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**'Assessing the Causes of Sub-Saharan Africa's Declining Exports and Addressing Supply-Side Constraints'**

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## Declaration

"I undertake that all material presented for examination is my own work and has not been written for me in whole or in part by any other person(s). I also undertake that any quotation or paraphrase from the published or unpublished work of another person has been duly acknowledged in the work for which I present for examination".

### List of Acronyms

| | |
|---|---|
| ACP | African, Caribbean and Pacific (group of countries) |
| AGOA | African Growth and Opportunity Act (of the United States) |
| ASEAN | Association of South-East Asian Nations |
| BIT | Bilateral investment treaty |
| BOT | Build-operate and transfer |
| BTO | build-transfer and operate |
| BPO | business-process outsourcing |
| CA | Cotonou Agreement |
| CARICOM | Caribbean Community |
| CEE | Central and Eastern Europe |
| CIS | Commonwealth of Independent States |
| DTT | Double taxation treaty |
| EFTA | European Free Trade Association |
| EIU | Economist Intelligence Unit |
| EPZ | Export processing zone |
| EU | European Union |
| FDI | foreign direct investment |
| FEZ | Free economic zone |
| FTA | free trade agreement |
| GATS | General Agreement on Trade in Services |
| GDP | Gross domestic product |
| ICC | International Chamber of Commerce |
| ICSID | International Centre for Settlement of Investment Disputes |
| ICT | Information and communications technology |
| IIA | International investment agreement |
| IIF | Institute of International Finance |
| ILO | International Labour Organization |
| IPA | Investment Promotion Agency |
| LDC | Least developed country |
| NEPAD | New Partnership for Africa's Development |
| ODA | Official development assistance |
| OECD | Organisation for Economic Co-operation and Development |
| SME | Small and medium-sized enterprise |
| TNC | Transnational Corporation |
| UNCTAD | United Nations Conference on Trade and Development |
| WTO | World Trade Organization |

# Assessing the Causes of Sub-Saharan Africa's Declining Exports and Addressing Supply-Side Constraints

## i. Introduction: A Synopsis of the Problem

Think of trade with Africa and one usually thinks of unfair market access and subsidies by developed countries. Indeed, given that 'OECD countries pay their farmers $300 billion in agricultural subsidies alone, how can Africa compete? At a meeting for African Finance ministers in Uganda, hosted by the United Nations Economic Commission for Africa (UNECA) in May 2004, the question facing the ministers was 'if Africa got fair market access would it be able to compete?' (Ryan, 2004). Despite the importance of market access, it is not Africa's greatest development and trade challenge. The greatest challenge lies within Africa's borders. It is overcoming supply-side constraints and building the capacity of the private sector to produce competitively.[1] If the private sector cannot competitively produce products the world wants to buy, then market access is without value.

Over the past 30-40 years sub-Saharan Africa's share in world exports has been declining, and along with it the standard of living of most Africans.[2] This decline comes despite the fact that since the early 1970s, SSA countries have enjoyed preferential market access into

[1] Landau (1997), describes competitiveness as 'the ability to sustain, in a global economy, an acceptable growth in the real standard of living of the population with an acceptable fair distribution, while efficiently providing employment for substantially all who can and wish to work…' (cited in ILO, 2000)

[2] Sub-Saharan Countries/Territories are: Angola*, Benin*, Botswana, Burkina Faso*, Burundi*, Cameroon, Cape Verde*, Central African Republic*, Chad*, Comoros*+, Congo, Congo (DRC) *, Cote d'Ivoire, Djibouti*, Equatorial Guinea*+, Eritrea*+, Ethiopia*+, Gabon, The Gambia*, Ghana, Guinea*, Guinea-Bissau*, Kenya, Lesotho*, Liberia*+, Madagascar*, Malawi*, Mali*, Mauritania*, Mauritius, Mozambique*, Namibia, Niger*, Nigeria, Reunion, Rwanda*, Sao Tome and Principe*+, Senegal, Seychelles, Sierra Leone*, Somalia*+, South Africa, Sudan*(WTO Observer), Swaziland, Tanzania*, Togo*, Uganda*, Western Sahara, Zambia*, and Zimbabwe. Countries with * are Least Developed Countries (LDCs) and those with + are not WTO members. The criteria used by UN's Economic and Social Council in its latest triennial review of the list of LDCs in 2000 (as proposed by the Committee for Development Policy) are: (a) a low income criterion based on a three-year average estimate of the GDP per capita (under $900 for inclusion, above $1,035 for graduation); (b) a human resource weakness criterion, involving indicators on nutrition; health; education; and adult literacy; and (c) an economic vulnerability criterion, involving a composite Economic Vulnerability Index (EVI) based on indicators of: the instability of agricultural production; the instability of exports of goods and services; the economic importance of non-traditional activities (share of manufacturing and modern services in GDP); merchandise export concentration; and the handicap of economic smallness (as measured through the population in logarithm). See also Office of the High Representative for LDCs, Landlocked Developing Countries and Small Island States. Available online at http://www.un.org/special-rep/ohrlls/ldc/ldc%20criteria.htm

industrialized countries, including zero or low tariff rates for Least Developed Countries (LDCs). How is it then that SSA has experienced such a decline in its share of world exports, while at the same time, other developing countries, in particular in Asia, have experienced a growth in their share of world exports? (UNCTAD, 2004a: 1-2).

This outcome is the result of a combination of several factors: the structure of international trade; the composition of SSA's trade; low productivity as a result of poor trade and economic policies applied by SSA countries over the last 20 years, poor infrastructure in SSA countries; the substantial erosion of market share of SSA countries; market access; agricultural policies in developed countries and so on. Over the years, there has been a declining demand for key export products produced be SSA (Yeats *et al*, 1996). At the same time, more than for any other developing region, SSA remains heavily dependant on exports of primary commodities. The region is vulnerable to market vagaries and weather conditions. Supply shocks, and their attendant price volatility, coupled with the secular decline in real commodity prices, and the resulting terms-of-trade losses have culminated in heavy income loss, indebtedness, lack of investment, poverty and under-development (UNCTAD 2004a: 2).

### ii. Purpose and Relevance of the Research

This paper looks at three broad issues. First, it looks at the structure of SSA's trade and some of the reasons for the decline in SSA's share in world merchandise; SSA's commodity dependence and possibilities for diversification. Second, interlinked with the first, the paper looks at supply-side constraints in general and various domestic regulatory bottlenecks that hinder that constrain the private sector in SSA. This chapter also looks. Third, the paper identifies a few ways in which the Economic Partnership Agreement (EPAs), currently being negotiated between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries could, by emphasizing the development aspects of the Cotonou Agreement (CA), serve to boost SSA's exports and address some of the supply-side problems raised in earlier sections of this paper.

It has become recognized that increased efficiency, competitiveness and productivity are pre-conditions for the integration of developing countries into the multilateral trading system. Overcoming supply constraints, increasing supply capacity and productivity are crucial for SSA to take up market access opportunities, and in order to create and maintain jobs in the face of mounting competition from other developing country regions. A better knowledge of what determines export performance, contributes to a better understanding of the relationship between openness and growth (Fugazza, 2004).

Although, there is no shortage of literature and conferences discussing the many causes of SSA's poor trade performance,[3] the relevance of this research at this point in time cannot be understated. Policy makers everywhere are currently grappling with the question 'how to address supply-side constraints and better integrate Africa in the global economy'. Karl Falkenberg, a European Commission Negotiator with the Trade Directorate General (Free Trade Agreements) commented that 'The fact that ACP trade share in the EU market significantly dropped over the last decades, despite unprecedented market access conditions shows that foreign trade alone is not a sufficient condition for development. We have to look closer at the supply side, i.e. the capacity of developing partners to build production capacity, and the necessary human resources and infrastructures to integrate better into a global world economy'(ICTSD, 2004: 1).

At its 37th United Nations Economic Commission for Africa (UNECA) Conference of African Ministers of Finance, Planning and Economic Development, held in Uganda in May 2004, a

[3] A vast literature, both theoretical and empirical, has developed over the last few decades on the possible causes of the lack of development and economic growth in SSA (see Schollaert & Van de Gaer, 2003)

constant refrain among delegates was the decline of SSA's export-share and the need to find ways to promote African trade. UNCTAD has already devoted several studies to this issue.[4] Similarly, at the UNCTAD XI conference held in June 2004 in Brazil, four important themes central to this paper were discussed in the plenary sessions. These are, notably:

- How to increase the export capacity of developing countries by enhancing the competitiveness of indigenous firms through linkages with high-quality, deeply rooted FDI and easier access to global and regional value chains of production.
- Helping developing countries to capitalize on potential opportunities offered by dynamic and new sectors in world trade to reduce these countries dependence on commodities and labour and resource-intensive products; significantly enhance domestic export value added, improve growth performance and bring down levels of poverty…address the core challenge to developing countries in moving up the value chain, that is, the establishment of a virtuous circle among investment, innovation and technological change; productivity and supply capacity; and enhanced export and growth performance.
- Information and Communication Technologies as an enabler for growth, development and competitiveness.
- Identify problems and possible means to build an efficient and secure environment for international trade and transport in developing countries where limited transport availability and excessive transactional costs constitute not only major barriers to foreign markets and to a greater integration of developing countries in the global economy, but also represent major impediment towards attracting foreign direct investment.[5]

[4] For a bibliography see http://www.unctad.org/Templates/StartPage.asp?intItemID=2871&lang=1
[5] See http://www.unctadxi.org/templates/News____909.aspx

An ACP Ambassador who led the discussion on market access and supply-side constraints at the Cotonou Monitoring Group of European Development NGOs and networks in May 2002, commented that 'As the experience under the Lomé Convention has demonstrated, ACP countries face major problems in producing and supplying goods competitively within an increasingly liberalised trading environment. Why is this and what can be done about it? These are central questions in the development of ACP-EU trade relations. It is however an area so far under-developed in the elaboration of the way forward for future ACP-EU trade relations... Oddly enough it is widely recognised that addressing these supply-side constraints on production is one of the keys to the economic development of ACP countries. However the experience of EU co-operation programmes in terms of addressing supply-side constraints is not a good one. While good at physical infrastructure EU programmes tend to be less effective at actually getting to grips with the supply-side constraints faced by small-scale producers and marginalised groups'.[6]

A final example on the current impetus behind this issues is the World Economic Forum's 14th Africa Economic Summit held in June, 2004 in Maputo, Mozambique, which discussed some issues necessary for economic growth in Africa, including, sound infrastructure; creating an improved institutional climate for domestic and foreign investment; and the crippling cost of doing business in Africa, which hinders the private sector from fulfilling its potential as the main engine of economic growth.[7]

From the above summary, it is quite clear that the need to address supply-side constraints and weak infrastructure is a high priority among both SSA policy-makers; EPAs negotiators and

[6] Because of the Chatham House rules under which the meeting was held, the delegate cannot be named. For the full paper see **Addressing Supply-Side Constraints** at http://www.epawatch.net/documents/doc53_1.doc viewed on 2 May, 2004.

[7] For an overview of the Summit's objectives see http://www.weforum.org/site/homepublic.nsf/Content/Africa+Economic+Summit+2004. The African Competitiveness Report 2004—the third in the series—was also presented at the Summit. The report highlights the prospects for growth, obstacles to improving competitiveness and the need to accelerate the pace of economic change.

the international development community. This clearly illustrates the relevance of this research. Many of the constraints faced by SSA countries are similarly experienced, in varying degrees, across the ACP and other developing and/or landlocked countries. Therefore, this study is also useful as a comparative analysis for both policy makers in those similarly situated countries and for those interested in developing-country issues, not just SSA. Lastly, this study is useful to policy makers in developed countries and donors like the EU, in informing, albeit in a limited way, some of their programmes aimed at overcoming supply-side constraints in SSA.

### iii. Methodology

The analysis of this paper is essentially by way of a review of the existing literature on the subject of supply-side constraints and draws certain conclusions there from. This paper is set within the broader contextual understanding that the private sector is a key driver of development and that trade can be a tool for growth and development, leading to increased incomes and the eradication of poverty. Apart from trade, there are various other avenues of development that SSA governments are pursuing such as through the IMF and World Bank's Poverty Reduction Strategy Papers (PRSPs). These other strategies will not be discussed in this paper. Nonetheless, the issues to be discussed are still quite broad. Therefore, because of space constraints, many of the arguments advanced in this paper will be quite general, yet sufficient to highlight the issues at hand.

### iv. Structure of the paper

This paper is divided into three chapters. Chapter 1 looks at the structure of SSA's trade; some reasons for the decline in SSA's share of world trade; the problems arising from SSA's commodity dependence and possibilities for diversification. Chapter 2, interlinked with Chapter 1, discusses in general various supply-side constraints facing SSA countries in attempting to improve their export capacity. This chapter focuses on the constraints posed on private firms by excessive regulation and inefficient government bureaucracy. The chapter also looks at the human resource and skills constraint and its impact on supply, in particular in the case of manufacturing, processing and services. Chapter 3 is the concluding chapter and it discusses a few ways in which the Economic Partnership Agreement (EPAs), currently being negotiated between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries could, by emphasizing the development aspect of the Cotonou Agreement (CA), serve to boost SSA’s exports and address some of the supply-side problems raised in earlier sections of this paper.

# Chapter 1

## Africa's Trade Structure and Performance, Commodity Dependence

### 1.1 Introduction

The last two decades have witnessed a wholesale fall in trade barriers worldwide as well as a substantial increase in exports by almost 220 percent. However, this increase is extremely varied. East Asia enjoyed an increase of about 720 percent—with notable best performers like Korea, China and Vietnam averaging an annual growth rate of 15 percent. Worst performers in Africa and Latin America have recorded negative annual growth rate records in at least one decade. Trade in skill and technology-intensive manufactures has grown much faster than that in labour-intensive and resource-based manufactures and commodities, although a few products in the latter category have displayed considerable dynamism (UNCTAD, 2002c: 52). Indeed, it would appear that policies on market access have also played a big part in favouring skill and technology-intensive sectors in which industrial countries have an upper-hand over agricultural commodities and middle-range manufactures, which are largely dominated by developing countries.[8] There are four types of 'dynamic products'—i.e. market-dynamic products that have a high global demand (both existing and potential); and supply-dynamic products with high productivity potential. The four types of dynamic product groups; whose exports among developing countries are almost completely dominated by the East Asian economies are: (i) electronic and electrical (SITC 75, 76 and 77); (ii) textiles and labour intensive products, especially clothing and apparel (SITC 61, 65 and 84); (iii) finished

[8] Trade data shows considerable growth in technology and skill-intensive exports from developing countries, but this can be misleading. A good part of the skills and technology in these exports consists of components produced in developed countries; while developing countries are engaged mainly in the low-skill, low-value-added assembly stages of global production chains mostly under TNCs. Hence much of the value added in these exports still transfers back to developed country owners of capital; intellectual property rights; know-how and management. It is important to note that, although these activities may have considerable benefits for countries trying to break into manufactures and utilize their skilled labour, they can lead to complications relating to fallacy of composition i.e. when too many countries attempt to enter the same markets with similar products. This problem is discussed later in this Chapter (UNCTAD, 2002c: 53).

products from industries that require highly technical, complex and/or economies of scale, for example, chemicals and pharmaceuticals (SITC 5, 87); and (iv) primary commodities, including, silk, non-alcoholic beverages and cereals (SITC 261, 111, and 048) (UNCTAD, 2002c: 55-56; 93-94).

According to a recent UNCTAD report on SSA's *Trade Performance and Commodity Dependence* (UNCTAD, 2004:1), between 1980-1981 and 2000-2001 SSA's share of trade (merchandise imports plus exports, excluding South Africa and Nigeria) rose from 45.0 to 50.4 percent. Despite these figures, perhaps the most striking feature of SSA's trade performance from the 1960s to the present, has been the extensive erosion of export market share.[9] Africa's share of world exports dropped from about 6 percent in 1980 to 2 percent in 2002, while imports fell from about 4.6 percent of world share in 1980 to 2.1 percent in 2002 (UNCTAD 2004: 1)(See Table 1 below). According to the report, this decline is attributable to several factors: (i) the structure of international trade; (ii) the composition of Africa's merchandise trade; (iii) Africa's trade policies over the past 20 years; (iv) poor infrastructure; (v) market access; and (vi) agricultural policies in industrial countries.

