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EC Trade Policies Towards Associated Developing Countries Barriers to Success

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Abbreviations

ACP	African, Caribbean, Pacific (countries)
ASEAN	Association of Southeast Asian Nations
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BEAC	Banque des Etats de l'Afrique Centrale
BMWi	Bundesministerium für Wirtschaft
CAP	Common Agricultural Policy (of the EC)
CAR	Central African Republic
CARICOM	Caribbean Common Market
CCCN	Customs Cooperation Council Nomenclature
CCT	Common Customs Tariff
cif	cost, insurance, freight (import prices incl. c.i.f.)
DI	domestic investment
EC	European Community
ECOWAS	Economic Community of West African States
ECU	European Currency Unit
EUROSTAT	Statistical Office of the European Communities
FAO	Food and Agriculture Organization (of the UN)
FDI	foreign direct investment
fob	free on board
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HMSO	Her Majesty's Stationary Office
ICAO	International Civil Aviation Organization
ICP	International Comparison Project (of the UN)
IDA	International Development Association
ILO	International Labour Organization
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
LDCs	less developed countries
LLDCs	least developed countries
MEF	Ministère de l'Economie et des Finances (de la Côte d'Ivoire)
MFA	Multifibre Agreement
MFN	most-favoured nation (tariff), GATT

MNC	multinational corporation
n.e.c.	not elsewhere classified
NICs	newly industrializing countries
NIMEXE	Nomenclature des marchandises pour les statistiques du commerce extérieur de la Communanté et du commerce entre ses Etats membres (Foreign Trade Statistics Nomenclature of the EC)
NTBs	non-tariff barriers
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PUK	Pechiney Ugine Kuhlmann
SITC	Standard International Trade Classification
STABEX	stabilisation of exports scheme
TBs	tariff barriers
UDEAC	Union Donanière et Economique de l'Afrique Centrale
UK	United Kingdom
UMOA	Union Monétaire Ouest Africaine
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCTC	UN Centre on Transnational Corporations
UNDP	United Nations Development Programme
UPU	Union Postale Universelle
WAEC	West African Economic Community

Preface

With independence, former African colonies have been granted preferential access to the markets of EC member countries. At the time of the UK entry, already existing preferences were extended to African, Caribbean and Pacific Commonwealth members and granted without claiming reciprocity. Yet, even under widely improved country and product coverage, very little success with regard to export growth and diversification was achieved.

The purpose of this study is to analyse why trade effects remained meagre and which policy changes should be made by both sides, donors and recipients of preferences, in order to increase the trade effects of preferences. Special attention is paid to price distortions in the recipient countries and their disincentive effect on exports in general and on manufactured exports in particular.

The study was carried out under the Trade and Development Research Programme of the European Economic Community and conducted by Rolf J. Langhammer as chief and coordinating author. Comments and helpful suggestions provided by the Services of the Brussels Commission have accompanied the work at every stage and are gratefully acknowledged. However, the study does not necessarily reflect the views of the European Economic Community and in no way anticipates the EEC's future attitudes towards the subject of the study. Ulrich Hiemenz provided valuable comments on the manuscript. Christine Kiesner helped the authors to handle OECD trade data stored on tapes. Statistical work was carried out by Ursula Hartig, Gisela Nollmeyer and Michaela Rank. Margot Müller and Christiane Schröder were responsible for the careful typing of the manuscript, and Bernhard Klein and Sibylle Ruhnke edited the text for publication.

Kiel, May 1985 Herbert Giersch

I. Introduction

The present privileged trade relations between the former colonies in Sub-Saharan Africa, the Caribbeans and the Pacific archipelago (ACP countries) on the one hand and the European Community (EC) on the other are based on a long tradition.

They superseded

- reciprocal preferential trading arrangements negotiated between the founder states of the EC and their former colonies mainly the francophone Sub-Saharan African countries in the two Yaoundé agreements of 1963 and 1969,
- an arrangement of the Yaoundé type with the three East African countries Kenya, Tanzania and Uganda, the so-called Arusha arrangement of 1969,
- the Commonwealth preferences conceded by the UK in favour of all member developing countries of the Commonwealth and
- some other bilateral arrangements such as that between the EC and the former Dutch colonies in the Caribbean.

The merger of these arrangements in the three so-called Lomé conventions or ACP agreements of 1975, 1979, and 1984 (1) did not mean only a change in quantitative terms as the number of privileged countries is now larger, but it amounts also to a qualitative change. In contrast to the former agreements cited above, the developing countries have now not to grant counterconcessions for imports from the EC members. Furthermore, the scope of cooperation is much more far-reaching than before comprising financial aid flows, technical assistance and export stabilization schemes (Stabex) (2). Yet, an open market for the large majority of tariff items remains the core of EC concessions, though the associates themselves seem to have given a higher priority to aid flows in the recent Lomé III negotiations.

This shift in priorities may reflect disappointment on the meagre trade effects of tariff concessions. Strong empirical evidence for the ineffectiveness of the preferences is given in Chapter II where losses of ACP countries in world markets as well as in EC markets are documented. These disappointments form the background of this study which provides evidence and reasons of barriers to success of these concessions. These barriers might have been "imported" as a result of EC trade policies or they may be "natural" and exogenous in the sense that poor infrastructure, climatic disasters and oil price shocks have prevented the associates from using all options of the preferences. The relevance of these arguments in favour of "natural" barriers is discussed in

(1) Contracting partner of the ACP countries in the Lomé conventions is the European Economic Community, hereinafter referred to as the EC.

(2) History and implementation of other than trade provisions of the Lomé conventions do not fall within the realm of this study. For a recent comprehensive survey see Moss [1982]; Stevens [1984]; Kibola [1984].

Chapter III. Another reason for failure of preferences could be the EC preferential trade policy itself. Either by exempting potentially important ACP exports from preferential treatment or by granting non-ACP developing countries the same treatment, the EC may have contributed to weaken trade-creating and trade-diverting effects. Chapter IV presents an analysis of such elements of restriction and erosion in the EC trade policy towards ACP countries.

The ineffectiveness of preferences may have its roots not only on the demand side but also on the supply side. As such it can be the result of policies in the developing countries themselves which penalised exports in favour of local sales and rendered domestic production factors incompetitive in terms of international prices. Disincentives to exports by distorted goods and factor prices or by mismanagement of governments are analysed in detail in Chapter V.

Finally, explanations are given for an insufficient flow of foreign direct investment (FDI) which embodies technical, commercial and managerial know-how needed very much by ACP countries for their economic development (Chapter VI).

II. Past Trends in ACP Country Trade

1. ACP Countries in World Exports

a. Overall Pattern

The ACP group though comprising a large and increasing number of countries holds a very small share in world trade as shown in Table A1. Between 1970 and 1982 this share fluctuated between 2.9 and 2.5 per cent with a peak of 3.1 per cent in 1975 and is mainly determined by Nigeria. If this country, which is the biggest oil producer and exporter in the ACP group, is excluded, it becomes obvious that the share of total exports of the remaining countries in world exports has been steadily receding. It went down from 2.5 per cent in 1970 to 2.1 per cent in 1975 and further to 1.6 per cent in 1982. In 1970, about four fifths of the total exports from ACP countries came from African members and it is their share which is primarily responsible for the decline in the total ACP share in world exports. The African exports went down from 2.4 per cent of world exports (1970) to 2 per cent (1982) in spite of the fact that Nigeria was able to more than double its share during this period accounting for more than two fifths of total exports from African members. Countries which mainly account for the decline in the African share are Ghana, Senegal, Sudan, Uganda, Zaire and Zambia, but also the Ivory Coast and Kenya, the two often cited African success stories. Gains in shares like those of Cameroon, Congo, Gabon, Guinea, Niger and Zimbabwe could not outweigh the losses.

The share of Caribbean members increased between 1970 and 1975 but then declined. The increase in 1975 was mainly because of the Bahamas whose share registered a ten fold growth. Since then it has declined considerably. The total exports of Pacific members account for less than 0.1 per cent of total world exports. Among these countries Papua New Guinea was able to increase its share in 1975 but later lost the momentum. More than half of the total exports of Pacific members come from Papua New Guinea. If these exports are excluded, the share of Pacific members has continuously declined from 1970 to 1982.

b. Commodity Concentration of ACP and World Exports: A Comparison

Exports of individual ACP countries are mostly concentrated in relatively few commodities. In many cases (Burundi, Congo, Mauritania, Nigeria, Rwanda, Zambia, Fiji, Tuvalu), the Hirschmann index was measured above 0.8 in 1980 (Table A2). Only in a few cases (Senegal, Tanzania, Zimbabwe) it was below 0.3. As compared to ACP countries commodity concentration indices for EC members clustered around 0.1. Pacific members appear to have on an average a higher concentration of their exports on fewer goods than the African members and these seem to have a higher concentration than the Caribbean members. On the whole during the 1970s there has hardly been any improvement in this respect in any of the three regions. The concentration has rather increased drastically in some of the countries (Congo, Gabon, Madagascar, Mali, Niger, Nigeria, Rwanda and Somalia) during this period. A few exceptions are

Liberia, Antigua and Barbuda and St. Lucia who have been able to diversify their export structure in the past decade.

A high commodity concentration of exports must, however, not necessarily be harmful for a country. This is so for example if the concentration is in goods enjoying a high world demand. This held for ACP oil exporters receiving a large income inflow during the 1970s. The majority of the ACP countries was, however, not in such an enviable position. A comparison of their export structure with that of world exports (1) reveals a very high deviation suggesting that the goods supplied by these countries do not represent the bulk of goods exchanged between the leading trading partners in the world. This is likely to have a negative impact on their prices and income in most of the cases. The deviation is on an average higher in the case of Pacific member countries than in the African countries. In comparison to both of these regions the average of deviation indices for Caribbean members is lower, although the inter-regional differences between the three regions are small. To put the level of deviation into perspective, one may compare the ACP countries with Ireland which had the highest index (1970: 0.63) in the EC. There is not a single ACP country which could reach this level in any of the selected years (Table A2).

c. ACP Performance in Leading Exports of LDCs

There are only three commodities, viz. cocoa, copper and inorganic chemicals in which ACP countries have leading positions in exports of less developed countries (LDCs) (Table A3). In these items more than two fifth of total LDC exports come from these countries. However, during the seventies they lost some of their markets to other developing countries. Compared with 1972, their share of total LDC exports in 1980 has decreased in the case of cocoa from 77 to 64 per cent, in copper from 57 to 40 per cent and in inorganic chemicals from 58 per cent (1977) to 50 per cent. In cocoa ACP countries are major world suppliers meeting more than half of the world demand. There is no competition from developed countries. But in copper and inorganic chemicals developed countries supply a major portion of world demand and some of the market shares lost by ACP countries have gone to them.

There are about a dozen commodities in which 20 to 40 per cent of LDC exports originate or used to originate from ACP countries and as such are of a great importance for their balance of payments. These are coffee, tobacco, oil seeds, wood (rough), cotton, fertilisers, iron ore and concentrates, ores and concentrates of non-ferrous base metals, crude vegetable materials, fixed vegetable oils (soft), pearls and precious and semi-precious stones. In most of these commodities ACP countries have been loosing shares in world exports as well as in LDC exports during the seventies. In some cases it was halved (wood, iron ore, crude vegetable materials) and some other reduced to one third (oil seeds) or one fourth (fixed vegetable oils). The two exceptions are tobacco and pearls including precious and semi-precious stones. In the latter, there has

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(1) For an index constituted for this purpose see Table A2, footnote a.

been only a minor change. But in the former, ACP countries have been able almost to double their share of LCD exports, although much of it may be due to the accession of Zimbabwe. Other goods worth mentioning are sugar and tea. The ACP share of sugar has gone down from 12 per cent (1972) to 7 per cent (1980) of total LDC exports and from 8 to 5 per cent of world exports. The world sugar market is heavily regulated with high price fluctuations determined mainly by developed countries' surpluses sold on world markets. The sugar-exporting ACP countries enjoy purchase guarantees of the EC at guaranteed prices under the sugar protocol. In economic terms, this guarantee amounts to a product-tied income transfer to ACP countries without giving impulses to trade creation through price incentives and corresponding shifts from EC domestic production to imports from ACP countries. In fact, ACP countries lost their share in spite of the sugar protocol.

The tea market is, however, a stronghold of developing countries and in this case ACP members have been able to increase their share by about two percentage points.

2. Regional Trade Pattern of ACP Countries

a. Exports

Table 1 indicates the direction of exports of twenty major ACP countries. These countries accounted for about four fifth of ACP exports in 1976. The EC is the most important export market for these countries, although its share in their exports has gone down from 41 per cent in 1976 to 38.5 per cent in 1982 in spite of the intensification and extension of institutional trade relations following Lomé I. However, as non-EC OECD members have also granted concessions under the Generalized System of Preferences (GSP) like the USA since 1976, and as the Commonwealth members among the ACP countries enjoyed Commonwealth preferences until 1978, the Lomé I agreement may not have essentially improved market accessibility for them compared with the market accessibility of other markets outside the EC or an EC sub-market.

The change was however not uniform among all the countries. In twelve countries EC shares decreased and in eight countries they increased. Among the former, changes in Cameroon, Gabon, Liberia, Madagascar, Sudan and Zaire were remarkable in the sense that the EC lost more than 15 percentage points of their total exports. The sample of these countries reveals that mainly those ACP countries shifted exports to non-EC destinations for whom the EC had an overproportionate importance as an export market. In most of the above cases (Cameroon, Gabon, Liberia, Zaire) more exports were directed to the USA. In Sudan and Madagascar, however, almost the entire shifting of trade was accounted by the Oil Exporting countries. The increases in EC shares of ACP exports are more pronounced in Mauritius, Suriname and Trinidad, and it may be comforting to note that these changes also occured mostly at the cost of US shares. Nonetheless, the total US share of ACP exports has increased.

Table 1 - Direction of Major ACP Countries' Exports, 1976 and 1982 (a)

	Destination															
	EC		USA		Canada		Japan		OPEC (b)		USSR, Eastern Europe (c)		Asia (d)		Rest of World	
	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982
Cameroon	67.6	47.6	2.9	39.6	0.7	0	3.9	1.9	1.4	0.3	7.2	0.7	0.6	0.4	15.7	9.5
Congo	40.6	43.2	39.5	41.5	0.1	-	1.0	1.1	0.1	0	0.2	-	0.6	0.4	17.9	13.8
Ethiopia	25.5	31.6	32.6	25.0	0.3	0.5	6.9	7.2	7.7	6.2	1.8	2.7	1.5	1.6	23.7	25.2
Gabon	63.3	38.2	17.2	29.7	-	0.3	0.9	0.5	0.1	-	0.1	-	0	0.2	18.4	31.1
Ghana	40.5	32.5	15.7	36.3	0.5	0.4	6.0	7.5	0.7	0.4	13.5	7.8	1.6	5.0	21.5	10.1
Ivory Coast	62.4	54.1	10.5	12.1	0.5	0.4	2.6	1.8	1.3	2.4	1.9	4.2	0.4	2.5	20.7	22.5
Jamaica	19.4	18.6	43.2	34.2	4.3	11.9	0.7	0.9	2.5	3.8	0.9	5.0	0	0.1	29.0	25.5
Kenya	36.2	35.1	5.6	6.2	1.8	1.0	1.9	0.8	1.0	4.3	0.7	0.7	5.4	10.2	47.4	41.7
Liberia	66.3	32.9	0.8	8.7	2.3	-	2.5	12.5	0.1	0.6	0.7	0.2	-	27.9	27.3	17.2
Madagascar	45.7	28.4	16.4	13.9	1.1	0.1	7.4	8.5	3.1	19.5	3.6	1.7	3.3	9.8	19.4	18.1
Mauritius	71.5	84.7	5.0	7.7	3.2	0.8	0.3	0.1	0	0	0.1	0.2	0.8	0.8	19.1	5.7
Nigeria	37.7	38.9	34.9	44.4	0.3	0.4	0.5	0.1	0.1	0	0.5	0.2	0	0	26.0	16.0
Papua New Guinea	29.0	36.8	11.9	1.9	1.0	0	24.6	34.3	0.2	0.1	0.7	0.6	2.7	10.3	29.9	16.0
Senegal	66.3	53.8	0	0.2	-	0	2.0	2.7	-	1.7	-	0.4	0.1	1.6	31.6	39.6
Sudan	43.9	25.8	3.9	2.7	0	0.1	7.5	7.1	4.0	29.4	5.5	6.7	17.1	9.1	18.1	19.1
Suriname	32.5	47.4	33.5	16.6	1.1	1.6	2.7	4.7	0.1	1.9	0	0.2	-	0.2	30.1	27.4
Tanzania	39.5	40.1	9.5	6.1	1.7	0.5	2.3	3.7	1.6	9.4	1.8	3.2	22.0	18.4	21.6	18.6
Trinidad	8.2	16.3	69.7	49.3	0.8	0.3	0	0.1	0.4	1.1	-	0	0.1	0.6	30.8	32.3
Zaire	67.0	49.9	11.6	36.0	0.3	0.7	1.4	3.2	0.1	0	-	-	-	4.3	19.6	5.9
Zambia	48.1	42.8	16.3	3.2	-	0.2	16.3	23.5	0.1	1.1	0.2	1.2	7.9	10.3	11.1	17.7
Total	41.0	38.5	28.6	33.2	0.6	0.6	2.7	2.8	0.6	1.5	1.3	1.0	1.6	2.9	23.6	19.5

(a) In per cent of total exports. - (b) Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Quatar, Saudi Arabia, United Arab Emirates, Venezuela. - (c) Albania, Bulgaria, Cuba, Czechoslovakia, GDR, Mongolia, North Korea, Poland, USSR. - (d) Afghanistan, Bangladesh, Brunei, Burma, China, Fiji, French Polynesia, Guam, Hong Kong, India, Kampuchea, Kiribati, Korea, Lao P.D.R., Macao, Malaysia, Maldives, Nauru, Nepal, New Caledonia, Pakistan, Papua, New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Thailand, Tuvalu, Vanuatu, Viet Nam, Western Samoa, Asia not specified, Oceania not specified.

