer use and seed varieties could increase productivity and output considerably in much of SSA and at the same time make agricultural products more competitive in world markets. It is also important to note that tropical climatic conditions, seen by some as a major constraint on growth in SSA, have not prevented rapid growth in other developing regions, most notably South-East Asia.

More important, there is a large unexploited potential in minerals in some African countries. As a result of intensive exploration and prospecting, estimates of SSA's mineral reserves have been raised considerably over the past few years. Of the known world reserves, Southern Africa alone has nearly 90 per cent of platinum group metals, 85 per cent of chromium, 75 per cent of manganese and 50 per cent of gold.[11] Given the currently low level of exports in some countries, successful exploitation of mineral reserves could lead to a rapid and very substantial increase in export earnings. However, unless the physical infrastructure is improved significantly, the scope for expanding mineral exports will be limited mainly to high-value products and to countries with long coastlines.

While some minerals can be exploited by medium-sized companies with comparatively modest sunk costs, the exploitation of other minerals often requires substantial initial investments. Many existing state enterprises in the mining sector, which have traditionally involved high-cost and low-productivity operations, are unable to make these investments without major restructuring. It thus seems almost certain that FDI, whether through wholly owned operations or through joint

Table 51

GROSS NATIONAL SAVINGS, GROSS DOMESTIC INVESTMENT AND EXPORTS IN AFRICA

(Percentages of GDP)

	1968-1970			1975-1978			1986-1989			1990-1993		
Country	*Savings*	*Investment*	*Exports*	*Savings*	*Investment*	*Exports*	*Savings*	*Investment*	*Exports*	*Savings*	*Investment*	*Exports*
Benin	..	..	..	13.0	17.3	22.1	6.3	12.7	26.8	6.6	14.2	22.7
Botswana	..	..	..	8.0	35.7	42.5	34.3	24.8	71.8	31.9	36.7	66.7
Burkina Faso	..	..	..	18.1	23.2	8.7	19.8	21.0	10.4	20.9	21.4	11.6
Cameroon	..	..	..	16.1	25.4	23.6	17.5	22.3	19.3	13.4	16.1	19.4
Central African Republic	4.7	17.8	27.4	9.9	12.0	24.6	..	..	..	..	..	..
Chad	13.0	18.0	21.1	15.7	20.1	22.2	6.0	9.0	20.5	-2.3	8.8	17.1
Côte d'Ivoire	21.2	20.1	37.6	20.7	26.5	39.5	6.1	13.9	33.9	-3.0	7.6	30.6
Ethiopia	10.8	12.9	10.4	7.3	9.0	12.3	7.9	13.0	8.7	7.1	9.8	6.9
Gabon	..	..	..	54.4	58.5	51.7	20.8	35.5	40.9	25.7	23.6	47.6
Gambia	..	..	..	2.8	18.5	36.8	18.7	18.4	52.6	24.9	20.4	60.8
Ghana	8.7	12.5	20.5	7.5	8.2	11.3	6.2	11.6	17.7	4.9	14.5	17.3
Kenya	17.8	21.4	29.6	18.0	23.8	31.6	16.4	24.1	22.9	15.6	19.4	30.6
Liberia	..	..	..	29.9	31.9	55.4	..	..	..	..	..	..
Madagascar	..	..	..	5.4	8.5	16.2	11.2	11.9	16.1	4.9	11.9	16.2
Malawi	1.7	20.4	23.9	18.0	31.0	27.9	5.4	17.8	22.8	1.0	17.0	21.0
Mali	..	..	..	11.5	16.0	12.1	9.2	21.3	16.4	14.3	22.2	16.4
Mauritania	23.5	23.9	39.3	17.3	36.8	36.0	15.5	26.1	51.7	9.0	20.6	43.7
Mauritius	13.0	11.9	40.8	23.0	29.7	49.2	27.6	28.2	63.7	28.0	29.9	61.6
Niger	..	..	..	12.2	18.6	21.1	16.5	14.0	20.0	6.9	7.1	15.3
Nigeria	6.7	13.6	9.5	23.7	28.3	20.5	14.0	17.1	27.3	..	..	..
Rwanda	..	..	..	17.8	14.9	13.4	10.7	14.9	8.1	6.9	11.0	5.9
Senegal	5.5	13.6	24.3	11.7	17.3	37.1	0.5	12.0	25.0	2.9	13.2	23.9
Sierra Leone	11.2	14.4	30.3	3.6	12.5	24.7	1.1	9.7	15.9	-0.2	13.6	26.7
Togo	..	..	..	31.8	36.1	49.6	11.7	24.7	42.1	4.0	14.9	29.9
Uganda	13.5	13.5	22.5	5.1	6.7	10.3	2.9	10.8	8.0	2.8	15.1	7.6
Zambia	37.6	26.6	55.3	14.8	29.4	38.1	1.4	12.6	32.4	1.8	11.1	27.3
South Africa	24.6	28.5	23.9	24.4	26.2	30.4	22.7	19.9	29.0	16.5	15.7	24.0
Algeria	30.9	32.5	22.8	36.9	47.3	30.0	27.2	29.7	15.4	28.5	29.9	24.6
Egypt	8.8	13.2	13.9	18.4	30.5	21.8	10.0	22.4	20.9	19.3	19.0	29.5
Morocco	12.6	15.3	18.1	15.9	28.3	18.2	21.8	22.2	23.9	21.1	22.8	25.5
Tunisia	17.6	21.9	21.6	24.4	30.2	30.2	21.9	23.5	38.4	21.0	27.8	41.1

Source: UNCTAD secretariat calculations, based on World Bank, *World Tables* (tapes).

ventures, will play an increasingly important role in this sector in most African countries. Africa is home to some successful mining firms, including the world's largest mining company. But the export potential of this sector will continue to be determined by complementary public sector investments in infrastructure.

An expansion of mineral production will not by itself provide the missing economic linkages needed for a strong and sustained process of economic growth. Rather, it could offer an important source of foreign exchange earnings and government revenues which could be used to accelerate capital formation and structural change in other parts of the economy. This requires better management of the mineral sector than was often exercised in the past, when traditional concerns about ownership and control of extraction, processing and marketing activities dominated policy-making, as well as an effective macroeconomic response in order to avoid possible "Dutch disease" problems.

Botswana is a good example of a country with an effective mineral-led growth strategy and one of the highest growth rates in the world economy over the past three decades. The share of the mining sector in Botswana in GDP rose from zero in 1966 to close to 50 per cent in 1986 and currently stands at a little under 40 per cent. This development has been very closely tied to the exploitation of diamonds, which dominated foreign exchange earnings and are a major source of government revenues. Exploitation of diamonds has been carried out by a single large TNC, which, like the Government of Botswana, has a 50 per cent stake in the diamond mines. The key elements of Botswana's success have been the successful negotiation of contracts with transnational producers and the prudent management of mineral revenues, including their use for public investments in physical and human capital. Also, policy makers have avoided the urban bias common to many economies in Africa, and have channelled resources to improving agricultural growth and productivity. However, despite these achievements, serious doubts about its heavy dependence on a single commodity remain, and in recent years Botswana has tried to diversify the range of activities linked to the exploitation of diamonds as well as its range of primary exports.

A crucial question is to what extent attempts to expand traditional exports may encounter a fallacy-of-composition problem, leading to falls in prices and even in export earnings. Experience shows that such a possibility cannot be ruled out, particularly for the main export crops of the region.[12] However, rapid growth in the resource-poor Asian countries, including China and India, can alter the demand conditions for all sorts of primary products, including traditional agricultural commodities and minerals. Nevertheless, expansion in traditional products would require a careful assessment of potential costs and benefits, particularly if it needed substantial investment. Moreover, problems associated with shifts from food crops to export crops, discussed in chapter II, would also need to be kept in mind.

2. Non-traditional exports

The case in favour of processing and diversification into non-traditional exports is well established. They should help improve the stability of export earnings and reduce the risks of investment.[13] Perhaps, and most significantly, they hold out the possibility of establishing activities which offer greater potential for deepening a country's technological base and skills profile, and of entering markets with a comparatively high income elasticity of demand.