Over the years, there has been a declining demand for export products crucial to SSA.[10] SSA's heavy reliance on primary commodity exports has kept the continent vulnerable to market vagaries and weather conditions.[11] At the same time, supply shocks, and their

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[9] For example, Yeats *et al* (1996: 2) state that during 1962-64 copper alloys were SSA's single largest export. SSA supplied 32 percent of the Organisation for Economic Cooperation and Development's (OECD) copper alloy imports. By 1991-93, this share had fallen below 10 percent. Likewise, SSA's market shares for other key commodities such as fixed vegetable oils, palm oil, palm nuts and kernels, and groundnuts fell 47 percent to 80 percentage points below the levels seen in the early 1960s. SSA's average market share for the 30 most important non-oil exports combined, fell from 20.8 percent to 9.7 percent of those exports, possibly indicating annual trade losses of about US$11 billion during this period.

[10] From the early 1960s to the 1990s, world trade in non-fuel products grew at a compound annual rate of 11.8 percent, but the corresponding growth rate for the types of products SSA exports was about 4.5 percentage points lower (Yeats *et al*, 1996: 2).

[11] Famines and drought have been endemic in Africa since the late 1960s. Droughts and other natural disasters exacerbate income and asset inequality, as well as economic vulnerability. They create additional costs and

attendant price volatility, coupled with the secular decline in real commodity prices, and the resulting terms-of-trade losses have culminated in heavy income loss, indebtedness, lack of investment, poverty and under-development (UNCTAD 2004: 2).[12] Thus SSA suffers a two-pronged problem: declining market shares for its major exports, which in turn are of declining relative importance in world trade. This Chapter discusses SSA's trade structure and performance; the impact of commodity dependence on SSA economies; and possible policy responses.

### 1.2 Overview of SSA's Trade Structure and Performance

Today, between 70-80 percent of developing-country exports are manufactures. This represents a significant change from the situation 30 years ago when three quarters of developing-country exports were mostly primary commodities (Collier, 2002: 2).[13] However, Africa has hardly benefited from this upswing, and the share of manufactured exports in the continent's total merchandise exports was only 30 percent in 2000. This represents a paltry 10 percent increase since 1980 (UNCTAD 2004: 3). Table 1 and Figure 1 below show that between 1980-2002, Asia outperformed other developing-country regions and its global share in merchandise exports increased by about 5 percent while that of Africa fell from 6.3 percent in 1980 to 2.5 percent in 2002.

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divert scarce resources from directly productive activities. Since irregular periods of drought are inevitable, SSA governments' economic projections should take this into consideration and include the risk of drought into overall development strategies. Well tested Early Warning Systems (EWS) and rapid response models now exist, as well as activities to reduce drought vulnerability, such as improved infrastructure and water conservation and management (IMF, 2004: 6-8).

[12] Various UNCTAD Reports on economic development in Africa have discussed some of these issues at length, including SSA's overall economic performance and prospects. See for example UNCTAD (2001) and UNCTAD (2002a).

[13] However, it must be qualified that most of these manufactures of developing countries are concentrated in low-skill, low-value-added products (see UNCTAD 2002c: 74). By way of definition, *'primary commodities'* are goods which are produced from low-level manufacturing processes and those that are directly obtained from natural resources, such as soil, the ocean, and through mining. Unlike manufactured products, production and trade of primary commodities are limited to specific regions or nations because these commodities are directly dependant on natural conditions (U.N. ESCAP 1988).

**Table 1: Shares of Developing Regions in World Merchandise Trade, 1980 - 2002**

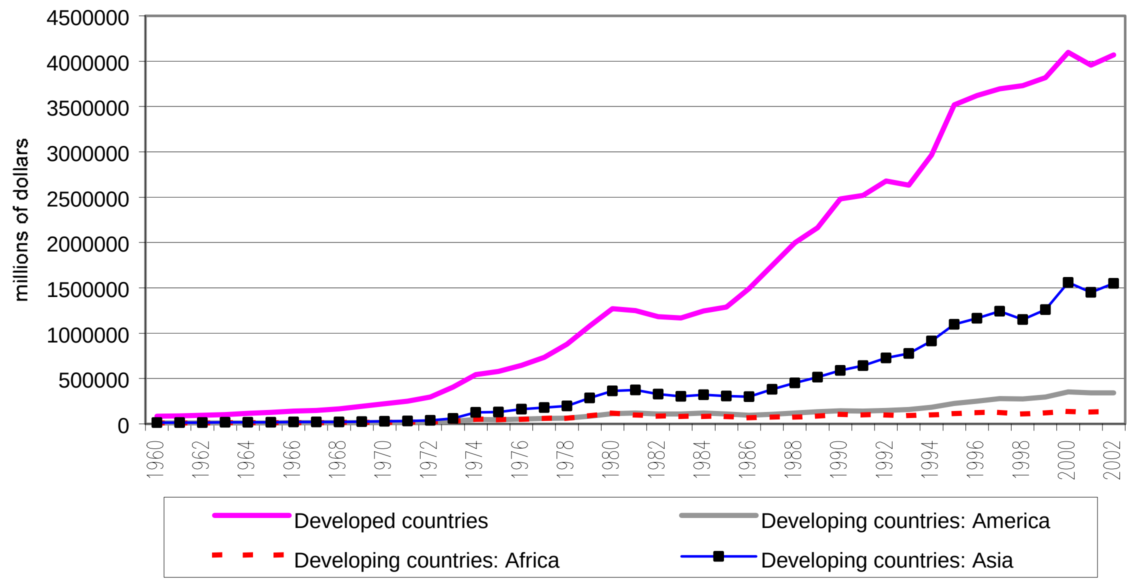
| Region | 1980 | 1985 | 1990 | 1995 | 2000 | 2001 | 2002* |
|---|---|---|---|---|---|---|---|
| **Exports %** | | | | | | | |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Developing Africa | 5.9 | 4-2 | 3-0 | 2.2 | 2.2 | 2.1 | 2.0 |
| North Africa | 2.1 | 1.7 | 1.0 | 0.7 | 0.7 | 0.6 | 0.5 |
| Sub-Saharan Africa | 3.7 | 2.5 | 1.9 | 1.5 | 1.5 | 1.5 | 1.5 |
| Developing Asia | 17.9 | 15.6 | 16.9 | 21.6 | 24.3 | 23.7 | 23.3 |
| Developing America | 5.5 | 5.6 | 4.2 | 4.4 | 5.5 | 5.5 | 5.9 |
| **Imports %** | | | | | | | |
| World | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Developing Africa | 4.6 | 3.6 | 2.9 | 2.5 | 2.1 | 2.2 | 2.1 |
| North Africa | 1.4 | 1.6 | 1.2 | 0.9 | 0.7 | 0.8 | 0.7 |
| Sub-Saharan Africa | 3.1 | 2.1 | 1.6 | 1.6 | 1.3 | 1.4 | 1.4 |
| Developing Asia | 13.1 | 15.2 | 15.9 | 21.9 | 21.1 | 21.0 | 20.8 |
| Developing America | 6.1 | 4.2 | 3.7 | 4.7 | 5.7 | 5.8 | 5.7 |

**Source: UNCTAD. Handbook of Statistics, 2003**
*Estimates

The most significant growth in SSA's resource-based labour-intensive semi-manufactures was from a few countries, notably Mauritius, Lesotho, Swaziland (garments), Namibia and Botswana (rough diamonds) (UNCTAD 2004: 4).[14] The trends in Figure 1 below, show that most SSA countries, have been losing market shares in commodity exports to other developing countries. During this period, Asia's total exports enjoyed an average annual growth of 7 percent compared to Africa's 1 percent (the worst growth performance among developing regions). In addition, during the same period, Asia's non-fuel commodity exports grew by about 5 percent per annum compared to 0.6 percent for Africa.

[14] It is interesting to note that Africa's share of world trade in apparel is only 1.7 percent; and of that, Swaziland and Mauritius account for 85 percent of total apparel exports (UNCTAD, 2004: 9).

**Figure 1: Share of Exports by Region, 2003**




Source: UNCTAD Handbook of Statistics, 2003.

## 1.3 Analysis The Structure of SSA Exports

There are several interesting features concerning SSA's economies and exports:-

- The 25 countries with the lowest human development indicators (HDI) are in SSA (Lines, 2004: 7)
- Two countries, South Africa and Nigeria, between them, account for approximately half of SSA's exports;
- SSA's exports as a whole are small, amounting to $137 billion;[15]
- SSA's exports are concentrated in primary products and the share of manufactures exports is small

In order to address the supply-side constraints, SSA's future prospects, and its choice of trade and development strategies, it is important to know why its exports have this structure.

[15] In 1995, the entire region's merchandise exports were approximately the same as those of Malaysia; a country with a small population of about 24 million compared to SSA's 700 million (Wood & Mayer, 1998: 61). See also World Bank Data at http://www.worldbank.org/data/databytopic/POP.pdf

### 1.3.1 Human and Natural Resources and their Impact on SSA's Export Structure

SSA's average export structure is well explained by its average combination of human and natural resources. The linkage will become apparent in the following discussion based on an analysis of Africa's export structure by Wood and Mayer (1998). Comparatively speaking, in terms of regional resources, SSA and the Middle East/North Africa, are the two most land-abundant regions, whereas SSA and South Asia are the two least-skill-abundant regions. Therefore, SSA has a unique combination of low skill/high land ratio. According to Wood and Mayer (1998: 15), SSA's comparative advantage currently lies in its natural resources relative to other regions. Evidence seems to suggest that if trends over the preceding three decades were to persist, SSA's relative resource-based comparative advantage position is likely to remain unchanged over the next few decades.

Wood and Mayer (1998: 14), analyse export composition by region across 3 product categories i.e. manufactures, processed primary products and unprocessed primary products; and then also across 8 product categories.[16] Table 2 below, taken from their analysis, shows that SSA's share of exports is less than half of the next lowest regions i.e. Latin America and the Middle East/North Africa; and well below that of the newly industrialized Asian countries (NICs). In terms of shares of the total exports, SSA's processed primary exports (PPM, PPD and PPS) are in the middle range, but its share of all primary exports is in the lowest range. SSA has the highest share of unprocessed primary exports (NPM, NPD and NPS) of all developing country regions. SSA's low skill/high land ratio explains why its ratio of manufactured goods to primary exports is lower than that in other developing regions. It also explains why SSA has a low share in processed primary exports, which require greater skill

[16] The 8 regions included in their analysis are: (i) First-tier East Asian Newly Industrialized Countries (NICs); (ii) Developed Countries; (iii) South Asia; (iv) East Asia; (v) Second-tier NICs; (vi) Middle East and North Africa; (vii) Latin America; and (viii) Sub-Saharan Africa.

per worker. In both high-skill and low-skill categories, SSA's share of manufactured exports (NMH and NML) is the lowest of all regions.

**Table 2: Regional Export Composition (Eight Export Categories) 1990**

**(Percentages of Total Exports)**

| | **NMH** | **NML** | **PPM** | **PPD** | **PPS** | **NPM** | **NPD** | **NPS** |
|---|---|---|---|---|---|---|---|---|
| First-tier East Asian NICs | 43.8 | 44.7 | 5.2 | 0.8 | 1.4 | 0.1 | 3.5 | 0.5 |
| Developed countries | 40.0 | 30.6 | 4.2 | 3.3 | 6.1 | 6.0 | 6.0 | 3.9 |
| East Asia | 26.9 | 33.0 | 3.2 | 3.6 | 5.0 | 13.0 | 6.0 | 9.2 |
| Second-tier East Asian NICs | 22.5 | 27.9 | 2.6 | 7.4 | 6.0 | 19.8 | 5.0 | 8.9 |
| Middle East and North Africa | 14.4 | 14.7 | 11.1 | 1.5 | 1.1 | 50.5 | 4.8 | 1.8 |
| Latin America | 9.3 | 18.8 | 12.3 | 3.5 | 4.9 | 18.5 | 13.6 | 19.0 |
| South Asia | 7.8 | 58.5 | 0.8 | 0.3 | 4.5 | 1.9 | 13.3 | 12.7 |
| Sub-Saharan Africa | 3.1 | 9.1 | 5.8 | 1.8 | 4.1 | 25.0 | 12.6 | 38.5 |

**Notes:** NMH = high-skill manufactures; NML = low-skill manufactures; PPM = processed minerals, metals and fuels; PPD = processed dynamic agricultural products; PPS = processed static agricultural products; NPM = unprocessed minerals, metals and fuels; NPD = unprocessed dynamic agricultural products; NPS = unprocessed static agricultural products.

**Source: Wood & Mayer (1998: 20)**

Likewise, Table 2 shows that 60 percent of SSA's exports are from agriculture and almost 40 percent of all exports constitute unprocessed static agricultural products (NPS).[17] Over the last 30 years, SSA's position relative to other developing regions has hardly changed, and in fact, it has deteriorated in terms of skills (Wood & Mayer, 1998: 14).[18]

### 1.3.2 Export Structure of Individual SSA Countries

In terms of the export structure of individual SSA countries, according to an analysis of 41 SSA countries by Wood and Mayer (1998: 25-26); manufactures exports account for less than 10 percent in three quarters of the countries; and less than 5 percent in half of them. Countries

[17] Like all other developing regions, SSA is a net importer of cereals, and it is a net exporter of raw materials and non-cereal foods. However, the level of SSA's exports of these products is only one fifth of that of Latin America (a fall from one half in 1970) (Wood & Mayer, 1998: 20).

[18] The reader will note that the figures in Table 2 from Wood & Mayer are based on 1990 data. Despite the lapse of more than a decade, the data in the recent UNCTAD report on SSA's trade performance, confirms that there has not been much change in the general structure of SSA's exports, except the decline in export shares and the significant growth in SSA's resource-based-labour-intensive semi-manufactures like garments, noted earlier in this Chapter (UNCTAD, 2004a: 4)

with manufactures in excess of 30 percent include South Africa; Mauritius and Zimbabwe; and those with shares over 20 percent include, Kenya; Mozambique; Djibouti (a transit port); and Cape Verde (a remittance economy with few merchandise exports). It must be emphasized that for some of these countries the data is unreliable. The over 40 countries of SSA have shares of manufactures that vary from virtually zero to 60 percent; and similarly shares of processed primary exports varying from zero to nearly 100 percent. The next section in this Chapter explains the link between SSA's low levels of education and its low levels of manufactures.

### 1.3.3 Analysis of Education and Skills in SSA

Wood & Mayer (1998: 31-33) also look at the variation in resources and skills for SSA; and conclude that while skills data for many countries is questionable; it at least implies *prima facie*, that the adult population of about half the countries in SSA are concentrated within a range of about one year on either side of the regional average of 2.4 years of schooling.[19] Average levels of education among adults vary across the region from under one year to over five years, which is similar to Latin America. The low share of manufactures in SSA can be partially attributed to the low skill/land ratio. However, there is a wide divergence in the region. Some countries like the Comoros, Mauritius and Rwanda, have skill/land ratios equal to East Asian NICs like Indonesia, Malaysia and Thailand; while in the middle you have several countries like Ghana, Kenya, Malawi, Nigeria, South Africa, Swaziland, Togo and so on that are reasonably close to the average for Latin America. At the other end of the spectrum there are about 13 countries (Least Developed Countries), including, Angola, Chad,

[19] Undoubtedly, over the last decade, there have been significant efforts in increasing access to education, for example, under UNESCO's Education for All by 2015 objective. More and more people have been enrolling into school in SSA, at least until grade 5 (a UNESCO benchmark for the minimum duration of a primary education). However, a recent UNESCO publication pointed out that literacy rates are still low in SSA and primary graduation is still far from becoming reality. There are also many difficulties in obtaining accurate data, if any, on education from developing countries, so it is difficult to quantify completion and attendance rates. See further UNESCO. 2003. **Global Digest 2003: Comparing Education Statistics Across the World**, UNESCO Institute for Statistics: Canada, available online at http://www.uis.unesco.org/TEMPLATE/pdf/ged/GED_EN.pdf viewed on 28/07/04

Mali, Sudan and so on, with a skill/land ratio of just one tenth of Latin America (Wood & Mayer, 1998: 57). Yet even those countries with a relatively moderate/high skill/land ratio have low shares of manufactures when compared to other non-SSA developing countries. For some countries, this underperformance can be partially attributable to their geography. Being landlocked, the high costs of transport; inadequate infrastructure; prolonged economic mismanagement and so on; have a cumulative negative effect on their producers, and excludes them from international networks of information and business contacts that are essential in the ever-changing world of trade.