Source: IMF [a; b].

Most of the negative changes in EC shares have occurred in African countries and positive ones in Pacific and Caribbean countries. This may indicate that transport costs or other trade resistance factors are loosing some of their importance.

b. Imports

The direction of imports of the twenty major ACP countries is shown in Table 2. Here, also, it is apparent that the EC is the main trade partner for these countries supplying more than two-fifths of their total import demand. EC share in their total import has, however, gone down from 45.6 (1976) to 43.7 per cent (1982). More remarkable is that this decline was spread over all the importing countries except Ethiopia, Suriname and Trinidad. Traditionally Ethiopia and Trinidad had non-EC sources for covering their import demand so that the recent development in favour of EC suppliers started from a rather low level. Another group of countries which lost ground in the major ACP markets is OPEC. Its share suffered a major set back falling from 14.5 (1976) to 7.4 per cent (1982). Most of it occurred in the case of Ethiopia, Mauritius, Tanzania and Trinidad. They have been able to reduce their oil imports from OPEC members as a result of their declining demand and/or increased supply from domestic and other sources.

Excluding the EC share, imports of the major ACP countries are more evenly distributed among the different regions than their exports. The USA absorb about one third of ACP exports occupying the place of the second biggest market for them. But in the case of imports, the USA supply only about one tenth of ACP demand. The American share has, however, increased by 1.3 percentage points between 1976 and 1982. The highest growth is registered by imports from the Asian countries which include such good export performers as Hong Kong, Japan, Singapore, South Korea and Taiwan.

On the whole it may be concluded that EC performance in both imports and exports of major African associated countries has been poorer than in other associated countries, though this hypothesis needs a more detailed examination for a final confirmation.

c. Intra-ACP Trade

Intra-ACP exports of 52 reporting ACP countries increased from 1.3 (1976) to 1.8 bill. US $ (1982); but the share of these exports in their total exports remained almost constant at a rather low level of a little more than 4 per cent (Table 3).

At country level, however, there have been some changes in intra-ACP trade. Its shares increased in 25 countries but were outweighed by the decreases in the remaining 27 reporting countries. More noteworthy is that either or both of these years intra-ACP trade constitutes more than one fifth of total exports of Barbados, Grenada, Gambia, Mali, Niger, Burkina Faso, Senegal, Zimbabwe, Kenya, and Djibouti. This list includes three major exporters (Senegal, Zimbabwe, Kenya) accounting

Table 2 - Share of EC and Other Regions in Imports of Major ACP Countries, 1976 and 1982 (a)

	Exporting Area															
	EC		USA		Canada		Japan		OPEC (b)		USSR, Eastern Europe (c)		Asia (d)		Rest of World	
	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982
Cameroon	68.5	56.4	7.4	5.1	0.6	1.5	5.9	4.2	0.4	0.2	1.5	0.7	4.4	15.0	11.3	16.9
Congo	79.4	69.7	4.5	8.0	1.0	2.9	1.9	2.7	0.6	-	0.3	0.2	1.9	2.8	10.4	13.7
Ethiopia	29.8	42.1	19.5	6.9	1.8	1.9	14.3	9.1	14.8	1.0	1.8	21.5	7.5	6.2	10.5	11.3
Gabon	77.5	65.7	7.1	15.6	0.5	0.3	2.6	6.4	-	-	0.2	0.1	1.6	1.7	10.5	10.2
Ghana	43.7	39.3	15.7	18.8	2.4	1.3	5.1	3.7	12.4	13.1	1.7	4.4	4.8	1.6	14.2	17.8
Ivory Coast	62.1	51.1	5.4	5.4	0.6	0.2	5.6	4.1	11.3	18.5	1.4	0.6	1.0	5.1	12.6	15.0
Jamaica	16.7	12.5	37.0	36.7	5.6	4.5	0.8	1.8	15.8	11.4	0.4	0.2	1.2	1.1	22.5	31.8
Kenya	38.6	36.1	4.8	6.2	1.0	1.3	11.2	7.1	25.2	32.0	0.7	0.4	6.5	7.0	12.0	9.9
Liberia	43.0	21.4	5.1	4.6	0.2	0.2	0.7	1.6	2.9	2.9	0.4	0.1	11.2	30.0	36.5	39.2
Madagascar	47.3	42.2	1.9	5.4	0.3	0.4	3.4	5.2	34.8	29.0	0.3	1.3	8.8	11.0	3.2	5.5
Mauritius	39.2	33.1	2.9	4.1	0.4	0.3	9.0	4.4	8.6	0.3	-	0.5	23.0	21.0	16.9	36.3
Nigeria	58.3	56.0	12.1	10.9	0.5	0.4	9.0	10.1	0.1	0.1	1.3	1.1	4.8	6.4	13.9	15.0
Papua New Guinea	5.1	5.0	3.4	6.8	-	1.9	16.7	13.0	1.2	-	0.2	-	18.4	17.3	55.0	66.0
Senegal	60.9	58.3	6.3	3.1	0.3	1.0	0.3	1.4	13.4	13.5	0.2	0.6	4.6	8.3	14.0	13.8
Sudan	46.9	38.5	10.6	15.3	0.3	0.7	6.3	4.4	11.4	14.8	2.8	1.3	9.6	10.2	12.1	14.8
Suriname	48.3	58.0	7.9	9.9	-	-	7.9	13.0	12.6	-	4.6	-	9.9	4.9	8.8	14.2
Tanzania	47.2	43.5	5.5	4.7	2.0	2.1	11.7	10.4	13.5	3.7	0.6	1.4	12.9	9.2	6.6	25.0
Trinidad	6.8	16.9	12.2	31.1	1.5	4.1	2.0	7.4	71.0	24.1	0	0.2	0.4	1.3	6.1	14.9
Zaire	54.9	52.1	11.8	9.2	1.9	1.8	3.9	5.2	3.0	-	0.2	0.1	3.6	2.9	20.7	28.7
Zambia	48.4	36.0	8.2	9.2	5.1	0.7	3.4	6.8	12.9	13.9	0.3	0.8	6.0	4.7	15.7	27.9
Total	45.6	43.7	10.6	11.9	1.1	1.2	6.1	7.0	14.5	7.4	0.9	1.1	5.4	8.3	15.8	19.4

(a) In per cent of total imports. - (b) Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Quatar, Saudi Arabia, United Arab Emirates, Venezuela. - (c) Albania, Bulgaria, Cuba, Czechoslovakia, GDR, Mongolia, North Korea, Poland, USSR. - (d) Afghanistan, Bangladesh, Brunei, Burma, China, Fiji, French Polynesia, Guam, Hong Kong, India, Kampuchea, Kiribati, Korea, Lao P.D.R., Macao, Malaysia, Maldives, Nauru, Nepal, New Caledonia, Pakistan, Papua, New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Sri Lanka, Thailand, Tuvalu, Vanuatu, Viet Nam, Western Samoa, Asia not specified, Oceania not specified.

Source: IMF [a; b].

Table 3 - Intra-ACP Trade and Share of Intra-ACP Trade in ACP Countries' Total Exports, 1976 and 1982 (a)

	Intra-ACP trade		Share in total exports	
	1976	1982	1976	1982
	Mill. US $		per cent	
Bahamas	0.10	1.80	0.00	0.12
Barbados	16.28	58.48	18.84	23.24
Belize	1.78	9.05	4.19	10.68
Burkina Faso	11.26	22.86	21.21	28.54
Grenada	0.40	3.77	3.15	22.57
Guyana	39.32	51.84	14.64	13.36
Jamaica	43.70	102.10	7.18	11.89
St. Vincent	0.00	1.53	0.00	7.97
Suriname	13.86	1.73	5.04	0.47
Trinidad	11.80	80.90	0.53	2.69
Benin	6.09	5.17	16.07	15.39
Burundi	0.78	4.99	1.24	5.70
Cameroon	57.30	67.40	11.18	3.92
Cape Verde	0.20	0.50	13.33	17.86
CAR	2.03	1.13	3.47	1.07
Chad	1.52	16.86	1.10	16.61
Congo	3.99	4.62	2.20	0.50
Djibouti	0.60	11.70	1.99	46.25
Equatorial Guinea	0.01	0.20	0.08	0.78
Ethiopia	26.99	0.00	9.61	0.00
Gabon	145.60	37.50	12.82	1.93
Gambia	1.70	6.86	4.84	20.66
Ghana	13.80	7.50	1.67	0.81
Guinea	10.69	27.17	4.99	6.61
Guinea Bissau	0.63	0.72	11.89	7.20
Ivory Coast	144.50	272.70	8.80	11.17
Kenya	240.80	247.10	30.36	21.97
Liberia	4.90	9.40	1.07	0.78
Madagascar	3.57	3.54	1.28	0.82
Malawi	12.01	27.50	7.23	11.84
Mali	19.67	11.30	23.28	12.18
Mauritania	7.64	2.32	3.91	0.90
Mauritius	2.53	3.98	0.95	1.09
Niger	34.83	70.68	26.07	23.05
Nigeria	210.00	261.00	1.95	1.75
Rwanda	1.56	6.52	1.90	7.91
Senegal	60.38	119.56	12.32	24.78
Seychelles	0.20	0.20	2.60	0.59
Sierra Leone	1.01	1.41	0.99	0.83
Somalia	1.24	1.11	1.31	0.78
Sudan	0.60	0.50	0.11	0.09
Tanzania	47.40	28.00	9.63	5.85
Togo	6.95	27.24	6.66	12.82
Uganda	9.99	6.37	2.77	1.72
Zaire	5.90	9.40	0.73	0.55
Zambia	25.70	16.00	2.46	1.82
Zimbabwe	31.10	116.00	22.97	10.98
Fiji	12.44	30.47	9.10	10.74
Papua New Guinea	2.10	0.50	0.35	0.07
Solomon Islands	0.17	1.10	0.66	1.85
Vanuatu	0.02	0.02	0.12	0.13
Western Samoa	0.03	0.12	0.44	0.94
Total	1297.67	1800.42	4.33	4.28

(a) Export flows for 1982 are based on extrapolations of data for less than one year.

Source: IMF [a; b].

for more than one fourth of the total exports of ACP reporting countries in 1982. However, in six out of the above ten countries ACP shares moved upwards and in four downwards showing that changes were more or less equally distributed and no conclusions can be drawn with regard to any definite trend.

Four of the above countries with upward move of their intra-ACP exports participated in one or the other regional integration scheme (Barbados in the Caribbean Community (CARICOM), Senegal in the West African Economic Community (WAEC), Gambia and Burkina Faso in the Economic Community of West African States (ECOWAS)) whereas only two of the countries with declining shares had such a participation (Mali and Niger in WAEC). An attempt was made to examine whether intra-trade of the various regional integration schemes contributed to intra-ACP trade. The shares of the five major communities in intra-ACP trade of 1976 and 1982 are given in Table 4. In all cases the contribution of regional integration schemes to intra-ACP trade has increased. Maximum growth took place in the Mano River Union (MRU), but its intra-ACP trade in the base year was too small to allow any far-reaching conclusion. Next to it in terms of growth are CARICOM and the Central African Customs and Economic Union (CACEU). The share of the former in intra-ACP trade in 1982 rose by 37 per cent compared with 1976 and that of the latter by 33 per cent during the same period. The biggest of the regional integration schemes among the ACP members is constituted by ECOWAS consisting of 16 countries. In 1982 it accounted for more than two fifths of the total intra-ACP trade after an increase of 17 per cent between 1976 and 1982. The francophone WAEC is the third largest integration organisation having six members, which form a core group within ECOWAS. Its share of intra-ACP trade increased by 12 per cent in 1982 compared with 1976 and accounted for about 17 per cent of total intra-ACP trade in 1982.

Table 4 - Contribution of Regional Integration Schemes to Intra-ACP Trade, 1976 and 1982

	Share in intra-ACP trade	
	1976	1982
Caribbean Community (CARICOM) (a)	7.5	10.3
Economic Community of West African States (ECOWAS) (b)	37.3	43.5
West African Economic Community (WAEC) (c)	15.1	16.9
Mano River Union (d)	0.1	0.2
Central African Customs and Economic Union (CACEU) (e)	3.0	4.0

(a) Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Vincent, Trinidad and Tobago. - (b) Benin, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Cape Verde, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Burkina Faso, Togo. - (c) Burkina Faso, Ivory Coast, Mali, Mauritania, Niger, Senegal. - (d) Guinea, Liberia, Sierra Leone. - (e) Cameroon, CAR, Congo, Gabon.

Source: IMF [a; b].

Table 5 - Ranking of Import Markets in Intra-ACP Trade, 1976 and 1982

	Share in intra-ACP imports			
	1976	rank	1982	rank
Bahamas	8.7	1	0.1	.
Ghana	7.9	2	6.5	4
Ivory Coast	7.3	3	9.5	1
Tanzania	6.7	4	0.6	.
Uganda	6.2	5	5.9	5
Senegal	5.6	6	5.2	7
Zaire	5.1	7	2.6	12
Nigeria	4.9	8	7.9	2
Trinidad	4.8	9	6.6	3
Mali	3.8	10	5.7	6
Burkina Faso	3.6	11	5.1	8
Kenya	2.9	12	1.3	18
Gabon	2.6	13	1.8	14
Zambia	2.2	14	3.3	11
Niger	2.2	15	5.0	9
Cameroon	1.9	16	4.9	10
Djibouti	1.9	17	1.1	20
Sierra Leone	1.7	18	0.1	.
Jamaica	1.6	19	1.6	16
Suriname	1.6	20	0.1	.
Mauritania	1.5	21	1.5	17
Rwanda	1.4	22	2.6	12
Sudan	1.3	23	1.8	14
Congo	1.3	24	1.2	19
Rest ACP	11.4		17.9	

Source: IMF [a; b].

In total, if the former East African Community (Kenya, Tanzania, Uganda) which has already collapsed is taken out of consideration, about 58 per cent of intra-ACP trade takes place within the individual communities. Thus, regional integration does appear to have made its contribution to intra-ACP trade when measured by this share. However, a word of caution is in order here in so far as these regional organisations are still very young and their internal relations have been far from being free from distributional conflicts. Further this analysis is based on a comparison of two years and some accidental factors may bias the above conclusions. It is for example by no means evident that trade flows within the schemes are integration-induced, i.e. influenced by tax harmonization or internal trade liberalization. A ranking of top 24 ACP countries according to their shares in intra-ACP imports of 1976 and 1982 (Table 5) showed that occurrance of erratic changes in their regional pattern of trade cannot be ruled out. Bahamas and Tanzania who occupied first and fourth places, respectively, in 1976 had no ranking at all among the first 24 most important ACP import markets in 1982. It seems noteworthy that the Ivory Coast instead of Nigeria proved to be the main absorber of ACP products though Nigeria's absorptive capacity rapidly increased during the seventies. There are two possible explanations for this. First, in 1982 Nigeria already suffered from severe balance of payments

problems and consequently restricted imports drastically. This may have affected imports from ACP countries as well. Second, the integration level within francophone West Africa is much more advanced than between anglophone and francophone West African countries, so that the Ivory Coast as the fastest growing country in the WAEC absorbs increasing amounts of imports from her neighbours.

