The Limits of Trade Liberalisation for Export Promotion in Sub-Saharan Africa

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STATEMENT

I verify that this extended essay, entitled "The Limits of Trade Liberalisation for Export Promotion in Sub-Saharan Africa", is all my own work, except where otherwise indicated, and has not been submitted before for any other academic degree or publication.

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1. Introduction

The aim of this essay is to discuss the role and limits of trade liberalisation in improving export performance in Sub-Saharan Africa (SSA), in the context of the ongoing Structural Adjustment Programmes (SAP).

Trade liberalisation has been a core component of the SAP since the 'Berg report' claimed that state-made price distortions and market imperfections are the main causes of SSA's economic crisis (World Bank 1981). The package of trade liberalisation has been targeting two major issues: price liberalisation and liberalisation of the market structure. Both are necessary to make prices 'right' and to enable markets to adjust quickly enough to changes in relative prices, in order to induce the necessary changes in resource allocation towards the production and export of tradables. Price liberalisation has been pursued through real exchange rate devaluation, reduction of import tariffs and tariff dispersion, and elimination of price controls and subsidies. The liberalisation of the market structure has been linked with the elimination of non-price barriers to trade and of the state's marketing boards and market power.

This process of trade liberalisation is expected to induce economic specialisation in line with endowed comparative advantages, increase economic competitiveness and, in so doing, enable the economy to export more. Production in competitive sectors (tradables) should become more profitable than production in non-competitive sectors (non-tradables or inefficient import-substitution). Rational economic agents re-allocate factors of production towards tradables, thus increasing specialisation and the supply of exports. On the assumption that each country is a small economy and faces a perfectly elastic demand curve in world markets, no demand constraints are considered. Therefore, if trade liberalisation induces price and market changes that enable the supply of tradables to increase, exports will rise. Under such assumptions, trade liberalisation has been the core, if not the only component, of the export promotion strategy suggested for SSA in the context of the SAP.

To achieve its aim, this essay discusses the export performance of SSA, with reference to Mozambique, and the efficiency of the measures adopted to improve that performance.

This essay is organised as follow. The first section, *Exports and Economic Growth in SSA,* defines the role of exports in promoting economic growth and adjustment in SSA, models a minimum rate of growth of exports that is consistent with a desired rate of economic growth and the reduction of external dependence, and evaluates export performance in SSA in relation to this minimum rate of growth. The second section, *Trade Liberalisation and its Limits in SSA,*

discusses the degree of implementation and impact of the components of the packages of trade liberalisation on market and price adjustments and on export performance. The last section, *Conclusions,* summarises the major limitations of the process of trade liberalisation.

The data used in this essay were collected from different studies, reports and official statistical sources. The reliability, consistency and quality of the data are poor and the sample results are highly sensitive to the periods of the analysis and sources. Therefore, it is not possible to draw strong inference from that data.

Additionally, the data is biased towards formal activities and transactions, as well as marketed output of main crops, particularly for export. Data on subsistence production and the informal economic activity (for example, the widespread smuggling across the borders) are very unreliable despite being important for the understanding of real economic processes. Because of these biases GDP, exports and imports are likely to be significantly undervalued.

Finally, SSA economies are extremely volatile because of their structural fragility and vulnerability to shocks. Rates of economic growth can vary significantly due to a good or bad rainy season or a sharp change in international prices of one commodity.

Data on Mozambique are particularly difficult to work with. In addition to the problems mentioned above, the series are shorter, the methodologies differ from source to source and from period to period, often with no clear motive, and the data is very sensitive to small improvements in data collection.

Data analysis of SSA economies requires a very good understanding of the processes behind the figures, as well as of the methodologies used to collect the figures. Unfortunately, such information is neither readily available, nor easy to collect.

2. Exports and Economic Growth in SSA

Role of Exports in Economic Growth and Adjustment in SSA

Since the early eighties, processes of economic stabilisation and adjustment have been implemented in SSA, under the aegis of the International Monetary Fund (IMF) and the World

Bank (WB), in order to reverse the economic decline and the increasing internal and external imbalances that characterised most SSA economies.[1]

The IMF stabilisation programmes have been concerned with equilibrium, not development. Their major goals are the reduction of the current account deficit, increase of net foreign reserves and control of domestic inflation through demand-management policies aimed at reducing the absorption capacity of the economy (investment and consumption). Their main instruments of policy are control of monetary expansion and fiscal deficits (as the long-term solution for economic imbalances), and management of the exchange rate (as a short-term measure for helping monetary stability and balancing the current account).

Because of their narrow focus on reducing the absorption capacity of the economy, the IMF programmes may reduce income, at least in the short run. If income falls, imports also fall and, other things being equal, a more balanced current account is achieved. Whether income actually falls or not depends on what happens to exports (which, in the IMF model, are an exogenous variable).[2] The IMF framework has been criticised mainly because of its neglect of, and incapacity to address, the supply-side of the economy.

The WB adjustment *cum* growth programme has been more concerned with economic development and promotion of long-term growth. Generally, the main targets of the WB programme are growth of the real Gross Domestic Product (GDP), and the level of foreign reserves. These targets can only be achieved if investment increases. In the WB model, the desired rate of increase of investment is determined by the desired rate of economic growth, and the attainable rate of investment depends on the solution of a classical three-gap model (the balance between the available levels of domestic private and public savings, and foreign currency).

$$\Delta I = \Delta y^*. k \qquad \text{(desired rate of investment)} \qquad (1)$$

$$\Delta I - \Delta S = \Delta X - \Delta M \qquad \text{(domestic savings and trade gap)} \qquad (2)$$

$$\Delta X - \Delta M = -\Delta R + \Delta NFB \qquad \text{(financing of the trade gap)} \qquad (3)$$

$$\Delta I = \Delta S - \Delta R + \Delta NFB \qquad \text{(actual financing of investment)} \qquad (4)$$

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[1] For a detailed study of the IMF and World Bank models see Khan, Montiel and Haque (1990), Mosley, Harrigan and Toye (1991) and Tarp (1993).

[2] $Y = C + I + X - M$, where Y is income, C, I, X and M are consumption, investment, exports and imports, respectively. If absorption capacity falls (A=C+I), other things being equal Y falls proportionaly, and so do M (M depend on C and I). X would have to grow sharply and immediately to prevent Y from falling. If I falls, X is unlikely to increase.

where Δy^* is the desired rate of growth of real GDP; $k = \partial K/\partial Y$, the marginal (or incremental) capital/output ratio, ICOR; I, S, M, X, R and NFB are, respectively, investment, domestic savings (public + private), imports, exports, foreign reserves and net foreign borrowing.

Public and private domestic savings and foreign reserves may face strong constraints. The level of domestic savings may be too low to make a positive impact on investment. It may not be feasible to finance investment out of foreign reserves if these are close to a threshold of minimum sustainable levels. If savings and foreign reserve constraints are strong, as often is the case in SSA and many other LDC, such that ΔS and ΔR equal zero, investment becomes dependent on external assistance. From equation (4):

$$\Delta I = \Delta NFB \qquad (5)$$

If the conditions for equation (5) hold, investment becomes dependent on resources that the economy cannot provide, and driven by political and economic interests that are not necessarily in line with the interests of domestic economic agents, and of the national economy as a whole.

Under monetary and fiscal constraints, due to stabilisation, the three-gap model has a static and a dynamic solution. The static involves the mobilisation of foreign assistance in the short-run. The dynamic involves the mobilisation of domestic savings and the growth of exports at a rate that enables the attainment of higher rates of investment, as well as the service of debt, increase in foreign reserves and reduction of external dependence.