## 1.4 Primary Commodity Dependence in SSA

### 1.4.1 The Problem of Commodity Dependence[20]

Until recently, almost all developing countries were largely dependant on exports of primary commodities.[21] According to Collier (2002), globally, this resulted in serious problems, which have persisted for decades, for example: (i) the commodity price volatility (over the short and medium terms) resulted in both negative and positive shocks for developing countries. Negative shocks caused significant contractions in output and were badly managed. At the same time volatility resulted in export income variability and instability from year to year, detrimentally affecting growth, governments financial planning, investment, terms of trade;

[20] For various studies and reports on commodities see the UNCTAD Database on commodities at http://www.unctad.org/Templates/Page.asp?intItemID=1532&lang=1 and also the Food and Agriculture Organization of the UN at www.fao.org

[21] *Commodity dependent countries* may be defined as those that depend on a limited number of commodities for a large portion of their export income. Agricultural commodities are concentrated in various groups i.e. (i) tropical beverages e.g. coffee; cocoa and tea; (ii) crops e.g. cotton; sugar and (iii) fruits and vegetables. 32 countries in the world depend on one commodity for more than half of their agricultural export earnings. The Food and Agricultural Organization of the UN (FAO) divides these single commodity exporters (SCEs) into two groups:- (i) perpetual SCEs e.g. Gambia in SSA, i.e. which cannot (at least in theory) diversify by virtue of their small area and/or population and climatic factors. For these countries the only possibilities are either vertical diversification or changing from agriculture (where possible) to other activities; and (ii) transitory SCEs, which are larger countries, which have a possibility to diversify into other agricultural areas. The different categories face different challenges and require different approaches to their problems. SCEs find themselves in a commodity trap (a vicious circle of dependence) with products facing slow growth, fluctuating and falling prices (normally for reasons outside their control). This results in economic instability and fewer funds available for development. These countries invariably lack the funds or resources to diversify and develop and remain SCEs (See Arda & Ostensson, 2002).

and the livelihoods of those reliant on agriculture. Institutional and regulatory weaknesses make it difficult for the private sector to transform boom revenues into productive investments; (ii) For different reasons, there has been a linkage between rents generated by primary commodity dependence; poor governance and the incidence of civil war. Lines (2004: 1) adds that in recent years revenue to agricultural commodity producers has declined due to high market concentration in agricultural processing and distribution further down the value chain.[22] Furthermore; Lines points to an underlying 'fallacy of composition' as developing countries were urged to focus on exporting commodities under structural adjustment programmes which prioritized earning foreign exchange through exports, resulting in higher aggregate production, global surpluses and a fall in world prices (Lines, 2004: 9).

Unlike other developing regions that have diversified and reduced their dependence on commodities; SSA has failed to diversify and remains heavily dependant on primary commodities.[23] True to the effects of such dependence, the continent remains poor; wracked by civil wars and prone to shocks.[24] Long-term forecasts are not encouraging. The World Bank estimates that real prices for most agricultural commodities are likely to remain below their 1990s levels. Lines (2004: 14) distinguishes between 3 categories of commodities: (i) those which have preferential market access to the EU with quotas e.g. sugar (which enjoys a guaranteed price well above the world price—though this appears likely to change soon) and

[22] Examples he gives are in coffee where large MNCs purchase an average of 15 million, 60 kilogramme bags; whereas the individual farmers usually has less than 5 bags to sell, a stark imbalance of power which should trouble any free market economist because of its allocative inefficiency. One can similarly contrast the 5 banana purchasing companies, supplying 60 million consumers in the UK, to the 15 000 small-medium farmers and 40 000 plantation workers, that export bananas. The 5 buyers have approximately 80 percent of the world market for banana ripening and distribution (Lines, 2004: 16). See further Vorley, B. 2003. **Food Inc.: Concentration from Farm to Consumer**. International Institute for Environment and Development: London, available online at http://www.ukfg.org.uk/docs/UKFG-Foodinc-Nov03.pdf viewed on 28/07/04

[23] 21 SSA countries depend on a single commodity export for a large share of total export earnings. According to UNCTAD (1999a: 3-8), Africa's difficulties in preserving market-shares for its traditional commodities stem from its failure to: (i) modernize production (both agricultural and manufacturing); (ii) overcome structural constraints; and (iii) the high cost of trading. Backward technology and policies that have diminished the role of state institutions in innovation and investment in the private sector have result in a loss of competitive advantage compared to more competitive producers in Asia and Latin America.

[24] It should be noted that these problems have multiple causes of which commodity dependence is only part of the explanation.

bananas; (ii) tropical products, which face stiff competition on developed country-markets from subsidized produce e.g. cotton; (with huge subsidies in the EU and U.S.); tobacco (strongly supported in the EU); groundnuts and soybeans (subsidised or protected in the US); and (iii) tropical products where the international market is highly liberalized e.g. coffee; cocoa and tea (which cannot be produced in the U.S. or EU for climatic reasons). Lines argues that data shows that developing countries that export group (i) commodities are better of in terms of both GDP and human development. These are mostly small countries, with the exception of Cuba (sugar) and Ecuador (bananas). Countries exporting groups (ii) and (iii), which includes the majority of SSA countries, are worse off. In most instances they are poor and highly commodity-dependent. Apart from schemes like the EU's Everything But Arms and some compensatory finance, group (iii) exporters get few trade concessions which they badly need, in contrast to the 'generous, commodity-specific support accorded to certain members of group (i)' (Lines, 2004: 14).

What can be done about commodity dependence; especially in the face of declining prices? According to Collier, there are two options: (i) diversifying; or (ii) learning to live with commodity dependence better. I shall briefly look at both options.[25]

### 1.4.2 Prospects for Change in SSA's Export Structure and Diversification

The aim of diversification should be to break the vicious circle of dependence on a small number of low value commodities, often inefficiently produced and exported unprocessed to a few markets. Yet many SSA countries struggle to diversify. According to the FAO (2002a), they have in common several problems related to being Small Developing Economies

[25] Many policy measures have been proposed to address commodities crisis and I have chosen to focus on just a few of these. Lines (2004: 13) explains that while there may be no option than to increase output in the face of falling prices, many poor farmers in SSA do not have the money to purchase extra inputs to increase yields. Therefore, many farmers have turned to cultivating narcotics which are more profitable e.g. chat cultivated in Ethiopia. Planting more of the same cash crop also reduces land available for food crops, which means food imports must increase or food shortages will increase (Lines, 2004: 13).

(SDEs). Their populations and markets are small and/or possess very little income; they are heavily reliant on agriculture, natural resources, tourism and fisheries which are all sectors highly sensitive to changes in world market conditions; they have a narrow resource base which is weak and vulnerable to disruption by natural disasters; they have limited capital at their disposal for productive investment. Therefore, their base for revenue generation is limited. Indeed, scale diseconomies result in dependence on imports for most of their investment and consumption needs. Some of these characteristics of SSA countries as SDEs may hamper their ability to produce competitively and take advantage of market access opportunities. Indeed, at the moment, SSA countries rely heavily on preferential agreements and it is doubtful whether many of them could compete under full multilateral trade liberalization.

It has been suggested that SSA has an endowment-based comparative advantage in primary commodities relative to other developing country regions. It has also been suggested that proximity to the market and suppliers is the crucial comparative advantage, which SSA lacks, as this saves transport cost allowing for agglomeration by first movers. Agglomeration economies imply that manufacturing activities will usually be concentrated in a few locations, and those like SSA that have not yet industrialized may have missed the opportunity for good (Redding and Venables, 2001).[26] Importantly, as highlighted earlier in this chapter, it should be noted that SSA's individual countries have different human and natural resources; which gives them different comparative advantages and export prospects. The smallness, slow growth and low level of SSA export is not because the region exports an unusually small

[26] *Agglomeration economies* are the benefits that firms obtain by locating near each other. It is related to the ideas of economies of scale and network effects, in that firms that are closely related cluster together, resulting in lower production costs (i.e. firms will have competing multiple suppliers, greater specialization and division of labour) and a greater market that firms can sell into. Even where multiple firms in the same sector (competitors) cluster, there may be advantages because that cluster attracts more suppliers and customers than a single firm could alone.

proportion of its output, but is reflective of the smallness of the region's aggregate output.[27] Hence, one focus for SSA is on increasing both aggregate output and exports.

### 1.4.3 Diversifying SSA's Agriculture

Declining world demand for SSA's traditional exports like tea, cocoa and coffee is a major problem. The extent of this decline should be seen in the context that SSA's exports were already small to begin with, in terms of world market share. Nonetheless, bold steps are required to address this situation. Demand for tropical products; vegetables and agricultural products like meat; vegetable oils; fruits; nuts; cut flowers and seafood is growing. This points to the need to diversify both vertically and horizontally from traditional agricultural exports into those where demand is growing as Latin America has done; or Kenya, for example, into cut flowers. The surging growth of countries like China (and India in the future) should continue to stimulate world demand for various primary commodities.

Diversifying SSA's agricultural exports could be affected by fallacy of composition, which is discussed later in this Chapter and the inability of the agricultural land in SSA to support diversified tropical products sustainably. SSA's population continues to grow, thereby reducing the amount of available land per worker. The World Bank (cited in Wood & Mayer, 1998: 52) has observed that SSA's land is of unusually low quality for agricultural purposes (although this is somewhat compensated by an unusually rich endowment in minerals). An analysis by FAO (cited in Wood & Mayer, 1998: 52) concluded that approximately half of SSA's land is too dry for rain-fed cultivation; and one half of the rest of it is of marginal quality and without suitable management, is easily susceptible to degradation. SSA is also affected by tropical diseases, which afflict both humans and animals; plant diseases and pests.

[27] The causality flows both ways—low exports reduce output and low output reduces exports.

This calls into question the ability of SSA's land to support tropical products and horticulture on a large scale? In addition; products like cut flowers, require a large capital outlay and efficient transport networks in order to deliver quickly to overseas markets; both of which are in very scarce in SSA. Growing fruit trees means waiting several years before the investment 'bears fruit'. Hence SSA governments must put in place measures to assist farmers financially during the interim period; and technically, to move into these products. Diversifying into dynamic and niche markets will only help a limited number of producers; and not completely solve the crisis on the broader commodities' markets.

### 1.4.4 Can SSA Diversify Vertically into Agro-Processing?

Given SSAs comparative advantage in primary commodities, agro-processing is frequently cited as SSAs next stage in comparative advantage. Table 3 below, represents a cross-sectoral analysis of global cost structures by Collier (2002: 13), which looks at the following sectors: agriculture; agro-processing; natural resources; labour-intensive manufacturing; capital intensive manufacturing and services.

**Table 3: Global Cost Structures by Sector (in percentages)**

| Sector | Inputs | Land | Unskilled Labour | Skilled Labour | Capital | Scope for Compression |
|---|---|---|---|---|---|---|
| Agriculture | 45 | 25 | 25 | 1 | 15 | 91% |
| Ag. Processing | 72 | 0 | 9 | 3 | 16 | 17% |
| Nat. Resources | 37 | 20 | 11 | 3 | 29 | 92% |
| L Manufacturing | 65 | 0 | 16 | 5 | 15 | 32% |
| K Manufacturing | 68 | 0 | 13 | 7 | 12 | 29% |
| Services | 40 | 0 | 20 | 14 | 26 | 85% |

**Source: GTAP, cited in Collier (2002: 13)**

The data shows the intensity of non-factor inputs in each sector and reveals that agro-processing is the sector most intensive in non-factor inputs. Collier concludes that this evidence suggests that a move into agro-processing might not be possible for SSA. If one looks at factor proportions, agro-processing is capital intensive and uses little unskilled labour. SSA on the other hand is abundant in unskilled labour but not in capital. Therefore, any serious and substantial move into agro-processing will require the development of skilled labour and attracting the requisite capital investments.

### 1.5 Minerals and Metals

Minerals and metals are subject to low tariffs in developed countries, unlike agricultural commodities so there may be scope for SSA increasing its output of various minerals. However a caution must be raised. Apart from foreign exchange earnings, minerals investments turn out limited social development benefits for the broader economy, which is in contrast to agricultural commodities that provide widespread benefits and linkages. Vertical diversification in mining is severely circumscribed by tariff escalation; intricate and impregnable distribution channels in developed countries. As a result, SSA's mining operations are limited to producing the basic commodity, whereas further processing, manufacturing, and value addition is done in developed countries (Lines, 2004: 13).[28] Most of SSA's mineral wealth is located in about half the region's countries. However, there must be significant improvement of infrastructure in the SSA interior; inflows of foreign investment (especially by MNCs with the capital and expertise to exploit minerals) that not only focus on resource extraction but positively contribute towards upgrading and value addition; as well as putting in place appropriate policies for the profitable exploitation of these resources. Without this, the scope for mineral exploitation will remain limited to high value products like gold and precious stones and to countries with long coastlines like Mozambique and Namibia. Political and economic stability is crucial. Investors prefer stable operating environments, hence Latin America has been able to attract continued foreign investment in mining (UNCTAD, 2004b: 78).

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[28] It is telling, for example, that the majority of diamond cutters and polishers are located in developed countries (e.g. Israel, the U.S.; Belgium and also India etc) and SSA which produces a significant amount of diamonds have very few. The recent establishment of factory for diamond cutting and polishing in Namibia and Tanzania's moves towards establishing the same for Tanzanite (for which it is he world's only producer, but up until now had been exporting 90 percent of its rough stones to India for processing) are steps in the right direction and such efforts should be supported and emulated elsewhere in the region.

### 1.6 Increasing Services Output

Table 3 above shows, interestingly, that services and natural resources sectors have similar cost structures. Both have very low dependence upon non-factor inputs and their major difference is that while natural resources are land intensive, services on the other hand are intensive in unskilled labour. SSA is abundant in both factors. It follows that, logically, SSA should have a comparative advantage in services exports. However, at present, any such potential has yet to be realised.[29] This is in part due to global impediments to trade in services; as well as high transport costs and regulatory barriers in the region. Developments in global telecommunications continue to reduce the cost of trading many services. An example is the U.S. health insurance company. Aetna, which now processes some of its paper work in Ghana creating about 3000 jobs (Collier, 2002: 15). There is potential for this type of outsourcing and SSA has both language and time zone advantages over Asia. Consequently, SSA countries, in particular, landlocked ones, are urged to develop a services strategy. These strategies will need to look at issues such as deficiencies and possible reforms to domestic policies that are relevant to improved services delivery; improving infrastructure, especially transport and telecommunications; introducing competition and new private actors in these sectors; and developing the human resources, focusing skills training at tertiary institutions on services activities. Despite the numerous restrictions on international movement of labour; it would still appear that in some instances there could be scope for temporary movement of workers from one country to another (mode 4). In some instances workers could earn more money in this way rather than focusing on agriculture and primary commodities in their home countries.

[29] Data suggests that services exports are already fairly significant for some countries, for example, Kenya has services exports (mostly tourism) that are almost equal to its merchandise exports.