However, the link between diversification into new primary products and overall export performance is not a simple one. While diversification may stabilize export earnings, it does not as such help establish a dynamic investment-export nexus. It has to encompass products with greater supply and demand potentials, and be accompanied by policies designed to translate increased incomes into faster capital accumulation. Moreover, new products may require considerably higher levels of capital and skill which may be more productively employed in the traditional sector in generating export earnings.

Again, processing does not always add value to primary products. When the technology is old and inefficient, it may be more rational to export the primary product without processing it; this appears to be the case, for example, regarding cashew nut exports in some Southern African countries. Sometimes inefficient processing can put domestic industries producing final consumer goods at a disadvantage in international markets if such industries are forced to purchase processed materials from high-cost domestic firms. That

appears to be true of some consumer durable industries in Southern Africa, where metal sheets supplied by domestic producers cost much more than if obtained in world markets.[14]

Thus, not all economies with diversified production and export structures achieve a rapid rate of accumulation and income growth. Indeed, according to one study for the period 1970-1985, for nine of the 11 countries which diversified into new products, real export earnings actually declined or remained stagnant. Of the eight countries which experienced growth in real export earnings during this period, only two did so on the basis of a diversified export profile.[15]

As discussed earlier, there are some agricultural products which have a dynamic potential because of their high unit value and high income elasticity of demand. Successful diversification into such products generally requires introduction of new technologies, efficient management and marketing techniques. If these are put in place, positive linkages may be created with domestic industry in the food, beverages and tobacco sectors. Such linkages are likely to favour a greater export orientation, as well as the emergence of domestic firms processing agricultural commodities that are large enough to compete in international markets. The need to establish such firms is essential if a strong profit-investment-export nexus is to emerge in SSA.

East Asian experience holds some useful lessons in diversification and processing based on the primary sector. Unlike the first-tier East Asian NIEs, three economies of South-East Asia (Indonesia, Malaysia and Thailand) were able to exploit a rich natural-resource base which provided considerable scope for accelerated growth through diversification and increased processing of resource-based products. Between 1967 and 1975 the share of primary exports in total non-oil exports of these three countries fell, but the average in 1975 was still over 87 per cent. Moreover, the share of some key primary commodities rose during this period: in Indonesia the share of non-food primary products rose from 70 per cent to 73 per cent; in Thailand the share of food exports rose from 55 per cent to 64 per cent of total exports; and in Malaysia a more pronounced drop in the share of primary exports during this period coincided with a successful diversification into palm-oil and cocoa processing as well as into rubber, wood and paper products. In Thailand, too, there was diversification into food exports such as fish products, as well as into wood and paper products and non-metallic mineral products. In Indonesia, where diversification has been slower, there was a move into timber and from the mid-1970s into wood and paper products. Nevertheless, in 1985 more than two thirds of these countries' non-oil exports were accounted for by primary and resource-based industries with a low skill, capital and technology content, and for Indonesia alone the proportion was over 85 per cent.[16]

Even traditional products such as timber can offer considerable potential for diversifying into more processed products and into simple manufactures. In Indonesia, plywood exports grew significantly during the 1980s following the country's move into wood and paper products in the 1970s. Malaysia has also significantly increased its processed timber exports, particularly plywood and furniture.[17] Such processing is particularly relevant for countries such as Cameroon, Gabon and Ghana, which have already moved successfully into timber exports.

Attracting FDI offers possible advantages in these early stages of diversification, given the ready access of affiliates to capital, technology and marketing networks of the parent TNC. However, successful diversification experiences in these dynamic agricultural sectors suggest that public sector support and domestic investment are an equally crucial ingredient. For example, the great expansion of Chile's exports of non-traditional and dynamic agricultural goods such as fruit, forestry and wine products since the mid-1980s has been premised on a strong recovery in domestic private investment. However, it is difficult to imagine that this private investment would have materialized without earlier public investment in agricultural and forestry education, research and infrastructure development. Foreign direct investment has been an important source of new marketing channels and technology, which has been adapted by domestic producers.[18]

A similar experience characterizes the strong performance of South-East Asian agro-exporters.[19] Malaysia's highly successful development of dynamic agricultural exports such as palm oil, as well as of processed exports in the cocoa and rubber sectors, has been based on the emergence of comparatively large production units and strong policy support, particularly for product-specific research (see box 7).

Box 7

THE PALM OIL INDUSTRY IN MALAYSIA

The emergence and the rapid growth of export-oriented palm oil production and processing have been a remarkable factor in Malaysia's economic development.[1] In less than 20 years the palm oil refining industry, which had a capacity of less than 40,000 tons of crude oil feedstock in the early 1970s, grew into a large export-oriented industry. Today it processes 99 per cent of the domestic crude palm oil and crude palm kernel oil, i.e. 8 to 9 million tons per year. This is an estimated 60 per cent share of world refined palm oil products (or 70 per cent of their world trade) and about 10 per cent of world oils and fats (or 25 per cent of their world trade).

The Government encouraged diversification into palm oil in response to sharp fluctuations in rubber prices in the 1950s and declining rubber prices in the 1960s, as well as in anticipation of the inevitable exhaustion of tin deposits. Diversification into palm oil was favoured by a number of factors, including the growing international demand for palm oil, Malaysia's favourable factor endowment regarding both physical resources (climate, topography and plantation infrastructure) and human resources (plantation management and agro-economic expertise), and the lower labour intensity of palm oil production, compared with rubber production; this last factor became more important with the increasing shortage of labour on estate plantations.

Research efforts supported by both the Government and the private sector have been an important element in the success of the palm oil industry. In 1979, the Government established the Palm Oil Research Institute of Malaysia (PORIM) with a view to expanding the current consumption of palm oil products, finding new uses, improving production efficiency and product quality, and promoting the marketability of palm oil products. PORIM has two notable features: it has been funded mainly by the industry itself through a levy on production, and a joint committee of industry and government representatives has been in charge of deciding its research programme. These features have ensured both the continuous availability of research funding and the responsiveness of research to the needs of producers.

The Government has actively encouraged downstream processing and refining of palm oil, with a view to building a resource-based industrial sector. Crucial in this effort has been the policy to partially exempt processed palm oil products from export duties, depending on the degree of processing. The ensuing massive investment in processing capacity led to intense competition among refiners, which forced them to enhance their industrial and technological capabilities rapidly. As a result, within a decade Malaysia was able not only to reach the world technological frontier in palm oil refining, but even to push back this frontier.

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[1] For a more detailed account of the role of government policies in the development of the Malaysian palm oil industry see M. Jelani and B.M. Malek, "Support policies for the Malaysian palm oil industry", paper presented at the FEDEPALMA International Conference, Barranquilla, Colombia, 2-9 June 1995; K.S. Jomo and M. Rock, "Economic diversification and primary commodity processing in the second-tier South-East Asian newly industrializing countries", UNCTAD Discussion Paper No. 136 (Geneva, 1998); and UNCTAD, "Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution: Malaysia" (UNCTAD/COM/73, 1995).

A number of SSA countries have also diversified into dynamic agricultural exports during the 1980s and 1990s, although absolute export earnings are, in most cases, still small (table 52). Kenya, the United Republic of Tanzania and Zimbabwe have successfully developed horticultural exports, and other countries, such as the Gambia, are beginning to develop export capacity in these products. Apart from a number of small exporters that have been able to establish business connections overseas through family ties, foreign firms with easy access to production inputs and marketing networks have often been dominant in these cases.

