

Trade Policy and Economic Performance in Sub-Saharan Africa

Dani Rodrik

Dani Rodrik's study summarises some of his recent thinking on the correlation between the openness of the trade regime, trade pattern and economic performance in African countries. The main implication for development policy thinking is Rodrik's argument that in the main-stream discussion the benefits of trade reforms for economic growth and development are overestimated. Excessive emphasis on trade liberalisation can backfire if it diverts the scarce energies and political resources of government leaders and key decision-makers in Africa from growth fundamentals that are more important for growth and development, e.g. human resources, macroeconomic and fiscal policy and demography. The slogan version of Rodrik's message is: Economic policy should focus on growth, not on trade.

Analysis

The analysis starts with a review of the available evidence on the extent of trade barriers in Sub-Saharan Africa, SSA,

compared to East Asia and Latin America, finding that the SSA trade barriers have been higher in Africa than in East Asia, that they were at a comparable level as in Latin America up to the early 1990s. From then the rapid trade reforms there and in the former socialist economies have left SSA as the only region in the world where substantial tariff and non-tariff barriers to trade are the norm rather than the exception.

Cross-national regressions show that country size and per capita income are two strong determinants of the openness of an economy. Other determinants included in this context are the geographical distance from the world's leading traders and a gravity component of trade. The main outcome is that Africa, as an aggregate, trades as much as can be expected given its geography and per capita income.

Rodrik then analyses parameters that could explain the variation in trade performance within SSA, using regressions and a set of explanatory variables, forming part of the trade regimes. The result is



that a few variables (income per capita, country size, geography and trade policy) explain well the trade-GDP ratios of the individual African countries. The growth of trade is less well explained, although there is evidence that trade taxes play a significant role.

According to Rodrik, empirical studies that focus on Africa's growth performance typically do so by using cross-national data sets that span the whole world. Two leading papers in this tradition are Easterly and Levine (1996)¹ and Sachs and Warner (1997)². Rodrik focuses in this study on growth regressions limited to a SSA sample of countries, which also makes it possible to look into why growth differs between SSA countries. With this method Rodrik is able to conclude that some of the determinants used by the mentioned studies lose their explanatory power if used in regressions limited to SSA countries. To a large extent Rodrik uses the same variables as Sachs and Warner, while his conclusions for countries in SSA vary significantly to those presented by Sachs and Warner for their sample.

The study also argues that one factor behind the limited success of trade liberalisation schemes in many African countries is the magnitude of the distributional impacts of such reforms. In the case of a significant reduction of tariffs, the short term losses for specific interest groups, such as the urban employers or recipients of trade rents are much higher than the gain to the economy as a whole and often also to gaining interest groups. One strategy to get around this situation is to package trade reform with other reforms that promise to provide substantial all-around gains to significant interest groups in urban and rural areas alike, and thereby dilute the redistributive effects of the reduced tariffs. However, such opportunities rarely present themselves, because most reforms do have sharp distributional consequences.

A few countries with distinctive experiences with trade policy and economic performance are used as cases in order to make the presentation more concrete. They are divided into three categories: Unqualified successes

(Botswana and Mauritius), Reform and recovery (Ghana and Uganda), and Reform without growth (Mali and Gambia).

Conclusions

Trade policy works the same way in Africa

The study focuses on the role of trade and trade policy in achieving sustained long-term growth in the region. One major conclusion is that trade policy in Sub-Saharan Africa works pretty much the same way that it does elsewhere. High levels of trade restrictions have been an important obstacle to exports in the past and their reduction can be expected to result in significantly improved trade performance in the region. The removal of export restrictions, dismantling of marketing boards, relaxation of quantitative restrictions on imports and lowering of import tariffs will sharply increase traditional and non-traditional exports. There is little ground for pessimism in this respect, or for concern that Africa's different conditions - its poor infrastructure, its geography, or its dependence on a limited number of primary products - make it a special case in which exports are not responsive to prices or to the traditional instruments of commercial policy.

Focus shall be on growth, not on trade

While reforms in the area of commercial policy are a potent instrument for raising trade volumes, their influence on economic growth is generally much weaker. This is the second major theme of the study. An increase in the share of national income that is exported does not in itself generate growth in per capita income. The fundamentals for long-term growth are human resources, physical infrastructure, macroeconomic stability and the rule of law. Governments that undertake investments in these areas will be rewarded with increased rates of economic growth.

The role of trade policy in economic growth is largely auxiliary and of an enabling nature: extremes of export taxation and import restrictions can surely suffocate nascent economic activity, but an open trade regime will not on its own

set an economy on a sustained growth path. But opening an economy to international trade is not a "quick fix" that can substitute for harder and more time-consuming tasks, such as investments in human resources and infrastructure, and establishing credibility of the institutions of macroeconomic management. Too much focus on "outward orientation" and "openness" can even be counter-productive if it diverts policy makers' attention away from the fundamentals listed and treats trade rather than per capita income as a yardstick for success.