An analysis of FDI flows in the *World Investment Report, 2004*, suggests that SSA countries that are not already doing so—should seriously consider developing a services development and export strategy as there has been an increasing shift in the concentration of FDI towards services. While FDI in manufacturing and primary commodities has remained stable, or in some regions has fallen, its concentration in services in the faster growing East and South-East Asian has increased in 2003. While FDI inflows to Africa increased from US$12billion in 2002 to US$15billion in 2003, the majority of this went to a few countries, and for natural resources exploitation, most notably oil and petroleum exploration in countries such as Angola, Chad, Equatorial Guinea, the Libya Arab Jamahiriya, Nigeria and the Sudan. Just over 30 SSA countries each received less than US$0.1billion in FDI inflows and only a handful of African countries rank within the top 100 recipients of FDI (UNCTAD, 2004c: 290). Depending on the country, between 50-80 percent of FDI inflows into SSA are for natural resource exploitation There has been an increase in FDI for services, at least above that for manufacturing and agriculture. FDI in services in SSA is increasing especially in telecommunications (in particular in mobile phone services), electricity, management and trade. A significant share of this increase is attributable to privatization programmes. In South Africa, for example, investment in telecommunications and information technology has overtaken that in mining and extraction. Mobile phone subscribers in SSA increased from 1.2 million in 1996 to 51 million in 2003. Non-equity relations between public utilities and TNCs, for example, agreements concluded between Eskom of South Africa and electricity supply utilities in Nigeria, Tanzania and Zimbabwe to develop transmission and rehabilitation projects as well as manage power stations. However, the absence of adequate regulatory frameworks in some SSA countries, which is crucial to successful and beneficial liberalization of services and investment regimes has resulted in a number of problems, leading to withdrawal of FDI in the electricity sector in Guinea and Rwanda for example.

It is welcome to note that several SSA countries have begun to actively promote FDI in services, which is essential in order to attract high quality investors. Surveys conducted by UNCTAD (2004c: 195) 61 national Investment Promotion Agencies (IPAs) surveyed by UNCTAD reported that the majority of their promotion activities was focused on services, in particular, computer and related services, transport, tourism, in particular, hotels and restaurants. The services industries that are least targeted include, water, insurance, retail and wholesale trade. According to UNCTAD (2004: 195), IT and call center services are among the services where FDI is most sought-after in all developing regions (including, more than half of all IPAs from Africa). However, less than 20 percent of the IPAs in developing are trying to attract FDI in R&D. Activities for promoting FDI in services are similar to those in manufacturing, that is, a stable investment climate, transparent policies, competitive taxes, skilled personnel and low transaction costs are pre-requisites. However, some services are relatively new to FDI promotion, which means IPAs have to employ innovative strategies, bearing in mind intellectual property implications, value chain organization and market leaders, in order to be effective. EPZs, which have traditionally been used for manufacturing industries such as garments and the assembly of electronic components, are increasingly being used for services, and 90 out of 116 countries with EPZs (many of them developing countries) covered by the ILO's database, promote various services activities. In the case of SSA, some of the services promoted by EPZs include, warehousing, trade facilitation, brokerage, call center services, film production, tourism, fisheries and so on. In general, EPZs that seek to promote FDI in services market the availability of high-quality telecommunications, stable power supply, well developed technology support infrastructure , as well as a host of incentives, such as, exemption from import duties, tax holidays, full repatriation of earnings and preferential customs clearance. An analysis of information provided by IPAs shows that there is heavy emphasis placed on the availability of skills. Some IPAs go so far as to indicate the actual level of education of the work-force and their language competence; the number of graduates, types of degrees obtained and so on. This is marked contrast to the more traditional assembly-focused EPZs, that look to the availability of low-wage, low and/or semi-skilled workers. The emphasis on a skilled workforce, the availability of well-developed technology and other infrastructure as a pre-requisite to attracting services FDI, clearly highlights the importance of applying significant resources towards addressing supply-side constraints in order to put the elements in place in SSA, if countries are to attract the necessary FDI to move into certain services sectors.

### 1.7 Can SSA Diversify Horizontally into Manufacturing?

On the one hand, Wood and Mayer (1998: 51) argue that on the basis of comparisons with non-African developing countries; SSA countries could, based on their present levels of education, as a rough estimate, raise their share of manufactures exports by between 5-10 percent on average. However, it should be noted that the bulk of this unrealised potential is concentrated in about half of SSA countries, while the rest have little or no unrealised potential to increase their exports at the moment. The latter includes countries like Burundi; Côte d'Ivoire; the Gambia; Ghana; Malawi; Sierra Leone; and Togo.

On the other hand, Collier (2002: 14), argues that the question as to whether SSA can break into manufacturing is as yet undecided. He suggests that the answer depends on whether sufficient political weight can be thrown behind radical reform of the investment climate. Macro-level reforms, for example, tax and exchange rates, are easy to legislate and in many instances are already in place. The difficult reforms that remain are mostly at the micro-level: getting public utilities like ports and railways to function efficiently requires re-orientation of thousands of people into new ways of operation. There are also the usual problems of bureaucratic self-interest, coordination problems. Because of the small size of SSA's domestic markets for manufactures, in order to industrialize it will have to rely on export markets. Empirically, manufacturing plants that fail to export during their first two years of establishment seldom do so thereafter (Collier, 2002: 14). One could therefore argue that SSA's existing manufacturers may have little to gain from reform. They are mostly organized to serve the domestic market and their management's expertise is on the domestic market and not global. It would thus appear as if SSA is in a double trap: its commodity dependence results in a declining investment climate; and there is little domestic impetus for reform. The solution lies in government-coordinated reform and the entry of new actors in the private sector. One way to implement such reforms is to focus on spatial development initiatives (SDIs) i.e. export oriented industrial clusters and export processing zones (EPZs).[30] However, EPZs have usually failed in SSA, perhaps because they have been construed as an exceptional source for tax revenue in a hostile investment climate. The viability of EPZs in SSA has all too often been dependent on political patronage. It is clear that for reforms to succeed there must be re-think on the reasons why EPZs usually fail in SSA and a move to re-orient them toward efficient public service delivery and good governance (Collier, 2002: 15).

### 1.8 Addressing Skills Problems and the Relevance for Manufactures and Processing

Although SSA's level of education will, and should, continue to rise, that in other regions will continue to rise also—thereby continuously raising the skills bar. It takes a long time, possibly decades, to raise the general level of education and skills in a country. Granted that SSA

[30] Spatial Development Initiatives (SDI), focus high-level support in areas where socio-economic conditions require concentrated government assistance and where inherent economic potential exists, with the goal of ensuring that investments are fast-tracked and that synergies between the various types of investments are maximised. They are based on a partnership between the public and private sectors, and can provide opportunities for participation in sectors such as agriculture, mining, tourism, environment, forestry, infrastructure and ports. An Export Processing Zone (EPZ) is an industrial area, sometimes with set boundaries, that specializes in manufacturing for export and offers a liberal regulatory environment. Several different terms are used to describe EPZs including industrial free zones, special economic zones and tax free zones. Although EPZ's differ from country to country some common characteristics include: (1) unlimited, duty free imports of materials for production; (2) less governmental 'red tape' and more flexible labour laws; (3) long-term tax holidays and concessions; (4) often above average communications services and infrastructure, including subsidized ownership or repatriation of profits. Robertson, 2001, cited in Maclean, H., et. al. (2004). *Globalization, Gender and Health: Research-to-Policy Interface.* Unpublished manuscript. Working Paper prepared for the African online discussion forum, **Globalization, Gender & Health** (26 Jan – 10 Feb, 2004)

wants to shift its comparative advantage into more skill-intensive products; skills levels will need to rise faster in SSA than in the rest of the world (at least must faster than the sluggishness of the past three decades) (Wood & Mayer, 1998: 51).[31] In this way, the average structure of SSA's exports might become more similar to Latin America, the other main natural-resource-abundant-developing region. Indeed, it does not look like SSA's exports will follow the East Asian NICs' trajectory i.e. a move into medium-skill labour-intensive manufactures like the assembly of electrical goods, at least to the extent that the East Asian NICs did.[32] East Asia, had and continues to have a different mix of human and natural resources to SSA.[33] What looks more likely is that SSA, being land and resource-abundant will be involved in processing its natural resources—which involves low labour intensive industries. Unfortunately, the latter industries will create fewer jobs, in particular for unskilled workers in SSA, unlike was the case in Asia (Wood & Mayer, 1998: 60). There are useful lessons to be learnt, both positive and negative, from Latin America. An example is on various ways to maximise revenues from exports of primary commodities. Despite oft' made criticisms of Latin America's economic performance, if SSA's exports were even half of Latin Americas, they would be at least 3 times what they are today.

The development of skills in SSA should not just focus on the supply side—graduates and skilled workers must be absorbed by the economy, where their skills can be fully utilized.

[31] This means accelerating education programmes and accumulation of technical and managerial skills (including export oriented skills); providing better schools, universities and curricula. Skilled workers will be essential to boost output and export of manufactures and processed goods

[32] We are already witnessing a move by some SSA countries into low-medium-skill intensive manufactures like shoes; textiles and garments, thanks largely to preferential market access under AGOA and so on. As mentioned earlier, the volume of this form of manufacturing in SSA is still small on a global scale, for example, Africa's share of world trade in apparel is only 1.7 percent; and of that, Swaziland and Mauritius account for 85 percent of total apparel exports (UNCTAD, 2004: 9). At the same time, 'the fact that no other labour-intensive activities, such as footwear, toys, sports goods or electronics have moved to Africa suggests that it is primarily the quota system and high tariffs for apparel applied to other regions that are attracting FDI apparel production in Africa' (Lall, 2003).

[33] The poor natural resources of many of the East Asian NICs necessitated a quick shift into labour-intensive manufacturing and exports in order to earn foreign exchange to buy other primary commodities. In addition, the small domestic markets meant industries had to find markets abroad in order to achieve economies of scale (UCTAD, 2002c: 138).

Currently, in some SSA countries, there is a mismatch between the qualifications and skills of graduates and the ability of their economies to absorb them or remunerate them competitively. This contributes to a massive brain-drain as graduates seek higher incomes abroad. Some of the reasons for this low absorption of certain types of skilled workers includes the fact that SSA's industries are focused on low-skill intensity products, and also the mismatch between the qualifications graduates hold and the qualifications and skills industries need. Thus, SSA needs an increase in graduates with entrepreneurial, marketing, production and other technical skills in order to break out of the vicious cycle of focusing on unprocessed primary exports, and enter the virtuous cycle by moving up the value chain. Indeed the absence of such skills in SSA currently affects decisions by foreign investors to shy away from the region.[34] Some may argue that increased openness to trade has exposed SSA's comparative disadvantage in manufactures. To overcome this disadvantage, the private sector must provide the stimulus, together with robust support from the state and government policies, as well as through linkages with foreign firms and investors. An example of this is Chile's wine exports, which were stimulated by new technologies introduced by a Spanish firm—Agosin. Foreign partners can help with technical and managerial expertise, inject new technologies that reduce costs; improve quality to meet the rigorous standards of developed countries; and assist with marketing of exports, either as buyers or brokers etc.

The skills and human resource problem in SSA is exacerbated by the high incidence of HIV/AIDS in the region. A report by the Joint United Nations Programme on HIV/AIDS (UNAIDS, 2004) points out that at least 25 million of the 42 million people in the world with HIV live in Africa. At least 20 SSA countries now have a life expectancy of only 33 years. SSA states are crippled at all levels because workers get ill and/or die in the prime of their

[34] For example, in Zimbabwe, the shortage of skilled labour in the clothing and textile industry affected the choice of technology used, and firms often relied on technology 2, 3 or even 4 generations behind that used in developed economies or in the East Asian tiger economies. See EU-LDC Network. 2004. **Discussion Note: Addressing Supply Side Constraints**.

productive years, thereby reducing productivity, through absenteeism and the diversion of resources by firms toward medical costs and health care for workers. New human resources constantly have to be trained and great expense, in order to replace workers affected by HIV. Even the education and health systems suffer as teachers and health-care providers succumb to HIV/Aids.[35] This health crisis constitutes a major supply constraint, which requires urgent redress both nationally and internationally. Concrete steps need to be taken to make access to essential and affordable medicines a reality. This requires the full support of developed countries in adhering to international pledges made to assist the fight against HIV/Aids, if the Millennium Development Target of halting and reversing the spread of HIV/Aids by 2015. In addition, an in-depth analysis of existing mechanisms for HIV patients to access affordable generic medicines is needed to identify and address bottlenecks in the supply chain. These range from problems arising out of patents held by large pharmaceuticals on life-saving drugs, the poor resources available to the WHO team carrying out qualification procedures for generic drugs, even limitations where generics are being manufactured in SSA, for example, through mark-ups imposed by local chemists and so on, which raise the cost of drugs for end users need to be tackled. Apart from HIV/Aids, other ‘Neglected diseases’ such as tuberculosis, malaria, sleeping sickness and leishmaniasis, which account for millions of deaths in SSA and other developing regions need to be vigorously tackled.[36]

### 1.9 Living with Commodity Dependence

While there is scope for many SSA countries to diversify, it has been pointed out that for others, either by virtue of their being SDEs or because of the difficulties in diversifying, they may have to face a future of continued dependence on commodities. Indeed, for the present and foreseeable short term, most SSA countries must live with dependence on primary

[35] See BBC News. 2002. **Big Fall in African Life Expectancy**, 20 July, available online at http://news.bbc.co.uk/1/hi/world/3894733.stm viewed on 20/07/04.
[36] See Médecins Sans Frontières at http://www.accessmed-msf.org/campaign/campaign.shtm

commodities. Given this scenario, it is crucial that we address the problems associated with primary commodity dependence at both international and national levels.

At an international level the following policy measures should be considered and put in place:

- Firmly putting commodities on the international agenda[37]
- A market intervention mechanism; especially supply management mechanisms, that improves on previous mechanisms and coordinates with individual countries
- A truly 'development-oriented' outcome to the Doha Round must enable commodities trade to benefit dependent countries and their citizens. This means addressing tariff escalation; developed countries' agricultural price supports and subsidies; and measures specifically relating to commodities' markets[38]
- A multilateral competition policy that is designed to address concentration and abuse of dominance in distribution and value chains for commodity markets
- Revisiting commodity agreements; anaylsing why some fared better than others; developing better commodity agreements
- A rapid and automatic compensatory mechanism for poor countries to cater for slump years and shortfalls in export earnings; the proceeds of which reach actual producers and consumers[39] (Lines, 2004: 2)

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[37] Lines (2004: 4) argues that the neglect of commodities over the years has in part contributed to the present-day problems. Indeed, the Marrakesh Agreement establishing about commodities, in contrast to the Havana Charter which dedicated a whole chapter (Chapter VI) to commodities. Para 26 of the Draft Text of the failed Cancun Ministerial Conference does recognise commodity dependence problems, but could have gone further to set specific timeframes for members to begin concrete discussions on commodities. Disappointingly, the *Decision Adopted by the WTO General Council on 1 August 2004* (July Package), like the Cancun Draft only mentions that special attention shall be given to capacity constraints and commodity problems facing developing countries but without specifying any concrete steps to be taken or time frames.

[38] Recent developments at the WTO indicate that we are still far from seeing any significant removal of agricultural support and subsidies by developed countries.

[39] Until 2000, two international mechanisms: (i) the IMF's Commodity Compensating Financing Facility (CCFF); and (ii) the Stabex of the EU, were available to provide compensation for falls in commodity prices to exporters. The CCFF remained practically unused because it only provided non-concessionary loans, which would have only compounded a borrowing government's debts. Stabex aid on the other hand, came via specific projects. However, the lags between the slump and the disbursement were so long that the disbursements actually became pro-cyclical. Both systems were justly abandoned in 2000 (Collier, 2002: 16-17). The Stabex was replaced by FLEX under the new Cotonou, and it is generally felt that FLEX is failing (Lines, 2004: 21-22). This is due to the absence of an automatic link between negative changes on specific export markets and financial relief; and the relatively high degree of injury that has to be shown before any consideration of relief

- Debt relief for poor countries to cater for slump years and shortfalls in export earnings[40]
- The efficacy of various options for price-insurance mechanisms should be continuously investigated, for example, using international futures markets to hedge against the danger of negative price fluctuations; options contracts and so on (Lines, 2004: 22)
- Aid flows to SSA could be made contingent upon existing export prices so aid can also act as a possible international insurance[41]
- Provide funds toward diversification efforts both directly to countries and through, for example, the Common Fund for Commodities
- Remove the selectivity in trade preferences granted by developed countries, which are biased against products where developing countries have an advantage and an interest
- Greater consensus on increased transparency and corporate social responsibility by MNCs

At a national level SSA countries need to consider undertaking the following:

- Improve governance of commodity revenues; create regulatory and transparent mechanisms (including on a regional level) to ensure SSA governments do not mismanage or misappropriate revenues from commodities' exports[42]

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will be made. It is suggested that the on-going EPAs negotiation provide a useful opportunity to negotiate for a more effective mechanism to provide compensation for falls in export prices. Eligibility criteria to access relief under FLEX should be relaxed; and the requisite levels of economic injury should be lowered. FLEX should also be extended to other regional programmes besides Cotonou and the ACP. For example, it ought to support compensation schemes for farmers, such as the ones used in the coffee sector in Colombia and Brazil.