Model for Minimum Rate of Growth of Exports

Export performance is a crucial factor for the achievement of the essential targets for economic growth, adjustment and stabilisation. Those targets are: the desired rate of GDP growth (consistent with the achievement of significant improvements in GDP per capita); the service of the external debt obligations; the increase in the level of foreign reserves; and the reduction of dependency on external assistance. The rate of export growth necessary to

achieve the targets referred to above depends on: the necessary rate of investment;[3] the share of imports in investment and investment-related consumption; the socially desired rate of reduction of external dependence; and the share of committed export earnings in total exports (i.e., the share of exports utilised to pay the debt service and to increase foreign reserves).

The necessary rate of investment depends on the target rate of growth of real GDP and on the incremental (or marginal) capital output ratio (ICOR). The World Bank (1994) does not set a specific target for the rate of growth of GDP in SSA but singles out the performance of SSA economies that have achieved rates of real per capita GDP growth of 3 per cent, or a 6 per cent total real GDP growth (World Bank 1994: 133-4). The 1996-1998 Policy Framework Paper (PFP) for Mozambique states that GDP should growth at 5 to 6 per cent a year during the period (Governo de Moçambique, World Bank and IMF 1996). In SSA, any rate of total real GDP growth below 6 per cent is unacceptable as a target because the population growth rates in SSA are high[4] and the point of departure of those economies is very low. SSA economies can, and should, grow faster if they are ever to improve their position *vis-à-vis* the rest of the World.[5] In this essay, a 6 per cent real GDP growth rate is assumed to be the minimum acceptable.

The ICOR, shown in tables 1 and 2, varies significantly between countries and periods. This variation is due to differences in the efficiency of capital.[6] These differences are related to several factors: the level of utilisation of existing capacity; the degree of X-efficiency of firms; the impact of investment on output and on the size of installed capacity in the short and long-run; and the degree of development of the infrastructure of the economy.

In SSA, the ICOR is also affected by other, less conventional factors. For example, in Mozambique and Tanzania, external assistance has been driving the rate and allocation of investment, but domestic savings and fiscal constraints have prevented investment projects from operating efficiently (Doriye and Wuyts 1993, and Wuyts 1995). In such cases, if external assistance falls in any one year, gross investment also falls but output may not fall. Instead,

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[3] Rodrick (1995) develops the model for the investment-export *nexus* in South Korea, where exports were driven by the need to satisfy investment requirements, assuming that all investment goods are imported.

[4] The average annual population growth rate in SSA was 3.2 per cent between 1980-1989 (Tarp 1993: table 1.1 and the World Bank 1991b).

[5] Such rates of GDP growth are still low. The fast growing Asian economies have maintained two-digit rates of GDP growth for more than a decade, and the LDC's annual average growth rate for 1987-1991 was 7 per cent. At 6 per cent average growth rate, SSA's income-gap *vis-à-vis* the other LDCs will increase.

[6] ICOR is the reciprocal of the marginal efficiency of capital. The higher the efficiency of capital with respect to output, the lower the ICOR and the required level of investment to attain a given rate of GDP growth.

foreign and domestic resources may become more balanced. This effect may explain the negative ICOR in Mozambique in 1995 (table 2).

Additionally, constraints on current public expenditure are often so tight that the capacity of the state to implement its own investment projects is significantly reduced. In such cases, it is common practice to informally divert part of the investment resources to current expenditure (for example, to pay for telephone bills or buy fuel), and official statistics show inflated investment figures. Therefore, investment rates may change significantly without affecting the rate of growth.

Table 1: SSA: Investment, GDP and ICOR (period average for 1987-1992)

	Ghana	Tanzania	Zimbabwe	Kenya	Uganda	SSA*
Rate of change in Investment	15	27	21	24	11	16
GDP growth rate	4	4	4	4	6	3
GDP per capita growth rate	1.3	1.3	1.4	1	2	0
ICOR (= k = ∂I/∂GDP)	4	7	5	6	2	5

Source: World Bank (1994:138, 255-6).
* Median for the whole region.

Table 2: Mozambique: GDP, investment and ICOR

	1987	1988	1989	1991	1992	1993	1994	1995	Average annual change
GDP (US$ billions)	1.03	1.08	1.15	1.18	1.17	1.40	1.46	1.49	---
GDP Index	100	105	112	115	114	136	141	144	---
Rate of Growth of GDP	---	5	7	3	-1	19	4	2	5
GDP per capita index	100	102	106	106	100	115	117	115	2
Index of Investment	100	115	131	159	152	268	279	237	
Rate of Change of Investment	---	15	14	21	-4	76	4	-15	16
ICOR (= k = ∂I/∂GDP)	---	3	2	7	4	4	1	-7.5	3

Sources: DNE (issues 1990 to 1994); Governo de Moçambique (1996a and 1996b); Governo de Moçambique, World Bank and IMF (1992, 1994 and 1996); IMF (1995); Tibana (1994); UNDP (1996a, 1996b and 1995).

Notes: The very large changes in GDP and investment that occurred in 1993 reflect two processes: the end of the war and the start of the special programmes that followed (demobilisation of almost 80 thousand soldiers, re-settlement of about five million peasants, and general elections). From 1994, the marginal effect of the special programmes declined significantly (as expected) and, from 1995, most of those programmes were phased-out.

Finally, given the conditions of SSA economies, changes in GDP may often not be related at all with the levels of investment in particular periods. A drought or flood, in one year, or a good rainy season in the next year, may make GDP change significantly, irrespective of the level of investment. For example, the high ICOR in 1991 in Mozambique and Zimbabwe may reflect the low elasticity of output with respect to investment due to the drought that affected Southern Africa in that year (tables 1 and 2). The same sort of effect may arise from

international price shocks – for example, the high ICOR in Tanzania and Kenya for the period 1987-1992 may reflect, amongst other factors, the sharp fall in the international prices of coffee (table 1).[7]

Investment requirements are inversely related to the ICOR. In any initial period of fast growth, ICOR is expected to be higher because of extra costs of initial investments. ICOR can be reduced, at the same time that economic growth is accelerated, as the utilisation of productive capacity increases, X-efficiency improves and other causes of lower productivity of capital (some of which were discussed above) are eliminated.

The required level of investment in this model is a function of the rate of growth of GDP (6 per cent) and the ICOR chosen. If the average ICOR of 5 per cent (table 1) is assumed, the annual rate of change of investment required to achieve 6 per cent GDP growth will be 30 per cent [$\Delta I = \Delta GDP\ (ICOR)$].

Table 1 shows that the current (average) investment rate in SSA is only 16 per cent. Therefore, on average, investment rates need to grow by about 14 percentage points in order to meet the desired target for economic growth. However, the rates of investment differ significantly between countries. In Tanzania and Kenya, the rates of investment are higher than in the other countries (27 and 24 per cent respectively), which suggests that their investment rates do not have to increase by as much as in the average SSA country. However, given that the ICORs in Tanzania and Kenya are also higher than in the other countries, the required rates of investment for both countries are higher: 42 and 36 per cent respectively. Therefore, the Tanzanian rate of investment has to increase by 15-percentage points (faster than the average for SSA) and the Kenyan by 12 (slower than the average for SSA, but not as slow as suggested by the difference in the rates of investment).

Tables 3 and 4 show that the proportion of current investment dependent on foreign assistance (E/I) is very high, namely 30 per cent for SSA and as high as 75 per cent for Mozambique, and that SSA's dependence on external assistance is significantly higher than in other developing regions.

