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

\[
\log X_{it} = \gamma_i + \lambda_1 \log \left( \frac{P_x}{P_w \cdot e} \right)_{it} + \lambda_2 \log PC_{it} + \lambda_3 \log TRF_{it} \\
+ \lambda_4 \log IMPTR_{it} + \log \lambda_5 EXOV + u_{it}
\]
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