The provision of high-yielding varieties and other commercially applicable results of agricultural research is likely to be an important element in SSA's strategy to increase productivity in agri-

Table 52

EXPORTS OF DYNAMIC AGRICULTURAL PRODUCTS[a] FROM SELECTED REGIONS AND COUNTRIES, 1980-1994

(Millions of dollars)

Region/country	*1980*	*1985*	*1990*	*1992*	*1994*
Africa	2 540	2 290	3 477	3 522	3 853
Sub-Saharan Africa	1 524	1 403	1 878	1 877	2 050
of which:					
Cameroon	25	12	58	74	97
Côte d'Ivoire	298	272	319	335	366
Kenya	79	79	125	142	153
Senegal	198	238	400	280	212
Zimbabwe	44	42	37	34	62
Egypt	131	168	159	206	158
Tunisia	138	146	311	310	352
Memo items:					
All developing countries	29 023	32 819	52 873	59 419	71 247
Brazil	3 965	4 997	5 636	5 793	7 244
Chile	585	887	1 840	2 322	2 406
Malaysia	1 724	2 237	2 551	3 178	4 488

Source: UNCTAD database.

a Meat and meat products; dairy products; fish and fish products; fresh and processed fruit, vegetables and nuts; feedstuffs; oilseeds; vegetable and animal oils; and spices.

culture and to further shift exports towards dynamic agricultural products. However, as noted in the last chapter, research expenditure in SSA stopped growing in the late 1970s and has been considerably lower than elsewhere. Donor support for agricultural research has increased and somewhat compensated for declining government funding, but it is unlikely that such high levels of donor funding will continue indefinitely.[20] Strengthening African agricultural research needs to take into account the high degree of location specificity of agricultural technology which has made technology transfer from developed countries to SSA difficult. It is encouraging to note, however, that many SSA countries have recently strengthened their cooperation in agricultural research and that a number of regional projects have been implemented.[21]

D. Industry and competitiveness

While in many African economies there is considerable scope for increasing productivity in the primary sector, in the longer run a more determined shift towards promoting manufacturing production and exports will be required in order to maintain rapid productivity growth. So far, industrial performance has generally been poor, and in SSA only a few countries are currently able to move more strongly into labour-intensive manufacturing exports. On the other hand, some countries in Southern and North Africa are already close to the limits of the initial expansion of manu-

facturing that can be achieved on the basis of abundant labour alone and increasingly require upgrading of skills and technology for further manufacturing growth.

1. The structure and performance of industry

Available data indicate that the manufacturing share in the GDP of Africa (excluding South Africa) is low even by the standards of other developing regions. In 1995, it was only 11.5 per cent compared with 21 per cent for Latin America and 24 per cent for South and East Asia. Africa's share in that year in the manufacturing value-added (MVA) of all developing countries was only 5.5 per cent, a decline from the already low level of around 6.9 per cent in the mid-1980s.[22] Moreover, in absolute terms MVA grew only slightly in SSA between 1980 and 1990 and has even fallen since then, in sharp contrast to developing countries elsewhere.

As a result, the absolute gap in manufacturing output between SSA and the rest of the world has increased significantly over the past 20 years. In the early 1990s, the MVA of all SSA countries was at about the level of Indonesia and Turkey, while it had been three times that of Indonesia in 1970. As regards the distribution in Africa, there is, as already noted, a wide dispersion among countries. South Africa accounts for about the same MVA as all SSA countries combined, among which Cameroon, Côte d'Ivoire, Kenya, Nigeria and Zimbabwe have the greatest manufacturing activity. In per capita terms, only Mauritius and South Africa have established a strong manufacturing base comparable to that of middle-income countries such as Turkey (chart 26). A number of North African economies, in particular Morocco and Tunisia, also compare favourably with successful second-tier East Asian NIEs, such as Indonesia. However, an examination of trends in per capita manufacturing output shows that while there were 14 countries in SSA with per capita manufacturing comparable to and in many cases considerably higher than that in Indonesia in 1980, all (for which data are available) had been overtaken by 1995.

Most countries in SSA have not reached the threshold level of manufacturing which could help them break out of the vicious circle restricting entry into foreign markets; output is mainly for their domestic markets. This situation contrasts with that of East Asia, where support and protection given to these industries were made conditional upon successful export performance from the very early stages of their establishment. Consequently, manufacturing industries in Africa have not been exposed to market discipline through exports, and in addition they have failed to benefit from the scale advantages needed to compete internationally. These factors have, in turn, further restricted the development of such industries to small and sluggish domestic markets, perpetuating high costs and giving rise to inefficiencies and low levels of productivity.

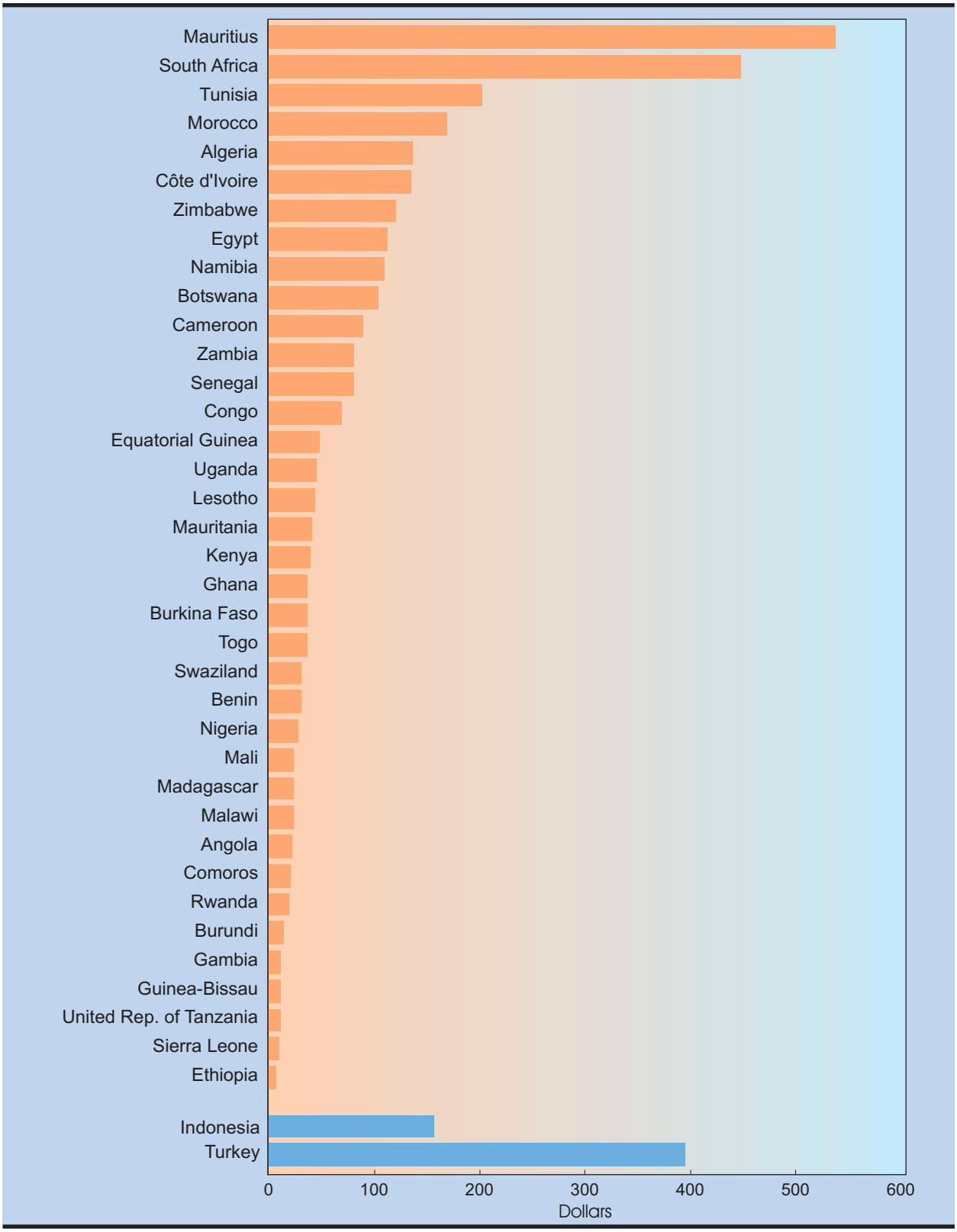
The food industry appears to dominate manufacturing in the non-mineral African economies, while the group of other manufactures, which includes petroleum and metals, accounts for a substantial share in the other countries (see table 53). The importance of the food, beverage and tobacco sectors in manufacturing and the small share of manufactures in total exports confirm the importance of the domestic market in the development of manufacturing in SSA. By contrast, the share of manufacturing activities which are most likely to provide strong developmental effects is very small.