Mozambique, Tanzania and Kenya, the countries with the highest rates of investment, are also those that receive more external assistance (World Bank 1994: table A.29). It may be that, as in the case of Mozambique, it is not the rate of investment that has to increase, but E/I that

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[7] It is expected that in the long run investment reduces the vulnerability of the economy to shocks by improving the infrastructure and other general conditions of production, and by diversifying the pattern of production. But in the short run, investment may not change those conditions very much.

has to fall sharply for the reasons mentioned above [(see discussion around equation (5)]. The speed at which E/I is reduced [the socially desirable rate of dependency reduction (ρ)] is politically determined, depends on the perceived advantages and risks of maintaining or reducing E/I at any given speed, and has implications for the rate of export growth. For this exercise, it was assumed that at a constant rate ρ, SSA countries should reduce the dependency ratio to zero in 10 to 15 years.[8] For that reason, ρ is assumed to vary between 0.05 and 0.1. Countries more dependent on external assistance should adopt higher values for ρ in order to accelerate the transformation of their patterns of economic activity.

Moreover, 75 per cent of investment or investment-related goods in SSA are imported (World Bank 1989, 1991a and 1991b, various statistical tables). That proportion (λ) is unlikely to change in the near future, unless there is more investment to change the pattern of production in SSA.

The committed, or fixed, component of export earnings ($\delta + \phi$) comprises two elements: the share of exports transferred abroad to pay for the debt service (ϕ), and the share of exports utilised for increasing foreign reserves (δ). As shown in table 3, the average value of ϕ is 22 per cent for SSA (average) and 24 per cent for Mozambique.[9] Those ϕ do not fulfil total debt obligations. They correspond to 39 per cent of debt obligations in SSA and less than 30 per cent in Mozambique. Therefore, when calculating the export function, it must be considered that these ϕ are the minimum that can be used.

[8] 'Normally', an economy should be able to generate a significant part of its foreign exchange and savings, as well as to borrow abroad and benefit from foreign direct investment (FDI). It does not have to depend on aid. Therefore, a zero dependency ratio does not mean that the economy does not borrow abroad, but that it can borrow without depending on aid.

[9] Unfortunately, disaggregated data on the share of exports of each SSA country utilised for servicing the debt was not available.

Table 3: External debt and debt service in Mozambique, SSA and other LDC

	MOZAMBIQUE								SSA	LDC
	1985	1989	1990	1991	1992	1993	1994	1995	(a)	(a)
Total outstanding debt (US$ billions)	2.3	4.4	5.05	5.13	5.19	5.26	5.5	5.7	147	---
- as % of GDP	246	331	350	358	404	360	376	382	100	39
- as % of total exports	---	1 630	1 689	1 401	1 433	1 416	1 387	1 374	500	150
Debt service as % of total exports										
- before debt relief	---	178	163	134	145	135	126	105	56	16
- after debt relief	---	---	---	---	88	83	70	62	---	---
- actual payments	---	25	20	18	21	30	24	24	22	---
Net Official Transfers (US$ millions) (b)	304*	388	448	502	499	503	565	339	4 800	---
External Assistance/I (%)	69*	85	---	67	63	75	74	74	30	---

Sources: Banco de Moçambique (1995); Tarp (1993:tables 1.3-1.7); UNDP (1996b, 1995); World Bank (1989, 1991a, 1991b).

Notes: (a) refers to 1989; (b) net official transfers = multilateral and bilateral grants transferred into the country. * 1987.

Table 4: Dependence on external assistance, 1989

	SSA	Mozambique	East Asia	Latin America
Net external assistance inflows as % of GDP (a)	10	76	1(b)	
Net external assistance flows (US$ per capita) (a)	26	63	4(b)	

Sources: Tarp (1993:table 1.1); UNDP (1996b and 1995); World Bank (1994:28).

Notes: (a) On average, 65-70 per cent of external assistance goes into imports of investment and consumer goods, and the remaining goes into food and emergency aid. A third of SSA imports and 35-40 per cent of SSA exports are dependent on external assistance (those figures are twice as high in Mozambique); (b) average for a group of 29 selected low and middle income countries from Asia, Latin America, Caribbean and the Pacific.

In all adjusting SSA countries, the stabilisation and adjustment packages require that foreign reserves grow fast. The 1996-98 PFP for Mozambique establishes that about 35 per cent of annual export revenue should be utilised to increase foreign reserves, in order to ensure reserves equivalent to four months of imports (Governo de Moçambique, World Bank and IMF 1996). The average value of δ in SSA is about 25 per cent (World Bank 1994 and 1989).

To achieve the desired rate of GDP growth of 6 per cent per year, and assuming the figures above, the minimum required rate of export growth for SSA, on average, is:

$$\Delta X = (\lambda \Delta I + \rho E/I)/[1 - (\delta + \phi)] \qquad (6)$$

$$\Delta X = [0.75(14) + 0.05(30)]/[1 - (0.25 + 0.22)] = 23 \text{ per cent per year}$$

In Tanzania, where ΔI is 15, but the remaining data are the same as in (6), mostly because of lack of disaggregated data, the required ΔX is 24 per cent a year. Alternatively, Tanzania should reduce its ICOR. In Mozambique, the rates of investment are very high and volatile, but E/I is about 75

per cent, $\delta = 0.36$ and $\phi = 0.24$. In this case, the aim is not to increase investment, but to reduce E/I very sharply. Assuming $\rho = 0.09$, exports should grow by 17 per cent a year.

Export Performance in SSA

The model discussed above performed two main objectives. First, it showed the essential variables that have to be taken into consideration when estimating the required rates of growth of exports. Second, it showed the magnitude of the required export growth rates when the specific structural problems and parameters of SSA economies are considered.

This essay will now examine the export performance in SSA. Export performance comprises two major elements: the rate of growth and the diversification of exports. Together, these two elements determine the rate of growth of export earnings.[10] The evaluation of export performance will consider both elements.

First, the rates of export growth should be compared to the minimum rate defined above in equation (6). Table 5 shows that the rates of growth of GDP, exports and investment have been far below the target rates suggested above. During the period 1964-73, exports grew significantly faster than in later periods, as did investment and GDP. The fall in exports seems to have strongly affected the rate of investment, as well as GDP in the subsequent periods. During the 1980s, when the SAP started, exports, investment and GDP continued to fall. In the first years of the 1990s, strongly influenced by the SAP, exports increased slightly (although far below the requirements estimated by equation (6)), but investment continued to fall. The impact of heavy debt burdens on export earnings, and the depressing effects of the stabilisation packages, might explain this trend in investment. Almost a decade of SAP has been clearly insufficient to return to the rates of economic growth of the early 1970s. SSA's gap relative to the fast growing Asian economies and other LDCs is increasing.

[10] See, for example, Amsden 1986, Austrai 1992, Bayoumi, Coe and Helpman 1996, Grossman and Helpman 1990a and 1990b, Lall and Wignaraja 1996, Rada 1982, Wangwe 1995 and 1994.

Table 5: SSA: Average annual rates of growth, 1965-1991 (%).

	SSA					
	1965/1973	1973/1980	1980/1989	1990/1992	Fast Growing Asian Countries (1987-1991)	Other LDC (1987-1991)
GDP	4.8	3.2	2.1	3.0	10	7
GDP per capita	3.3	-0.3	-1.1	0.1	8	5
Investment (a)	9.8	4.0	-3.9	-1.0	---	---
Exports (goods)	15.1	0.2	-0.6	2.0	12	8

Sources: Tarp (1993: table 1.2); World Bank (1994:Fig. 1.7, and tables 5.1 and A.23, A.22, A.21 and A.20).
Note: (a) refers to Gross Domestic Investment.