3. Structural Pattern of ACP Exports to the EC

ACP countries supply only about one twentieth of total non-oil demand of the EC satisfied through imports from outside the Community. Their share of these EC imports even declined from 6.2 per cent in 1975 to 4.5 per cent in 1982 (Table 6). The downward trend persists also when non-oil imports of the EC from third countries are subdivided into three major groups: total imports, agricultural imports and imports of semi-manufactures and manufactures from developing countries. The maximum reduction took place in the last category of goods where they lost one third of their original share. The lowest rate of change was in the case of agricultural goods. Here the ACP countries still supply a little more than one fourth of EC imports from all developing countries.

These conclusions hold also for individual national markets in the EC. The only exceptions are agricultural imports in West Germany, Belgium/ Luxemburg and Italy, where ACP shares of total imports from all developing countries have increased. The increase was lowest in West Germany and highest in Italy.

The UK used to be the most important market for ACP countries absorbing about 29 per cent of their total exports in 1975. This share has gone down to 22 per cent in 1982. This change was almost equally distributed on agricultural and manufactured goods. Now in this context the first place is occupied by France importing one fourth of the total ACP exports. The French market has however been more receptive for their manufactured products than for agricultural goods. As compared to their former metropoles, ACP countries have been able to export more to the remaining EC members. Consequently the shares of West Germany, Belgium/Luxemburg and Italy have risen in ACP exports to the EC. In the case of semi-manufactures and manufactures West Germany has overtaken the UK absorbing about one fifth of these exports of ACP countries into the EC in 1982.

One per cent growth of GDP in the UK leads to less than half a per cent growth of its imports from the ACP countries (Table 7). Theoretically it is possible that the demand for imports supplied by these countries is very inelastic in the UK. But the income elasticities for imports of both agricultural goods and manufactures from the Latin American countries are more than twice as high as for the ACP countries, although the former do not enjoy the trade preferences granted to the latter on account of their association agreement with the EC. This suggests that the reasons for a slower growth of exports of the ACP members have to be looked for mostly on the supply side. It is true that the growth of imports from ACP countries during 1976 and 1982 has been slowest in the UK amounting to only 5 per cent per year. But if the British domestic

Table 6 - Changes in Market Shares and Regional Concentration of ACP Exports to the EC (a) and Major EC Member Countries, 1975 and 1982

	EC		West Germany		France		UK		Belg./Lux.		Italy	
	1975	1982	1975	1982	1975	1982	1975	1982	1975	1982	1975	1982
Import market Shares												
Share of ACP countries in total EC non-oil imports(b)	6.2	4.5	3.8	2.9	9.8	7.3	6.8	4.1	9.1	7.4	6.2	4.5
total EC non-oil imports from developing countries (classe 2)	25.6	19.1	15.6	12.8	34.6	27.6	31.2	19.0	36.6	29.2	24.8	17.0
EC agricultural imports(c) from developing countries	29.1	26.9	19.4	20.0	40.0	33.5	42.7	40.5	13.1	15.0	19.1	25.2
EC imports from developing countries of semi-manufactures and manufactures(d)	18.6	12.7	11.4	8.5	28.1	22.0	17.4	8.2	30.3	23.0	22.9	13.2
Regional Concentration of ACP Exports to the EC												
Share of individual EC member countries in												
ACP total non-oil exports to the EC	100	100	16.5	18.3	24.5	24.9	28.9	21.7	9.8	11.6	11.4	11.8
ACP agricultural exports to the EC	100	100	15.9	19.1	25.6	23.6	36.4	29.2	1.8	2.7	7.6	9.6
ACP exports of semi-manufactures and manufactures to the EC	100	100	18.9	19.4	26.9	27.9	21.3	15.5	12.8	14.8	13.6	13.6

(a) EC 9 in 1975, EC 10 in 1982. Since Greece holds a negligible share in EC imports from ACP countries (1982: 0.7 per cent) the changes in shares are not distorted by the Greek accession. - (b) CCT 1-99 minus CCT 27. - (c) CCT 1-24.- (d) CCT 25-99 minus CCT 27, 40, 74 (oil, rubber, copper).

Source: Eurostat [a, 1975, 1982].

Table 7 - Average Annual Growth Rates of ACP, Latin American and Total Developing Countries' Exports (a) to the EC and Major EC Member Countries, 1975-1982

	Non-oil total exports	Agri-cultural exports	Exports of semi-manufactures and manufactures	Ex-post income elasticities of import demand (b)		
				non-oil total exports	agricultural exports	exports of semi-manu-factures and manufactures
EC						
ACP	9.6	9.8	11.1	0.83	0.85	0.97
Latin America	15.1	13.8	17.8	1.31	1.20	1.55
Total Developing Countries	14.2	11.1	17.3	1.23	0.97	1.50
West Germany						
ACP	11.2	12.8	11.5	1.08	1.23	1.11
Latin America	14.2	14.0	15.5	1.37	1.35	1.49
Total Developing Countries	14.4	12.3	16.3	1.38	1.15	1.57
France						
ACP	9.8	8.6	11.7	0.92	0.81	1.10
Latin America	19.5	21.5	18.0	1.84	2.03	1.70
Total Developing Countries	13.5	11.4	15.7	1.27	1.08	1.48
UK						
ACP	5.2	6.4	6.2	0.36	0.44	0.43
Latin America	14.3	14.0	16.2	0.99	0.97	1.13
Total Developing Countries	13.0	7.2	18.3	0.90	0.50	1.27
Belgium/Luxemburg						
ACP	12.2	16.4	13.4	1.53	2.05	1.68
Latin America	16.7	13.0	20.9	2.09	1.63	2.61
Total Developing Countries	15.8	14.2	18.0	1.98	1.78	2.25
Italy						
ACP	10.2	13.7	11.0	0.82	1.10	0.88
Latin America	13.8	7.4	22.3	1.10	0.59	1.78
Total Developing Countries	16.3	9.2	20.1	1.30	0.74	1.61

(a) For definition of exports see Table 6 footnotes b, c, d. - (b) Defined as the ratio between the annual average growth rate of imports and the GDP of the importing country, both in ECU.

Source: Eurostat [a, 1975, 1982; c].

import demand was slack, exports of Latin America would not have risen by as much as 14 per cent during this period. A similar pattern can be observed for the EC as a whole as well as for the other individual members, though here differences between the growth rates of imports from Latin America and ACP members are not as high as in the UK. Two exceptions are Belgium-Luxemburg and Italy where the growth of agricultural imports from ACP countries has been higher than that of agricultural imports from Latin American countries. In both of these cases however the markets are very limited compared with those of the other members of the EC. Moreover, in the case of manufactured imports the growth for Latin America has been higher than for ACP members even in these two countries.

On the whole in competition with Latin America ACP countries have been able to fare better on the West German market than in other EC countries. The poorest performances are registered on the French and British markets from 1976 to 1982. It is possible that the erosion of some exclusive preferential margins enjoyed by the former colonies in their metropolitan countries after an introduction of EC preferences and/or GSP is responsible for this phenomenon. Likewise one may hypothesize that the traditional ACP exports on their former metropolitan markets have approached saturation levels so that the growth of their imports is now determined by their (low) growth of population. Scope for growth, however, still exists on non-traditional markets such as the West German market, and this seems to have been done by ACP suppliers in the traditional branches.

4. Market Accessibility for the Major ACP Exports to the EC

At five-digit SITC level 56 products accounted for 87.8 per cent of total ACP exports to the EC in 1981 [Eurostat, b, p. 461]. Nearly the same result is obtained also on the basis of CCT tariff items for 1982. The latter disaggregation is however more suitable for an assessment of market accessibility of ACP exports to the EC as compared with those of competing suppliers from developed and other developing countries. Market accessibility in this case is broadly speaking a function of (i) the level of GATT-negotiated most-favoured-nation (MFN) tariffs, (ii) the level of unilaterally imposed variable levies on products which are subject to the Common Agricultural Policy (CAP), (iii) the changes of MFN tariffs due to the Tokyo Round negotiations and (iv) the inclusion of the products in the GSP.

Table 8 which provides information on these determinants yields the following results:

First, in 1982 as in 1977 57 tariff items accounted for 88 per cent of total ACP exports. About 60 per cent of this total in 1982 was not dutiable under MFN conditions. Thus, for more than half the ACP exports which consists of agricultural and mineral primary commodities, ACP trade preferences cannot be conceded. It is interesting to note that this share increased rapidly between 1977 and 1982 because of rising oil prices. The share of crude petroleum in total exports was higher in 1982 than in 1977. In 1982 crude petroleum accounted for more than 40 per

Table 8 - Major EC Imports from ACP Countries, 1977 and 1982, and Tariff Treatment before and after the Tokyo Round

CCT Statistical Number		Percentage of total EC imports from ACP		EC		GSP-rate
				Pre-Tokyo Round	Post-Tokyo Round	
		1977	1982	MFN-tariff-rate		1982
	Dutiable products					
0201 AII b4bb	Beef	0.3	0.2	L(a)	L(a)	.
0301 BI b2	Whole tunny	0	0.1	22.0(b)	22.0(b)	0 (c)
0301 BI g2	Frozen saltwater fish	0	0.1	15.0	15.0(d)	0 (c)
0301 BII b7	Frozen fillets of saltwater fish	0	0.1	15.0	15.0	10.0
0303 AIV a	Prawns and shrimps	0.2	0.3	12.0	12.0	6.0
0303 BIV a3	Molluscs	0	0.1	8.0	8.0	6.0
0701 FII a	Beans	0.1	0.1	13.0	13.0	.
0701 T	Other vegetables	0	0.1	16.0	16.0	.
0801 BI	Bananas, fresh	0.9	1.0	22.0(e)	20.0(e)	.
0801 BII	Bananas, dried	0	0.3	20.0	20.0	2.0
0901 A 1a	Coffee, unroasted	16.1	7.8	7.0	5.0	0 (c)
0902 B	Tea	1.6	0.9	9.0	0	.
0905	Vanille	0.1	0.1	11.5	11.5	.
0907	Cloves	0	0.1	15.0	15.0	10.0
1006 AII b	Long grainhusked rice	0.1	0.2	12.0(a)	12.0(a)	.
1507 DII a)1.	Palm oil, crude	0.5	0.5	6.0	6.0	4.0
1507 DII b)2,aa	Solid palm oil, crude	1.7	1.0	10.0	10.0	7.0(f)
1602 BIII b1	Bovine meat prepared	0.1	0.1	26.0	26.0	17.0
1604 E	Canned tuna	0.3	0.6	24.0	24.0	.
1701 BI	Raw sugar for refining	3.1	3.0	L(a),G(g)	L(a),G(g)	.
1701 BII	Raw sugar not for refining	0.1	0.1	L(a),G(g)	L(a),G(g)	.
1703	Molasses	0.1	0.2	L(a),G(g)	L(a),G(g)	.
1801	Cocoa, beans	8.2	5.8	5.4	3.0	0 (a)
1803, 1804	Cocoa paste, butter	1.9	0.9	15.0 resp.	15.0 resp.	11.0(h)
2006 BII b5	Canned pineapples	0.4	0.3	22.0	22.0	.
2102 A	Solid extracts of coffee	0	0.1	18.0	18.0	9.0;0(c)
2209 CI	Rum	0.2	0.3	.(i)	.(i)	.
2302 AII a	Cereal residues	0.2	0.1	L(a),G(g)	L(a),G(g)	.
2401 A	Flue-cured Virginia + Burley tobacco	0.3	0.5	.(i)	.(i)	.(j)
2820 A	Aluminium oxide	0.8	1.0	8.8	8.4	.
4104 BI	Goat skin leather	0.2	0.2	3.5	2.9	.
4414 BI a	Tropical hard wood	0.1	0.1	6.9	6.0	0 (k)
4414 BI b	Tropical hard wood, other	0.2	0.2	6.9	6.0	0 (k)
4415 A	Plywood	0.1	0.1	11.9	0 (f)	0 (l)

Table 8 continued

CCT Statistical Number		Percentage of total EC imports from ACP		EC		GSP-rate
				Pre-Tokyo Round	Post-Tokyo Round	
		1977	1982	MFN-tariff-rate		1982
5509 AII	Cotton fabrics	0.2	0.2	14.0	10.0	0(1)
6005 AII b4bb 11ccc 22fff	Jerseys, pullovers, slipovers	0.1	0.3	17.3	14.0	0(1)
7601 AI	Unwrought aluminium	0	0.6	7.0	6.0	.
Subtotal		38.2	27.7	x	x	x
	Non-dutiable products					
1201 B	Oil seeds	1.4	0.6	0	0	0
1302 BI	Gum arabic	0.1	0.2	0	0	0
2304 BII, V, VII	Oil-cakes	1.1	0.5	0	0	0
2510 B	Natural calcium phosphate	0.7	0.6	0	0	0
2601 AII	Iron ore	2.4	2.9	0	0	0
2601 B-E	Other ores	3.9	1.8	0	0	0
2709	Crude petroleum	25.8	41.5	0	0	0
4001 B	Natural rubber	0.5	0.4	0	0	0
4101 AI b1	Sheepskins	0.1	0.1	0	0	0
4101 AII b2	Raw hides of bovines	0.1	0.1	0	0	0
4101 AIV	Raw hides of goats	0.1	0.1	0	0	0
4403 B	Wood in the rough	3.8	2.8	0	0	0
4405 C	Wood sawn lengthwise	0.7	0.6	0	0	0
5501 B	Raw cotton	1.6	0.8	0	0	0
5704 A	Sisal fibres	0.1	0.1	0	0	0
7102 AI b	Raw diamonds	0.3	1.5	0	0	0
7102 AII	Other precious stones	0	0.1	0	0	0
7107 A	Unwrought gold	0.1	0.4	0	0	0
7401 B	Unwrought copper	7.0	5.0	0	0	0
8001 AI	Unwrought tin	0.0	0.2	0	0	0
Subtotal		49.8	60.3	x	x	x
Grand total		88.0	88.0	x	x	x

(a) L = Variable levy. ACP countries enjoyed partial preferential treatment according to Regulation 706/76, i.e. a reduced variable levy for maize and duty-free treatment for a pre-fixed maximum amount of beef imports. - (b) Minimum price and tariff quota for industrial processing. - (c) Valid for Afganistan, Bangladesh, Bhutan, Haiti, Laos, Maledives, Nepal, North-Jemen, South-Jemen. - (d) Tariff quota of 8 per cent. - (e) The EC tariff for bananas principally refers to imports of the Benelux-countries, Ireland and Denmark. The major consumer countries either admitted duty-free import quotas for banana imports from their former colonies in the ACP region (i.e. France, UK, Italy) or are allowed to maintain traditional duty-free imports from Latin America (West Germany according to the banana protocol in the Rome-treaty). - (f) Palmkernel oil. - (g) G = eligible for a guaranteed price in the EC. - (h) Cocoapaste; on cocoabutter tariff quota 8 per cent; for the countries listed unter footnote c tariffs on cocoabutter are fully exempted. - (i) Specific tariff. - (j) Tariff quota. - (k) Ceiling under surveillance. - (l) Ceiling for all beneficiaries and tariff quota for individual countries.

Source: Eurostat [a, 1977, 1982; d]; GATT [1979]; UNCTAD [b]; EC [c]; own calculations.

cent of total ACP exports to the EC. Hence, the ratio between dutiable and non-dutiable ACP exports is determined mainly by the world market price ratios between four products: oil and copper which are non-dutiable products and coffee and cocoa which are dutiable items. In 1977, when world market prices for coffee and cocoa reached their highest post-war levels and prices for crude oil were not as high as in 1982 coffee and cocoa accounted for higher shares in ACP exports and so did their dutiable exports in total. In short, the extent to which tariffs and hence tariff preferences can have an impact on total ACP exports is widely determined by external factors. Trade policies of both contracting parties of the Lomé conventions have only a minor influence.