[40] 25 out of the 54 Commodity Dependent Developing Countries (CDDCs) i.e. those developing countries in which no more than 3 products constitute at least 20 percent of exports; are highly indebted poor countries (HIPC). HIPCs are subject to special debt relief under an international agreement. 34 HIPCs are in SSA. Commodity price shortfalls make it difficult to comply with debt repayment schedules, for circumstances outside of the borrower's power and hence the need for 'greater' relief in cases of commodity shortfalls

[41] Collier (2002: 16) argues that additional aid in slump years, which is well targeted to meet shocks, is equivalent to additional export income and reduces output contraction. In the past, project aid has been unresponsive to short-term macro-economic conditions. Program aid itself requires long lead times for negotiations and decisions.

[42] Several countries in SSA are dependent on commodities like oil for which they have received relatively high prices over the last few years. However, frequently, countries in SSA, with the exception of a few countries like Botswana and Mauritius, have been unable to transform this windfall into effective development. There are only

- Drive efforts for vertical and horizontal diversification, both on the supply-side and provide national marketing power through the formation of industry and export associations; provide incentives for producers to upgrade quality in order to meet market standards and become more competitive; provide sustainable micro-financing schemes to the producers; and increase and improve agricultural extension services
- Improve infrastructure, create reliable accounting and legal frameworks (which reduce risk and enhance certainty); institute macroeconomic policies such as appropriate exchange rates; promote EPZs and other forms of spatial development initiatives like industrial clusters; legislate appropriate tax frameworks beneficial to industries
- Promote research and development activities, including through institutions; create think tanks
- Negotiate increased market access for domestic producers through bilateral and multilateral agreements
- Establish political and economic stability; effective and efficient government institutions like courts; regulatory authorities; parliaments (for oversight) and so on

The above interventions require a significant outlay of capital, far beyond the capability of many SSA countries. Hence, the international community can also help SSA expand and upgrade its exports by removing or reducing tariff and non-tariff barriers to SSA exports of

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limited options as to what the international community can do to ensure that a sovereign nation spends its resources wisely. Unfortunately, in many SSA countries, where significant rents are attached to commodities, the regulatory framework for informed, transparent and accountable use of commodity revenues does not exist. Where such a framework does exist, it often suffers from non-implementation, opening the way for embezzlement, corruption and revenue misappropriation. Angola for example, is the second largest exporter of oil in SSA after Nigeria. According to the IMF, a staggering US$ 4.22 billion of the US$ 17.8 billion in oil revenues to Angola i.e. about 85 percent of total government revenue received between 1997-2002, disappeared from the Angolan government's coffers. This sum is roughly equal to the entire sum the government spent on all social programmes (i.e. humanitarian, social welfare, health, education), including public as well as private initiatives funded by the UN Consolidated Inter Agency Appeal during the same period. This theft seriously undermines that country's development prospects. Similar lack of transparency, corruption and failure to convert oil revenues into broad-based wealth can be cited in a host of SSA countries like Nigeria, Cameroon, Congo-Brazzaville, Chad, Sudan and Gabon. Even new producers like Equatorial Guinea and Sao Tome and Principe, appear to be repeating the mistakes of their more experienced neighbours. The issue is not limited to oil but holds true across several extractive industries, for example, diamonds in Sierra Leone and Democratic Republic of Congo, and timber in Liberia. See further Human Rights Watch Reports 2003 & 2004 and http://www.publishwhatyoupay.org manufactures and value added and processed agricultural goods i.e. address the problem of tariff escalation; and providing financial and technical assistance for infrastructure development; skills development; diversification, and so on.

### 1.10 Competition and Fallacy of Composition: The Export Orientation Trap

I have mentioned the need to boost aggregate output and exports; in order to diversify into market and supply dynamic products; and to move up the value chain. This is in line with standard advice given to SSA. Labour-intensive manufactures are more market dynamic than primary commodities; and they have less price volatility and elasticity of demand.[43] However, it should be cautioned that a simultaneous movement by many SSA countries (together with other non-SSA developing countries) to expand exports of both primary commodities and labour-intensive manufactures; and heightened competition between them to attract FDI for labour-intensive parts of vertically integrated production networks could be destructive in itself. According to the problem of 'fallacy of composition' (or 'adding-up problem'), there is a ceiling beyond which additional supply will result in a decline in prices (UNCTAD, 2002: 114).[44] The exporting countries will not be better off. Instead, due to falling prices, they will merely be exporting more and more for the same, or even less income. The heightened competition will also result in a problem of falling wages. According to Lines (2004: 13), this is in fact what has happened. Under various structural adjustment programs, SSA counties were persuaded to focus on export-led growth, which they duly did, mostly focusing on commodities exports. The resulting increases flooded the market with excess supply and prices collapsed.[45]

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[43] Markets for manufactures are more stable than those for primary commodities because they are less competitive and easier for producers to respond to demand fluctuations. Indeed, many manufactures markets have high barriers to entry; are dominated by oligopolies, and the few producers compete on the basis of quality; design; marketing; branding and product differentiation rather than price (UNCTAD, 2002c: 120).

[44] For insights into 'fallacy of composition' see Lines (2004: 13-14)

[45] With coffee, for example, while exports increased from 3.7m tonnes in 1980 to 5.9m tonnes in 2000, their value fell from US$12.5bn to US$10.2bn. Other agricultural commodities like bananas; cocoa; cotton; tea and tobacco faced similar problems (Lines, 2004: 13)

The actual decline towards fallacy of composition is also influenced by other factors, for example, the speed at which more developed countries exit the market as competing suppliers of low-skill products; and market access conditions for these products.[46] Due to job losses and increasing wage disparities, there has been increasing pressure on governments from workers in low-skill industries in developed countries to erect discriminatory trade barriers to competing imports and adopt a protectionist stance. UNCTAD suggests that a gradual shift by developing countries across the spectrum of manufacturing and processing industries, can help prevent the difficulties of fallacy of composition (UNCTAD, 2002: 115). It is very difficult to coordinate supply at a global level, allowing new entrants a niche in the market and getting developed countries to exit the market. The possibility of focusing on domestic and regional markets should be explored, without falling into the trap of protectionism.[47] Almost all developed countries developed their economies through a strong reliance on their domestic markets. However, for SDEs in SSA, with small home markets with low income this is a formidable, if not seemingly impossible task.

Existing evidence suggests that competition between developing countries to export labour-intensive products and for FDI is a real risk and could result in terms of trade losses and

[46] According to UNCTAD (2002c: 128), 'contrary to earlier expectations, developing countries have gained little from the Uruguay Round agreements in terms of access to the markets of industrial countries in these products' [labour-intensive manufactures]. Developing-country exporters of labour-intensive manufactures still face many market access barriers, for example, textiles and clothing exports continue to be subject to quotas; other manufactures face high tariffs; tariff escalation; anti-dumping actions and other new barriers like labour and environmental standards. Tariff peaks by developed countries tend to be focused on products where developing countries have a high export interest such as textiles; clothing; footwear; rubber and travel goods. Although preferential trade agreements go some way in providing market access for SSA countries into developed countries; these agreements often exclude the afore-mentioned products, or provide for some form of quantitative limitation or tariff escalation.

[47] Regional arrangements are often regarded by conventional economic thinkers as second-best solutions in meeting challenges for development. However, the role of regional networks in the experience of East Asia shows that regional arrangements can provide a useful environment for the pursuit of national development strategies; especially where technology and productive capacities are still weak. The extent to which regional infrastructure; trade and investment flows; markets; transfers of skill and technology to neighbouring countries and a regional division of labour is feasible and desirable requires close examination (UNCTAD, 2002c: 138). Admittedly, to date, South-South regional arrangements have produced disappointing results. Hence we should constantly examine why these arrangements do not work satisfactorily in SSA, in a bid to design suitable policy responses.

disrupt both development in SSA countries and the multilateral trading system. Avoiding such problems depends on how fast the market for labour-intensive products grows; how quickly developed and middle-income countries exit the market for these products (thereby creating openings for lower income developing countries); and how quickly the domestic markets of developing countries can grow.

### 1.11 Conclusion

Some readers might find the conclusions of this chapter concerning SSA's exports prospects rather pessimistic. For example, the conclusion that SSA's comparative advantage and reliance on exports of primary commodities is likely to persist in the short-to-medium term; and that the scope for diversification into manufactures and processed goods is limited; might be taken by some to mean that SSA has a smaller chance to achieve the growth and development that East Asia did. This is especially so since East Asia's growth was associated with the export of manufactures. However, to draw such an inference would be wrong. Today, the benchmark for prosperity is no longer simply based on exports of manufactures. Indeed, as pointed out at the beginning of this chapter, both developed and developing countries export manufactures on a large scale today. The main difference between the two is that developed countries have a high concentration of skills and technology-intensive, industries, at the high-value end of the market. Developing countries on the other hand, have a high concentration of labour-intensive-low value manufactures. Exporting labour-intensive-low value manufactures has its downsides—competition constantly drives prices down; wages are low; employment is insecure (under the banner of labour flexibility); know-how and technology are usually kept within the TNCs themselves,[48] which often enjoy monopolistic

[48] Technology spill-overs needed to move up the value chain are difficult to facilitate. The few examples where this has occurred especially in East Asia, appear to be exceptions rather than the rule. High-technology industries in developing countries tend to have foreign ownership or foreign suppliers of sophisticated components. The possibility of technology transfer is even less where only a small part of the production chain is located in a country and used as an export base by TNCs into third countries. In that case you have tariff jumping/market-

positions; and firms and investments easily relocate from one country to another in search of lower cost advantages. Cost advantages can easily be lost due to wage increases or the emergence of more attractive new locations. Furthermore, moving up into the higher-skill-higher-value product market is neither simple nor automatic. However, were a country has few natural resources (for example like South Korea), it is much better to produce labour-intensive manufactures as a development strategy than to struggle with agriculture.

The abundance of natural resources can be a useful launch pad for the development SSA. Revenues from exploitation if carefully managed, can be ploughed into the diversification efforts and the development of other industries. The most serious problems of natural resource-based developing countries stem from political sources. Often, elites appropriate resource rents instead of the benefits being enjoyed across the broader economy. Resource-abundant countries like the U.S. and Scandinavian countries, have managed to develop through promoting education, equal opportunity and avoiding undemocratic, elitist control of resources; and they should serve as a useful example for SSA countries. Policy objectives for SSA which arise from this chapter's analysis, include the need to optimize the potential of its resources and raise the share of manufactures and services through diversification; raise the aggregate levels of output and exports across the region in all sectors, in particular in dynamic products; improve both infrastructure and the operating environment for producers and investors. Successful diversification is very difficult to attain; and much depends on the success of domestic strategies (Lines, 2004: 3). Given the various initiatives being made internationally on commodities in the last few years, there is cause for optimism that the problems of commodities may soon receive the proper attention they deserve.

seeking type of FDI and out-contractors and TNCs have stronger bargaining positions than the host country (UNCTAD, 2002c: 75-76).

# Chapter 2

## Export Performance and Supply-Side Constraints in Sub-Saharan Africa

### 2.1 Introduction

The previous chapter has established that the share of SSA exports has been gradually declining. Various developed countries, most notably the European Communities (EC) (which remains the major export market for SSA), have extended non-reciprocal trade preferences to SSA countries, in terms of duty free access and/or export quotas, since the 1970s. However these have not yielded the expected results and the share of exports of SSA countries (together with other ACP countries) in the EC has steadily declined over the years. What lessons can be learned from this?[49] First, while trade preferences can give beneficiary countries a competitive advantage, they do not automatically stimulate trade. This advantage is particularly reduced where the beneficiary country has limited or no supply capacity to utilize the preference.[50] If a country does not have the infrastructure, the education, training, finance, marketing know-how and other factor inputs necessary to produce, it will simply not be in a position to supply or to supply competitively. Second, tariffs are gradually losing their former importance in international trade, and instead, non-tariff barriers (NTBs) such as food safety standards—veterinary, sanitary and phyto-sanitary measures (SPS) to protect the environment and public health, have been growing in importance. Third, SSA's exports

[49] While trade preferences to the ACP countries have been generally regarded as a special privilege, it should be recognised that trade preferences can only be available where the preference-giving party (the EU in this case) applies some restrictions on its trade with third countries. If the EU does not apply restrictions on its trade with 3rd countries there is no value in granting preferences. At present, the EU has relatively low levels of tariff protection compared to other countries. According to Stevens and McQueen, as a result 63.4 percent if total ACP exports to the EU enjoy no trade preference compared to other developing countries. In the sectors where the EU does retain significant levels of tariff and non-tariff protection, only about 7 percent of ACP export enjoyed a significant preferential margin of over 5 percent. Hence, ACP exports to the EU need to assessed at the level of each individual ACP country—in sectors where the provisions of ACP-EU trade agreements have extended significant margins of preference in order to determine the impact and growth of non-traditional exports (Kachingwe, 2004).

[50] In value of trade preferences for ACP countries has been steadily declining as tariffs are generally reduced by industrialized countries, except in the case of sensitive products. Thus in some cases, while ACP countries might have a 'preference' in the form of a zero or low duty, the value of such preferences needs to be examined in light of what the duty facing other non-preferential exporters is.

remain concentrated in a few commodities destined for a few markets (most notably the EC, and to a lesser extent the US). In fact, the extension of preferences to SSA countries might have contributed to these countries remaining trapped into traditional trading patterns inherited from the colonial era. Fourth, while macro-level reform is essential, on its own it remains insufficient for private sector development. Studies by the World Bank (ILO, 2000), suggest that some of the lessons from efforts at structural adjustment in SSA are that constraints at the firm-level hinder the development of existing firms and the entry of new ones.

The above observations point to an urgent need to address supply-side constraints, and the need to promote product and market diversification if we are to address the problem of declining trade faced by SSA countries. Indeed, lack of supply capacity has been one of the major causes for the failure of preferential schemes and the marginal participation of SSA and other developing countries in the multilateral trading system. The need to address these issues is further heightened by the ever-expanding agenda of trade liberalization into new areas like services, where SSA countries risk being further marginalized if current trends of FDI into other developing regions for services continue. If SSA cannot even supply effectively in traditional sectors like agriculture and merchandise, what more in services and technology and skill intensive sectors? Clearly, there is cause for alarm on the part of SSA policy-makers and trade negotiators.

The determinants of export performance and the supply-constraints limiting this can be divided into internal and external factors. External factors are those related to market access conditions, other factors that affect import demand and also natural phenomena beyond human control, for example, droughts, topographical and other climatic causes. In particular, I focus on the question of adequate infrastructure and appropriate skills which are two elements that national governments can contribute towards. The two are also important determinants in decisions by firms on where to invest in export-oriented production. I will also look at some supply constraints at the enterprise level, and suggest some ingredients that could facilitate new policy measures to overcome these constraints.

### 2.2 Constraints requiring responses at a country level

Various constraints at a country-level can be identified. These include, problems associated with poor governance, problems arising out of poor economic policies, human resource constraints (which were dealt with to some extent in the previous chapter), poor provision of services which are crucial inputs in the production process by public utilities (for example, water, sanitation, transport, electricity and telecommunications), various problems surrounding finance, and constraints arising out of access to and ownership of land. This list is by no means a *numerus clausus* and the problems arising out of individual constraints are interlinked with other constraints. What is important to note is that all the country-level supply-side constraints can and should be addressed by national governments of SSA countries and through development co-operation with the international community and donors.