Table 6 confirms that even the best export performers amongst SSA economies have only achieved between 30 and 50 per cent of the required rates of export growth as suggested by equation (6). Additionally, the table shows that export growth rates vary between countries, but that the variation cannot be clearly attributed to differences in the degrees of trade liberalisation and macroeconomic improvement. Ghana and Zimbabwe have liberalised trade more gradually and selectively than the other countries – Ghana has been involved in the SAP for longer than almost any other country in SSA, so that it has managed substantial, but gradual and selective, liberalisation. Madagascar, Mozambique, Uganda, Tanzania and Mali are still recovering from extremely low levels of exports achieved in early 1980s; their exports are expected to grow faster. Mozambique, despite being the fastest growing country, has only achieved, on average, half of the minimum rate of growth of exports.

Table 6: SSA: Average annual rates of growth of exports of best export performers (1987-1992).[11]

LARGE TRADE LIBERALISATION						MEDIUM/SMALL LIBERALISATION			
Burundi	Ghana *	Madagascar	Mozambique	Uganda	Malawi	Zimbabwe *	Tanzania *	Côte d'Ivoire	Mali
5	8	6	9	4	4	5	6	5	7

Source: World Bank (1994: various appendix tables).
* Countries ranked as macroeconomic improvers.

Tables 7, 8 and 9 show that SSA countries have not managed to diversify export patterns nor penetrated into new markets. Instead, SSA has lost its market share, particularly with respect to exports of manufactures. Mozambique, the country in SSA with the highest average

[11] The ranking of countries by the degree of macroeconomic improvement and trade liberalisation is from the World Bank (1994).

rate of export growth for 1987-92, has clearly reinforced its traditional pattern of export specialisation (table 8). According to World Bank (1994:221), nine crops alone account for 76 per cent of SSA agricultural exports – or 35 per cent of SSA total exports – and three of those crops, cocoa, cotton and coffee, account for 52 per cent of SSA agricultural exports. On average, three primary products account for 70 per cent of exports in each SSA country. According to Wangwe (1994), SSA exports 55 per cent of world exports of cocoa, but less than 5 per cent of world exports of cocoa-based products.

Table 7: Composition of trade, 1989

	SSA	Mozambique	East Asia (c)	Latin America
% of Agriculture in GDP	35	40	22	10
% of Industry in GDP	26	25	45	---
% of Merchandise exports in GDP (a)	20	9	28	12
% of Merchandise imports in GDP (a)	25	70	29	11
Resource Balance as % of GDP (b)	-5	-61	-1	1
% of Primary commodities in merchandise exports	89	80	30	65
% of Manufactures in merchandise imports	77	70	74	73

Sources: Tarp (1993:table 1.1); UNDP (1996b and 1995); World Bank (1994:28).

Notes: (a) Excludes factor services exports and imports; (b) Merchandise exports – merchandise imports as % of GDP; (c) comprises all East Asian countries, including more resource-based economies like Thailand, Malaysia, Indonesia and China, as well as service-based economies like Singapore and Hong-Kong.

Table 8: Mozambique: Composition of exports

	1973	1981	1987	1989	1990	1991	1992	1993	1994	1995
Export Index (merchandise)	100	72	27	30	36	46	39	37	42	47
Composition of merchandise exports (X)										
- 6 traditional primary X as % of total X	60	53	85	71	61	62	75	69	64	---
- non-traditional primary X as % of total X	---	6	8	7	7	4	5	5	6	---
- total primary X as % of total X	---	59	93	78	68	66	80	74	70	---
- non-traditional other X as % of total X	---	10	7	22	32	34	20	26	34	---

Sources: DNE (issues from 1985 to 1994); Wuyts (1989).

Notes: The variability of the 'non-traditional other' exports is explained as follows. Between 1989 and 1991, there was a trade agreement for Mozambique to export a significant share of its production of quality textiles to Soviet Union. The breakdown of USSR led to the cancellation of that agreement and a sudden fall in non-traditional non-primary exports. After 1992, the upward move of the same 'item' is explained by the exports of minerals and tourism. Marble exports increased by 102 per cent between 1992 and 1994. The export of marble and other minerals represented, in 1994, 7 per cent of total exports. Additionally, Mozambique re-started the operation of the oil bunkers and pipeline to store and transport oil imported by Zimbabwe and South Africa, which represented another 7 per cent of exports in 1994. Finally, it was estimated that tourism, which has been growing, contributed to almost 10 per cent of total exports in 1994. Hence, there are only 10 per cent of 1994 exports of non-primary products to explain.

Table 9: SSA: Share of World and LDC exports (%)

	Share of World Exports			Share of LDC Exports		
	1965	1980	1990	1965	1980	1990
Total Exports						
- Four East Asian Tigers	1.5	3.8	6.7	6.0	13.3	33.9
- Other East Asian NIC	1.5	2.2	2.4	6.2	7.8	12.4
- SSA	---	---	---	---	---	---
- All LDC	24.2	28.7	19.8	100	100	100
Exports of Manufactures						
- East Asian Tigers	1.5	5.3	8.0	13.2	44.9	61.5
- Other East Asian NIC	0.5	0.4	1.5	1.1	3.8	12.0
- SSA	0.38	0.30	0.18	4.6	2.5	0.9
- All LDC	11.1	11.8	12.9	100	100	100

Sources: Wangwe (1994) and World Bank (1993:38).

Different studies have tried to explain SSA's relative lack of success in promoting export diversification and growth at the necessary rates. The most obvious explanation is that output has not been diversified and has not grown significantly. As shown in table 7, SSA, and Mozambique in particular, have the highest share of agriculture and the lowest share of industry in GDP. The World Bank (1994: table A.20) shows that, between 1987 and 1991, agricultural production in SSA grew less than the population growth rate, and 10 per cent more slowly than in the period between 1981 and 1986. Agricultural output grew more slowly in countries with large and small macroeconomic improvements than in countries with deterioration in macroeconomic policies.

In SSA, the rate of growth of manufacturing almost doubled in 1987-1991 relative to 1981-1986. In countries with small improvements in macroeconomic policies, manufacturing grew twice as fast as in countries with large macroeconomic improvements. In countries with deterioration in macroeconomic policies, manufacturing grew slightly faster than in the large improvers (World Bank 1994: table A.21). Macroeconomic improvements and trade liberalisation appear to have no significant positive effect on industrial growth.

Additionally, the semi-processing of primary products for export accounts for a large share of manufacturing output in SSA (as high as 40 per cent in Mozambique and Tanzania), and light end-product industries account for most of the remaining manufacturing output (Castel-Branco 1994b and Ndulu and Semboja 1995). The scope for diversification under the current pattern of production is very limited.

Leys (1987) argues that the fall in SSA's exports and SSA's inability to recover quickly from the crisis of the early 1980s are related to the fall in SSA competitiveness *vis-à-vis* the world due to the crisis of its own system of accumulation. African peasants, who produce about 30 per cent of SSA's total exports, are not capable of competing with more sophisticated producers, modes of production

and technologies from other regions. African producers can hardly profit from producing for the world market because of their inferior levels of productivity, quality, reliability of delivery and technological and marketing skills.

These findings are confirmed by the World Bank (1993:34), which shows that the average annual growth rates of agricultural labour productivity in SSA, between 1965 and 1990, are the lowest in the world, being half of that in Latin America and South Asia, and a fifth of that in East Asia. Whereas in East Asia agricultural income per worker tripled during the same period, and increased by 50 per cent in South Asia and Latin America, in SSA it did not change. In the same period, the share of agriculture in GDP in East Asia halved, despite the fast increase in productivity and income per agricultural worker, which is an indicator of how much faster labour productivity is increasing in other sectors of the economy.

3. Trade Liberalisation and its Limits in SSA

Trade liberalisation has been recommended for SSA, in the context of Structural Adjustment Programmes (SAP), as a means of improving the allocation of resources towards endowed comparative advantages and increasing the competitiveness of the economy. However, after a decade of SAP and trade liberalisation, export performance in SSA has not improved significantly. There are two possible explanations for this relative lack of success: either trade liberalisation has not been fully implemented, or its expected benefits have not materialised.