Second, among the dutiable items processed agricultural products and textiles seem to be the core of non-traditional exports, though a clearcut distinction between unprocessed and processed items on the one hand and traditional and non-traditional exports on the other hand is difficult to make. The share of dutiable processed products has slightly increased between 1977 and 1982. However, what is more relevant, is the preference margin enjoyed by these products. It emerges that this preference margin has been eroded to a large extent vis-à-vis the least developed countries (LLDCs) outside the ACP group. The EC has granted a full exemption from tariffs for products like fish, coffee, cocoa, coffee extracts and cocoa butter originating from the LLDCs. However, the adverse impact of this preference erosion on ACP exports is likely to be small because of a very low supplying capacity of the LLDCs. Coffee exports of Haiti which in 1981 scored a share of 1 per cent in total EC coffee imports seem to be the only exception worth mentioning [Eurostat, b, p. 355].

Third, ACP trade preferences have been eroded further by the reduction in tariffs on imports from all GSP beneficiaries. The list of products affected comprises fish, shrimps, cloves, dried bananas, coffee extracts, cocoa paste (where tariff quotas exist for GSP beneficiaries) and especially palm oil. The last product which is interesting for ASEAN was included in the GSP in order to compensate countries like Malaysia and Singapore for expiring Commonwealth preferences after the UK entry into the EC.

Fourth, within the range of manufactures the GSP product coverage is almost complete and this includes ACP exportables such as plywood and veneer, cotton fabrics and clothing. Again, Southeast Asian countries are the most competitive suppliers. However, rigid tariff quotas and strict surveillance regulations for products with tariff ceilings have been introduced in order to protect both domestic producers (textiles) as well as ACP exports (plywood, veneer).

Fifth, the least important erosion of ACP preferences appears to have occurred as a result of mutual tariff cuts in the Tokyo Round of trade negotiations, because the majority of tariff reductions were in manufactures which are exported by developed countries rather than by developing countries. Yet, two agricultural items (coffee and cocoa), which are of major relevance for the ACP exporters, also fall in this category. However, changes in prices of these commodities affect the final consumer prices in the EC only to a lesser extent because they are processed in the EC. Price changes at the later processing stages may outweigh changes in prices of raw commodities. Domestic excise duties are much higher than the tariff and products originating from ACP and non-ACP

countries (coffee, tea) are often blended with imports from other countries thus reducing their substitutability. On the whole, there is up to now little evidence that the erosion of ACP preference margins for raw coffee and raw cocoa by about 2 percentage points has caused any trade diversion, which means that it has not resulted in shifting import demand from ACP to non-ACP suppliers.

To summarize the overall preference margins of ACP countries, it seems that the EC maintained them mainly by stricly limiting the tariff quotas and ceilings for non-ACP developing countries rather than by keeping the tariff margins constant.

This leads to an evaluation of specific preferences (ACP) versus general preferences (GSP). In this respect it is necessary to compare actual ACP exports in dutiable items receiving a complete preferential treatment with preference-receiving exports of non-ACP beneficiaries under the GSP regime. Table 9 provides a breakdown of ACP exports by broad GSP categories of sensitive, semi-sensitive and non-sensitive manufactures and agricultures. In 1981 duty-free imports of industrial products (including textiles) originating from non-ACP and Mediterranean countries under the GSP were more than five times as high as the corresponding duty-free imports from ACP countries. A reciprocal of this ratio holds for the three agricultural categories, where the MFN rates have mostly

Table 9 - Structure of EC Imports from ACP Countries and Non-ACP Group of 77 Members (a), 1981 (Mill. ECU)

GSP Category	EC imports from ACP countries	EC duty-free or duty-reduced imports from non-ACP Group of 77 members under the GSP	
	Mill. ECU		in per cent of total EC imports in GSP products
Sensitive industrial products (except textiles)	594.5	3227.8	44.6
Non-sensitive industrial products (except textiles)	528.4	2657.7	44.5
Sensitive textiles	90.4	448.4	9.5
Semi-sensitive textiles	55.4	261.8	40.8
Non-sensitive textiles	-	85.1	71.3
Sensitive agricultures (tobacco type Virginia, cocoa butter, canned ananas)	239.1	258.5	50.5
Semi-sensitive agricultures (raw tobacco)	34.1	22.6	12.4
Non-sensitive agricultures	1529.6	1188.4	59.4
Total agricultures, semi-manufactures and manufactures	3071.5	8150.3	38.1

(a) Maghreb and Mashreq countries are excluded from the non-ACP Group of 77 members. Thus this group comprises all GSP beneficiaries except ACP, Maghreb and Mashreq countries.

Source: Microfiche Statistics provided by Eurostat.

been reduced only partly (not fully exempted) by the GSP so that ACP countries still enjoy positive preference margins. In the industrial categories such preference margins have been fully eroded. What is more important is that the preference-receiving exports of non-ACP developing countries accounted only for about 38 per cent of the total exports of these countries in GSP-covered items. This means that dutiable exports from Latin America and Asia worth about 13.3 bill. ECU were charged the full MFN rates before entering the EC market though they were eligible for GSP treatment. Tariff quotas, ceilings and restrictive rules of origin prevented them from receiving actual preferential treatment and thus helped maintaining a sizeable part of ACP preferences.

Table 9 also illustrates the diverging pattern of specialization in the non-traditional export supply of ACP countries and other developing countries. Whereas in the former case processed agricultural goods eligible for the GSP accounted for 59 per cent of exports, in the latter case such exports amounted to only 18 per cent. Hence, there is not much trade overlap between the two kinds of suppliers in general. They are rather complementary trade partners and a compromise between GSP and ACP preferences should be feasible for them.

5. Market Accessibility for Non-Traditional ACP Exports to the EC: The Case of Textiles

There are several reasons why ACP textile exports to the EC provoke both hopes and fears in respect of their future growth. First, there is room for hope since ACP export growth rates at the end of the seventies and in the beginning of the eighties were much higher in this sector than in other sectors. They were even higher than those of the rest of developing countries. However, the ACP share in total developing countries' textile exports to the Community remained small (1.5 per cent in 1975 and 1.9 per cent in 1982, Table 10).

Second, there is room for fear since textiles (including clothing) represent the nucleus of EC protectionism against Third World country producers of manufactures. Strong domestic protectionist forces in all the EC member countries keep a close watch on the growth of import penetration of their domestic markets regardless of the fact who penetrates their markets which have been growing slowly. Since the origin of imports does not matter for loss of jobs, this surveillance is also effective against those developing countries which are not contracting parties of the Multifibre Agreement (MFA) because of their special trade relations with the EC. Mediterranean countries and the ACP group in particular are such special trade partners of the EC whose textile exports are under permanent surveillance both in order to prevent the circumvention of the multifibre quotas via indirect imports through ACP countries and to keep endogenous export-oriented textile production in ACP countries under control.

The first target is achieved by means of restrictive rules of origin, the second one by facultative ceilings (ligne ACP) and not by obligatory quotas. The latter serve as a first warning, even before the start of any consultations, not to invest excessively in sensitive textile items to be exported to the Community.

Table 10 - Share of Individual ACP Countries in Total ACP Textile and Footwear Exports (a) to the EC, 1975 and 1982

	1975		1982	
	mill. ECU	per cent	mill. ECU	per cent
Mauritius	14.5	38.1	79.3	52.2
Ivory Coast	5.5	14.4	39.9	26.3
Madagascar	5.8	15.2	19.8	13.0
Cameroon	2.3	6.0	6.1	4.0
Senegal	0.9	2.4	1.9	1.3
Rest of ACP	9.1	23.9	4.9	3.2
Total ACP	38.1	100.0	151.9	100.0
Total of all developing countries	2589.8		7968.8	

(a) CCT 50-68 excluding NIMEXE 5301.10 (wool), 5501.10, 5501.90 raw cotton) and 5704.10 (sisal).

Source: Eurostat [a].

Third, there is room for further fear because ex-ante ceilings in the very few items where ACP countries proved to be relatively competitive can provoke uncertainties and can thus have a discouraging effect on export-oriented investments in other sectors.

In detail, export-oriented textile processing is concentrated in a few ACP countries, viz. Mauritius (clothing), Ivory Coast (fabrics) and Madagascar. In 1975, the three countries accounted for 68 per cent of the total ACP textile exports to the Community (Table 10). By 1982 they accounted for even 92 per cent as Mauritius and the Ivory Coast were able during this period to raise their shares from 38 to 52 per cent and from 14 to 26 per cent, respectively. Compared to the rest of developing countries, especially to the MFA countries, 1981 Mauritius held but the 15th rank among the Third World country suppliers in its export domain, that is knitwear, and the 37th rank in other clothing products [Eurostat, b, pp. 450-454].

However, even this comparatively minor threat to domestic jobs in the EC textile industry from the ACP exports did not deter the Community from introducing national safeguards against individual ACP exporters in the late seventies (e.g. knitwear exports of Mauritius to the UK). Later on the Community went further by establishing a similar network of intra-EC member country ceilings on overall ACP exports as it was fixed for each MFA signatory country in "hyper-sensitive" items on a quota basis. Table 11 indicates the degree to which these ceilings were utilized in 1982. At the Community level ceilings were exceeded by the actual ex-

Table 11 - Utilization of Indicative Ceilings (Ligne ACP) for ACP Exports to the EC in the Eight "Hyper-Sensitive" MFA Categories, 1982 (per cent)

	Share of EC actual imports from ACP countries in ceilings fixed for ACP exporters								Share of ACP ceilings in total MFA countries' quotas for market access in the EC
	EC	West Germany	France	Italy	Benelux	UK	Ireland	Denmark	
Cotton yarn (a)	131.7	895.8	59.2	585.7	1514.8	72.1	-	-	2.0
Cotton fabrics (b)	75.3	53.6	55.0	227.8	127.4	124.4	-	-	10.4
Synthetic fabrics (c)	-	-	-	-	-	-	-	-	0.2
T-Shirts (d)	78.5	28.6	253.8	8.3	62.3	146.9	923.1	592.9	2.0
Pullovers (e)	97.0	114.0	61.9	176.9	200.3	100.3	54.0	96.2	7.8
Trousers (f)	51.2	13.0	102.1	143.8	62.1	37.1	-	12.3	3.3
Blouses (g)	23.2	3.9	25.5	8.5	28.1	30.3	11.1	111.7	2.8
Shirts (h)	45.9	0.2	145.4	2.9	21.5	7.9	114.7	58.0	3.2

(a) NIMEXE: 55.05-13, 19, 21, 25, 27, 29, 33, 35, 37, 41, 45, 46, 48, 51, 53, 55, 57, 61, 65, 67, 69, 72, 78, 81, 83, 85, 87. - (b) NIMEXE: 55.09-03, 04, 05, 06, 07, 08, 09, 10, 11, 12, 13, 14, 15, 16, 17, 19, 21, 29, 32, 34, 35, 37, 38, 39, 41, 49, 51, 52, 53, 54, 55, 56, 57, 59, 61, 63, 64, 65, 66, 67, 68, 69, 70, 71, 73, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 87, 88, 89, 90, 91, 92, 93, 98, 99. - (c) NIMEXE: 56.07-01, 04, 05, 07, 08, 10, 12, 15, 19, 20, 22, 25, 29, 30, 31, 35, 38, 39, 40, 41, 43, 45, 46, 47, 49. - (d) NIMEXE: 60.04-19, 20, 22, 23, 24, 26, 41, 50, 58, 71, 79, 89. - (e) NIMEXE: 60.05-01, 31, 33, 34, 35, 36, 39, 40, 41, 42, 43. - (f) NIMEXE: 61.01-62, 64, 66, 72, 74, 76, 61.02-66, 68, 72. - (g) NIMEXE: 60.05-22, 23, 24, 25, 61.02-78, 82, 84 . - (h) NIMEXE: 61.03-11, 15, 19.

Source: Eurostat [a, 1982]; Prométhée [1983]; own calculations.

ports only in cotton yarn. In the case of pullovers which includes knitwear from Mauritius, the ceiling was almost fully utilized. The fact that synthetic fibres ceilings were fixed though ACP countries did not export under this category is a strong evidence for the prophylactic nature of the "ACP ligne" and for the prevailing uncertainty with regard to the potential competitiveness of ACP suppliers. Utilization rates for the EC are, however, averages with considerable differences between the performances in individual EC countries. Since it is on the national level where restrictive measures are introduced first, the differences of utilization rates deserve attention. It seems that a country like Italy which primarily imports intermediate goods and processes them further domestically is less inclined to introduce restrictive measures once a ceiling has been exceeded than countries like France or the UK whose imports from ACP countries (and other developing countries) are concentrated on finished goods. Further, the differences in utilization rates between EC members provide a strong incentive to import via those member countries which have not yet exhausted their shares. Theoretically, in a customs union which allows free circulation of goods internally there is no sense in having quotas for individual members. Such quotas imposed on a relatively small exporter like the ACP group, mirror a serious setback in the internal integration process of the Community. The relatively small size of the ACP group as an exporter of "hyper sensitive" goods is evident from the share of ceilings in MFA negotiated quotas (last column, Table 11). In 1982, these ceilings did not exceed 10 per cent of the MFA quotas and amounted to 4 per cent on the average.

III. Exogenous Barriers to ACP Export Growth

1. Droughts and Desertification

Sahelian as well as some ACP countries south of the Congo basin have suffered and are currently suffering again severely from a succession of drought years. The ecologically very fragile and vulnerable character of these arid areas and the extreme variability of Sahelian rainfalls make it rather difficult to detect a "normal" pattern and hence a long-term trend of climatic conditions [Katz, Glantz, 1977]. Nonetheless, it cannot be denied that the droughts have at least reinforced - if not partly caused - long-term tendencies of food production shortages and changing human fertility habits.

This is evident in Table 12. The average arable land and land under permanent crops measured as a percentage of total land available increased by only 0.3 percentage points between 1969 and 1979. At the same time population growth augmented from 2.5 per cent annually in the sixties to 2.7 per cent in the seventies and per capita food production decreased steadily by 1 to 2 per cent annually.

This pattern has been relatively uniform with only a few exceptions such as the recovery of food production in Niger. The actual situation might have been even worse than reflected in the table because within the category of arable land some areas have deteriorated to fallow land after shifting cultivation.

The reasons for such a serious development are manifold. They encompass, apart from natural shocks, internal policy failures resulting in distorted urban-rural terms of trade to the detriment of rural production, inappropriate incentives to give up nomadism, or traditional habits such as extensive livestock production, which does not react to market signals. Furthermore, drought effects have been exacerbated by factors such as changing economic habits (for example the reliance on food aid), water development projects leading to the salinization and alkalinization of land, post-harvest food losses, and the lack of generally accepted property rights either on a collective or on a private level.

One of the principal consequences of natural shocks is labour migration. It is the mobile and relatively skilled part of labour which is leaving the arid areas and migrating to the climate belt south of the Sahel. Senegal and the Ivory Coast have been the most attractive destinations with the result that the inherent tendency of inter-state migration during the harvest season in the tropical areas has been intensified. Whereas in 1974 only 60 000 non-Ivorian Africans worked in the formal Ivorian sector, this number increased to about 78 000 in 1979. It is rather evident that expatriate employment in the formal sector is only the peak of the iceberg since the majority of unskilled people migrating from desertificated areas is illegally employed or settled in the informal sector. The loss of embodied entrepreneurship, initiatives and stimulants in the Sahel countries due to the exodus is hence the most disturbing economic consequence of natural shocks. Furthermore, water scarcity will also result in higher production costs and hence in deterioration of competitiveness

Table 12 - Basic Data on Land Use, Population Growth and Per Capita Food Production of Drought Affected ACP Countries, 1960-1980

	Arable and permanent crops land (a)		Population growth (b)		Per capita food production (c)		
	1969-1971 (d)	1979	1960-1969	1970-1980	1969	1975	1980
Botswana	2.0	2.3	3.0	3.7	94	95	107
Burkina Faso	8.1	9.4	2.2	2.0	102	99	94
Chad	2.3	2.5	1.5	2.0	104	89	88
Ethiopia	12.1	12.5	2.5	2.0	102	89	83
Gambia	23.0	26.5	1.9	2.4	104	96	67
Guinea	6.4	6.4	2.7	2.9	99	94	86
Kenya	3.6	4.0	3.1	4.0	102	96	85
Mali	1.4	1.7	2.1	2.6	104	90	83
Mauritania	0.3	0.2	2.2	2.5	107	68	75
Niger	2.1	2.6	3.0	3.3	110	67	96
Senegal	24.8	27.1	2.2	2.7	111	119	75
Sudan	4.9	5.2	2.9	3.1	100	105	99
Zimbabwe	6.1	6.4	3.2	3.2	100	111	86
Weighted average (b)	4.5	4.8	2.5	2.7	102	95	87

(a) In per cent of total land. - (b) Annual. - (c) Index 1969-1971 (three years average) = 100. - (d) As weights total land and total population in the relevant years have been used.

