Can Trade Liberalization Stimulate Export Performance in Sub-Saharan Africa

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Introduction

- The dismal performance of the ISI strategy led to the adoption of SAP
- This was expected to reduce anti-export bias and make exports more competitive
- However, there is debate whether trade liberalization can lead to an improved export performance.
- We address the issue from the supply side and not the demand side.
- Because the reduction of the anti-export bias is expected to improve the level of export supply
- Region-specific analysis is also carried out

Trade Policy Reforms in Sub-Saharan Africa

- From the mid 1980s, after liberalization:
- Tariffs are the main trade policy instruments of most SSA countries.
- The tariff structure has also been simplified to not more than five bands
- remaining export prohibitions apply only to sensitive goods
- Exchange rate regimes were also liberalized.
- Thus, most SSA countries witnessed a significant relaxation of trade barriers.
- Import restrictions are now lower and export barriers were significantly reduced.

Theoretical Considerations

- We adopt the imperfect substitutes model
- Exports are imperfect substitutes in world markets for other countries' domestically produced goods
- The producer is assumed to maximize profits subject to a cost constraint.
- This yields an export supply function that depends positively on the price of exports, productive capacity, import penetration but negatively on input prices, and exchange rate overvaluation

$$\log X_{it} = \gamma_i + \lambda_1 \log(P_x / P_w \bullet e)_{it} + \lambda_2 \log PC_{it} + \lambda_3 \log TRF_{it}$$
$$+\lambda_4 \log IMPTR_{it} + \log \lambda_5 EXOV + u_{it}$$

Empirical Results

- countries productive capacity (LPC) had a positive but not significant impact
- overvalued exchange rate can have strong implications for export performance
- the level of tariff in SSA acts as a disincentive to exports.
- The import of raw materials variable is positive and statistically significant suggesting that trade liberalization can affect export performance through increased access to inputs.
- Similar results was reported across regions

Conclusion

- Trade liberalization on its own cannot stimulate export directly.
- Rather it works through the increased access to imported inputs.
- In addition, trade liberalization must be complemented with effective exchange rate management.
- Disaggregated estimates of export supply functions for individual countries and commodities are needed
- This is in order to untangle the relative role of external and internal influences on the export volume performance

THANK YOU