The evidence shows that SSA economies have initiated or achieved a reasonable level of trade liberalisation, as measured by the conventional indicators, adopted in the World Bank study (1994) and referred to in the Introduction. The achievements are uneven across countries: some have liberalised quickly and to a significant degree; others have liberalised in a more selective and gradual manner; and a smaller group has not liberalised at all or has just initiated the process. The degree of implementation of the measures of trade liberalisation varies from measure to measure.

Table 10 (a sample of 18 SSA countries that have more significantly liberalised trade) shows how SSA countries have performed across some of the main measures of trade liberalisation. None of these countries made significant progress in all six measures, nine performed well in four or five measures, and the remaining nine made progress in two or three. Three quarters of the countries devalued the exchange rate, liberalised access to foreign exchange and eliminated non-tariff import barriers, but only a third managed a significant reduction in import tariffs.

Because achievements are uneven across countries and measures, and export performance does not seem to be significantly related with the degree of trade liberalisation (recall table 6), a more

detailed analysis of each of the main measures of trade liberalisation is required to analyse their effectiveness in promoting export performance.

Table 10: SSA: 18 countries that have achieved significant degrees of trade liberalisation.

Exchange Rate/Forex		Import Liberalisation		Price Liberalisation	Structural Liberalisation of the Market
Devaluation	Free Allocation	Less Tariffs	Less Non-Tariffs		
Burundi	Burundi	Burundi	Burundi	---	Burundi
Ghana	Ghana	Ghana	Ghana	Ghana	---
The Gambia	The Gambia	---	The Gambia	---	The Gambia
Kenya	Kenya	---	Kenya	---	---
Madagascar	Madagascar	Madagascar	Madagascar	Madagascar	---
Mauritania	---	---	Mauritania	---	---
Mozambique	Mozambique	---	Mozambique	Mozambique	Mozambique
Nigeria	Nigeria	---	---	Nigeria	Nigeria
Sierra Leone	---	---	Sierra Leone	---	Sierra Leone
Tanzania	Tanzania	---	---	Tanzania	---
Uganda	Uganda	Uganda	Uganda	---	Uganda
Zambia	Zambia	---	Zambia	---	---
Zimbabwe	Zimbabwe	---	---	---	Zimbabwe
---	Malawi	Malawi	Malawi	Malawi	Malawi
---	---	Burkina-Faso	---	Burkina-Faso	---
Rwanda	Rwanda	Rwanda	Rwanda	---	---
---	---	---	Niger	Niger	Niger
---	---	---	Mali	Mali	Mali
Total number of countries that implemented individual measures:					
14	13	7	14	9	10

Source: World Bank (1994: various appendix tables).

Devaluation of the Exchange Rate and Export Profitability

Trade liberalisation, particularly in the context of substantial adjustment and stabilisation, requires real devaluation of the exchange rate in order to improve the degree of competitiveness of the economy and bring about a more balanced current account. By increasing the price of tradables relative to non-tradables, real devaluation should improve the profitability of exports, reduce imports and induce specialisation in the production of tradables.

Since 1983, there has been real devaluation of the exchange rate in SSA (tables 11 and 12). The World Bank (1994: tables A.5 and A.6) shows that almost 60 per cent of the SSA countries have adopted flexible exchange rates, and that the parallel market exchange rate premium halved between 1987 and 1992. The relative domestic prices of exportables to non-tradables have changed as predicted: export crop price indices have increased more than non-tradable crop price indices and urban (or non-agricultural) wages. On the whole, a third of the

SSA countries in the sample have improved the producer prices of exports by an average of 25 per cent.

Table 11: SSA: Real devaluation of the exchange rate and price adjustments

	1980	1981	1983	1986	1987	1989
Index of the Real Effective Exchange Rate	100	93	91	114	169	---
Export crop price index/urban wage index (1)	100	124	144	174	180	---
Food crop price index/urban wage index (2)	100	127	153	143	145	---
Price index exportables/non-tradables [=(1)/(2)]	100	98	94	122	124	---
Inflation	100	119	142	169	201	---
International terms of trade of main exports	100	101	95	70	70	73

Source: Tarp (1993:tables 1.2 and 1.4); World Bank (1991a, 1991b and 1989).

Table 12: Mozambique: Real devaluation of the exchange rate and price adjustments.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Nominal exchange rate (MT/US$) (a)	41	289	529	745	929	1 435	2 432	3 724	5 918	8 890
Rate of Change	---	605	83	41	25	55	70	53	59	50
Consumer Price Index	100	263	394	552	773	1 030	1 494	2 126	3 468	5 375
Rate of Inflation (a)	---	163	50	40	40	33	45	42	63	55
Real Exchange Rate Index	100	268	327	330	294	342	400	431	420	407
Monthly Minimum Wages										
Agricultural workers	---	---	100	125	112	105	98	98	99	---
Non-agricultural workers	---	---	100	116	102	97	91	91	85	---
Technical and administrative workers	---	---	100	119	106	100	98	98	92	---
Food Crops Price Index/Non-Agricultural Workers Wage Index										
Maize price index	---	---	---	100	115	98	103	105	101	---
Maize/wage price index	---	---	---	100	113	101	113	115	119	---
Rice price index	---	---	---	100	115	98	106	112	148	---
Rice/wage price index	---	---	---	100	113	101	116	123	174	---
Export Crops Price Index/Non-Agricultural Workers Wage Index										
Cashew Nuts price index	---	---	---	100	120	134	155	138	118	---
Cashew Nuts/wage price index	---	---	---	100	118	138	170	152	139	---
Cotton price index	---	---	---	100	115	112	128	115	121	---
Cotton/wage price index	---	---	---	100	113	115	141	126	142	---
Agricultural Terms of Trade (b)	100	111	62	45	38	45	40	45	42	---
International Terms of Trade (c)	100	97	88	79	---	75				

Sources: Banco de Moçambique (1995); DNE (issues 1988 to 1994); Gibbon et al (1993:table 15); Governo de Moçambique (1996 and 1996b); UNDP (1996)..

Notes: (a) Annual average; (b) domestic global terms of trade of agricultural output prices (c) International barter terms of trade of Mozambique's main exports.

However, the expected impact of such adjustments on export profitability may not have been fully attained because of the structural backwardness and import-dependence of the pattern of production and exports in SSA. Such conclusions are based on two observations.

First, the *profitability of exports in domestic currency terms,* relative to non-tradables, appears to have been eroded because the overall level of domestic prices, as measured by the

consumer price index (CPI), increased almost as fast as the domestic price index of exports.[12] This result is not unexpected since the theory recognises that, in the interim period of adjustment, real devaluation of the exchange rate may push up the domestic currency costs of production. This happens because of the impact of the higher cost of imported inputs on domestic production costs, as well as the upward pressures that may be exerted on the wage bill (Tibana 1994).[13] Higher factor costs may undermine the supply response of the economy, if markets are not capable of adjusting quickly enough to changes in relative prices in order to take advantage of the incentive-effect of real devaluation.

Tables 11 and 12 show that real wages have fallen. Hence, the erosion of the relative export-price improvement should be explained by the impact of the domestic currency cost of imported inputs. This impact is stronger the more import-dependent production in the SSA economies is.[14] On average, 75 per cent of SSA imports are investment, or investment-related, goods (spare parts, inputs, fuel and equipment, as well as basic consumer goods that help to stabilise labour supply and keep wages low). Most SSA economies have no easy domestic substitutes for those imports. Thus, the relative domestic profitability of exports has been eroded by the import-dependency of essential economic activities.