Source: FAO [b]; World Bank [c].

compared to neighbouring countries which do not face such incremental costs. In the case of francophone Sahelian countries which are members of the Franc Zone the adjustment to deteriorating competitiveness against southern neighbouring countries through currency depreciations is not possible. Thus, unless real wages are reduced, Sahelian countries will lose in relative competitiveness.

Droughts will also have repercussions on the contribution of both imported and local food to the domestic apparent consumption. It is possible that due to rising shares of imported food (food aid or food bought at market terms) the attitude of the remaining population will change from a risk-bearing to a transfer-receiving conduct. Again, together with the loss of human capital because of migration and with impaired physical health conditions of the remaining labour force, export orientation towards non-traditional goods will depend on the inflow of foreign risk capital and entrepreneurship. Since such investments face high opportunity costs because of the poor environmental conditions, it is rather unlikely that the inflow of non-risk capital (aid) and the other options of the Lomé conventions can compensate drought-affected countries for these environmental disadvantages.

To conclude, long-term worsening environmental conditions in some ACP countries suggest that they should focus on strategies which strengthen

local individual entrepreneurial initiatives at every level. Without such initiatives further drought periods will have disastrous effects. By guaranteeing a minimum income level the EC can diminish political fears about the exploitation of immobile and unskilled people by local entrepreneurs. Viewed against a situation of a general idleness of resources based on transfers from abroad, however, economic growth and inequalities through exploitation appear to be the less controversial alternative.

2. Plant and Animal Diseases

As with droughts, plant and animal diseases - besides their unquestioned character of a natural shock - cannot be separated from the social and economic environment in which they occur. The environment can contribute to exacerbate the spread of inherent diseases of export crop monocultures through the lack of established and generally accepted property rights. On the other hand, it may facilitate controlling pests effectively if property rights are clearly defined and if governments do not provide disincentives, for instance through excessive export tax or state interventions in private sales decisions to economically profitable plant production.

The fact that agriculture and livestock in African countries have been most susceptible to plant and animal diseases during the last two decades is illustrated by the plant disease outbreaks recorded by FAO [a] and by the resurgence of trypanosomiasis in the seventies. Export crops have been more frequently affected by plant diseases than local crops such as cassava, yams, millet or sorghum. This coincides with the observation that the genetic uniformity of new high-yield crop monocultures provide ecologically ideal environments for pathogens to evolve and to attack plants [Pimentel, Pimentel, 1978]. With regard to the presence of tsetse flies and the resulting disease of trypanosomiasis, it is estimated that this disease hinders the use of some 10 million square kilometers for livestock or agricultural production [World Bank, a, p. 73]. The payoff for increased investments in pest controls, disease research and tsetse eradication mainly depends on the additional income earned from the new "cleaned" areas under permanent cultivation. Here again the crucial role of government's influence on internal rural-urban terms of trade is very important. If additional income to be gained from employing resources in sectors other than the eradication of plant and animal diseases is higher, private investments in the latter sector will not be launched. Financing of public investments by internal and/or external non-risk capital will also be facilitated if price ratios are not distorted. Investments in maintenance of the quality and volume of export crop production are indispensable since export crops are, besides mineral raw materials, the most important source of traditional export earnings for most of the ACP countries. Further, they are needed for export diversification in the field of agricultural processing industries such as canned food or cotton manufacturing. Such attempts have been made successfully for instance in the Ivory Coast and Cameroon. However, it should be noted that they proved successful because of new high-yield varieties of the "green revolution" (bananas, coffee, cocoa, pineapples, etc.) which were both suitable for profitable processing and fitted into the demand patterns of developed countries. But just these varieties are also vulnerable against

diseases. Given this trade-off between profitability and vulnerability, external financial assistance to research, control and eradication of plant and animal diseases on a regional scale is necessary

- to maintain the export basis of many ACP countries in terms of agricultural primary commodities,
- to promote export diversification strategies in agricultural processing and
- to stabilize the local livestock production.

Yet, without the establishment of clearly defined property rights on land and its use such an assistance will be less efficient. Thus, an incentive system through property rights must be introduced and controlled by the local governments.

3. Transportation Costs of Seaborne Trade

Transportation costs are frequently assumed to be major barriers to ACP trade in general and to their exports in particular. While this is evident for land-locked ACP countries suffering from inadequate transportation facilities for surface trade, transportation costs for seaborne trade must not necessarily be higher for other ACP countries than for the remaining developing countries. The recent modernization of ACP countries' ports together with technological innovations of roll-on/roll-off ships, container services, etc. should facilitate their participation in international trade if the volume of trade to and from these countries would allow for an economically viable utilization of available transportation capacity. The often cited chicken-and-egg problem of low trade volume and high transportation costs does not exist in reality: once there is demand for goods supplied by ACP countries, transportation barriers will disappear within a relatively short time. The rapid construction of modern port facilities in oil-exporting countries bears witness to this argument.

A discussion of the incidence of transportation costs on ACP exports in detail, faces conceptual as well as statistical problems. Costs are different according to products, transportation media, frequency of shipping, but not necessarily according to distance. A remoteness factor in seaborne trade can be outweighed by economies of scale induced by a large trade volume and subsequently by the utilization of a transportation technology which reduces costs per mile.

a. Cif/Fob Ratios as Transportation Cost Proxies for ACP Imports

With respect to ACP countries several indicators are introduced in order to highlight the incidence of transportation costs. There is first of all the cif/fob ratio of ACP countries' imports assessed by the IMF. The presence of evidence for ACP exports implies that the same ratios hold for the export side. This is questionable since the structure of their imports differs from that of their exports. This has implications for their transportation costs. ACP countries import manufactures, which are gen-

eral cargo in freight terms, and they export primary commodities, which are in form of liquid or dry bulk trade.

The former trade is influenced by liner conferences and other interventions and hence is more regulated and less competitive than bulk trade where outsiders can operate more easily. This could mean that transportation costs of ACP countries' imports are systematically higher than the costs of their exports. Table 13 shows the IMF cif/fob ratios minus unity for the imports of the reporting ACP countries. It is at first glance obvious that the assessments, which are rough rules of thumb "guesstimates", lie in the range of 10 to 30 per cent. Mostly ratios have been assumed to be constant over time so that the import-weighted average using the same weights for the four years of observation yields only minor changes (between 12.5 and 14.4 per cent). Generally land-locked countries face higher transportation costs than countries having direct sea access. Increases in transportation costs are probably more due to fuel price increases rather than due to higher shares of relatively transportation cost-intensive goods in the import basket.

The comparison between costs for land-locked ACP countries and their neighbouring sea-located transit countries indicates the importance of surface transportation costs. Imports of the Central African Republic (CAR) via Cameroon, for instance, imply the doubling of transportation costs compared to those of Cameroonian imports. CAR imports via Congo on the other hand reveal lower mark-ups on costs prevailing for Congolese imports which, however, are higher than the costs of the Cameroonian imports. Trans-shipment costs are obviously a source of freight rate increases, and trans-shipment by using railways, river transport and trucks is the rule rather than the exception in intra-ACP countries' transportation network.

To summarize, the IMF ratios have systematic mistakes so that only a comparison of import freight rates between individual ACP countries may be justified. However, because of distinct differences in the composition of ACP imports and exports no conclusion can be drawn with regard to absolute or relative (vis-à-vis non-ACP competitors) levels of transportation costs charged on ACP exports. Such conclusions necessitate the availability of import statistics on a cif and fob basis for countries importing goods from ACP countries. There are, however, only three countries publishing such data, viz. the USA (1), Brazil and the Philippines. Being a minor importer of ACP products, the Philippines have been dropped from further calculations. Tables 14 and 15 therefore illustrate the ad valorem incidence of transportation costs of the two other countries' imports from ACP countries and their major competitors.

b. Cif/Fob Ratios as Transportation Cost Proxies for ACP Exports

Given the structure of the ACP export supply, the items are nearly exclusively primary commodities. Two major findings emerge from the US

(1) Since 1982 the USA applies for a specific customs import value for comparison instead of the formerly used free-alongside-ship value. Since the customs import value excludes freight costs, it may be applied for the ad valorem incidence as well.

Table 13 - Ad valorem Incidence of Transportation Costs of ACP Countries' Imports, 1970-1982 (a)

	1970	1975	1980	1982		1970	1975	1980	1982
Bahamas	7.9	6.4	6.4	.	Mali	25.0	36.6	35.0	35.0
Barbados	10.0	10.0	9.0	9.0	Mauritania	13.0	13.0	13.0	13.0
Belize	10.0	10.0	10.0	10.0	Mauritius	16.7	18.2	21.0	21.0
Benin	12.5	15.0	15.0(a)	.	Niger	25.0	29.4	29.4	29.0
Botswana	5.0	5.0	5.0	5.0	Nigeria	11.0	10.8	12.0	12.0(b)
Burkina Faso	20.0	22.8	22.0	22.0(c)	Papua New Guinea	13.2	15.1	15.0	15.0
Burundi	15.0	15.0	15.0	15.0	Rwanda	20.0	20.0	25.0	.
Cameroon	12.0	15.0	15.0	15.0	St. Lucia	11.0	11.0	11.0	11.0
CAR	20.0	30.0	30.0	30.0	Senegal	13.2	13.0	13.0	13.0
Chad	33.0	33.0	.	.	Seychelles	12.0	15.0	15.0	15.0
Congo	20.1	23.9	23.0	.	Sierra Leone	10.0	10.0	10.0	10.0
Ethiopia	9.9	21.2	19.9	20.0	Somalia	15.0	15.0	15.0	15.0
Fiji	12.0	15.8	17.0	17.0	Sudan	12.0	12.0	12.0	12.0
Gabon	16.0	16.0	17.5	.	Suriname	12.0	12.0	12.0	12.0
Gambia	10.0	16.7	17.0	17.0	Swaziland	5.0	5.0	5.0	5.0
Ghana	14.9	14.0	10.0(a)	.	Tanzania	15.0	15.0	15.0	15.0(c)
Grenada	10.0	10.0	10.0	10.0	Togo	13.1	19.0	19.0	19.0(c)
Guyana	10.0	10.0	10.0	12.9	Trinidad & Tobago	9.0	9.0	9.0	15.7
Ivory Coast	11.5	14.6	17.0	17.0	Uganda	15.0	22.1	25.0	.
Jamaica	16.3	15.9	14.5	14.5	Western Samoa	10.0	10.8	10.0	10.0(c)
Kenya	15.0	15.0	15.0	15.0	Zaire	18.0	15.4	16.0	16.0
Lesotho	5.0	5.0	5.0	5.0	Zambia	17.2	22.5	20.0	20.0
Liberia	10.0	10.0	10.0	10.0(b)	Zimbabwe	15.0	15.0	15.0	15.0
Madagascar	21.0	26.5	23.5	23.5	Import-weighted				
Malawi	15.6	13.8	13.8	13.8	average(d)	12.5	13.1	13.2	14.4

(a) (cif/fob-1) 100. - (b) 1978. - (c) 1981. - (d) Weighted with ACP countries' import values of 1975.

Source: IMF [c].

data. First, generally freight costs have not been higher on imports originating from ACP countries compared to other origin countries. In the majority of cases they have been even lower. Second, the product structure of transportation costs charged on ACP-originating products is strongly correlated with the structure of US imports from non-ACP sources. This conclusion is supported by a Spearman rank correlation coefficient of 0.73 which is statistically significant at 1 per cent level. These results are more surprising as non-ACP countries export mostly much larger volumes in specific items to the USA than the ACP countries. Only in few goods (vanilla beans, cocoa beans, sisal, crude bauxite and gum arabic) individual ACP countries occupy top ranks as a third coun-

Table 14 - Ad valorem Incidence of Transportation Costs(a) of US Imports from ACP Countries and Their Major Non-ACP Competitors, 1982

US imports from	Product	Ad valorem incidence	Share in US imports	Competing supplier	Ad valorem incidence	Share in US imports
Uganda		7.2	5.8			
Ethiopia	Raw Coffee	7.3	3.5	Brazil	7.5	20.8
Ivory Coast		7.3	4.9			
Ivory Coast	Cocoa beans	8.7	30.0	Brazil	9.9	20.8
Ivory Coast	Cocoa cake	25.3	10.5	Netherlands	7.7	50.8
Ivory Coast	Cocoa butter	3.2	17.2	Brazil	4.7	22.7
Malawi	Tea	13.6	1.7	Sri Lanka	18.5	16.8
Kenya		11.2	11.6			
Guyana	Shrimp and prawn	2.5	1.5	Ecuador	5.5	18.2
Sierra Leone		4.6	0.5			
Madagascar	Vanilla beans	2.3	69.8	Malaysia	0.7	7.0
Malawi	Tobacco	6.4	4.4	Brazil	6.7	42.5
Liberia	Natural rubber	14.0	2.6	Indonesia	13.4	55.7
Liberia	Rubber, milk	16.2	36.5	Malaysia	20.0	39.7
Cameroon	Lumber, hardwood	27.7	1.0	Malaysia	32.5	28.5
Sudan	Raw cotton	9.8	22.4	Egypt	5.1	46.4
Kenya	Sisal	36.1	63.3	Brazil	36.6	15.5
Madagascar	Natural graphite	21.2	19.9	Brazil	17.8	41.2
Liberia	Iron ore	40.8	10.3	Canada	15.2	70.3
Jamaica	Crude bauxite	12.4	44.6	Brazil	37.3	4.6
Guinea		38.6	35.7			
Jamaica	Aluminium oxide	5.0	6.5	Australia	11.5	82.5
Suriname		3.4	3.5			
Gabon	Manganese ore	16.6	26.8	Australia	15.7	27.4
Sierra Leone	Titanium ore	8.3	36.0	Australia	10.5	57.1
Sudan	Gum arabic	7.3	77.2	Pakistan	9.6	9.1
Ethiopia	Seeds, garden and field	12.3	7.5	India	14.0	13.1
Nigeria	Crude petroleum	3.2	17.0	Saudi Arabia	5.5	17.4
Cameroon		3.7	1.7			
Congo		3.6	1.6			
Ivory Coast	Palmkernel oil	14.5	1.9	Malaysia	11.6	73.6
Nigeria	Goat leather	1.5	2.5	India	11.8	63.9
Ivory Coast	Veneers	40.9	1.7	Brazil	32.9	17.2
Zaire	Unwrought zinc	24.3	4.8	Peru	6.8	10.1
Nigeria	Unwrought tin	2.2	0.4	Thailand	1.8	32.5
Mauritius	Wool sweaters, knit	7.0	5.6	Hong Kong	4.6	40.4
Unweighted average		12.7	x		13.3	x

(a) Defined as (cif/CV - 1) 100, where CV is the customs import value of US imports (price actually paid or payable for merchandise when sold for exportation to the USA, excl. US import duties, freight insurance and other charges incurred in bringing the merchandise to the USA). cif is equal to CV plus freight, insurance and other charges (excl. US import duties).

Source: U.S. Dept. of Commerce [1982].

try supplier on the US market. Thus, one could expect economies of scale in transportation to be more relevant as breaks to cost increases for non-ACP exporters than for ACP exporters. However, this does not seem to be the case. Three explanations are possible. First, the ACP country bulk export volume (in terms of tons) is bigger than a shipload. Thus, it exceeds the minimum threshold level of profitable transport volume. Second, competition in bulk trade is strong especially if this trade is ruled by long-established traditional goods, for which efficient port facilities (cranage, stevedoring) already exist in ACP countries. Third, if there are economies of scale in transporting large volumes this may be partly outweighed by larger distances (Southeast Asia, Australia) for non-ACP exports to be shipped to the US East Coast ports than for Caribbean or West African exports. Aluminium oxide exports from Jamaica compared to those from Australia suggest such countervailing effects. On the other hand, transportation costs for raw coffee being the same regardless of whether the USA import coffee from the Ivory Coast, Ethiopia or Uganda, do not support the hypothesis of distances as a major determinant of transportation costs.

In general ACP exporters of bulky goods do not seem to face serious transportation cost disadvantages on the American market against non-ACP suppliers (1). The prevailing structure of ACP exports does not allow for testing these conclusions for general cargo, viz. finished goods. The only case worth mentioning in Table 14 is of clothing exports from Mauritius to the USA which face higher transportation costs than those from the leading exporting countries, viz. Hong Kong.