#### 2.2.1 Addressing poor governance

The first challenge that SSA countries need to face up to is the urgent need for improved governance in order to create a suitable operating environment for business and to attract FDI. Lack of good governance seriously undermines development and investment in SSA and the region is generally perceived as having the lowest incidence if democracy in the world. The concept of ‘*good governance*’ is used here to include competent political management that lies at the root cause of SSA’s poor economic performance. Several essential elements of good governance which most SSA countries lack include:

(i) openness—in terms of transparent economic and political policy-making;

(ii) accountability—which arises out of transparent processes and leads to the third element;

(iii) participation—which means the public must be involved in economic and other process from policy-making through to implementation. Public participation occurs through various for as such as multi-party elections, provision for non-state actors, a strong legislative oversight and so on; and

(iv) efficiency—where leaders and policy makers are subject to public scrutiny and removal by election and other means, they are likely to be more efficient and to take decisions which are just and bring broad benefits.

The experience so far with the African peer-review mechanism (APRM) under the New Partnership for Africa's Development (NEPAD)—a program aimed at boosting Africa's economic development—has been disappointing. The APRM mechanism is generally considered as one of the more recent and pioneering mechanisms under NEPAD, and represents a grand attempt by African countries to break out of the cycle of poverty and instability through adopting and maintaining certain levels of acceptable standards of conduct. The APRM is a voluntary mechanism open to all member states of the African Union. In order to join a member has to accede to the NEPAD *Declaration on Democracy, Political, Economic and Corporate Governance*, and commit to agree to and facilitate periodic peer reviews (modelled along the OECD's non-adversarial and collegial process), that is—independent analysis of political, economic and corporate governance in a country. This transparency and commitment to reform is expected to boost foreign investment to the continent. At the time of writing this paper only 23 of the 53 signatories to NEPAD had committed themselves to the APRM, a year after it was launched. Given that there are several large-scale infrastructure projects envisaged (for example, on water and transport) which span more than one country, it is difficult to predict whether broad benefits will flow from these projects, where some of the countries involved are known to have a significant democratic deficit and poor political and political management. It has been commented that by snubbing the APRM it is clear that many African countries are unwilling to submit themselves to an objective and democratic process—which is a sad indictment on the poor governance in those countries.[51] A related development was the opening of the Pan-African Parliament on 16th September 2004 in Johannesburg, South Africa. The Parliament has 265 representatives from 46 African countries, but has no legislative powers. At the opening ceremony no mention was made of steps that would be taken to address governance crises in various African countries, most notably, Zimbabwe, Swaziland and Sudan. Achieving good governance in SSA will clearly not be easy and is a process that must be pursued with vigour. Moreover, the process of democratisation in SSA is taking place at a time when the economic base is contracting, therefore, limiting the resources countries have to strengthen domestic institutions.

### 2.2.2 Economic policy constraints

'Africa's economic performance indicates that the continent is out of step with the globalization process of the last 80 years'.[52] Globalization has thus become a terrible reality for many SSA countries trapped in the paradigm of the past. The economies of many SSA countries embarking on import substitution industrialization programs in the post-independence era had similar characteristics.[53] On the production side, they were for the most part agricultural or mining-based, with a small/light manufacturing sector (limited to a few lines of production) and a trade structure dominated by exports of primary commodities and imports of manufactured goods. Literacy levels where very low, with few skilled personnel at both technical and managerial levels. Most of the population was (and remains) reliant on

[51] See comments by Shadrack Gutto in Business Day (Johannesburg), **Manuel Slams Peer-Review Dodgers**, 15th September 2004, and

[52] Mkandawire, T. 1988. **Road to Crisis—Adjustment and De-industrialization: The African Case**, in *Africa Development*. Vol. 13(1), 1988, pp. 5-31

[53] The euphoria of independence (from the 1950s onward) for many African countries that lasted until the early 1980s was a period of economic and political experimentation and mismanagement with various ideologies such as socialism and nationalism (using China, Cuba and to a lesser extent the Soviet Union as role models).

subsistence agriculture, with small domestic markets due to either low per capita income or population. Consumption patterns were biased towards the urban consumer with a taste for imported goods. As a result, domestic manufacturing focused on producing goods *similar* to imported goods—that is import—*reproduction* as opposed to import *substitution*. This large-scale dependence on imported capital goods resulted in expensive technology imports, the application of inappropriate technology or scale of production, and weak backward and forward linkages between the region's large resource base and industrial structure. Primary import substitution is a critical phase in the successful movement towards export-oriented industry since it involves development of physical infrastructure and expansion of entrepreneurial capacity. The existence of such infrastructure is key precondition to the region obtaining any benefit from openness in world markets.

A notable determinant of SSA's anti-export bias has been the overvalued domestic currencies (for example in Ghana, Nigeria, Sierra Leone, Tanzania and so on). The practice of permitting or encouraging overvalued currencies makes exports less competitive in the global market while making imports cheaper, thereby leading to more imports. Export performance in many SSA countries has been responsive to macroeconomic reforms—notably real exchange rate depreciation in the 1980s in Anglophone Africa and after 1994 in the CFA zone of Francophone Africa. However, due to the partial nature of reforms undertaken and adverse terms of trade shocks, the pattern of growth in exports has neither been sustained nor stable (Elbadawi, 1998: 2).In the case of manufacture exports, Elbadawi and Helleiner (1998) argue that given SSA's current levels of development, comparative advantage should be based on sustained real exchange rate competitiveness—until such time that economies are strong enough to sustain a productivity-induced secular process of appreciation. They test for the real exchange rate-led export orientation by assessing whether or not real exchange rate misalignment matters for exports of manufactures and conclude that real exchange rate-based competitiveness is a pre-requisite in order for a for developing country (particularly low-income countries) to develop sustained manufacturers exports (1998: 13).

### 2.2.3 Infrastructure provision and skills development and doing business

I have already mentioned that adequate infrastructure and appropriate skills are pre-requisites to attracting FDI in services and are key determinants of firms' decisions on where to invest in export-oriented production. While appropriate infrastructure for services, such as telecommunication, power generation and distribution/logistics services are essential to create an environment that contributes to IT-enabled industries (and in particular, services), it is also essential for the conduct of business activities in general and facilitates diversification. Poor infrastructure prevents firms in SSA from trading efficiently. Data from the ILO (2000) shows that transport infrastructure in SSA is generally poor, that is, in terms of suitable roads, weak sea-bound transport links for landlocked countries, as well as expensive transport costs to markets overseas, unpredictable electricity supplies and so on.[54] Upgrading this infrastructure is the responsibility of national governments, and the role of private-public-partnerships in facilitating infrastructure projects should be continually assessed. In addition, the Economic Partnership Agreements (EPAs) currently being negotiated between the ACP countries and the EU present an opportunity for accessing funds for infrastructure related projects as will be discussed in Chapter 3.

Although investment into telecommunications is costly, once an efficient system is in place it gives rise to numerous opportunities. An example is the transformation of Ireland, following significant reform and strengthening of its telecoms sector, into a knowledge based economy,

[54] A review of maritime transport found that the total freight costs in 2001, as a proportion of the import value of goods for developing countries in Africa was 12. 65 percent, compared to an average of 8.7 percent for developing countries elsewhere. For Africa's landlocked countries, average costs were 20.69 percent. Non-distance related costs such as port tariffs and border post charges varied between 12-40 percent of the total costs of inland transport. In the SADC region, border-post delays where estimated to cost US$48million annually. See Mail & Guardian (South Africa). **African Transport: Something has to be done**. Monday, 12 July 2004, Pretoria

now capable of attracting a new mix of industries for which first class international telecommunications are a key factor such as, soft ware development, call centres, customer support and data-related services—creating many jobs for Ireland's economy in the process (UNCTAD, 2004c: 205). There are many examples, such as India, Chile and the Philippines that highlight the importance of competitive telecoms, and where private sector investment has contributed toward telecoms infrastructure development. The necessary regulatory framework and institutions, as well as the sequencing of FDI liberalization and privatisation are issues that also require close attention. Fibre optics are both cheaper and more efficient than satellite links. Whereas there is an array of submarine fibre-optic cables linking developed countries and also East and South-East Asia, the problem for SSA is that it is served by only one cable—the SAT-3—linking it to the rest of the world. In addition, data from the ILO (2000) shows that only a handful of SSA countries such as Botswana, Mauritius, Namibia and South Africa have more than 2 telephone lines per 100 people. This lack of access to cheap telecommunications is a significant constraint on the ability of SSA countries to attract a mix of technology-enabled services, and raises the cost of doing business and acquiring information for existing firms.

The skills deficit is another constraint SSA countries need to overcome. Services are knowledge and skills-intensive and any strategy to move into services or to move up the manufacturing value chain and into agro-processing puts central emphasis education and the development of an adequate skills base in a bid to attract FDI. The challenge in restructuring national education systems so that they produce graduates in fields required by the market looms large. For example, surveys by the South African National Productivity Institute (NPI) conclude that the quality of education in South Africa is insufficient, and is not in line with the needs of the economy. It recommends a complete reorientation of the education system (with emphasis on business management, science and engineering, as well as technical education), and benefits would take 20 years to realize. Currently, many managers in SSA firms (at all levels) lack know-how about productivity technology, basic productivity improvement techniques (such as activity sampling), and how to identify and isolate core problems that cause most of the negative impacts on businesses. Therefore, national governments and industry associations in SSA need to embark on intensive programmes to expose managers (both state and private sector) to tools that improve productivity and technology. Many managers in SSA, long accustomed to domestic markets which generally absorb merchandise regardless of quality and price, need to re-orient themselves in line with the demand of the global market. According to a survey by the International Trade Centre (2000-1) covering Kenya, Ethiopia and Mauritius, many firms in SSA can be described as 'passive'—that is, they do not invest much in preparing for export and into breaking into new markets. Few firms regularly use trade support services, technical assistance, pre-export services and modern information technology for their business activity. Many are not fully aware of the potential of this type of assistance. This passiveness is attributable to flaws on both supply and demand sides. On the supply-side, the concentration of trade support services is still with government agencies that tend not to be effective. On the other hand, private players providing export support services have been slow to emerge in SSA. On the demand side, many exporting firms have not been willing or able to adjust their strategies to meet the challenges of an increasingly liberalised and competitive business environment (Bongolia & Fukasaku, 2002).

Related to management constraints is the marketing constraint. For many firms, increasing productivity means better utilization and more efficient use of labour, capital and materials in the production process. However, such an approach ignores the provision of goods and services tailored to meet the customer's needs. For many firms in SSA there is little knowledge of 'strategic marketing' especially into overseas markets, and firms usually have few or no funds to engage independent consultants. Hence, in overcoming these constraints, firms should constantly have the market in mind in their production process, and train staff to understand the market and marketing trends. Many workers in SSA remain sceptical of initiatives to increase productivity, especially were these are equated with cost cutting measures and more specifically job losses. Hence few workers would be motivated to support productivity initiatives if this would result in personal economic distress.[55]

For example, the growth of India's software industry is partly due to the development of a large pool of English-speaking and technically trained manpower—the result of years of targeted education and training programmes. However, despite its high turnover of software engineers and science graduates, there are still concerns that the quality and supply of middle-level manpower is insufficient, indicating the difficulties in overcoming this human resource constraint, even for a large country like India. According to UNCTAD (2004c: 206), even developed countries such as, Canada, the US, the UK and Sweden have started university programmes aimed at improving the supply of management skills. Countries such as the Philippines and Hungary have launched programmes to create a pool of university graduates, fluent in English (French in the case of Mauritius), and familiar with western business practices. Ireland has established an Export Group on Future Skills Needs (which involves representatives from industry, training institutions, trade unions, government departments and State agencies), to develop strategies on business and education. Some countries actively support private sector training through the provision of grants and tax incentives, for example, in Jamaica and Croatia, employers are entitled to refundable training grants (in full or partial). Many countries have skill-levies, for example, Malaysia, Singapore and South Africa; and others such as, Chile, Hungary and Thailand use tax incentives to encourage training

[55] The logical view of increased productivity would be for fewer workers to produce more, which would aggravate the unemployment problem in many SSA countries. Hence it is essential to agree to certain guiding principles, to be respected at all time, prior to commencing a 'productivity initiative'.

(UNCTAD, 2004c: 208). Mauritius provides a good example of possible policy responses to skills and infrastructure constraints. Mauritius is seeking to position itself as a location for FDI in off-shoring; and has launched a 'Cyber City' project to attract call centres, back-office services and programming, targeted to serve francophone Africa, France and parts of Canada. The Cyber City will be a state-of-the-art technology park with world-class telecommunications and computing technology. Dubai used a similar strategy in the 1990s, establishing an Internet City eventually positioning itself as the hub for regional headquarters (UNCTAD, 2004: 202).

### 2.2.4 The cost of doing business in SSA as a constraint

The analysis by Elbadawi and Helleiner mentioned above also confirms the basic prediction of the transaction theory (put forward by Collier, 1997) which contends that 'given that manufacturing is one of the most transaction-intensive activities, Africa's *comparative disadvantage* (at least in the short-to-medium runs) has been caused by high transactions due to poor policy environment'. Indeed, as the theory goes, 'transaction costs are major determinants of manufactures exports and investing on reducing these costs generates the highest payoff for the capacity to export manufacturers' (1998: 13). In this section, I link the issue of transaction costs to the cost of doing business in SSA. Understanding the constraints facing the private sector in SSA is important if we are to overcome productivity, supply and competitiveness bottlenecks. According to the World Bank annual report on *Doing Business in 2004*, cumbersome business regulation and excessive regulation in SSA actually stifles productive activity. SSA needs to create 'productive jobs', facilitate new industries that wealth. This means firms need to be positioned to both adjust to new market conditions and also seize opportunities for growth. However, cumbersome regulations in SSA act as a serious constraint on this flexibility. According to the report, productive businesses thrive where governments focus on the definition and protection of private property rights. However, as is too often the case in SSA, governments stifle the growth of productive firms by seeking to regulate every aspect of business activity, causing many businesses to operate in the informal economy. Regulatory intervention is particularly constraining and damaging, where its enforcement is subject to abuse and corruption. The Doing Business Report analyses the effect of regulation on various economic outcomes, including, productivity, employment, growth and poverty.[56] It analyses data in 5 categories: (i) starting a business; (ii) hiring and firing workers; (iii) enforcing a commercial contract; (iv) access to credit; and (v) closing a business. The report also looks at the efficiency of enforcement institutions such as, tax and labour authorities and so on; and tries to investigate the differences between business regulations in different countries, in order to determine what types of business regulation models successfully lead to improved economic and social outcomes.

What are the findings of the report? Low-income countries, such as those predominantly found in SSA tend to regulate business the most. Surprisingly, while it may cost nothing to start a new business in some industrialised countries such as Denmark (as well as developing countries in East and South East Asia such as Hong Kong, Singapore and Thailand) in terms of minimum capital for starting-up, and only takes 2 days in places such as Australia, in SSA countries it is mostly a lengthy and costly affair. For example, it takes 215 days to start a business in the Democratic Republic of Congo and costs more than 17 times income per capita in Ethiopia or 13 times income per capita in Sierra Leone, in start-up capital requirements. Other problems, involve difficulties in hiring and firing workers owing to the

[56] There are various indicators and ratings on various aspects of the environment for doing business. The following 8 organizations regularly collect such indicators, focusing on international portfolio investors, global lenders, and executives of multinational companies: (i) Business Environment Risk Intelligence (BERI); (ii) Euromoney Institutional Investor (EII); (iii) International Country Risk Guide (ICRG, Political Risk Services Group; (iv) Country Risk Review, Global Insight; (v) The Economist Intelligence Unit (EIU); (vi) The Heritage Foundation; (vii) World Markets Research Center; (viii) A. T. Kearney. Cross-country Indicators of the Business Environment, include, (i) World Competitiveness Yearbook; (ii) Global Competitiveness Report; (iii) Business Environment and Enterprise Performance Survey; (iv) Index of Economic Freedom; (v) World Markets Research Centre; (vi) Country Credit Ratings; (vii) Country Risk Service; (viii) Business Environment Risk Intelligence; and (ix) Country Risk Reports

inflexibility of labour laws in some SSA countries. This includes constraints posed by the costs of terminating contracts (through the payment of severance packages), onerous regulations or procedures for dismissal of employees, and regulatory rigidity in allowing short-term contract work.