This situation, in part, reflects mistaken policy choices in the first stages of industrialization. The principal role assigned to manufacturing in SSA countries even prior to independence was to produce non-durable consumer goods for the domestic market in an attempt to replace imports. This first attempt at changing the structure of domestic production did not in most cases require sophisticated government interventions to alleviate the market coordination failures which often characterize modern industrial activities. Moreover, since transportation costs were typically high in SSA, such goods could be cost-competitive with imports even when domestic production costs were high by international standards. However, in most cases, this strategy failed to strike the kind of balance between domestic and export-oriented activities which is needed in order to improve the balance-of-payments situation and promote industrialization. This lack of balance was reflected in the virtual absence of efforts to promote manufactured exports, and, together with high costs, it dampened any ambitions that manufacturers might have had to penetrate and secure a sure foothold in export markets.[23]

Chart 26

MANUFACTURING VALUE-ADDED PER CAPITA IN SUB-SAHARAN AFRICA, SOUTH AFRICA, INDONESIA AND TURKEY, 1995

(In constant 1987 dollars)



Source: World Bank, *World Development Indicators, 1997* (CD-Rom).

Note: Data for Benin, Burkina Faso, Equatorial Guinea and Namibia are for 1994, and those for Côte d'Ivoire and Zimbabwe are for 1993.

Table 53

SHARES OF SELECTED PRODUCT GROUPS IN TOTAL MANUFACTURING VALUE-ADDED IN AFRICA, BY COUNTRY, 1970 AND 1993

(Percentages)

	Food, beverages and tobacco		*Textiles and clothing*		*Machinery and transport equipment*		*Chemicals*		*Other manufactures*[a]	
Country	*1970*	*1993*	*1970*	*1993*	*1970*	*1993*	*1970*	*1993*	*1970*	*1993*
Algeria	32	13	20	14	9	15	4	5	35	54
Burkina Faso	69	..	9	..	2	..	1	..	19	..
Cameroon	50	26	15	12	4	1	3	8	27	54
Congo	65	..	4	..	1	..	..	..	29	..
Côte d'Ivoire	27	35	16	11	10	7	..	..	47	47
Egypt	17	21	35	13	9	13	12	13	27	40
Gabon	37	..	7	..	6	..	6	..	44	..
Ghana	34	36	16	5	4	2	4	10	41	47
Kenya	33	42	9	9	16	10	9	9	33	30
Libyan Arab Jam.	64	..	5	..	0	..	12	..	20	..
Madagascar	36	..	28	..	6	..	7	..	23	..
Malawi	51	..	17	..	3	..	10	..	20	..
Mali	36	..	40	..	4	..	..	..	20	..
Mauritius	75	..	6	..	5	..	3	..	12	..
Mozambique	51	..	13	..	5	..	3	..	28	..
Rwanda	86	..	..	..	3	..	2	..	8	..
Senegal	51	58	19	2	2	3	6	14	..	23
Sierra Leone	..	69	..	1	..	..	..	..	..	30
Somalia	88	..	6	..	..	..	1	..	6	..
South Africa	15	16	13	8	17	18	10	10	45	48
Sudan	39	..	34	..	3	..	5	..	19	..
Swaziland	37	..	2	..	..	..	..	..	60	..
Tunisia	29	..	18	..	4	..	13	..	36	..
U. R. of Tanzania	36	..	28	..	5	..	4	..	26	..
Zambia	49	..	9	..	5	..	10	..	27	..
Zimbabwe	24	33	16	16	9	6	11	4	40	41

Source: World Bank, *World Development Indicators, 1997* (CD-Rom).

a Wood and related products, paper and related products, petroleum and related products, basic metals and mineral products, fabricated metal products, and professional goods and miscellaneous manufactured articles.

2. *The competitiveness of manufacturing exports*

As noted earlier, there is potential for expanding manufactured exports in a small number of countries in SSA. However, the question arises whether current manufacturing structures lend themselves to a more export-oriented development path. In the absence of selective export promotion policies, competitiveness depends on the behaviour of real wages, on productivity growth and on the real exchange rate. A comparison of unit labour costs in African countries and some potential competitors in a number of manufacturing sectors in 1995 shows that in most cases costs

Table 54

UNIT LABOUR COSTS IN SELECTED COUNTRIES AND INDUSTRIES, 1980 AND 1995

(Ratios to the United States level)

	Textiles		Clothing		Transport equipment		Footwear	
Country	1980	1995	1980	1995	1980	1995	1980	1995
Ghana	0.79	1.05	0.53	..	0.84	..	5.26	..
Kenya	0.97	1.61	1.07	0.65	1.57	2.25	0.43	1.13
Madagascar	0.75	0.49	0.59	1.24	0.73	1.28	0.77	0.59
Mauritius	0.67	0.96	1.08	1.53	1.02	1.28	0.81	0.57
United Rep. of Tanzania	0.90	..	0.87	..	0.64	..	1.23	..
Zimbabwe	0.71	0.69	1.07	1.30	1.01	0.98	1.02	0.97
South Africa	1.01	1.45	1.45	1.88	1.23	1.35	1.22	1.48
Egypt	1.28	1.45	1.15	1.02	1.55	1.48	1.50	0.30
Morocco	1.16	1.33	1.45	1.64	1.33	1.24	1.46	..
Tunisia	1.37	..	1.24	..	0.95	..	1.15	..
Bangladesh	1.04	1.81	0.77[a]	0.87	0.73	0.35	0.49	0.71
Indonesia	0.58	0.32	1.14	0.95	0.40	1.46	0.45	0.85
India	1.16	1.09	1.19	0.46	1.25	1.46	1.65	0.60
Republic of Korea	0.74	0.81	0.79	0.91	0.76	0.80	1.01	1.03
Turkey	0.69	0.42	0.71	0.39	0.98	0.63	1.06	0.60

Source: UNCTAD secretariat calculations, based on UNIDO, *Handbook of Industrial Statistics, 1988*, and *International Yearbook of Industrial Statistics*, various issues.

a 1983.

in Africa were much higher than in competing countries such as Bangladesh, India and Indonesia (table 54). Moreover, in general, unit labour costs in Africa actually increased after 1980 relative to those in competing countries, even though in many cases real wages stagnated or even declined.[24] On the other hand, some African economies with relatively high wages, such as Mauritius, Morocco and South Africa, have been among the region's most successful exporters of goods such as textiles, clothing and footwear. Strong productivity growth in these economies has been a key ingredient of their export success.

A more comprehensive competitiveness indicator, taking into account exchange rate, wage and productivity movements, is presented for selected African countries in table 55. From the early 1980s to the mid-1990s, the aggregate competitiveness indicator improved for some of these countries, and for Egypt quite spectacularly. However, it appears that this was largely due to a combination of currency depreciation and significant cuts in real wages; investment has actually fallen significantly. In a number of countries strong productivity and investment growth has been offset by currency appreciation or rapidly rising wage costs. The pattern of strong investment and productivity growth, combined with moderate growth in real wages and relatively stable currencies – a pattern found in India, Indonesia and Turkey – still appears to be absent from Africa.

Many African firms which have moved successfully into exports in areas such as textiles and clothing have done so because substantial investment in new equipment and quality control facilities has made it possible to build links with foreign dis-

Table 55

COMPETITIVENESS INDICATORS FOR MANUFACTURES IN SELECTED COUNTRIES, 1995

(Index numbers, 1985 = 100)

	(1)	(2)	(3)	(4)	(5)	(6)
					Memo items	
Country/region	Real exchange rate[a]	Real wage costs in manufacturing[b]	Labour productivity[c] in manufacturing	Aggregate competitiveness indicator[d]	Employment in manufacturing	Investment[e]
Ghana[f]	250.8	259.1	187.5	181.4	128.2	105.2
Kenya[g]	85.2	76.3	69.6	77.7	108.4	93.2
Mauritius[h]	84.5	165.5	165.6	84.5	150.4	108.3
Zimbabwe[i]	143.7	81.1	82.7	146.5	90.2	103.5
South Africa[f]	66.9	105.7	118.0	74.7	94.3	95.2
Egypt[f]	180.2	63.5	121.3	344.2	116.0	90.3
Morocco	78.3	101.6	144.3	111.1	167.2	92.9
Indonesia	140.5	155.8	182.0	164.1	248.6	111.6
India[f]	169.8	116.1	167.2	244.6	119.0	100.6
Republic of Korea	71.3	248.3	283.4	81.4	119.6	107.5
Turkey[h]	121.5	181.2	237.8	159.4	110.6	105.1