After devaluation, SSA countries may be left with only two short run adjustment options. They can increase expenditure on unavoidable imports if external assistance increases. Otherwise, they have to reduce the level of economic activity because of the contraction of import capacity, which may lead to stagflation whereby a downward adjustment of the level of economic activity exacerbates inflation. Alternatively, exports would have to grow very sharply and immediately, which, as shown in the previous section, has not been happening.

Second, the *profitability of exports in international currency terms* has been eroded, because the terms of trade of SSA's exports have fallen (tables 11, 12 and 13). SSA's export structure is very narrow and backward. Therefore, it is expected that SSA exports are

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[12] For the purpose of price comparisons in this case, the Wholesale Price Index (WPI) is a better index to use. The CPI is used instead because no consistent data were found on the WPI.

[13] The impact of the real devaluation on the wage bill depends on the share of imported consumer goods in the wage basket, and on the strength of the wage indexation mechanism – which, in turn, is socially determined.

[14] The consumer price index (CPI) is a weighted average of the price index of tradables and non-tradables that are part of the consumer basket of goods and services. With real devaluation the prices of tradables rise faster than the prices of non-tradables. Therefore, the higher the share of importables in the consumer basket, the faster the CPI increases. Similarly, as the share of non-tradables increases, the CPI becomes less sensitive to the impact of changes in the exchange rate. In the case in analysis, the CPI and the export price index increase at similar rates because the patterns of consumption and production are highly dependent on imports.

particularly vulnerable to external price shocks, and that their terms of trade tend to deteriorate in the long run, and to be volatile in the short run. These effects reduce long-term profitability of exports and increase short-run uncertainty, making investment less attractive (Edström and Singer 1992, Sarkar and Singer 1991). Investors cannot be insulated from price volatility and uncertainty under trade liberalisation.

Two other studies provide more evidence on the deterioration of the international terms of trade of SSA's exports. Wangwe (1994) shows that between 1979 and 1991, the export volume of the nine major export crops in SSA increased by 75 per cent, while the revenue from those exports declined by 40 per cent in real terms. Van der Hoeven (1992) demonstrates that, on average, during the eighties, the export value index for SSA was 33 per cent lower than the export volume index.

Table 13: SSA: Average economic *losses* due to fall in the terms of trade of main exports

	1980	1981	1982	1983	1984	1985	1986	1987
Change In Terms Of Trade (%)	0.0	0.5	-5.2	-5.0	-3.5	-8.2	-30.2	-29.8
Total 'Loss': (a)								
- In current US$ billions	0.0	-0.2	2.5	2.0	1.4	3.4	10.2	11.2
- As % of GDP	0.0	-0.1	1.3	1.0	0.7	1.7	6.6	7.8
- As % of current account deficit	0.0	-1.0	15	18	46	839*	192	172
- As % of aggregate net financial transfers	0.0	-1.0	24	24	23	42	73	70

Source: Tarp (1993: table 1.8); World Bank (1991a, 1991b, 1990a and 1989).
Notes: (a) a negative sign means a net economic gain (or a negative 'loss'). * in 1985 the current account deficit was exceptionally small.

The deterioration of the terms of trade of SSA exports is partly explained by the narrow pattern of specialisation of production and market exhaustion.[15] For example, SSA exports 55 per cent of world cocoa exports. Between 1960 and 1986, the international demand for cocoa increased by only 40 per cent – 1.3 per cent a year, on average – and its terms of trade fell by 30 per cent. Comparatively, the world demand for quality fruit and vegetable juices increased

[15] Market exhaustion may be due to different factors operating in isolation or together. The main common determinants of market exhaustion are: (i) technological progress, resulting in the substitution of primary commodities and/or increase in input efficiency or the elasticity of outputs with respect to primary inputs; (ii) low income elasticity of demand for many primary products; (iii) absence of a mass-consumption markets for many other primary products; (iv) protectionist barriers to entry in the principal markets (for example, the sugar preferential quota system in place in the USA and EU); (v) lack of competitiveness of products from SSA, due to low productivity and quality, as well as unreliability of supply; and (vi) market power exerted in most of the commodity markets by a small number of international traders. Those factors lower the price and income elasticities of demand for primary products.

three times in the last decade, and doubled every three years for microelectronics (Wangwe 1995 and 1994). The impact of the coffee boom-bust of the mid-seventies and early 1980s on the Tanzanian and Kenyan economies are well documented (Bevan, Collier and Gunning 1990, and Mwega 1993).

The evidence suggests that although real devaluation of the exchange rate improves the relative domestic currency price of exportables, it may not be enough to improve export profitability if domestic patterns of production are import-dependent and international terms of trade deteriorate substantially.

Import Liberalisation and Foreign Exchange Allocation

Another measure of trade liberalisation is the degree of import liberalisation: the extent to which effective protection of non-tradables (or negative protection of exportables) has been reduced. Import liberalisation is expected to help to improve export profitability, resource allocation and the competitiveness of the economy. It ensures that quality inputs are supplied to domestic producers of tradables at competitive (world) prices. Moreover, resources move into economic activities that take advantage of the comparative advantages of the economy because those are capable of surviving under competitive conditions. Finally, rent-seeking, inefficient sectors are wiped out. The three crucial measures of import liberalisation are the elimination of non-tariff barriers to imports, and the reduction of the levels of import tariffs and of the range of tariff dispersion.[16] A crucial, complementary factor is the liberalisation of access to foreign currency.

The evidence suggests that SSA countries have liberalised imports to a reasonable degree. By 1985, the level of SSA tariff and non-tariff protection was close to the LDC average and below the Latin American, although it was still above the East Asian (World Bank 1993:300). From the mid-eighties, trade liberalisation has accelerated. Shafaeddin (1994) argues that, by 1987, half of 20 SSA adjusting countries had achieved mean levels of tariff, of non-tariff frequency and of tariff dispersion similar to that of South Korea and Taiwan.[17]

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[16] Tariff dispersion measures the departure of the import tariff structure from neutrality, due to differences in the effective rate of protection for different sectors. Trade liberalisation requires that tariffs be similar across sectors – that is, tariff dispersion is minimal or zero.

[17] The average level of effective protection for South Korean manufacturing was 22 per cent in 1985, after a period of twenty years of gradual liberalisation – starting with 60 per cent in 1966, 48 per cent in 1975, and 30 per cent in 1983 (World Bank 1993).

In a sample of 27 SSA countries, twenty-four have made significant improvements in the reduction of non-tariff barriers (16 of them, including Mozambique, have eliminated non-tariff barriers altogether), and 56 per cent have reduced overall taxation on tradables, particularly with respect to agricultural output and export crops (World Bank 1994).

In two-thirds of those countries, the allocation of foreign exchange has changed from being totally controlled by the state in the early eighties, to being moderately or completely market-driven. Foreign exchange allocation is subject to heavy controls in only 6 per cent of the countries studied (World Bank 1994: table A.7).

Therefore, SSA is in line with, and has liberalised faster, if not more substantially, than other "liberalising" regions in the developing world. However, the evidence also suggests that SSA countries face structural and institutional difficulties in fully implementing import liberalisation and benefiting from it. There are five major sources of problems that may cause import liberalisation to be delayed or halted, or to be less efficient than expected.

First, the speed and selectivity of liberalisation matters for the development of international competitiveness. Several studies have shown that SSA economies that have liberalised imports more gradually and selectively, as part of an overall process of improving the competitiveness of domestic firms (such as Ghana and Zimbabwe), have performed better in export diversification than those economies that have implemented faster and non-selective import liberalisation (such as in the case of Tanzania and Mozambique).[18] In the former cases, firms enjoyed the time and opportunity to acquire technological, managerial and marketing capabilities in order to become competitive. In the latter, firms were wiped out, spent a significant part of their resources in trying to protect their rents, or re-allocated their resources into short-term speculative business rather than into longer-term investment to develop international competitiveness.