Understandably, for policy-makers in SSA, it is not easy to develop an appropriate mix of labour regulations, which make it simple to hire and fire (as investors and employers would prefer) while at the same time meeting the objectives of creating secure employment and livelihoods. Therefore, innovative policies need to be developed here. Workers in countries such as New Zealand and Denmark, with very few labour regulations are not considered exploited. The Danish example, represents an appropriate mix between flexible regulation and social protection. Another constraint in SSA is that labour and management often do not work together. Instead, they tend to focus on disagreements over distribution of wealth rather than cooperating on the creation of wealth. The same may be said for some re-distribution programmes by governments in SSA, which are big on rhetoric but short on actual measures and support that will enable beneficiaries to create wealth. Japan provides useful lessons on how labour and management can effectively cooperate in a wealth creation and wealth distribution formula. Abundant natural resources in SSA have resulted in a culture of low productivity. In some cases there is even a perception that increased productivity would be to the disadvantage of some groups and only lead to increased wealth for other groups that are already wealthy, i.e. employers and the owners of capital. Hence workers may feel disinclined to exert themselves. Viewed in this light it is not surprising that efforts towards improving productivity in SSA have been slow to develop. Countries like Nigeria and South Africa have had productivity centres for some 30 years.[57] In others like Ghana, they have even been

[57] It is generally accepted that almost impossible to achieve significant gains with efforts at improving productivity in the absence of a legitimate agency promoting productivity in the country. The productivity gains of Europe and Asia all resulted from the programmes spearheaded by productivity centres. Even as countries

closed down. Several other SSA countries have productivity centres led by governments, or structured as management training institutes. There needs to be a mind-shift from the political leadership down to the factory worker, in terms of commitment in the process of improving productivity to overcome this constraint. Already in 1992 the Pan-African Productivity Association (PAPA) was formed with a Secretariat at the National Productivity Institute in South Africa. The aims of PAPA include, to provide a forum for promoting and sharing ideas on strategies, techniques and practices for productivity enhancement; to encourage the development of a productivity culture in African economies; and to facilitate the establishment and development of productivity centres in all African countries.[58] Thus far PAPA has hosted a series of assemblies (where 20 countries were represented) on competitiveness, and published a regular newsletter on productivity and productivity events. However, although these efforts have been welcome, they have had little practical effect. Although PAPA can play a useful role as an 'umbrella body' on productivity issues, its viability is doubtful. If PAPA is to have 'teeth' it is suggested that its role needs to be elevated to inter-governmental level.[59] One suggestion is to bring PAPA within the context of the EPAs, and investigate how it can be restructured in line with supply, competitiveness and productivity objectives envisaged by the EPAs and PAPA's Constitution.

In terms of the efficiency of commercial contract enforcement, the report finds that in some low-income countries (where data is available) it takes up to anything between 300-400 days from filing to service of process, obtaining judgment and enforcing judgment. This is

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nature and become more industrialized the relevance of productivity centres does not diminish as has been shown in Germany and Japan. Therefore, any meaningful efforts at improving productivity in SSA need to seriously consider the role productivity centres can play.

[58] To view the Constitution of PAPA see http://www.npi.co.za/papa/Constitution.asp

[59] Research shows that successful productivity centres have certain characteristics such as tripartism i.e. involving government, labour and employers, and are not constrained by party politics. Experience shows that productivity centres seldom function well inside a government environment due to the excessive bureaucratic process. At the same time, a productivity centre cannot easily be a private institution because it requires significant funding. Hence a neutral non-profit institute might be a suitable vehicle for housing such a productivity centre. It needs to be adequately resourced in terms of technical expertise and financial resources.

compared to between 7-40 days in some developed countries such as the Netherlands. In addition to delays in time, there are also the official costs of going through court procedures, that is, court costs, attorney fees, possible fees for experts and so on. In developed countries such as Austria, Canada and the UK the costs of enforcement are usually less than 1 percent of the disputed amount, whereas in Burkina Faso, Madagascar and Malawi they are more than 100 percent. According to the report, an entrepreneur with a promising business concept can obtain credit as easily in Maputo or Jakarta as in London or New York with little or no collateral. This of course applies to those few people that are well connected to the right people. For most people in SSA, accessing credit usually involves a great deal of frustration and is likely to result in frustration. As a result, few potential entrepreneurs bother to seek credit from official sources. A serious constraint facing local entrepreneurs in SSA is that they often have to use their own personal property as collateral to secure loans and other credit. This makes small firms in SSA risk averse as a wrong calculation could involve the loss of a family home for example. However, this risk adverse behavior means firms are often not in a position to take advantage of opportunities when the market changes. In addition, the use of personal property (which is often not very sizeable) means the loans in turn are fairly small and hence cannot possibly cover a significant export drive in most cases, and include both production and marketing costs. A related constraint is the difficulty exporters face in accessing foreign exchange in some SSA countries. This difficulty needs to be addressed with urgency particularly, in the case of firms that themselves are potential earners of foreign exchange.

In the majority of countries banks will not give credit in the absence of guarantees that the borrower is creditworthy—that is—where the bank has no information on the value of the value of the borrower's collateral, or his/her credit history, and where the legal system provides inadequate protection for creditors. Two elements domestically, that can increase access to credit and improve its allocation are: (a) credit information registries or bureaus;[60] and (b) establishing an adequate framework for creditors' rights, secured transactions and bankruptcy legislation. There is significant interplay between these elements. Through sharing information creditors can distinguish good clients from defaulters. Legal rights are critical in enforcing claim in instances of default, and in some cases information sharing is useful where legal protection is weak. In low-income countries, the use of public credit registries can help where there are no private bureaus (the latter which are much more prevalent in developed financial markets). Governments in SSA, can attempt to overcome the constraint of access to credit by private firms, through putting in place appropriate regulations for the operation of private credit bureaus; removing legal restrictions to exchanging credit information; support of the establishment of private bureaus by central banks, and well-designed consumer protection and privacy legislation—which will create a framework for proper use of good quality credit information. At present, credit bureaus in develop countries such as the US, New Zealand and Norway, contain credit histories of almost all their adult populations. However, in SSA, countries such as Cameroon, Ghana and Nigeria have credit histories for less than 1 percent of adults (World Bank, 2004: Chapter 5). Obviously, the financial constraints facing SSA countries go beyond the issue of access to credit, and the aim in this case was to highlight existing constraints in one particular aspect connected to financial constraints.

A further issue related to creditor/borrower relations is that of bankruptcy. Bankruptcy laws are key to ensuring that debtors are not left at the mercy of creditors and at the same time that

[60] All commercial lenders collect information about the creditworthiness of potential borrowers. A borrower's history with a bank is one way to develop a sound relationship with a creditor. Credit registries make borrowers' reputations accessible to other creditors, thereby assisting creditors to distinguish good borrowers from defaulters and consequently reduce the costs of 'screening'. In addition, borrowers have an added incentive not to default if they know their information will be made available amongst creditors. As credit histories are shares, borrowers can benefit from lower interests as banks compete for good clients. The credit information industry has experienced phenomenal growth, as a result of technological advances and financial deepening. For example, today, Dun & Bradstreet, a private credit reporting business in the US, now provides credit information on more than 60 million businesses worldwide (World Bank, 2004: Chapter 5).

creditors can at least receive something from the insolvent estate. Countries vary in the levels of protection that they afford to debtors and creditors, some favoring one over the other. In some developed countries such as Ireland and Japan it takes less than six months to conclude bankruptcy proceedings, whereas in some developing countries it takes 10 years. In addition, in developed countries such as Finland, the Netherlands, Norway and Singapore it costs less than 1 percent of the insolvent of the value of the estate to resolve an insolvency, whereas in others such as Sierra Leone and Chad costs are up to half of the estate value.

The above discussion paints a very general picture of the costs of doing business in SSA. Obviously individual countries differ in terms of how they would rank when evaluated against the above criteria used in the Doing Business 2004 Report. In addition, while judicial systems the world-over are notoriously slow, in SSA they are more so for various reasons. What is important to deduce from the above discussion is that there are various constraints that affect the ability of the private sector and especially SMEs to invest and operate effectively. These range from delays and costs in opening a business, lack of flexibility to hire and fire workers, difficulties in accessing credit for entrepreneurs, problems also on the creditors' side in extending credit due to lack of extensive credit registries and so on. The cumulative costs imposed by these inefficiencies and bottlenecks affect the ability of SSA firms to supply competitively and to expand their operations.[61] Countries in poor regions like SSA have the most cumbersome regulations in all aspects of business activity (entry procedures for companies, contract procedures, employment laws, court powers in bankruptcies and so on). SSA countries need to identify and move towards best practices in these areas as a matter of urgency. There is danger that the constraints in the area of doing business might be over-looked or accorded less importance as they are not as glaring or visible as other problems like

[61] It would be both a useful and informative undertaking for a team of researchers to attempt to quantify what the cost to individuals SSA economies of these regulatory constraints is, such that benchmarks could be established, against which the effect of reforms in this area could be measured against.

poor infrastructure. The legal origin of a legal system of a country also affects the extent to which regulation takes place. In general, common law countries tend to regulate less than countries with a civil law tradition. However, this is not a strict rule and many countries fall in-between. Whatever the source, cumbersome regulation is general associated with increased inefficiency in public institutions—longer delays, more paperwork and bureaucracy, higher costs, more corruption and lower productivity.

Despite regulating the most, poor countries, including those in SSA, have the least enforcement capacity and the least checks and balances in public institutions to make sure that regulatory discretion is not abused to extract bribes and so on. Hence, extreme regulation has a contrary effect on the people that are to benefit from it. Rigid employment opportunities are said to result in fewer employment opportunities especially for women. The wealthy and connected avoid cumbersome rules or even obtain protection from them, fuelling bribery and corruption. Excessive regulation also leads to many entrepreneurs operating in the informal economy—where employees receive no social benefits (pension plans or health care); and since they do not pay taxes governments lose out on potential revenue for the development and delivery of basic infrastructure and services. In addition, because there are no quality controls for products in the informal sector and producers usually keep their operations small and below efficient production size. Optimal regulation does not imply no regulation at all. However, it is sure to be less than what is to be found in many countries in SSA at present, and an indication of what is most efficient can be found through a comparative analysis of practices elsewhere, for example, the number of procedures used to obtain a business license, the time-period, costs involved and so on.

### 2.2.5 The role of debt as a supply-side constraint

Chief among the myriad of problems hindering SSA's development and ability to build competitive industries, is the region's overwhelming debt, which currently stands at more than US$300 billion.[62] 33 of the region's 44 countries, have been designated as Heavily Indebted Poor Countries (HIPCs) by the World Bank and IMF, under a program launched in 1996, aimed at achieving a permanent exit from debt for these countries. These countries receive partial debt relief as developed countries committed themselves to write off about US$100 billion of the poor countries' external debt. However, no African country has been offered complete debt cancellation, and many get no relief whatsoever.[63] The HIPC initiative recognizes that debt rescheduling has exploited all possible formulas, especially in the case of low-income countries. Recently, the IMF has since admitted that the HIPC is failing to resolve Africa's debt crisis.[64] Critics argue that the conditionalities imposed on indebted countries by the World Bank and the IMF under the HIPC actually worsen poverty by failing to cater for the needs of vulnerable sectors in a country. The HIPC initiative is criticized for being slow and it is feared that that debt will not be reigned in quickly enough to make the desirable impact. The initiative also fails to take into account the impact of external shocks, for example, declining prices for commodities of export interest to indebted countries. Investors themselves shy away from countries with unsustainable debts. Given this dynamic,

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[62] See www.odiousdebts.org

[63] The IMF, World Bank and developed countries have refused to consider total cancellation of debts (See IMF. 2001. **100% Debt Cancellation? A Response from the IMF and World Bank**, July, available online at http://www.imf.org/external/np/exr/ib/2001/071001.htm). The IMF and World Bank argue that they do not have the resources to write off debts owed by the poorest countries without jeopardizing funds available for future lending, and this would also be at the expense of other developing countries which are equally poor but do not have high external debt (the majority of the world's poor live in non-HIPC countries) (See IMF Survey Magazine, September 2002). However, the reluctance to consider full cancellation of multilateral debt appears more due to political and ideological considerations, rather than economic ones. This can lead to positions that are apparently illogical, that is, that debt cancellation would mean less funding for debt relief. Evaluations of the resources of the IMF and especially the World Bank (which is the largest creditor of the SSA countries) shows that the resource argument raised above should be questioned (Halifax Initiative, 2003).

[64] 50 Years is Enough. **IMF Admits HIPC is Failing Africa**. BBC online, 22nd October 2003. See also The Halifax Initiative. 2003. **Where the HIPC Initiative is Failing**, October. As an example, Uganda, the first country to graduate from the HIPC Initiative, and to subsequently receive deeper relief under the "enhanced" program continues to struggle with high levels of debt, and now faces yearly payments projected at an average of $US87 million for the next ten years. These payments are expected to increase after 2010 as current loans become due.

any attempts by the international community to improve SSA's economic performance and productivity, without addressing the constraints posed by debt, will be self defeating.

Most SSA countries accumulated their debts during the 1970s, through reckless lending by international financial institutions together with equally reckless borrowing by undemocratic and despotic regimes in the era of Cold War patronage. Most of the borrowed funds never reached their intended beneficiaries, and disappeared in failed infrastructure projects, corrupt schemes and imprudent investments or where used to bolster oppressive regimes. These debts have continued to burgeon as governments have taken new loans to pay off old ones and through interest. An analysis of some of the loans shows that in some cases up to one third of a loan constitutes 'charges'—which carry no benefit for the poor people of SSA. Over the last two decades, the international community has experimented (mostly unsuccessfully) with various initiatives aimed making the debt burden of poor countries more sustainable. Three schools of thought have emerged amongst advocates of debt relief for developing countries: (i) those that demand total and unconditional cancellation, and even reparation for SSA; (ii) those that feel that debt relief is not the only way to finance development but that it is the most just and fair in relation to poverty reduction strategy papers; and (iii) those that emphasise procedures to achieve just and lasting solution to the problem of debt.[65] For some SSA countries the level of external debt far exceeds annual GDP and African countries collectively spend US$15 billion annually on debt repayment—a sum more than they receive in aid. Servicing of external debts diverts scarce resources away from—and often exceeds—important development projects, the health sector and so on, represents a crippling burden that seriously undermines economic and social progress. It should not be ignored that some of the

[65] For example, a proposed extension to the international level of the model suggested by article 9 of the American Legal Code on bankruptcy, to establish an equitable and transparent mechanism for restructuring sovereign debt. This article was introduced in the United States during the crisis in the 1930's to avoid negotiations and prolonged and ineffective rescheduling, and to offer the heavily indebted American municipalities (in debt to the government) solutions that were quick, just and efficient from the economic point of view.

debt burden of SSA countries is attributable to mismanagement and poor economic policies by those countries.[66]

Critics point to the double standards applied to African countries by developed countries. The US, while a relatively minor bilateral creditor of SSA countries, remains the single largest shareholder in the World Bank and IMF, to whom most of SSA's debts are owed, and this it holds a major influence over the international response to Africa's debts crisis. The US has secured pledges from several European countries to relieve much of the US$40 billion owed to them by Iraq (with a total external estimated at between US$100-120 billion), arguing that Iraq's debt is simply unsustainable and should not be allowed to be an obstacle to that country's reconstruction efforts. While this is true, the same arguments can and should be extended to the case of SSA countries, which the US refuses to do. A lot of SSA's debts are equally odious like those of Iraq. The debt burden of SSA countries is simply unsustainable. If efforts to develop trade capacity, and to meet the Millennium Development Goals are to bear any fruit, the international community and international financial institutions should stop tinkering with rescheduling efforts that have proved a failure and simply cancel the debt, and focus their energies on helping countries to manage their resources better. Indeed, SSA's people should not be forced to pay debts that did not benefit them, and for the most part funds were used to suppress and even kill them. Given its influence, the US should spearhead a moratorium (in concert with its Paris Club partners) on debt repayments by SSA countries pending an inventory of the debts owed by these countries and their legitimacy, and a determination of the costs/impact of a 100% cancellation on creditors. In return for debt cancellation, western governments should insist on increased vigour in political reforms. One possibility would be to cancel debt in phases, against the achievement of certain 'democratic

[66] Ligomeka, Brian. 2000. **IMF Attributes Africa's Debt Burden To Poor Management**, *African Eye News* (South Africa) 13 December.

benchmarks' by the beneficiary country and increased social spending consummate with debt reductions.