Source: Exchange rate and price data from IMF, *International Financial Statistics Yearbook 1997;* investment and GDP data from World Bank, *World Development Indicators, 1997* (CD-Rom); all other data from UNIDO, *International Yearbook of Industrial Statistics*, various issues.

a Price-deflated bilateral exchange rate with the dollar; an index number higher than 100 indicates a real depreciation of the local currency since 1985.

b Nominal wage costs deflated by the index of wholesale prices, where available, otherwise by that of consumer prices.

c Real value-added per worker.

d Calculated by multiplying the ratio of value-added per worker in manufacturing (column 3) to real wage costs in manufacturing (column 2) by the real exchange rate (column 1).

e Index of the ratio of gross domestic investment to GDP.

f 1985-1993.

g 1991-1995.

h 1985-1994.

i 1994 (1989 = 100) except for investment/GDP, which is for 1993 (1989 = 100).

tributors.[25] Effective marketing is closely tied to product quality and reliability even for labour-intensive products, and investment in human and physical capital is often a prerequisite for establishing a reputation as a reliable trading partner. Successful African manufacturing firms have invested in marketing either in-house or through links with marketing services, and in some countries public institutions have been particularly important through organizing trade fairs and handling trade formalities. Where foreign marketing firms have been used extensively there does not appear to have been, except in Mauritius, the transfer of capabilities that was typical of the East Asian experience.

The experience of the second-tier NIEs in South-East Asia is again instructive for SSA. As in the case of their north-eastern neighbours a decade or more earlier, a decisive element in the shift of these economies to labour-intensive manufactured exports was the combination of private and public investment with supportive trade and industry policies.[26] Manufacturing became the leading economic sector, in terms of share of GDP,

in the late 1970s in Thailand and in the early 1980s in Malaysia, but in Indonesia not until the early 1990s. In all these countries manufacturing was built up through a fairly prolonged period of import-substitution industrialization (ISI), which helped to build local capabilities in light and resource-based manufacturing. As in SSA, food, beverages and tobacco were the dominant sectors in MVA in these countries. However, a more diversified manufacturing structure emerged under ISI than has been the case in most SSA countries, and these sectors subsequently formed an important part of the exporting capacity of countries in South-East Asia, often through the close involvement of foreign firms, particularly in labour-intensive clothing and electronics sectors.[27] In all three countries a number of resource-intensive sectors emerged under ISI, which subsequently acquired export capacities, including jewellery, food processing and wood-based products.

E. The markets for African exports

For developing countries, success in entering the expanding areas of international trade holds the key to sustaining growth based on successful export performance. Such trade is not always confined to products with high income elasticities. International trade can expand for different reasons and with vastly different implications for the longer-term growth of national economies. Liberalization in fairly sluggish but large markets and in products with moderate or even low income elasticities can offer ample export opportunities for small developing countries, particularly in OECD markets, where expansion of trade is associated not so much with rapid growth as with shifting competitive positions. However, only a handful of developing countries have so far been able to penetrate and increase their shares in expanding areas of trade in these highly competitive markets.

The potential for increasing manufactured exports, particularly at the lower end of the skill spectrum, is also considerable not only to advanced economies but also to the NIEs, where rapid economic growth and industrial upgrading have opened up new market opportunities for less developed countries. Moreover, the possibilities for greater trade with other developing countries, and particularly intraregional trade, also need careful consideration in the creation of more export-oriented manufacturing sectors in SSA. Intraregional trade can provide an initial step in the acquisition of the necessary skill and know-how before the challenges are met in the more demanding markets of advanced economies.

1. OECD markets

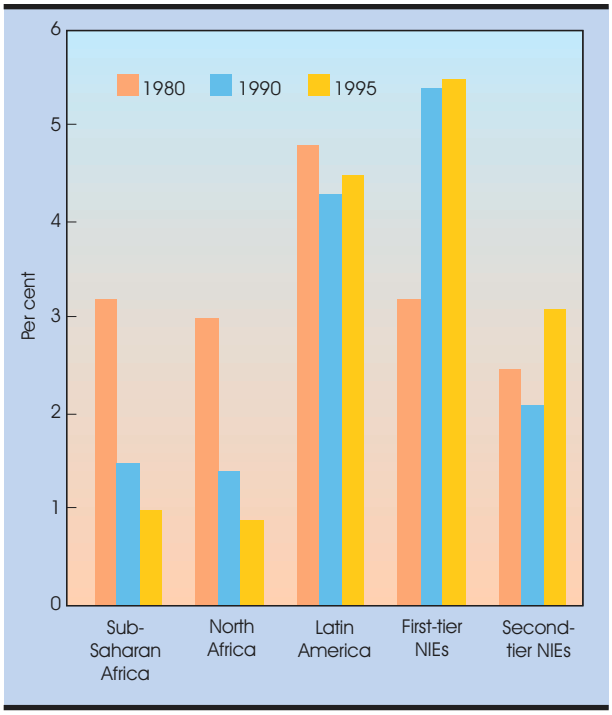
African countries have been much less successful in the markets of advanced industrial economies than most other developing countries over the last decade. The shares of both SSA and North Africa in total OECD imports have dropped significantly since the beginning of the last decade (chart 27). From 1980 to 1995 the share in both cases declined from more than 3 per cent to around 1 per cent, whereas the share of the first-tier East Asian NIEs rose from 3.5 per cent to 5.8 per cent, and that of Latin America was relatively stable at around 5.0 per cent. Moreover, SSA had a share similar to that of the second-tier East Asian NIEs in 1980, whereas the share of the latter group of countries had risen to three times that of SSA by 1995.

A more detailed analysis, based on data from ECLAC's Comparative Analysis of Nations (CAN) system, permits a classification of exports by their dynamic market position in OECD markets.[28] As explained in detail in *TDR 1996*, a dynamic/competitive position materializes when a country increases its share in the market for a dynamic product, defined as one for which trade is growing faster than the average for all products; such a product is called a "rising star". Similarly, an undynamic/competitive position is one where a country's share is rising in the market for a product for which trade is growing more slowly than the average for all products; such a product is called

Chart 27

SHARES OF SELECTED REGIONS IN TOTAL IMPORTS OF OECD COUNTRIES, 1980, 1990 AND 1995

(Percentages)



Source: OECD, *Monthly Statistics of Foreign Trade*, various issues.

Note: First-tier NIEs are Hong Kong, China; Republic of Korea; Singapore; and Taiwan Province of China. Second-tier NIEs are Indonesia, Malaysia and Thailand.

a "declining star". The corresponding positions where a country is becoming uncompetitive are called "lost opportunities" (trade for the product is growing above average) and "setbacks" (trade for the product is growing below average).

A country should strive to have a large number of rising stars, i.e. aim at increasing the share of dynamic products in its total exports. This has been the basis of the success of many East Asian economies. Having an increasing share of its exports in the lost-opportunities category means that while these dynamic products have secured a higher share in the country's export basket, the country itself has lost market shares for these products. An increasing share of declining stars in a country's export basket means that these products have become more important in the country's exports, indicating that the country itself has become more competitive in these sectors, but that the sectors' evolution in world trade is below average. Even though such a position has positive aspects from the point of view of competitiveness and may increase exports, a growing share of these stagnant products in a country's export basket will not improve the economy's dynamic potential over the medium term. A number of Latin American countries are in this position.[29]