However, there is evidence that ACP non-traditional exports are charged higher transportation costs per unit because of the small volume which makes liner services unremunerative and hence exports through transshipment costly.

Similar conclusions emerge from the analysis of transportation costs for the few ACP originating items imported by Brazil (Table 15). The most important items, crude oil exported by Nigeria, crude aluminium exported by Ghana and Suriname, natural rubber supplied by Liberia and copper exported by Zaire and Zambia are not discriminated against competing exports from Saudi Arabia, Canada, Singapore or Chile. In the case of crude oil and rubber the ACP countries are even better off. The reverse holds for small portions of ACP exports like graphite, seeds or cinnamon. Low value products such as bauxite reveal higher freight cost components than processed goods (aluminium oxide). Since this holds for non-ACP exporters as well, domestic exploitation of commodities receives a natural rate of protection and may inhibit both ACP and non-ACP exports.

To conclude, bulk exports shipped from ACP countries to the USA and Brazil seem to be subject to similar freight cost-induced mark-ups on export prices as they exist for exports from non-ACP sources. Instead of transportation costs in bulk seaborne trade attention should be devoted to surface trade and its costs and to seaborne trade in general

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(1) A few exceptions are: iron ore from Liberia or unwrought zinc from Zaire.

Table 15 - Ad valorem Incidence of Transportation Costs of Brazilian Imports from ACP Countries and Their Major Non-ACP Competitors, 1981 (a)

Brazilian imports from	Product	Ad valorem incidence	Competing supplier	Ad valorem incidence
Nigeria	Crude oil	3.6	Saudi Arabia	6.4
	All products	3.7		
Ivory Coast	Copra	14.8	.	.
	All products	17.4		
Bahamas	Synthetic rubber	9.9	USA	9.8
	All products	9.2		
Cameroon	Palm fruit derivates	13.4	Papua, Territory	10.9
	All products	13.4		
Congo	Crude oil	4.1	Saudi Arabia	6.4
	All products	4.3		
Gabon	Crude oil	4.3	Saudi Arabia	6.4
	All products	4.3		
Ghana	Crude aluminium	6.2	Canada	6.9
	All products	6.2		
Guyana	Bauxite	23.3	.	.
	All products	23.3		
Jamaica	Aluminium oxide	16.5	.	.
	All products	16.5		
Liberia	Natural rubber	8.8	Singapore	14.5
	All products	8.8		
Madagascar	Natural graphite	34.5	West Germany	13.1
	All products	34.5		
Papua New Guinea	Seeds	8.5	Guatemala	7.5
	All products	8.5		
Seychelles	Cinnamon bark	62.7	Singapore	27.0
	All products	62.7		
Suriname	Crude aluminium	4.0	Canada	6.3
	All products	4.0		
Zaire	Copper	4.4	Chile	4.4
	All products	4.4		
Zambia	Copper	4.4	Chile	4.4
	All products	4.4		

(a) (cif/fob - 1) 100.

Source: Ministério de Fazenda [1981].

cargo. The rapid containerization of the latter trade will evidently reduce costs of trans-shipment where liner services are not economically viable and hence will be to the benefit of ACP exporters of small volumes of manufactures. However, the surface trade problem will continue to exist. Improving the road network by aid financing cannot promote trade unless other export disincentives which have their roots in the factor endowment and factor prices of land-locked countries are eliminated.

4. Travel and Communication Costs

The national and international division of labour crucially depends on media for communication, i.e. telephone, telex, other postal services, air and surface transportation nets. Though it is true that a fully developed communication network is not a strong prerequisite for economic market activities, it is likewise true that without a minimum availability of infrastructure natural barriers to market activities can become prohibitive.

The result of prohibitive barriers to market activities is that traditional know-how which otherwise would face adjustment pressures resulting in productivity increases receives maintenance rents and impedes the development process.

The experience of development process throughout the world, has, however, taught that the chicken-and-egg view of poor economic performance and bad infrastructure is misleading. The development of infrastructure runs parallel to the growth process, and it is the alliance of economic subjects forecasting profits from entering new fields of division of labour which either builds up infrastructure networks itself or urges for governmental financing of infrastructure. It conforms the economic rationale that the nature and direction of infrastructure is closely related to the needs of those who have been economically active. For instance, African railways were built either for military purposes by the colonial powers or in order to transport natural resources to the nearest port. Local needs dominated over interregional targets. Since the financing of railway networks depends almost exclusively on foreign sources, the cost-benefit analyses are made by them in terms of their measurable profitability rather than in terms of social returns to "intangible" factors. Under these premises the denial by the World Bank to finance railways of regional dimensions such as the TANZAM-railway or the Chad trunk of the TRANSCAMEROUNAIS or even local railway nets such as the TRANSGABONAIS whose private remunerativeness is doubtful, is logical. Private profitability has also ruled the establishment of unique transportation systems such as the trunk from the Congolese OCEAN-railway to M'Binda, which is the terminal of the Gabonese cable-car system for transporting manganese ore.

The same holds for ports and the main roads. Both topography and climate pose considerable engineering costs whose pay-off depends on the prices of low-value and bulky primary products.

Likewise, the telecommunication network is based on colonial structures linking the ACP countries to their former metropolitan countries but not to each other. Further, different technical standards inherited from Metropolitan countries impede links between ACP countries. They face additional problems and costs also because of unfavourable climate. The low population density and the enormous space dimensions impede efficient and regular postal services as well (1). The efforts to economize on funds by negotiating regional communication networks on a multilateral basis have proved to be of little success as shown by the failures of the East African Common Services and the Agence Transéquatoriale des Com-

(1) For a summary of African postal services in comparison with other developing areas in the seventies see UPU [1978].

munications (Congo, CAR, Chad). Given the scarcity of public foreign funds, the overall stagnation of ACP countries' economic development on a very low level, and the high investment costs per capita for almost any transportation medium in ACP countries, there is no hope that the already overproportional share of transport and telecommunications in IDA-lending to Sub-Saharian Africa (about 30 per cent compared to 17 per cent for all developing countries) [World Bank, b] will be significantly increased. Nor can it be expected that private funds can be raised in such amounts which would in any way be enough to solve the problem.

There is only one transportation medium, that is air transport, in which ACP countries are not in a worse situation than other developing countries. The colonial heritage and natural disadvantages have not put barriers to the establishment of an air traffic network which is locally as well as regionally fairly well-developed given the income level of the countries concerned. It is this medium on which export diversification should be based. This holds because processed goods are more viable for air transport than bulky and low-value commodities because of their value-added content.

However, in spite of this relatively favourable situation ACP countries have to cope also with locational disadvantages in air transport. Table 16 on passenger fares and general cargo rates for a variety of flight connections between Europe and developing countries as well as within Africa shows that in 1980 on the average passenger fares per km were higher for flights within Africa and between Africa and Europe than for flights between Europe and Latin America or between Europe and Asia. Average rates for general cargo, however, hardly differed on a per km basis. Since these data are recorded for scheduled flights, price differences may be larger for non-scheduled flights with special tariffs which are more often supplied in services between Europe and Asia than between Europe and Africa or within Africa. In other words, competition resulting in downward pressures on fares is more intensive on non-African flights.

Reasons for the upward deviation of costs in flight connections with and within Africa are clear from Table 17. Here comparisons of revenue/cost ratios and quantitative estimates of some of the causes of regional deviations from world average of total operating costs in 1979 are given. In general, operating costs per passenger-km for routes within Africa exceeded those of world total routes by 45 per cent (10.0 US cents compared to 6.9 US cents). Compared to the alternative destinations viz. Asia or Latin America, flights between Europe, Middle East and Africa are also more expensive. Differences in competition intensities are reflected in net revenues of flights which amount to 4 per cent in Africa and to zero or less on other routes. Thus, it appears that profits are squeezed on competition-intensive routes such as Europe-Asia and Europe-Latin America rather than within Africa and between Africa and Europe where a much smaller number of airlines operate.

Upward deviations in costs are determined mainly by the relatively short distances in intra-African flights which influence the choice of aircrafts in favour of smaller size with relatively high operating costs on km ba-

Table 16 - Passenger Fares and Cargo Rates in Air Transport between ACP Countries, between ACP Countries and Europe, and between Europe and Other Developing Areas, September 1980

	Flight distance	Passenger return fare (a)			General cargo rate rate (b)		
	kms	US $ total	US $/km	index (c)	US $/kg	US $/kg per 1000 kms	index (c)
		between ACP countries					
Nairobi-Abidjan	4649	1367	0.29	153	5.84	1.26	158
Entebbe-Lagos	3310	1121	0.34	179	3.77	1.14	143
Mauritius-Dar-es-Salaam	2496	670	0.27	142	3.10	1.24	155
Lomé-Kinshasa	1965	780	0.40	211	2.44	1.24	155
Abidjan-Douala	1529	661	0.43	226	2.32	1.18	148
Monrovia-Dakar	1209	418	0.35	184	1.78	1.47	184
Dakar-Kaedi	504	324	0.64	337	0.62	1.24	155
Cotonou-Lomé	126	132	1.05	553	0.26	2.06	258
		between ACP countries and Europe					
Amsterdam-Dar-es-Salaam	7577	2629	0.34	179	12.37	1.63	204
London-Montego Bay	7557	2340	0.31	163	9.74	1.29	161
Paris-Addis Ababa	5721	1852	0.32	168	8.07	1.41	176
London-Accra	5082	2174	0.43	226	7.38	1.45	181
		between Europe and Latin America					
Frankfurt-Santiago	12784	3243	0.25	132	22.79	1.78	223
Buenos Aires-Amsterdam	12190	2308	0.19	100	11.78	0.97	122
Paris-Montevideo	11539	2783	0.24	126	18.99	1.65	206
Asuncion-Madrid	9630	1950	0.20	105	10.34	1.07	134
Rio de Janeiro-London	9250	2074	0.22	116	10.57	1.14	143
Caracas-Milan	8079	1931	0.24	126	8.55	1.06	133
Recife-Lisbon	5858	1594	0.27	142	7.98	1.36	170
		between Europe and Asia					
Jakarta-Rome	10956	2410	0.22	116	8.72	0.80	100
Geneva-Bangkok	9727	3335	0.34	179	14.23	1.46	183
Frankfurt-Kabul	5538	1867	0.34	179	10.10	1.82	228

(a) Normal economy. - (b) Under 45 kgs. - (c) Lowest value = 100.

Source: ICAO [b]; own calculations.

sis. Furthermore, prices of aircraft fuel are higher in Africa than elsewhere. On the other hand neither exorbitant airport charges nor high idle capacities (vacant seats) can be observed in flights within Africa, whereas the latter factor explains one third of upward deviations in Europe-Africa flights. Here commercial and socioeconomic conditions (costs of booking agencies and all passenger-related services such as catering, telecommunication, booking, reservation, etc.) emerge as the major source of higher operating costs.

Table 17 - Revenue/Cost Comparisons of Flight Services within Africa and between Europe and Developing Areas, 1979

	Revenues (a)			Total operating costs per passenger-kilometres	Ratio revenue costs
	per passenger-kilometre	per seat-kilometre	freight revenues per ton-kilometre performed		
	US-Cents				
Within Africa	10.4	6.6	43.6	10.0	1.04
Europe, Middle East, Africa	8.4	4.8	36.3	8.4	1.00
Europe, Middle East, Africa - Asia, Pacific	5.5	3.6	30.1	6.0	0.92
Central America, Caribbean, Northern South America - Europe, Middle East, Northern Africa, Southern Africa	6.3	3.7	29.9	7.3	0.86
All world international routes	6.4	.	.	6.9	0.93

	Causes for regional deviations from world average of total passenger operating costs (6.9 US-Cents) and effects				
	length of flight stages, sizes of aircraft fleet	prices of aircraft fuel and oil	landing and associated airport charges	passenger local factor	commercial and socio-economic conditions composition
Within Africa	+1.9	+0.7	+0.1	-0.1	+0.5
Europe, Middle East, Africa	-0.8	+0.3	-0.1	+0.5	+1.6
Europe, Middle East, Africa - Asia, Pacific	-1.1	+0.1	0	-0.2	+0.3
Central America, Caribbean, Northern South America - Europe, Middle East, Northern Africa, Southern Africa	-1.4	+0.1	0	+0.3	+1.4
All world international routes	0	0	0	0	0

(a) For scheduled flights.

Source: ICAO [a].

To summarize, relative air transport disadvantages for travelling to and within Africa are modest. They are determined by both economic factors such as the obvious lack of competition between the carriers and natural determinants (length of flight stages). Such disadvantages are, however, easier to surmount than the heritage of a colonially-oriented network and the costs of unfavourable climate and topography. Given the situation of land-locked countries and the economies of scale of regionally integrated networks, regional cooperation aiming at the reduction of travel and com-

munication costs seems to be indispensable. However, conflicts on voting rights in the multilateral administration of joint services and on the distribution of net gains have prevented some regional arrangements from operating over a longer period. On the other hand, success of cooperation in air transport such as Air Afrique allow for more optimistic expectations in the future.

5. Oil Price Shocks

Some of the ACP countries (Congo, Gabon, Nigeria, Trinidad and Tobago) belong to the category of oil-exporting countries. Their export earnings increased as a direct consequence of sudden increases in oil prices in the seventies. Particularly Nigeria was able to raise its oil exports tremendously (1). The following observations on oil price shocks as an exogenous barrier to export growth are therefore confined to those ACP countries which are net importers of oil and had to face highly inflated import bills and rising costs of production as a result of increased oil prices.

The rise of oil prices had two major contrary effects on the exports of non-oil developing countries. On the one hand they were adversely affected through the resulting relapse of economic activity and hence of import demand for their goods in their main export markets of industrial countries. On the other hand, the demand for their goods and in some selected cases also for services in the oil-exporting countries increased due to rising exchange earnings of the OPEC countries.

In addition to these two major effects, exports of non-oil ACP countries may have been adversely affected by domestic inflation, the worsening of international competitiveness of their goods and the shortage of imported inputs resulting from the import restrictions introduced in these countries to face the balance-of-payments problem arising from higher oil prices. The non-oil developing countries tried to solve these problems on the supply side through various export promotion measures including devaluation of their currencies. A detailed analysis of these issues for many non-oil developing countries [Agarwal et al., 1983] showed a considerable effect of oil price shock on domestic inflation, though it varied from year to year and from country to country. Their international competitiveness suffered in the case of mineral tar and crude chemicals (SITC 52) but not elsewhere because in the competing countries also the relative prices were affected by the oil price shocks. In textiles, travel goods, clothing and footwear (SITC 65, 83, 84 and 85) they were even able to improve their competitive positions. This could not be considered however as an effect of the oil price shock because the trend for this improvement had begun already before the massive increase of prices of oil in 1973. Nonetheless this is an indication of the fact that the import restrictions in developing countries were selective to avoid some of their negative effects on the export sector.

(1) Nominal as well as real oil prices have however gone down in the last two to three years and some of these countries have serious difficulties in financing the projects which were planned on the basis of projected increased oil prices of the seventies.

The oil price shock induced the developing countries to raise the priorities of exports promotion measures in order to pay the increased bill of imported oil. The success of these measures was marked more for Latin American and especially Asian developing countries than for African countries. The Ivory Coast and Congo however constitute exceptions. They were successful in raising their total exports as compared to many other African countries [Agarwal et al., 1983, p. 127]. This large majority of oil-importing countries adjusted to the oil price shock by reducing their imports through decrease in economic growth rates and through import substitution. This was especially true for low-income Subsaharian countries, to a lesser extent for middle-income countries which could mobilize additional external savings (1).

Coming back now to the effect of oil price shocks on exports to industrial countries it is sure that the import demand of these countries decreased relatively more than that of the remaining world. How much the ACP countries were also affected by this demand shrinkage depended very much, among other things, on their market shares of these countries. The estimates for the Ivory Coast, Madagascar and Senegal alone amounted to a loss of 829 Mill. US $ during 1974 and 1978. However, only about 27 per cent of this loss can be attributed to the oil price shock which was about 18 per cent of their estimated exports (trend values) (2). The other African countries were not affected so much because of their low market shares in the industrial countries. Such detailed estimates for the period after the second oil price shock are not available, but the shares of some of ACP countries (Ivory Coast, Kenya, Sudan, Tanzania, Zambia) in total world exports in the years 1979 to 1981 show that their exports suffered mainly due to depression in industrial countries [Agarwal et al., 1983, p. 177] which was caused to some extent by this oil price shock. During this period the protectionist tendencies in the developed countries gained further strength. The ACP countries have, however, not been affected by them as much as some other developing countries like South Korea, Taiwan, Singapore, India, Pakistan, Brazil, Argentina and Malaysia because they enjoy a more favourable preferential treatment of their goods in the EC than the rest of the developing countries. Moreover, most the goods exported by them were raw materials and therefore not subject to protectionist measures.