# Chapter 3

## Addressing supply-side constraints in the context of Economic Partnership Agreements (EPAs)

### 3.1 Introduction: What are the EPAs negotiations about?

Trade relations and development co-operation between the 77 African Caribbean and Pacific (ACP) countries and Europe date back to the Treaty of Rome which established the European Economic Community (EEC) in 1957. At that time, the EEC countries expressed solidarity with their former and current colonies and overseas countries and committed themselves to contribute toward their prosperity. Further down the line, the trade relationship between the EEC and the ACP countries was strengthened by the Yaoundé I Convention in 1963, via the first Lomé Convention of 1975. This first Lomé Convention was replaced by a series of subsequent Lomé Conventions (1980, 1985, 1990) and then eventually replaced by the current Cotonou Agreement (CA) of 2000. Changes in the various Lomé Conventions have had to take into account the constantly changing international environment, for example, the end of colonization, the end of the cold war, and also changes in the structure of Europe, most recently with its enlargement from 15 to 25 countries. The major theme throughout these various agreements has been the intention to grant favourable market access to ACP countries in order to improve their economic performance and development.

The CA provides for the negotiation of Economic Partnership Agreements (EPAs), which are essentially free trade agreements, between the ACP and EU countries which should culminate in agreement by December 2007 (See Arts 34-37 of the CA). The EPAs are expected to be the new cooperative framework under the CA based on partnership and promoting cooperation, trade and political dialogue between the EU and the ACP countries. The new EPAs framework hopes to combine trade, development aid (essential to ACP countries), and a strengthened political dimension. Unlike the previous Lomé Conventions which were non-reciprocal, the new EPAs require reciprocity; differentiation; deeper regional integration; and coordination of trade and aid.[67] Because the EPAs are to result in free trade agreements, the latter must comply with the GATT Art XXIV which provides that free trade agreements must cover 'substantially all trade'.[68] There is a great fear on the part of the ACP countries that their fragile domestic industries will be overrun by cheap imports from the EU driving them out of business. Hence, in order to address these concerns, but also to improve on the disappointing supply response of ACP countries (whose exports to the EU have been in decline despite the existence of preferences in some areas), and to better integrate the ACP countries within the multilateral trading system, a major focus of the EPAs will be on addressing supply side constraints. I will not dwell on the merits of negotiating free trade agreements between the ACP and EU but will focus on the proposed initiatives to address supply constraints and what opportunities they present for SSA countries, which is the focus of this paper.

### 3.2 The Issue of supply side constraints in SSA-EU trade: some emerging trends

The previous two chapters provided a useful overview of some of the supply side constraints that SSA countries and their exporters face. These include constraints on the country level—that is poor governance, poor trade and economic policies, fluctuating exchange rates, poor

[67] The objectives of the EPAs have been the subject of intense criticism from civil society and NGOs in the both the ACP and EU. For a useful list of background papers to understanding the EPAs and the issues being addressed in the negotiations visit http://www.epawatch.net and www.acp-eu-trade.org

[68] The WTO-compatibility requirement does not however mean that the EU cannot unilaterally establish a preference system that favors developing countries with no reciprocal treatment for EU goods. The Everything-But-Arms (EBA), providing duty-free access to all imports from developing countries that meet the least developed countries criteria, is an example of such an arrangement granted under the enabling clauses of the GATT/WTO rules that allow developed countries to have favorable preference systems for developing countries without reciprocity. The crucial difference between the EBA initiative and the EPAs, is that the EBA initiative is nondiscriminatory as its preferences are accessible globally to all least developed countries (LDCs) at the same level of development while the EPAs are just for the ACP countries. Economic Commission for Africa. **Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements.** Concept Paper.

infrastructure and so on. There are also constraints at the enterprise level such as excessive regulation, difficulties in starting a business, hiring and firing workers, accessing finance, enforcing a commercial contract, closing a business, the human resource constraint and so on. Various provisions in the CA deal with the need to address supply constraints facing ACP countries, indicating the importance of this issue to both the ACP and EU countries. For example,

- Art 34(3) of the CA provides that *'…economic and trade cooperation shall aim at enhancing the production, supply and trading capacity of the ACP countries as well as their capacity to attract investment…strengthening the ACP countries trade and investment policies and at improving the ACP countries' capacity to handle all issues related to trade'.*
- Art 35(1) of the CA provides that *'Economic and trade cooperation shall be based on…a comprehensive approach which builds on the strengths and achievements of the previous ACP-EC Conventions, using all means available…by addressing supply and demand side constraints…particular regard shall be had to trade development measures as a means of enhancing ACP States' competitiveness…within the ACP States' development strategies, which the Community shall support'.*
- With respect to services Art 41(5) provides that *'The Community shall support the ACP States' efforts to strengthen their capacity in the supply of services. Particular attention shall be paid to services related to labour, business, distribution, finance, tourism, culture and construction and related engineering services with a view to enhancing their competitiveness and thereby increasing the value and the volume of their trade in goods and services'.*
- With respect to maritime transport Art 42(4) provides that *'The Community shall support the ACP States' efforts to develop and promote cost-effective and efficient maritime transport services in the ACP States with a view to increasing the participation of ACP operators in international shipping services'*
- With respect to human resource constraints Art 76(1) provides that *'Investment finance and support cooperation shall provide…(a) grants for financial and technical assistance to support policy reforms, human resource development, institutional capacity-building or other forms of institutional support related to a specific investment, measures to increase the competitiveness of*

*enterprises and to strengthen the capacities of the private financial and non-financial intermediaries, investment facilitation and promotion and competitiveness enhancement activities'*

All the above provisions touch on some of the constraints mentioned earlier in this paper (which should be kept in mind) and highlight the EU's commitment to provide some assistance towards addressing supply constraints for ACP countries. Effectively addressing supply constraints represents a major challenge for future ACP-EU development co-operation in encouraging the structural transformation of ACP economies, such that investment, local value added and jobs can be stimulated.

A few observations can be made from analyzing the trends in addressing supply constraints at country-level for ACP countries. With respect to human resources, the EU is currently funding various programmes in the health sector on HIV/Aids; TB and Malaria. However, the EU is on average extending far less aid to support education reform and improvement in ACP countries compared to other bilateral donors (during the 1990s about 3 percent of the 7$^{th}$ and 8$^{th}$ EDF funding was extended in support of education sector programmes, well below the donor's average of 10.3 percent). The European Development Fund (EDF) is the main financial instrument in EU/ACP cooperation. The current CA is financed by the 9$^{th}$ EDF (13.5 billion Euro). The EDF is funded by contributions from EU member states. The EDF is not part of the general EU budget and therefore, is not subject to the control of the budgetary authority of the European Parliament. The fact that aid to certain sector initiatives was at a historical low was acknowledged by the EU Council in a May 2002 resolution on education, which recognised the need to deploy more aid. In light of the skills initiatives which ACP countries need to undertake, they need to ensure that promises of more aid on education are realised and that they are in a position to utilize that aid effectively. This includes ensuring that initiatives that target gender equality are followed upon and specifically targeted by EU assistance programmes. The emphasis on the latter cannot be under-estimated given that over half of SSA's human resources are women.

**Figure 3: The allocation of funds under 9th EDF**

| Sector | % of total funds allocated |
|---|---|
| Structural adjustment | 30.7 |
| Transport | 21.4 |
| Governance | 7.9 |
| Rural development | 7.0 |
| Water | 6.7 |
| Education | 6.3 |
| Minerals | 5.0 |
| Health | 4.3 |
| Civil society | 2.9 |
| Social provisions | 1.3 |
| Agriculture | 1.1 |
| Food aid | 1.0 |
| Business | 0.6 |
| Environment | 0.5 |
| Trade | 0.1 |
| **Total allocations = Euro 6.2426 million** | |

**Source : Goodison (2004)**

With respect to infrastructure, the EU has traditionally been deeply committed in infrastructure-related projects and funding.[69] Indeed, under the 9th EDF over 20 percent of all EU programmed assistance is to be deployed for transport-related projects. Again, the challenges posed by HIV/Aids which is taking its toll on human resources is affecting the successful operation of some of the infrastructure projects. A related example is the high incidence of HIV/Aids among truckers in Southern Africa, which poses a looming crisis on the industry despite the fact that various initiatives have been underway to rehabilitate transport links in the region. This example, clearly illustrates the interplay between various constraints mentioned in this paper and the need for programmes addressing these to take this into account. EU policy suggests that the EU regards privatisation, liberalization and the establishment of private-public-partnerships as having an important role to play in addressing infrastructural constraints. The effectiveness of public agencies in the case of food safety

[69] There are of course other institutions like the World Bank, that has been heavily involved in infrastructure projects, particularly in water, telecommunications and electricity. As the experience with the World Bank financed port in Ghana shows (the port was rehabilitated and expanded, but some of the gains from this project have been lost due to inefficient management), there is a need to ensure locals are suitably trained to manage and maintain infrastructure. It has been argued by some that the Bank should also consider assistance at the enterprise level in order to support local production, competitiveness efforts and so on.

issues, in light of new EU regulations on the matter, is increasingly falling under the spotlight. This is because unless the operations of public agencies responsible for food safety issues in many countries can be urgently upgraded, access to the EU market for a country's exports could be severely restricted. Hence the constraints facing these agencies, need to be addressed within the context of the EPAs as these are international trade issues.

### 3.3 Using EDF resources to address supply constraints: some shortcomings

Experience with EDF programmes designed to address the various supply side constraints faced is not encouraging. Despite this fact, in the draft negotiating directives the EU Commission expresses the belief that supply side problems can be addressed within existing EDF arrangements. Such an arrangement is clearly inadequate if ACP countries are to be supported in developing production capable of generating growth and development under conditions of free trade with the EU. Indeed, some commentators would argue that there is little evidence to suggest that the European Commission possesses the capacity to effectively address supply-side constraints faced by ACP countries (Kachingwe, 2004). Many of the economic and development-oriented programmes, for example, rural credit schemes and livestock marketing schemes, have had problems due to inherent weaknesses in project design. An analysis of the possible impact of the *Everything But Arms* initiative—which targets LDCs, reveals that the latter have limited supply capacity in the areas where new trade preferences have been extended and if they are to effectively utilize these preferences then existing supply-side constraints need to be addressed. However, to date, no programmes targeting supply constraints in LDCs have been launched by the European Commission's Development Directorate. The European Commission's own country programmes evaluation unit reports (2000), recommend improved monitoring and evaluation of such programmes, with the provision of special reports to promote best practice. In addition, the reports call for greater civil society participation in monitoring the implementation and impact of such EU funded assistance programmes.

It has been suggested by some NGOs that a new section should be added to the EU negotiating directives recognising the supply side challenges facing ACP countries and the need to move beyond existing EDF institutional arrangements and aid instruments if effective assistance to overcoming the varies supply side constraints faced is to be extended during the preparatory period. These provisions should build on the relevant section of the ACP-EU Joint Parliamentary Assembly Cape Town Declaration.[70]

**3.4 Conclusion**

The above brief discussion sought to highlight the fact that possibilities exist under the framework of the CA for SSA countries to address the supply constraints they are facing, at least to some extent. EU support programmes need to be adjusted where they do no reflect priority supply-side constraints that hinder productivity, competitiveness and exports from the ACP countries to the EU. Some highlights include emphasis on support for education. The EU is part of the Fast Track Initiative Education for All to assist low-income countries to reach the millennium development goals (MDGs) in the education sector.[71] At the time of writing this paper it was still unclear what impact this would have on planned resource utilization under the 9th EDF. Currently only 6 percent of 9th EDF funds are allocated to education (see Fig 3 above). Resource deployment will have to significantly increase bith from the EU and ACP sides if the MDGs are to achieved. With respect to health, the EU's renewed focus on HIV/Aids, TB and Malaria saw a three-fold increase in funding to fight these diseases. About Euro 450 million has been extended over a 4 year period, to support

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[70] Cape Town Declaration on the Forthcoming ACP-EU Negotiations With A View To New Trading Arrangements – March 2002 - http://www.europarl.eu.int/intcoop/acp/south_africa_2002/pdf/res_19_en.pdf

[71] On education, the MDGs aim: (i) to ensure that by 2015 all children will be able to complete a full course of primary schooling; and (ii) eliminate gender disparity in primary and secondary education by no later than 2015. See http://www.developmentgoals.org/Partnership.htm

R&D of vaccines to combat these diseases, which seriously undermine labour productivity and are a major supply-side constraint. These efforts are laudable and should be continued, for example, through facilitating greater access to affordable generic medicines that can improve the quality of life for many persons living with HIV/Aids in SSA.

Lastly the following measures should be taken up under the EPAs:

- An independent and systematic assessment on a country and regional basis (taking into account surveys already conducted by other organisations mentioned in Chapter 2) in order to identify the most serious/priority supply-side constraints
- An independent review of the impact and effect of current EDF aid programmes targeting supply-side constraints and providing support to private sector development, their strengths and weaknesses, should be conducted at country-level for individual ACP country, in order to identify to what extent current resource utilisation sufficiently addresses the most urgent supply constraints identified in this paper and also the adequacy of resources deployed; and how these can be improved
- An independent assessment, at both country and regional levels, should be conducted to identify suitable models for the institutional delivery of aid to addressing supply side constraints, including the establishment of competitiveness centres

On the basis of the above assessments, more optimal and targeted use of the EDF can be devised, prioritising critical supply-side constraints on competitiveness and productivity. Addressing supply constraints lies at the heart of ACP countries deriving any developmental benefit from the EPAs. The above recommendations are only a few initial steps, which are necessary to facilitate more effective deployment of EU assistance for addressing supply constraints. The issue of the adequacy of funding also needs to be addressed both in terms of funds made available by the EU and their optimal utilization by ACP countries.[72]

[72] Current aid resources deployed to ACP countries under successive Lomé Conventions has been about Euro 5.5 per ACP citizen per annum, which is hardly a level deep enough to serious address supply constraints in ACP countries. The inadequacy of funds deployed to ACP countries becomes more glaring when one considers the vast amounts of aid extended to candidate countries for EU enlargement such as Poland and Bulgaria, in order to improve their supply capacity, and meet health and food safety standards of the EU. Why should the ACP countries not be treated on the same or similar levels?

This paper has sketched focused its discussion on the issue of supply-side constraints, which remain a barrier to SSA's ability to benefit from preferences or participate meaningfully in the multilateral trading system. The structure of SSA's trade, problems of commodity dependence and anti-export bias where discussed. It has been shown that there are various causes of supply constraints and the paper focused on the internal constraints which governments in SSA can do something about. In particular, it was emphasized that SSA governments should be active in improving infrastructure, health and skills. For the latter, whole national education programmes, targeting the needs of industry and the market need to be designed. This is best done in consultation with industry and labour. It was argued that there must be a change of value systems among workers and leadership in SSA, to create a culture of productivity. With the necessary reforms and mechanisms to address supply-constraints, it is possible for SSA to add value to its exports, move into manufacturing and services as the experience of other regions, notable Asia and Latin America has shown. Good governance, transparency and skilful management of resources (both natural and human) is crucial in SSA, to ensure citizens benefit meaningfully. Various constraints faced by private enterprises, and costs in doing business were highlighted, including possible measures to address some of these, such as the establishment of productivity centres. Finally, the possibility of addressing supply constraints was placed within the context of the EPAs negotiations, and it was shown that despite the rhetoric from the EU of the EPAs as a means for bringing about development, there are many shortcomings in current programmes addressing health, education, infrastructure and so—in terms of the amount of resources deployed, local management and so on.

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