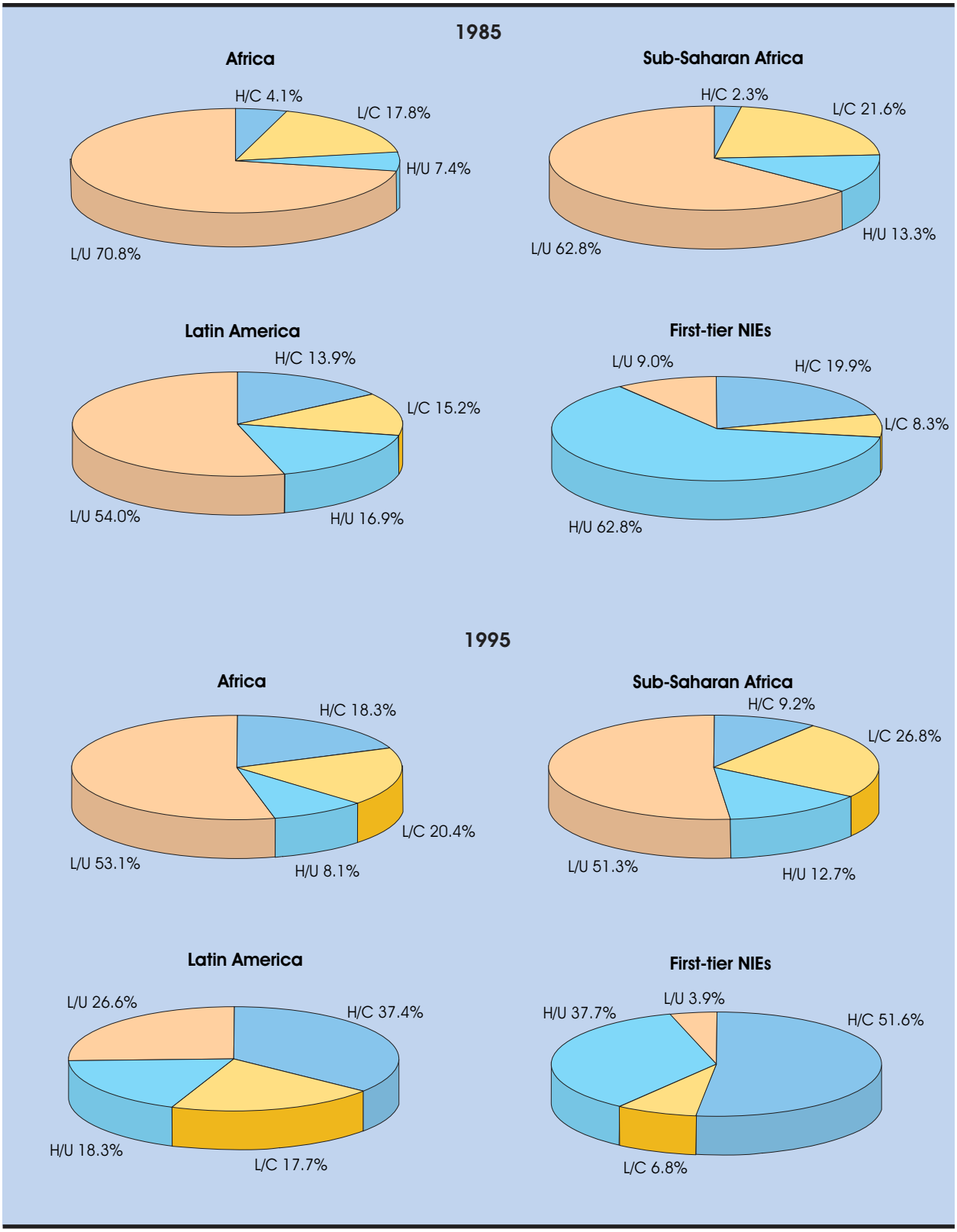
A comparison of the evolution between 1985 and 1995 of the shares for the four product categories in total exports of four developing regions shows that both Africa as a whole and SSA have increased the share of rising stars in their export baskets (chart 28). Moreover, they have by and large kept constant the share of the other group of dynamic products (lost opportunities). However, the share of these products in Africa's exports is far smaller than in the other regions; they account for about one fourth of the total for the whole of Africa and about one fifth for SSA, compared with more than half for Latin America and about 90 per cent for the East Asian tigers. In general, Africa, and in particular SSA, export a relatively high proportion of products for which growth is not above average.

2. Opportunities for intraregional trade

At various times during the past three decades, SSA countries have, with varying degrees of determination, made efforts towards regional integration. Increased regional trade and investment indeed offer a means of overcoming the constraints on individual countries related to their small size and of breaking away from their traditional export structure. Moreover, the regional context is useful for learning to adapt to the pressures of international integration, particularly the challenges of increased global competition. For manufacturing sectors which are traditionally oriented towards the domestic market and internationally uncompetitive, increased regional trade and investment can be a first step towards closer integration with the world economy. It would allow enterprises to gain experience in competing in foreign markets and dealing with customs and other trade-related regulations; hence, they would gradually enhance their capacity to export to more demanding global markets. Moreover, certain types of exports in such areas as agricultural machinery and other farm implements can often capture a

Chart 28

DYNAMISM AND COMPETITIVENESS OF EXPORTS FROM SELECTED DEVELOPING REGIONS, 1985 AND 1995



Source: ECLAC, Comparative Analysis of Nations database.
Note: H/C: highly dynamic/competitive position (rising market share for highly dynamic products);
L/C: less dynamic/competitive position (rising market share for less dynamic products);
H/U: highly dynamic/uncompetitive position (falling market share for highly dynamic products);
L/U: less dynamic/uncompetitive position (falling market share for less dynamic products).

wider regional market because they have to suit local climatic and physical conditions. In learning to adapt to these conditions firms can also build up innovative capacities which can subsequently be used to enhance their competitiveness in other markets.[30] Similar considerations can apply to labour-intensive products such as textiles and clothing, jewellery products and wood products, where design can provide regional niche markets.

A regional pattern of industrialization involving a progressively deeper regional division of labour where trade and investment flows link developing countries at different levels of development has been an important part of successful growth stories in East Asia. Replicating this kind of experience is an attractive prospect for SSA. But greater intraregional trade can also have benefits globally. The immediate impact of additional exports from one SSA country to another may be a reduction in the share and level of imports from developed countries, i.e. trade diversion. However, given that the increased exports are likely to lead to faster economic growth, imports from developed countries can over time also grow faster, thereby making up for the initial loss. Hence, ultimately, increased intraregional trade among developing countries can have a global trade-generating effect.

Table 56 suggests that between 1988 and 1996 most SSA countries shifted their exports away from industrialized countries, and that intra-African trade expanded considerably, while the opposite occurred in North African countries.[31] For example, in 1996 five countries – Côte d'Ivoire, Kenya, Malawi, Senegal and Zimbabwe – exported more than 20 per cent of their products to Africa, while in 1988 only three of them did so. However, this increased intra-African trade is dominated by only a few countries: Côte d'Ivoire, Ghana, Kenya, Nigeria and Zimbabwe account for about two thirds of all SSA exports to other countries in the region, including South Africa. Moreover, the increase has been due to a small number of primary commodities. Petroleum alone accounts for one third of the increase, with cotton, live animals, maize and cocoa accounting for another 18 per cent. The small share of regionally traded manufactures is confined to products with a large natural-resource content, such as cement, aluminium, iron plate and sheet, and woven cotton fabrics.[32]

Intraregional trade in SSA in 1996 amounted to about $9.5 billion (equivalent to about 8.6 per cent of the region's total exports), a level which is often considered too low for enhancing welfare and growth. It reflects the comparatively low level of SSA trade overall, but also the relatively high cost of regional trade, which is determined by, in addition to excessive transport costs, political barriers to trade and factors influencing the general business environment such as ethno-linguistic fragmentation and political instability.

What, then, is the potential for greater intra-SSA trade? It may be quantitatively assessed by the value of goods which are currently imported from the rest of the world but for which at least one SSA country is successfully exporting to the rest of the world to a significant extent. Trade between the Southern African Customs Union (SACU), which comprises Botswana, Lesotho, Namibia, South Africa and Swaziland, and the non-SACU members of the Southern African Development Community (SADC) Angola, Malawi, Mauritius, Mozambique, the United Republic of Tanzania, Zambia and Zimbabwe (hereinafter SADC-7), has greater potential for expansion than trade among other SSA countries.[33] This is because of the substantially greater differences in per capita GDP[34] and in current production and export structures between the two groups of countries.

Given the overlap in the product composition of exports by non-SACU members of SADC to the rest of the world with SACU's imports from the rest of the world, there is an untapped potential for trade between the two groups. Apart from petroleum, where the overlap is greatest, this potential mainly concerns primary products (including meat, tropical beverages, cotton, diamonds and non-ferrous metals) and a few resource-intensive basic manufactures (such as cotton yarn, cement and some types of woven fabrics); for other manufactures the potential is limited (table 57).