The positive side of the oil price shock was characterised by a massive increase in the import demand of oil exporting countries as a result of their increased export earnings. These earnings rose in the case of OPEC countries from 25 bill. US $ in 1972 to 140 bill. US $ in 1978 and by 1981 they again almost doubled due to oil price increases of 1979 and 1980. The total imports of the OPEC members rose from 14 bill. US $ to about 93 bill. US $ in 1978 and then to 131 bill. US $ in 1981. Developing countries as a group were able to benefit from this demand expansion only proportionately in the sense that their share of OPEC imports

(1) For a detailed empirical analysis of policy responses to oil price shocks see Balassa [1983].

(2) These amounts are derived from estimated hypothetical and trend values of exports in all the industrial countries. For the underlying model and detailed calculations see Agarwal et al. [1983, p. 28 ff].

Table 18 - Exports of Major Non-Oil ACP Countries to OPEC (a) Members, 1970-1982

	1970			1976			1982		
	total	OPEC		total	OPEC		total	OPEC	
	Mill. US $		per cent	Mill. US $		per cent	Mill. US $		per cent
Cameroon	231	2	0.87	513	7	1.36	1721	6	0.35
Ethiopia	123	7	5.69	281	22	7.83	400	25	6.25
Ghana	458	1	0.22	829	6	0.72	929	4	0.43
Ivory Coast	469	4	0.85	1642	21	1.28	2441	57	2.34
Jamaica	340	1	0.29	608	15	2.47	858	33	3.85
Kenya	305	4	1.31	793	8	1.01	1125	48	4.27
Liberia	236	-	-	457	-	-	1200	7	0.58
Madagascar	145	1	0.69	278	9	3.24	433	84	19.40
Mauritius	71	-	-	265	-	-	365	-	-
Papua New Guinea	105	-	-	594	1	0.17	727	1	0.14
Senegal	152	-	-	490	-	-	482	8	1.66
Sudan	298	8	2.68	544	22	3.97	583	171	29.33
Suriname	134	-	-	275	-	-	370	7	1.89
Tansania	261	2	0.77	492	8	1.63	480	45	9.34
Zaire	735	-	-	809	-	-	1713	-	-
Zambia	1001	2	0.20	1044	1	0.10	880	10	1.14
Total	5064	32	0.63	9924	120	1.21	14707	506	3.44
All LDCs (b)	36258	879	2.42	142454	8095	5.68	309216	24266	7.85

(a) Including Nigeria. - (b) Excluding OPEC.

Source: IMF [a; b, 1983].

remained constant at about 12 per cent during 1972 and 1978. In the following two years, however, it increased to 17 per cent. OPEC-imports from developing countries amount to about one third of OPEC-exports to these countries whereas for the industrial countries the import/export ratio is around one half [Agarwal et al., 1983, p. 11 ff.]. The fundamental explanation for this is that a greater part of OPEC import demand and its expansion since the first oil price shock has been for industrial goods supplied mainly by the developed countries.

Total exports of major non-oil ACP countries to OPEC are given in Table 18. It shows that they were able to increase their exports to OPEC countries more than proportionately among the developing countries. The share of OPEC members in total exports of major non-oil ACP countries increased during 1970 and 1982 more than five folds whereas for the developing countries as a whole this ratio comes to a little more than three, although the supply structure of ACP countries was not much different from that of the rest of the developing countries. Most of this success is attributable to Madagascar, Sudan and Tanzania. Their proximity to some of the domestic markets of OPEC members seems to have been partly responsible for this success. This point should, however, not be overemphasised because the exports of ACP countries in the base year were comparatively very low. Further a comparison of shares of ACP countries in total imports of OPEC with those of other developing countries especially some of Asian ones does not allow a very favourable comment [Agarwal et al., 1983, p. 19 ff.].

To summarize, the net effect of decreasing import demand in industrial countries and increasing import demand in OPEC countries seems to have been negative for the majority of ACP net importers of oil. This result is almost exclusively determined by their export supply structure based on primary commodities.

IV. EC Trade Policy-Induced Barriers to ACP Export Growth and Export Diversification

1. Transfers Tied to Traditional Exports Instead of Trade Stimulants

Trade preferences conceded to the ACP countries in the Lomé conventions for virtually all ACP exports allow a duty- and levy-free entry into the EC. However, there are politically rooted exceptions to this general form of preferences. One of them refers to sugar, which is subject to EC market regulations within the Common Agricultural Policy (CAP).

According to the sugar protocol, which is an annex to the Lomé conventions and a follower of the Commonwealth sugar protocol, quotas exist for ACP raw sugar producers who export a prefixed volume of sugar to the EC free of duties and levies at a guaranteed price. The obligation to deliver on the ACP side has its counterpart in the obligation to accept on the EC side. If the EC price is above the world market price - which is normally the case due to the EC internal price stabilization schemes - the sugar protocol implies a product-tied income transfer from the EC to the ACP sugar exporters. The income transfer is equal to the product of the quota and the difference between the EC and the world market price. In the opposite case of lower EC prices (as was the situation in 1980) the transfer is negative for the ACP countries. However, in those cases where the EC price is above the world market price the transfer as defined above should be deflated because part of it has to be regarded as a compensation for the loss of ACP export earnings which emerge from downward pressures on the world market prices partly as a result of the EC internal surplus production. Thus in 1978/79 about one fifth of the transfer was estimated to be a compensation for the loss of ACP export earnings [Schmitz, Koester, 1981] due to the effects of the EC sugar policy on the world sugar market. Hence, according to these estimates the net transfer turned out to be lower than the sum paid.

Though the aid element in the sugar protocol is beneficial to the ACP countries (measured against the hypothetical situation of no sugar protocol but everything else being equal), the protocol in connection with the EC agricultural policy does not stimulate ACP exports: first, the sugar protocol merely ensures a privileged market access which already existed for Commonwealth countries on the British market before the entry of the UK into the EC. In this sense, the sugar protocol provides no additional preferential treatment of ACP sugar exports.

Second, trade preferences provide price incentives which result in the familiar effects of trade creation and trade diversion according to the theory of customs unions. However, due to the sugar protocol changes in relative prices are excluded so that the quotas conceded to the ACP countries are relevant only for determining the transfer sum but fail to stimulate trade. What is more relevant in the context of promotion of non-traditional ACP exports is that the sugar protocol contributes to keep resources (labour and capital) in the traditional sector which would otherwise have gone to non-traditional sectors.

To put it differently, the sugar protocol as a product-tied transfer changes the income proportions between traditional and non-traditional sectors in sugar-exporting ACP countries in favour of the former sector. In any case, the sugar protocol thereby perpetuates the existing production structures and does not give incentives to reallocate local resources to non-traditional sectors. This holds regardless of the fact whether the transfer provides incentives to increase sugar production or not. It is sufficient for the change of income proportions to be effective that the transfer discriminates against activities in non-sugar sectors. To the extent that the resources absorbed in the sugar sector could yield a higher average factor productivity in sectors where output is not limited by non-market regulations, the transfer is unproductive. It impedes structural changes in the ACP economies by hampering the flow of resources to non-traditional activities.

2. Product Coverage in ACP Trade Preferences and Preference Redundancy

About 60 per cent of total exports of ACP countries to the EC in 1982 was accounted by twenty primary commodities which are freely importable to the Community from all countries. Thus there is no preferential treatment of the imports of these goods from the associated countries in the EC. ACP exports of additional 37 items amounted to about 28 per cent of total imports of the EC from these countries. In these items the ACP imports enjoyed tariff preferences of varying degrees (Table 8). A third group of ACP exports consisting almost solely of agricultural products constituted approximately 4 per cent of these exports. In many of these products the ACP exports were also given a preferential treatment within the CAP of the member countries (Table 19).

An important question which arises in this connection is whether the preferences granted to the imports from the ACP countries are effective to promote their exports to the Community or whether they are redundant in this respect.

A rather simplified approach has been used here for analysing this question. It is assumed that the ACP exporters face competition on the Common Market only from the exports of the nonassociated developing countries and that products are homogenous (Law of One Price). As long as the import price of a product of ACP countries is lower than the import price (1) of non-ACP product, a preference margin in favour of the former is not necessary to promote its exports in the Common Market. If in spite of that a preference margin is introduced, the ACP import becomes still cheaper than the import from the nonassociated developing countries and in this case the preference margin is considered to be positively redundant. In all those items in column C of Table 20 where the values are lower than unity, preferential tariffs lead to a positive preference redundancy. That means that the actual preferential rate conceded to the

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(1) Import prices are considered to be equal to unit values of imports from the respective group of countries.

Table 19 - ACP Agricultural Exports Having No or Less than Full Tariff Preference in the EC, 1982

CCT reference		Rate of EC tariff	Rate of tariff for ACP countries	EC imports from ACP countries (1000 ECU)
02.01 AIIa)2	Meat of bovine animals, frozen	20 + L	0 + L(a)	15952
02.01 AIIIa)	Meat of swine	L	same	370
07.06 A	Other manioc roots	L max. 6	L.r. max. 6	2818
08.02 A IC	Sweet oranges	4	0.8	1103
08.02 B	Mandarins and other citrus hybrids	20	4	2269
08.06 AIIb	Apples	9.3 min. 1.93 ECU 100 kg net	same	146
08.08 AII	Strawberries	14	same	250
10.05 B	Maize	L	L.r.	165
10.06 B	Rice milled	L	L.r.	844
10.07 C	Grain sorghun	L	L.r.	2897
11.08 AV	Other starches	L	L.r.	219
16.02 BIIIa	Sausages	L	same	339
17.01 BII	Raw sugar not for refining	L	same	22303
17.03	Molasses	L	same	43302
20.06 BIIb)3	Fruit prepared or preserved	21 + 2ads	2ads	560
20.06 BIIb)9bb	Fruit mixtures prepared or preserved	23.3 + 2ads	2ads	261
22.09 CIb)	Rum	1 ECU/% hl	same (b)	44725
23.02 AII	Residues of cereals	L	L.r.	22054
Total				160607
Note:				
17.01 BI	Raw sugar for refining	L	see sugar protocol	526742

(a) Subject to an annual plafond with reduced tariffs after which the common tariff is again applied. - (b) In containers holding 2 litres and more: 0; see also rum protocol. - L = variable levy. - L.r. = reduced rate of variable levy. - ads = additional duty on sugar contained in the product.

Source: EC [a]; Eurostat [a, 1982].

ACP countries exceeds the rate which would be necessary to compete with non-ACP suppliers.

Quite contrary to this is the case where the ACP price is so high that even a tariff discrimination of non-ACP imports does not change the price relation between ACP and non-ACP imports as much as to reduce it to unity or below unity in column E of Table 20. This is called here negative preference redundancy. In other words, the preferential tariff is not effective because it is not high enough to enable the ACP exporter to become competitive in relation to other exporters in the donor market.

The third possibility where a preferential tariff is not considered redundant involves by those items for which this tariff enables the ACP exporters to compensate for their price disadvantage and become competitive on the Common Market in comparison to exporters from other developing countries. In this case the price ratios before tariffs (column C) turn from above unity to below unity (after tariffs, column E). Such cases are however less frequent. Out of sixteen selected items in Table 20 only four items (vanilla, bovine meat prepared, cocoa butter and canned pineapples) in 1977 and only one (canned pineapples) in 1982 proved to have had a so-called zero preference redundancy. In some other products (palm oil, vanilla) exported by ACP countries in 1982 for instance, preferences helped to converge higher ACP prices and lower non-ACP prices to almost unity ratios. In these cases the imports from the ACP countries were more expensive than those from the remaining developing countries before tariffs but preferential tariffs made the former cheaper or almost equal in price compared to those of non-ACP exporters. It is in these cases where preferential trading is supposed to be effective. In the other two cases where a positive or negative preference redundancy can be observed, either it is not at all needed for enabling the ACP exporters to become competitive with the exporters from other developing countries or it is ineffective because it is by far lower than the difference between the prices of the two competitors.

In both the years (1977 and 1982) for which the data on import prices and preferential tariffs were examined the number of import goods having positive and negative preference redundancy available to ACP exporters to the EC is fairly balanced (Table 20). Goods for which preferential tariffs were found positively redundant in 1977 as well as in 1982 were canned tuna, cocoa paste, cocoa butter, canned pineapples, aluminium oxide, goat skin leather and other tropical hard wood. Here the ACP exports had a definite price advantage over the non-ACP exports from the Third World and even the removal of preferences would not have impaired their competitiveness. Goods where tariff preferences could by no means outweigh price disadvantages of ACP exporters in both of the years were prawns & shrimps, beans and cloves. ACP prices of these products were sometimes twice as high as those of other developing countries. Without tariff increases imposed on non-ACP exporters such big price disadvantages could not have been compensated. The fact that in spite of the ineffectiveness of preferences in these cases ACP countries could nevertheless export to the EC indicates that either additional quantitative regulations (tariff quotas) exist or that the products are not homogenous.

Table 20 - Estimates of Preference Redundancy for Selected ACP Countries' Export, 1977 and 1982

Nimexe		ACP unit value		Non-ACP unit value		Relation between ACP and Non-ACP unit values (A/B)		EC Post-Tokyo Round MFN-tariff rate	Relation between ACP and Non-ACP unit values including the tariff rate(a)	
		1977	1982	1977	1982	1977	1982		1977	1982
		A		B		C		D(b)	E	
0303-43	Prawns & Shrimps	4.25	6.34	2.45	3.94	1.73	1.61	0.12	1.55	1.44
0303-68	Molluscs	1.26	1.61	1.08	1.74	1.17	0.93	0.08	1.08	0.86
0701-45	Beans	1.17	1.64	0.56	1.03	2.09	1.59	0.13	1.85	1.41
0905-00	Vanilla	18.45	58.26	17.53	49.26	1.05	1.18	0.115	0.94	1.06
0907-00	Cloves	5.77	9.16	3.17	4.3	1.82	2.22	0.15	1.58	1.93
1507-61	Palmoil, crude	0.50	0.52	0.45	0.48	1.11	1.08	0.06	1.05	1.02
1507-72-82	Solid palm oil & Vegetable oil	0.74	0.64	0.56	0.56	1.32	1.14	0.10	1.19	1.02
1602-51	Bovine meat prepared	1.69	.	1.52	.	1.11	.	0.26	0.88	.
1604-75	Canned tuna	1.82	2.77	1.95	2.98	0.93	0.93	0.24	0.75	0.75
1803-10-30	Cocoa paste	2.76	1.48	4.02	2.20	0.69	0.67	0.15	0.60	0.58
1804-00	Cocoa butter	4.68	4.12	4.35	4.45	1.08	0.93	0.12	0.96	0.83
2006-65-67	Canned pineapples	0.60	0.80	0.54	0.67	1.11	1.19	0.22	0.90	0.98
2820-11	Aluminium oxide	0.13	0.23	0.14	0.28	0.93	0.82	0.084	0.86	0.76
4104-91	Goat skin leather	4.89	5.60	5.08	6.90	0.96	0.81	0.029	0.94	0.79
4414-51	Tropical hard wood	0.73	1.09	0.86	0.79	0.85	1.38	0.06	0.80	1.30
4414-55	Tropical hard wood, other	0.49	0.33	0.99	0.42	0.49	0.79	0.06	0.47	0.74

(a) $E = \frac{A}{B\ (1+D)}$. - (b) Tariff rate divided by 100.

Source: EC [c]; Eurostat [a, 1977, 1982].

ACP competitiveness measured in this sense is, however, not a function of preferential tariffs only. This is quite obvious in the cases of molluscs and tropical hard wood in our sample (Table 20). In both of them the EC preferential tariffs for ACP exporters remained constant between 1977 and 1982. But in the former case its position changed from a negative redundancy in 1977 to a positive redundancy in 1982 as a result of independent changes in the prices of ACP and non-ACP exports. Quite the opposite of this happened in the latter case. Tropical hard wood offered by the ACP suppliers in 1982 was more expensive than in 1977 whereas that supplied by the other developing countries became much cheaper during the same period. As a result the preferential tariff for the ACP exporters became ineffective. Both kinds of preference redundancy characterise in so far a waste of resources as they are either not needed or fail to fulfill their function of promoting the exports of the beneficiaries.