The same studies also show that the contraction of domestic demand – due to the impact of demand-side stabilisation or competition from foreign firms – has forced firms to search for regional markets and has helped to increase exports. However, this sort of export boom has been short-lived because most of the firms have not managed to invest to improve quality, costs and reliability of production and delivery.

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[18] See, for example, Amsden (1997, 1994 and 1986), Davies, Sanders and Shaw (1992), Jesperson (1992), Lall and Wignaraja (1996), Ndela and Robinson (1995), Ndulu and Semboja (1995), Wangwe (1994 and 1995) and van der Hoeven (1992).

In Tanzania, between 1987 and 1990, exports increased by an average of 6.3 per cent a year, before the export boom was halted by lack of an investment strategy to improve competitiveness (Helleiner 1995, and Ndulu and Semboja 1995). In Mozambique, 60 per cent of the firms sampled in a World Bank study claimed that their prospects for full rehabilitation and expansion have been curtailed because their profitability had been undermined by competition from foreign firms. The same study shows that 70 per cent of the firms utilise only 30 per cent or less of their installed capacity (World Bank 1995).

Second, the success of import liberalisation requires that the state is capable of directing the re-allocation of resources towards more efficient sectors. Otherwise, if trade liberalisation simply wipes-out inefficient production without creating new opportunities, businesses and jobs are put under threat by competition from foreign firms, and domestic interest groups are likely to place strong pressure on the state to delay or halt the process of import liberalisation. Such pressure is likely to be stronger if structural constraints, associated with backward patterns of production and factor rigidities, prevent markets from adjusting quickly to changes in relative prices and no economic and investment strategy is in place to help the process of change. In the Mozambican manufacturing sector, 75 per cent of the firms argued in favour of higher rates of effective protection during a period of adjustment, to be complemented with the implementation of the drawback mechanism to compensate exporters for taxes paid on imported inputs (World Bank 1995).

Third, countries implementing strong stabilisation programmes under the aegis of the IMF may face conflicting objectives. On the one hand, they have to reduce or eliminate their fiscal deficits in pursuit of price stabilisation, higher savings rates, control of money supply and elimination of crowding-out effects on private investment. International trade taxes are the largest single source of public revenue for the majority of SSA countries. On the other hand, they have to liberalise trade, which requires that barriers to international trade, including taxes, should be reduced. SSA countries have to choose between reducing import tariffs and increasing public revenue.

The World Bank (1994: table A.14) shows that in the 12 SSA countries that had benefited from the IMF's SAF and ESAF, and the World Bank's SAL, since 1986,[19] taxes on international trade represented, in 1992, 40 to 50 per cent of total tax revenue. Six of those countries,

[19] Structural Adjustment Facilities (SAF) and Enhanced Structural Adjustment Facilities (ESAF) are two special modalities adopted by the IMF in the eighties to support stabilisation in highly indebted LDCs in SSA. Sectoral Adjustment Loans (SAL) is the World Bank modality to provide technical and financial support for the sectoral adjustment in LDC.

including 5 of the 10 ranked as *macroeconomic improvers*,[20] did not reduce their overall taxation on agricultural products until 1992 (World Bank 1994: table A.19). The six that managed significant reductions in the level of import tariffs show lower levels of gross domestic and public savings, and (excluding the extreme cases, Tanzania and Mozambique) have received twice as much external assistance than the remaining countries (World Bank 1994: tables A.24 and A.29).

Fourth, the pattern of production, consumption and market operation influences the determination of the actual allocation of foreign exchange (forex) after liberalisation. Firms more likely to have the financial capacity to buy forex in the market are those that are already exporting or face a very short turnover period (like the urban traders of basic commodities). The market-driven allocation of forex tends to reinforce the SSA pattern of production and exports that is narrowly confined to unprocessed or semi-processed primary products, as well as the advantages of short-term business. While that is an expected result of trade liberalisation, it is not a desirable allocation of resources from the SSA point of view.

Moreover, the richer groups of the society, which can compete for forex in a liberalised market, tend to develop and protect a higher than average import-component of consumption. A study by Doriye and Wuyts on Tanzania (1993) shows that following the liberalisation of the allocation of foreign currency, the imports of consumer durables and of vehicles for private and urban public transport became the fastest rising components of imports. At the same time, forex was scarce for public works (example, rehabilitation of rural feeder roads) and for productive investment. In Mozambique, the share of consumer durables (such as private vehicles and electric and optical equipment for domestic and private use) in total imports increased from 8 to 18 per cent between 1988 and 1995 (Castel-Branco 1995 and 1994b, DNE issues 1990 to 1994). At the same time, 25 firms, from a sample of 60, considered financial constraints to buy forex as a major impediment for their rehabilitation and development (World Bank 1995).

Fifth, in cases where external assistance – which is usually tied – is a major source of forex, liberalisation of the forex market may play only a marginal role in resource allocation. Tied external assistance, usually allocated to investment in physical capital according to donors' interests, may distort the allocation of forex and place further pressures on the domestic savings and the fiscal deficit. Dependence on external assistance is widespread in SSA (tables 3 and 4). Controlling for two extreme cases (Tanzania and Mozambique), all the

[20] A third of the scores needed for a country be defined as *macroeconomic improver* depends on a strong

remaining best performers amongst the *macroeconomic improver* economies in the World Bank study have systematically received more net inflows of external assistance than the other SSA countries (World Bank 1994: table A.29).

Doriye and Wuyts (1993) show how, under export constraints, external assistance tied to investment in physical capital increased demand for recurrent capital, which could not be met because of fiscal constraints and shortage of untied forex. This process led to an overall reduction of the rate of capacity utilisation in the Tanzanian economy. In Mozambique, where dependence on tied external assistance is significantly greater than in any other SSA country, the IMF recommended a sharp reduction of the portfolio of investment projects financed by the World Bank and the African Development Bank because of the pressures they placed on the fiscal deficit (Castel-Branco 1994a and 1994b, UNDP 1996b, and Wuyts 1995).

Therefore, although some of the crucial measures of import liberalisation have been implemented, that process may not have worked as smoothly and efficiently as desired, and its impact on resource allocation may have fallen short of expectations.

Openness of the Economy and Outward Orientation

The degree of openness of the economy, measured as the external trade percentage of GDP [(Exports+Imports)/GDP*100] is another measure of success in achieving an outward oriented economy. Conventionally, the share of total international trade in GDP is positively associated with trade liberalisation and the competitiveness of the economy.

As far as trade openness is concerned, SSA is performing fairly well (table 14). SSA economic openness is in line with two very open economies, Thailand and Indonesia, and it is clearly superior to that of Latin America and South Asia. Mozambique's trade share of GDP is in line with that of Malaysia; only Singapore and Hong-Kong, the two most open economies in the world, have a higher ratio of trade to GDP.

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reduction of fiscal deficits.

Table 14: Openness of the economy: (imports + exports)/GDP (%).

	1970	1980	1985	1989	1991	1995
Indonesia	25	46	38	42	---	---
South Korea	32	63	66	66	---	---
Taiwan	53	92	82	90	---	---
Thailand	28	49	44	35	---	---
Malaysia	89	100	85	109	---	---
Singapore	212	370	277	347	---	---
Hong-Kong	150	152	178	282	---	---
Latin America (region average)	20	25	22	23	---	---
South Asia (region average)	11	17	16	19	---	---
Sub-Saharan Africa (region average)	24	30	27	45		
Mozambique	---	---	113*	121	134	116

Sources: DNE (issues 1990 to 1994); Governo de Moçambique (1996a and 1996b); UNDP (1996b and 1995); World Bank (1993:39)
* Data for 1987.