A trade potential identified in this way can, however, only be a rough estimate because it is based on actual trade flows rather than on their determinants. Therefore, supply capabilities in the potential exporting countries and market access conditions in the potential importing countries have also to be taken into account. For example, the current subregional trade pattern in Southern Africa has been strongly influenced by the asymmetrical pace of trade liberalization. Most SADC-7 countries, specifically Angola, Malawi, Mozambique, Zambia and Zimbabwe, have implemented substantial trade liberalization

Table 56

THE DESTINATION OF AFRICAN EXPORTS, 1988 AND 1996

(Millions of dollars and percentages)

Exports from	Year	Total exports ($ million)	Per cent share in African exports					
			Industrial countries	Developing countries	Africa	Developing Asia	Middle East	Latin America
Africa	**1988**	**64 300**	**67.6**	**16.2**	**6.2**	**4.5**	**1.4**	**1.6**
	1996	**110 900**	**64.7**	**26.0**	**10.1**	**9.1**	**1.9**	**2.8**
Cameroon	1988	1 582	85.0	13.9	11.4	0.6	0.1	0.4
	1996	2 222	83.9	16.1	9.2	5.7	0.2	0.1
Côte d'Ivoire	1988	2 780	65.3	31.0	21.7	3.2	..	0.4
	1996	4 996	65.4	33.8	23.3	3.5	0.5	2.2
Gabon	1988	1 207	78.9	20.6	5.0	3.4	1.5	9.2
	1996	2 850	85.4	14.2	2.9	6.5	0.3	3.3
Ghana	1988	874	79.5	15.9	2.0	3.2	1.0	3.3
	1996	1 704	68.2	26.6	15.8	7.3	0.7	0.1
Kenya	1988	1 073	60.0	34.8	24.6	6.1	3.5	0.1
	1996	2 203	46.3	48.3	32.1	9.0	6.5	0.1
Malawi	1988	280	77.9	19.2	18.0	..	..	..
	1996	494	55.0	38.0	23.6	4.3	2.2	1.0
Mauritius	1988	1 001	93.9	6.0	3.5	2.0	0.5	..
	1996	1 573	87.7	9.8	6.7	2.5	..	0.1
Nigeria	1988	6 884	88.1	11.5	6.5	0.5	0.1	4.2
	1996	14 836	79.9	20.1	8.5	7.5	..	3.7
Senegal	1988	591	59.1	34.1	18.7	14.4	0.1	0.1
	1996	806	43.3	46.8	22.1	20.2	2.3	2.0
Uganda	1988	323	89.5	9.6	0.5	6.7	11.5	..
	1996	559	82.1	17.9	2.4	2.8	1.9	0.1
Zambia	1988	871	72.0	28.0	6.2	15.2	5.5	..
	1996	1 000	41.3	58.7	13.9	33.8	9.8	..
Zimbabwe	1988	1 396	58.8	40.6	29.9	5.8	1.7	0.6
	1996	2 343	46.9	53.0	38.4	8.1	2.4	0.4
South Africa	1988	21 830	42.8	12.0	4.4	5.2	0.7	0.7
	1996	35 682	43.3	30.5	12.5	12.9	1.7	2.2
Egypt	1988	2 120	50.4	44.9	3.5	8.2	15.6	0.3
	1996	5 239	51.9	46.3	2.0	6.6	15.9	..
Morocco	1988	3 464	70.2	29.4	2.5	11.9	7.0	2.2
	1996	6 973	81.2	18.8	3.0	7.3	..	2.2
Tunisia	1988	2 393	76.8	20.3	4.0	6.7	4.9	0.3
	1996	5 519	82.4	14.4	3.1	3.3	5.7	0.6

Source: IMF, *Direction of Trade Statistics Yearbook*, various issues.

Table 57

ACTUAL AND POTENTIAL SADC-7 EXPORTS TO SACU, 1995

(Millions of dollars)

Product	*Actual SACU imports from SADC-7*	*Potential SACU imports from SADC-7*	*Current main SADC-7 exporters*
Petroleum (SITC 33)	0.2	2 775	Angola
Non-ferrous metals (SITC 68)	9.3	325	Zambia, Zimbabwe
Cement and diamonds (SITC 66)	15.0	264	Angola, Mauritius, Zimbabwe, United Republic of Tanzania
Iron and steel (SITC 67)	5.0	225	Zimbabwe
Cotton (SITC 26)	35.7	191	United Republic of Tanzania, Zimbabwe, Mozambique
Cotton yarn and textile fabrics (SITC 65)	20.7	158	Mauritius, Zambia, Zimbabwe
Clothing and accessories (SITC 84)	27.9	139	Mauritius, Zimbabwe, Malawi, United Republic of Tanzania
Cocoa, coffee, spices, tea (SITC 07)	11.3	117	United Republic of Tanzania, Malawi, Zimbabwe
Meat (SITC 01)	4.1	97	Zimbabwe
Memo item:			
All products	402.2	8 822	

Source: F. von Kirchbach and H. Roelofsen, "Trade in the Southern African Development Community: What is the potential for increasing exports to the Republic of South Africa?" (Geneva: International Trade Centre UNCTAD/WTO, 1997), mimeo.

Note: Trade potential is calculated as the overlap between SADC-7 exports to the world and SACU imports from the world.

programmes during the past 10 years, thus effectively opening their markets to South Africa and the rest of the world, while South Africa appears to have adopted a more gradual approach. Although more recently there has been some improvement in the access of, for example, Zimbabwean textiles, clothing and agricultural products to the SACU market, a further levelling of the current regional asymmetries regarding market access would probably be needed in order to increase the scope for SADC-7 exports to SACU.

International competitiveness and supply capacities also affect intraregional trade potential. For example, to the extent that SADC-7 exporters to the EU are supported by preferential market access conditions under the Lomé Convention, it is not clear whether these exporters could compete on an equal footing with SACU's imports from elsewhere, or whether they would be competitive only if SACU granted them preferential conditions similar to those granted by the EU. Moreover, SADC-7 would need to create sufficient supply capacities so that increased exports to SACU would lead to trade creation rather than simply replace its exports to the EU.

If conditions regarding the competitiveness and supply capability of SADC-7 exporters are fulfilled, increased intraregional trade in Southern Africa could help reduce regional trade

imbalances in the context of growing exports and imports for all the countries concerned. Given that South Africa runs large trade surpluses with SADC-7 countries, the increased exports by the latter to SACU will reduce bilateral imbalances. However, since a growing share of imports by SADC-7 countries now comes from South Africa, greater export earnings by those countries will also translate into increased sales by South Africa to neighbouring countries. In this sense, intraregional trade involving initially a diversion of SACU imports from advanced countries to SADC-7 can be trade-generating for all the parties concerned.

These prospects for increased intra-SSA trade are not independent of the wider efforts to accelerate accumulation and restore sustained growth. However, even small increases in intraregional trade help develop new export capacity which can generate a virtuous circle of regional growth dynamics by easing the balance-of-payments constraints on imports and providing learning effects which will eventually make African exporters more competitive globally. However, it is likely that trade within SSA will initially be confined to subregions centred on comparatively more advanced countries such as South Africa, Kenya and perhaps Côte d'Ivoire, while the prospects for enhanced trade among these subregions will evolve more slowly alongside improvements in transportation and communication facilities. ■

Notes

1 See, for example, D. Dollar, "Outward-oriented developing economies really do grow more rapidly: Evidence from 95 LDCs, 1976-1985", *Economic Development and Cultural Change*, Vol. 40, 1992, pp. 523-544; and J.D. Sachs and A.M. Warner, "Sources of slow growth in African economies", *Journal of African Economies*, Vol. 6, 1997, pp. 335-376.

2 For similar results see D. Rodrik, "Trade policy and economic performance in sub-Saharan Africa", NBER Working Paper No. 6562 (Cambridge, Mass.: National Bureau of Economic Research, 1998).