Specific conclusions

Some of the more specific conclusions of the study can be summarised as follows:

- The marginalization of Africa in world trade is entirely due to the slow growth of African economies. Taken as a whole, the region participates in international trade as much as can be expected according to international benchmarks relating trade volumes to income levels, country size and geography.
- There is tremendous variation within Sub-Saharan Africa in terms of economic performance. Many countries have experienced periods of a decade or more of high growth and trade expansion, but these have generally not been sustained.
- The cross-national variation in trade performance within the region is well explained by the standard determinants of trade, namely trade policies, income levels, country size and geography. In particular trade policies, as measured by taxation of imports and exports, are significantly and robustly correlated with volumes of trade as well as the growth of trade.
- The variation in long-term growth performance within the region is explained largely by a small set of fundamentals: human resources, fiscal policy, demography and a catch-up factor. The external terms of trade have also played a role over shorter horizons (of a decade or so). Trade policies have played a much smaller role in growth performance,

although there is evidence that excessive taxation of exports was partly responsible for some dismal failures.

- Extensive trade liberalisation during the 1980s along with other reforms have helped some of the region's leading reformers, such as Uganda and Ghana, to recover from long periods of economic decline.

- The two most successful countries in the region, Botswana and Mauritius, have combined elements of open economy with unorthodox policies in other spheres. As a member of the Southern African Customs Union, SACU, Botswana has not had an independent trade policy, a factor which may be crucial in achieving good governance on macroeconomic and other fronts. But it also had a large public sector. Mauritius has followed a two-track strategy until the 1980s with an export processing zone operating on free trade principles functioning side by side with a highly protected domestic economy.

- Successful instances like Botswana and Mauritius notwithstanding trade reform in Africa has generally been erratic and marked by reversals and lack of credibility. At the heart of these difficulties lie the sharp distributional consequences of trade reform. Managing these distributional issues is tricky, yet crucial to successful reform. Two broad strategies for minimising distributional conflicts are: (a) packaging and sequencing of trade reforms with other reforms that serve to offset or dilute the consequences of trade liberalisation; and (b) proceeding in stages so that winners can emerge early and provide political support.

Optimistic and pessimistic implications

Rodrik argues the conclusions listed have both optimistic and pessimistic implications. On the positive side, it is clear that Sub-Saharan African countries are able to grow at rapid rates when the circumstances are right. Trade volumes are responsive to prices and countries where exports of traditional and non-traditional

products have been sharply discouraged by taxes and other restrictions can expect to a solid payoff when such policies are removed. There is, according to Rodrik, no evidence that African trade has been significantly affected by external developments. There is little ground for concern in general that the structure of African economies make them unsuitable for the application of remedies that have worked in other settings.

At the same time, there are clear limitations to what trade policy, or outward orientation, can accomplish. Growth depends first and foremost on the fundamentals identified above. Investments in human resources and infrastructure and establishing the credibility of the institutions of macroeconomic management are going to take time. So will the demographic transition.

An excessive emphasis on trade liberalisation can backfire if it diverts the scarce energies and political resources of government leaders from the growth fundamentals. The benefits of trade reform should not be oversold. Economic policy should focus on growth, not on trade.

Challenge against the mainstream

The export led growth strategy that to a certain extent is challenged by Rodrik is still strongly rooted and therefore Rodrik's position is challenged by a large number of influential mainstream economists, including e.g. the present chief economist of the World Bank, Joseph Stiglitz (1998)³, and Jeffrey Sachs and Andrew Warner (1997).

Rodrik's conclusions would influence the presently dominating export-led growth strategy that is one of the pillars of the structural reforms now under implementation in many African countries. Not by denying the importance of an open trade regime as such, but by changing the balance in the package of necessary reforms.

As Rodrik suggests, there is obviously great need for more research in many of the areas covered in the study. The

economies of Sub-Saharan Africa remain relatively underresearched, especially where comparative research within the region is concerned.

¹ William Easterly and Ross Levine. 1996. "Africa's Growth tragedy". World Bank, May 1996.

² Jeffrey Sachs and Andrew M. Warner (1997). "Sources of Growth in African Economies", Journal of African Economies, Vol 6, No3, pp 335-376.

³ See e.g. Joseph E. Stiglitz. "Towards a New Paradigm for Development: strategies, Policies, and Processes". (Given as the 1998 Prebisch Lecture at Unctad, Geneva, October 19, 1998)

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