However, the ratio of total trade to GDP does not show the structural differences between the regions with respect to the composition and sustainability of trade. The degree of trade openness in SSA is associated with trade and current account imbalances, and is partly supported by external assistance. Additionally, the pattern of specialisation of SSA's exports, which reflects the structure of production of SSA economies, is not an indicator of competitiveness but rather a sign of the rigid confinement of the SSA economic structure to a colonial pattern of economic activity. Neither the new theories of trade and growth nor the evidence suggests that trade liberalisation is an effective instrument to induce the required change in that pattern of specialisation.[21]

Market and Price Liberalisation

A final, conventional measure of trade liberalisation is the extent to which state intervention in price formation and marketing has been reduced or eliminated.

The World Bank (1994: tables 3.4 and A.7 to A.13), shows that in 83 per cent of the SSA countries, the degree of state intervention in price controls and marketing is small or medium. In a third of those countries, the government does not intervene at all in export crop marketing, and in 20 per cent intervenes little and in competition with the private sector. In the remaining 47 per cent, the government exerts market power in a very specific narrow group of exported

[21] See, for example, how endogenous growth and evolutionist theorists criticise the neo-classical assumption of economic convergence between countries of different levels of economic activity and technological development

commodities (e.g. some strategic minerals, such as oil, and crops, such as cocoa in Ghana). In 77 per cent of those countries, price controls and subsidies for fertilisers and other inputs have been removed almost completely. Overall, the degree of state participation in marketing and pricing of exports has been reduced by half.

Table 10 shows that only half of SSA countries have substantially reduced state intervention in the establishment of the prices of export crops. In many countries, like Tanzania and Kenya (coffee), and Mozambique (cashew and cotton), small peasants, retail and wholesale traders, and local industrialists compete fiercely for the largest share of revenue from exports. In this case, the state may intervene in price formation in order to protect a particular economic group or to redress inequalities in market power between different economic agents. In other cases, exporters face highly imperfect world markets (such as the sugar market) or a very narrow pattern of export specialisation (such as in the case of cocoa in Ghana), both of which make domestic producers and the national economy vulnerable to price instability and other external shocks. The state has therefore intervened to insulate domestic producers, and the national economy, from the impact of such shocks. Both situations have prevented full price liberalisation.

The World Bank (1994) does not distinguish the cases where the private sector exerts market power in the domestic and in the international markets. Nor does it identify the cases where the private trading companies obtain extra-profits by buying at lower than “normal” prices from small producers or by manipulating supply and demand of commodities in the world market. The study of market liberalisation is almost entirely focused on the degree of withdrawal of the state, with not much concern for the market power of other economic agents and other market imperfections.

The study does not even consider the hypothesis that the withdrawal of the state from the market may, under some circumstances, increase the degree of monopoly power. Gibbon *et al* (1993) shows that the withdrawal of the state-owned agricultural trading company and of state support to trading co-operatives in Mozambique has reduced the number of trading partners and the coverage of the trading network in the rural areas by a third, and has increased the market power of the larger private agricultural traders. These traders have been able to control producer prices and the terms of trade of agricultural surplus *vis-à-vis* manufacturing goods, and have appropriated the largest share of benefits from price and trade liberalisation. Similar

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(Austria 1992, Barro and Sala-i-Martin 1995, Bayoumi, Coe and Helpman 1996, de la Fuente 1995, Grossman and Helpman 1995, Lucas 1990 and 1988, Nelson and Winter 1982, Romer 1990, 1987 and 1986).

results have been found with respect to the reduction of state involvement in the management and development of rural warehouses in Zimbabwe.

Therefore, whereas several SSA countries have significantly reduced the role of the state in market operation, and some in price formation, the impact of this process on actual market liberalisation and increased competition has not been significant.

4. Conclusions

This essay has shown that exports play a crucial role in the acceleration of the rate of economic growth by providing additional untied foreign exchange.[22] Exports cannot be seen as a residual of economic activity. On the contrary, in countries with patterns of production heavily dependent on imports, high debt service ratios, low foreign reserves and strong dependence on external assistance, exports become a major objective of the whole economic strategy.

It has also been shown that in SSA, exports have neither been increasing at the required rates nor diversifying. This is related with the fact that production in SSA has not been increasing at the desired rates nor diversifying. Moreover, evidence suggests the existence of an inverse relationship between economic growth and the degree of macroeconomic improvement and trade liberalisation, as measured by the World Bank (1994). For example, countries that maintained price subsidies for crucial agricultural inputs and reduced taxation on export crops did not improve their macroeconomic condition,[23] did not liberalise trade completely, but performed well in agriculture.

This essay strongly argues that export performance has to be assessed for its role in sustaining high rates of economic growth, and reducing the vulnerability and dependency of SSA economies. Small rates of growth of exports are clearly unsatisfactory, because they do not offer any real route to economic growth and development. In this connection, it has been shown that exports in SSA in the early 1970s grew at rates twice as fast as in the early 1990s. Additionally, the average export growth rates in the fast growing Asian economies and LDC as a whole have grown significantly faster than in SSA. The suggested high rates of export growth

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[22] Exports also perform the role of being a channel for accumulation of knowledge, which is a crucial determinant of economic growth (Amsden 1986, Barro and Sala-i-Martin 1995, Bayoumi, Coe and Helpman 1996, Grossman and Helpman 1995, and Wangwe 1995 and 1994). However, this role of exports is not discussed in this essay.

[23] Price subsidies on imported inputs affects fiscal and current account balances, as well as the level of the exchange rate. Lower taxes on international trade, the single most important source of tax revenue in SSA, deteriorate fiscal balances.

are not only feasible, but also absolutely necessary if SSA is ever to start to close the gap *vis-à-vis* the world.

This essay is concerned with the limits of trade liberalisation for export promotion in SSA, because that has been the core strategy for export promotion in SSA since the beginning of the SAP. It showed that trade liberalisation has been implemented in a large number of SSA economies, since the early 1980s, although not evenly across countries and specific policies of the package of liberalisation. The detailed analysis of the different measures and policies has suggested that, in what it sets out to do, trade liberalisation has three main limitations.

First, although the relative domestic currency prices of exportables have improved, and wages have fallen, the relative profitability of exports has been eroded by the strong import-dependence of the economy, and the deterioration and volatility of the international terms of trade of SSA exports. The pattern of production and specialisation of SSA economies determine those problems. This has not, and cannot, be changed simply by policies of liberalisation. In particular, trade liberalisation does not provide the means to insulate domestic producers from external shocks and volatility of the international terms of trade, which are very important determinants of systematic crisis of accumulation in SSA.

Second, the process of liberalisation has significantly reduced the interference of the state in the operation of the markets and price formation. However, it has not introduced more competition because the packages of liberalisation do not target the removal of market power exerted by private agents in the domestic and world markets.

Third, trade liberalisation is, in practice, challenged, and often defeated, by three powerful factors. Fiscal stabilisation tends to prevent fast progress in the liberalisation of foreign trade, because taxes on external trade are the single most important source of fiscal revenue. Dependence on external assistance, which is usually tied to capital investment, tends to prevent improvements in the allocation of scarce foreign exchange and condition the allocation of domestic savings. Trade liberalisation may wipe out inefficient economic activities, but does not offer an alternative route or pattern of resource allocation. This tends to generate strong domestic opposition to trade liberalisation and can lead to interminable delays in the approval of tax reductions and price liberalisation, or abort them altogether.

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