3 In their "Economic reform and the process of global integration" (*Brookings Papers on Economic Activity*, No. 1, 1995) Sachs and Warner have offered the most cogent version of the "open economies converge" thesis. In commenting on this work, Stanley Fischer noted that: "The strength of the Sachs-Warner results is surprising, given that the question that is being looked at, that of the influence of openness on growth, has been extensively studied before ... It is particularly surprising that this paper reaches stronger conclusions than the World Bank's famous 1987 *World Development Report*, which was so roundly criticized for overreaching" (*Ibid.*, pp. 103-104). More sophisticated versions of the "open economies converge" thesis now stress a package of market-liberalizing and macroeconomic disciplining policies. The empirical evidence in support of this approach is stronger – though still far from conclusive – than for the simpler versions, but is very much contingent upon the level of income and development achieved by countries. See P. Mosley, "Globalization, economic policy and convergence", in UNCTAD, *International Monetary and Financial Issues for the 1990s*, Vol. X (United Nations publication, forthcoming).

4 For further discussion of these and related points regarding the links between trade policies and economic growth, see *TDR 1997*, Part Two, chapter II. section E, and R. Rowthorn and R. Kozul-Wright, "Globalization and economic convergence: An assessment", UNCTAD Discussion Paper No. 131 (Geneva, February 1998).

5 An additional problem is that disaggregated export data become available only after much delay, which is why tables 49 and 50 refer to 1990 data (three-year averages for 1989-1991). More recent data available for a few SSA countries suggest that the share of different product categories in total merchandise exports has not changed significantly since then.

6 Some trade statistics reveal a relatively high share of manufactures for the Central African Republic, Sierra Leone and Zambia, but this is because gold and uncut diamonds are counted as manufactures. Similarly, Niger's large share, on the basis of data in the UNCTAD *Handbook of International Trade and Development Statistics*, is due to the classification of uranium exports as manufactures.

7 The empirical analysis in this section draws on A. Wood and J. Mayer, "Africa's export structure in comparative perspective" (Geneva: UNCTAD, 1998), mimeo. The interpretation of the results here may, however, be somewhat different from that of the authors.

8 See T. Akiyama and D.F. Larson, "The adding-up problem: Strategies for primary commodity exporters in sub-Saharan Africa", World Bank Policy Research Working Paper No. 1245 (Washington, D.C.: World Bank, 1994).

9 This group includes meat and meat products, dairy products, fish and fish products, fruit, vegetables, nuts, spices and vegetable oils. For further discussion of this product classification, see Wood and Mayer, *op. cit*.

10 For a discussion of the Mauritian experience see L. Darga, "A comparative analysis of the accumulation process and capital mobilisation in Mauritius, Tanzania and Zimbabwe", paper prepared for an UNCTAD project on African Development in a Comparative Perspective (Geneva, 1998), mimeo; and T. Meisenhelder, "The developmental state in Mauritius", *Journal of Modern African Studies*, Vol. 35, No. 2, June 1997. As discussed in these papers, some special conditions - in particular, favourable access to the EU market - helped accelerate growth in Mauritius. However, only through effective policies was Mauritius able to make full use of these opportunities.

11 Data contained in a recent report by the United States Bureau of Mines, as cited in "Survey of African Mining", *Financial Times*, 15 September 1997. Known reserves are not, of course, the same as profitable production opportunities; whether it is worthwhile to invest in exploiting such reserves will depend on the actual costs of exploitation and the future world market prices of the respective commodities.

12 For a discussion of this experience see *TDR 1993*, Part Two, chapter II, section C.

13 For a discussion of the definition of non-traditional exports and its relation to diversification see G. Frazer and G. Helleiner, "Non-traditional exports and export diversification: Alternative definitions and methodologies", paper prepared for the WIDER Project on Growth, External Sector and the Role of Non-Traditional Exports in Sub-Saharan Africa, Helsinki, May 1997.

14 High costs may also be a feature of the early stages of infant industries which are promoted in the context of a longer-term development strategy. In this case it is necessary to avoid a situation in which domestic firms receiving inputs from these industries have to bear the difference between world market prices and the higher cost of domestic supplies. This can be achieved through the provision of temporary price or cost subsidies.

15 See P. Svedberg, "The export performance of sub-Saharan Africa", in J. Frimpong-Ansah, S.M. Ravi Kanbur and P. Svedberg (eds.), *Trade and Development in Sub-Saharan Africa* (Manchester: Manchester University Press, 1990).

16 This category includes food products, other primary commodities, wood and paper products, and non-metallic mineral products. See *TDR 1996*, Part Two, chapter II, section C.

17 See UNCTAD, "Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution: Malaysia" (UNCTAD/COM/73), 1995, and *TDR 1996*, Part Two, annex to chapter II.

18 M. Agosin, "Export performance in Chile", paper prepared for the WIDER Project on Growth, External Sector and the Role of Non-Traditional Exports in Sub-Saharan Africa, Helsinki, May 1997.

19 K.S. Jomo and M. Rock, "Economic diversification and primary commodity processing in the second-tier South-East Asian newly industrialized countries", UNCTAD Discussion Paper No. 136 (Geneva, 1998).

20 See P. Pardey, J. Roseboom and N. Beintema, "Investments in African agricultural research", *World Development*, Vol. 25, No. 3, 1997, pp. 409-423.

21 See, for example, A. Taylor et al., "Strengthening national agricultural research systems in the humid and sub-humid zones of West and Central Africa", World Bank Technical Paper No. 318 (Washington, D.C.: World Bank, 1996).

22 UNIDO, *International Yearbook of Industrial Statistics 1998*, table 1.3.

23 R.C. Riddell, "Manufacturing Africa. Reflections from the case-studies", in R.C. Riddell with P. Coughlin, C. Harvey, I. Karmiloff, S. Lewis Jr., J. Sharpley and C. Stevens, *Manufacturing Africa* (London: Overseas Development Institute and James Currey; and Portsmouth, New Hampshire: Heinemann, 1990), p. 36; and L. Mytelka and T. Tesfachew, "The role of policy in promoting learning during the early industrialization: Lessons for African countries", paper prepared for the UNCTAD Workshop on Economic Development and Regional Dynamics in Africa, Mauritius, December 1997.

24 From 1975-1979 to 1987-1991 manufacturing real wages in Zimbabwe, Mauritius, Kenya and the United Republic of Tanzania declined by 32 per cent, 37 per cent, 40 per cent and 83 per cent, respectively; see ILO, *World Employment Report 1996/97* (Geneva: ILO, 1997).

25 See S. Wangwe, "Conditions under which African manufacturing industries in sub-Saharan Africa have been able to break into export markets", paper presented at the UNCTAD Workshop on Economic Development and Regional Dynamics in Africa, Mauritius, December 1997.

26 See *TDR 1996*, Part Two, chapter II, section C.

27 See R. Rasiah, "The export manufacturing experience of Indonesia, Malaysia and Thailand: Lessons for Africa", UNCTAD Discussion Paper No. 137 (Geneva, 1998).

28 See also E. Rodriguez, "Export diversification by region", paper prepared for the WIDER Project on Growth, External Sector and the Role of Non-Traditional Exports in Sub-Saharan Africa, Helsinki, 1998.

29 For further discussion see *TDR 1996*, Part Two, chapter II, section D.

30 See Wangwe, *op. cit*.

31 It could be argued that this increase in recorded intra-SSA trade is misleading because the incentives to circumvent official trade channels have greatly diminished with trade and exchange-rate reform. However, even where unrecorded trade flows are large, they have usually concerned goods imported from outside SSA or goods of domestic origin but destined for export outside SSA. Hence, such goods would in any case not qualify as true intraregional trade.

32 A. Yeats, "Problems and prospects for African regional trade arrangements: Some empirical evidence" (Washington, D.C.: World Bank, 1997), mimeo, p. 40.

33 This analysis draws on F. von Kirchbach and H. Roelofsen, "Trade in the Southern African Development Community: What is the potential for increasing exports to the Republic of South Africa?" (Geneva: International Trade Centre UNCTAD/WTO, 1997), mimeo. The Democratic Republic of the Congo and Seychelles are also non-SACU members of SADC, but they joined SADC only in 1997, so that their trade data could not be taken into account.

34 Countries with similar living standards are likely to engage in enhanced bilateral trade only if they have a significant level of industrial production and hence trade in specific intermediate goods and production inputs, as well as in brand-name finished goods.