Since ACP preferential margins which are mostly equal to GATT-negotiated tariffs remain usually constant over a period of many years it is the relative prices of the ACP and non-ACP exporters and their changes which influence the ACP competitiveness on the Common Market. In order to improve it therefore attention has to be paid to those factors which have an impact on the price level of ACP exports such as availability and costs of inputs, production techniques, marketing, transportation, warehousing and the level of exchange rate vis-à-vis the competitors. Most of these fall in the domain of domestic economic policy of the ACP countries and are discussed in the following chapter. This however should not leave the impression that ACP exports are significantly more expensive than the competing exports from the other developing countries. Statistical tests on the relative prices of 1977 as well as 1982 given in column C of Table 20 did not reject the hypothesis (even at a very high level of significance of .5 per cent) that they were not different from unity. This means that though on the average ACP prices were higher than the prices of their competitors, the deviations around the average price ratios in both the years were so high that a systematic and hence a significant price difference could not be detected.

3. Erosion of Preference Margins

a. GSP-Induced Erosion

ACP countries frequently complain about the erosion of their special preferences resulting from the broader product coverage and tariff cuts in the GSP as well as from the implementation of MFN tariff cuts negotiated in the Tokyo Round. No doubt both of these sources of preference erosion do exist. However, it is important to note that they are related more to the legal conditions of market access than to their effectiveness.

With regard to the GSP the main area of preference erosion lies in the realm of processed agricultural products which have been increasingly included in the list of GSP-eligible products. Whereas in 1971 only 145 items were granted GSP treatment, in 1983 they were as many as 338. Most of the increments in product coverage were achieved between 1975

and 1977 (296 items), which reflects the intention of the Community to compensate the seven Asian Commonwealth countries (1) for the loss of Commonwealth preferences which expired by 1978 due to the accession of the UK. Parallel to the enlarged product coverage in processed agricultural items GSP preferential tariffs were partly reduced so that the depth of tariff cut became larger (2).

Except for plywood and veneer, where tariff quotas in the GSP have been introduced in order to protect ACP trade interests, the manufacturing sector is a field where ACP preference margins have been dismantled not because of GSP improvements but because of the implementation of the GSP itself. However, neither anglophone ACP countries under the relatively liberal Commonwealth preferences on the UK market prior to 1975 nor the francophone Yaoundé associates under the reciprocal Yaoundé preferences on the EC market could make effective use of preferences for manufactures. Therefore the GSP cannot be supposed to have contributed to the reduction of the share of ACP countries in EC manufactured markets. In fact, the erosion issue centers on tropical agricultural products and their processing, and here the ACP countries compete mainly with the ASEAN countries. It is the ASEAN group to which improvements in agricultural product coverage of the GSP were granted, and it is this group which increased its agricultural exports of competing products during 1974 and 1980 to the Community by a higher rate than did the ACP group [Langhammer, forthcoming, Table 1].

Thus the question whether ACP preferential market access suffered from erosion of tariff preferences can best be answered by calculating ACP preference margins vis-à-vis competing ASEAN suppliers and their changes before and after the first Lomé convention. For this purpose the core group of ACP countries consisting of the Yaoundé associates were chosen as reference countries for ASEAN suppliers. Commonwealth preferences were not taken into account and the comparison for the Commonwealth members Malaysia and Singapore was confined to the remaining eight EC members. The results of weighted preference margins with and without GSP treatment in 1974 and 1980, respectively, denote the GSP-induced erosion of ACP preferences in the two reference years (Table 21). They show that in 1974 ACP preferences vis-à-vis Singapore in about thirty sample items would have amounted at the maximum to 5.1 per cent without the GSP but were diminished by 3.7 percentage points or 73 per cent because of the GSP. Erosions emerged also vis-à-vis the Philippines by 1.6 percentage points or 47 per cent of the MFN rate without GSP application. In the case of Malaysia the GSP effect was considerably smaller, and it did not exist in the cases of Indonesia and Thailand.

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(1) India, Bangladesh, Pakistan, Sri Lanka, Malaysia, Singapore, Hong Kong.

(2) There is a vast literature on the EC GSP scheme and its effects. For recent evaluations with special reference to agricultural products see Menzler-Hokkanen [forthcoming] and Langhammer [forthcoming]. For a general evaluation of the EC GSP scheme see Langhammer, Sapir [forthcoming].

Table 21 - Weighted Average Preference Margins (a) of ACP Agricultural Exports vis-à-vis Competing ASEAN Products on EC 9 Markets, 1974 and 1980 (per cent)

ASEAN exporting country	1974(b)		1980	
	without EC GSP treatment	with EC GSP treatment	without EC GSP treatment	with EC GSP treatment
Indonesia	7.0	7.0	4.7	4.2
Malaysia	3.7(c)	3.3(c)	1.8	0.7
Philippines	3.4	1.8	3.6	2.0
Singapore	5.1(c)	1.4(c)	2.5	0
Thailand	0.7	0.7	1.0	0.8

(a) The weights are the EC 9 values of imports from the individual ASEAN countries in the respective tariff items. - (b) Yaoundé associates vis-à-vis ASEAN suppliers. - (c) On EC 8 markets only.

Source: EC [c]; Eurostat [a]; own calculations.

The 1980 figures reveal that during the second half of the seventies MFN rates decreased except in the cases of the Philippines and Thailand where MFN rates and hence hypothetical ACP preference margins slightly increased because of a changing export composition. On the whole the GSP has dismantled ACP preference margins. At the maximum preferences were eroded fully (Singapore); at the minimum by 0.5 percentage points or 11 per cent of the MFN tariff (Indonesia).

b. GATT Tariff Cut-Induced Erosion

The change in average weighted preference margins between 1974 and 1980 is the combined effect of three factors: changes in MFN rates (without GSP) due to the GATT negotiations, changes in GSP preferential tariffs and changes in weights (product composition effect). Disregarding the latter effect which is relatively small the contribution of the MFN tariff cut to the shrinkage of ACP preference margins is denoted by the tariff changes during 1974 and 1980 "without GSP" (Table 21). This effect has dominated the erosion of the ACP preferences vis-à-vis Indonesia and Malaysia and comprised such goods as tea, cocoa beans and coffee beans. As sources of erosion the MFN cuts and the GSP improvement were balanced vis-à-vis Singapore, whereas for the Philippines GSP improvements were important. Solely vis-à-vis Thailand, whose agricultural exports depend mainly on tapioca the ACP countries did not suffer from preference erosion. Since exclusive MFN tariff cuts in the

Tokyo Round were negotiated for a much smaller number of tropical items (1) than GSP preferences, one may be inclined to give the GSP concessions a higher weight as a source of erosion. However, such a view neglects that the three "classical" tropical products (tea (2), coffee and cocoa beans) which were excluded from the GSP (3) but enjoyed MFN cuts are important export items for ACP and have become sizeable items for ASEAN competitors. For example, Indonesia's coffee exports to the EC amounted to 12 per cent of the ACP export volume in 1980 compared to only 7 per cent in 1974. Similar gains can be observed in the share of Malaysia's cocoa exports. However, as opposing trends can be observed for tea, it remains open whether the unquestioned erosion of ACP preferences had a negative incidence on ACP exports or not. Other supply-induced factors which became effective at the same time when preferences were dismantled may have been important as well. Neither unit value comparisons and their changes nor the performance of Yaoundé associates on the UK market after the end of Commonwealth preferences [Langhammer, forthcoming] (4) provide convincing evidence for the conclusion that it was the erosion of preferences which worsened the competitive position of ACP countries on the EC market compared to that of developing countries enjoying either MFN cuts or GSP preferences. The relatively low initial level of tariffs and the market imperfections may have suppressed an effective incidence of shrinking preference margins.

4. Tariff Savings and Import Price Reductions

a. Income Effects instead of Trade Effects

The effectiveness of preferences depends not only on production cost differentials between beneficiaries and non-beneficiaries but also on the fact whether tariff cuts resulting from the introduction of preferences are passed on to those who demand the product, i.e. in general not the traders acting as intermediaries only but the private consumers or the

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(1) In late 1976 the EC agreed in the Tokyo Round on a package of tariff cuts for about twenty products most of which (spices, for instance) also enjoyed preferential treatment under the GSP. They came into force already on 1 January 1977 as a concession for non-ACP developing countries.

(2) In packings exceeding 3 kg.

(3) Except non-ACP LLDCs which, however, were marginal suppliers of the three items (see p. 18).

(4) In the heat of discussion on ACP preference margins and their erosion it has often been neglected that a reverse situation happened after the end of Commonwealth preferences in the sense that the francophone ACP countries gained a duty-free access to the UK market due to the UK accession. Thus, after 1978 the comparative tariff treatment of Asian Commonwealth developing countries and francophone African countries on the UK market turned to the advantage of the latter. This reversal to the detriment of the former could not be outweighed by the extension of the EC GSP scheme to the UK replacing the Commonwealth preferences.

domestic entrepreneurs processing the imports. No trade effects are likely to occur if the importer or the exporter keeps the tariff savings for himself. This happens if the importer leaves the price for the consumer unchanged after the introduction of preferences or if the exporter raises his price by the amount of the preference margin. Instead of a trade effect, then, an income effect takes place which in the former case accrues to the importer and in the latter case to the exporter. It is, however, more likely that income gains - if they occur - are divided between the exporter who raises the export price by a part of the tariff reduction and the importer who takes the rest of it. The exact distribution of income gains depends on the supply and demand elasticities, in other words on the relative bargaining power of the exporters versus the importers.

Since the various tariff quotas of GSP have to be exhausted within one year, what is important for the income effect in practice is the information level of importers and exporters about the fact whether a specific shipment load will receive preferences or not. The lower the information level of the exporter compared to that of the importer, the more likely it is that the importer receives the lion's share of the income gain.

A separate question is whether it is reasonable to assume an income effect of preferences only instead of a trade effect. If we assume that export prices are not increased by the exporting developing country following the introduction of preferential tariffs (1) and if we leave aside the intensity of competition among the importers a major determinant of pocketing tariff savings is the amount of uncertainty to which the importer is exposed. If preferences - as in the GSP for sensitive products - are confined to rapidly exhausted quotas and if the greyhound system holds for importers (first-come/first-served basis), then an individual importer is uncertain whether he will receive preferences or not. In setting his prices under such conditions of uncertainty he is likely to proceed as if he is going to import across MFN tariffs. That means that any preference he does get is pocketed by him.

b. ACP Preferences and Tariff Savings

In contrast to the analysis of theoretical determinants of distribution of income gains through tariff savings a straightforward empirical test of its relevance for the ACP group is not possible simply because of the inavailability of published import price statistics after tariffs. Thus, a comparison between prices for goods originating from anglophone ACP

(1) This assumption is not heroic. There is not a full-employment situation in the developing countries so that exporters do not face increasing factor costs because of a preference-induced rising demand from the donor countries. Furthermore, in processed agricultures and manufactures where preferences are relevant developing countries supply mostly standardized products supplied by many LDCs. Price competition is therefore high among LDCs and importers do have a large number of options to procure goods from everywhere. This reduces the monopoly power of individual exporting countries largely.

countries on the EC 6 market prior to 1975, when they were charged the full MFN rate, and the prices after that cannot be made.

Therefore some plausibility arguments are given below:

- quotas exist for ACP countries only in specific items where price effects and hence trade effects are ruled out (beef, sugar, rum etc.). Therefore, the above cited uncertainty argument for the importer, whether he receives preferential treatment for preference-eligible goods or not, does in general not hold for imports from ACP countries. Unless the importer fails to meet origin rules requirements, preferences will be granted on an open-ended basis. Pricing as under MFN conditions because of uncertainties does not seem to be therefore relevant in the ACP case.
- ACP countries mostly export standardized commodities competing with products from non-ACP sources. If these products are finished goods (e.g. canned fruits, canned fish) it is rather likely that intensive competition among sale stores on the retail level in food products will lead to the transfer of tariff cuts into price cuts. The evidence of intensive competition in retail food trade is offered by very small margins of profit.
- various ACP products, some of which are "core" items (coffee, cocoa, lumber), are processed in the donor countries so that the import price is only a part of the consumer's price. If this part is very small, countervailing price trends on the local processing stages may outweigh import price reductions. If, in addition, products originating from ACP sources are blended with products from non-ACP sources as it is the case with coffee, the preference effect becomes diffuse (1).
- intermediate goods used for industrial processing such a vegetable fibres often face a price inelastic demand because of technologically determined indivisibilities (fixed input coefficients in the production function). In this case lower import prices as a result of preferences will not induce additional demand but will stabilize demand in the sense that substitution through synthetic products will be postponed.
- importers may pursue a "mixed-pricing" strategy between first orders where tariff savings are pocketed and repeat orders where price discounts are offered to the consumer to be paid from the tariff savings. Thus, in spite of savings accruing to the importer on intra-marginal

(1) An analysis of interconnections between cif-prices for coffee and West German retail prices for coffee revealed that only 37 per cent of import price changes was shifted to the retail price level which was the relevant for the consumer. For cocoa this percentage was even lower. Furthermore, cif-prices for raw coffee and raw cocoa from ACP countries and from Latin America - as the reference area - ran rather synchronously in the past (elasticities: 0.97 and 0.78, respectively), so that changes in ACP prices due to tariff discrimination would have probably been compensated by equivalent price changes of Latin American substitutes. In this respect the converging effect of international commodity agreements on prices of goods originating from beneficiaries and non-beneficiaries should not be neglected [Langhammer, 1979, pp. 99-106].

imports, trade effects become effective at the margin because of subsidization of marginal imports.

- in agreements on the effectiveness of preferences in terms of trade diverted from non-ACP countries to ACP countries it is often neglected that this effect cannot become effective because neither the ACP beneficiaries nor non-beneficiaries can compete with domestic products. Such a case is constituted for instance in the case of tea bags (CCT 0902 A). Though a preference margin of 5 per cent exists in favour of ACP countries no West German imports occur in this item. This is explained by the fact that tea from various origins are usually blended before being packed into bags. In order to meet this consumer preference tea from various ACP countries would have to be assembled in an ACP country to be packed to tea bags there. This is neither economically viable because of the low price prevailing for tea bags nor technically possible in the ACP context. In addition, transportation costs, costs of packing and the rather strict German labeling regulations for finished goods packings are further barriers against shifting the first processing stage to a tea-exporting ACP country (1).

To sum up, though clear cut empirical tests on tariff savings and income gains at retail and wholesale levels are not feasible without micro-data, it does not appear that the effectiveness of ACP preferences has been seriously impeded by tariff pocketing. In sectors, where ACP countries occupy relatively strong trading positions, competition between traders in the EC countries is strong as well. Any state intervention to the detriment of newcomers in trading and in favour of established traders could, however, lead to monopoly rents and could impede the transfer of tariff cuts into price cuts. The more often such impediments would take place, the more importers would represent the interests of domestic manufacturers (2).

5. Origin Rules and Their Impact on ACP Exports

a. Implementation of Origin Rules

Origin rules are a complement to unequal treatment through regionally specified tariff quotas. Once an importing country starts dividing its trading partners into more privileged, less privileged and non-privileged ones, as measured by degrees of deviations from the MFN tariff, origin rules have to be introduced. Otherwise a trade deflection occurs which means imports from countries which have already exhausted their quotas

(1) This suggestion was made by the executives of the Wirtschaftsvereinigung Groß- und Außenhandel, Hamburg e.V.

(2) Such privileges to established traders representing domestic manufacturers have been granted in France under the GSP for very sensitive textiles. It is argued in this connection that the French Ministry of Industry has a decisive influence on delaying the granting of technical visa and licenses to certain importers in order to ensure that French tariff quotas are used solely by importers who represent domestic manufacturers [Weston et al., 1980, p. 83].

via countries which have not exhausted their quotas or which enjoy open-ended market access. This would make special preferences ineffective and would open additional export outlets for advanced developing countries thus putting domestic producers of the importing country under enhanced adjustment pressure.

The relevance of trade deflection is obvious in the case of ACP countries. They enjoy duty-free and open-ended market access for nearly all products in the EC and are to a large extent unable to use it. On the other hand, advanced developing countries of Latin America and particularly of Asia can use the options of duty-free treatment under the GSP only to the extent fixed by the Community through general safeguards, ceilings and tariff quotas. Furthermore, successful non-ACP suppliers are subjected to quantitative restrictions. The existence of highly competitive and non-competitive suppliers facing different conditions of market accessibility provides strong incentives to trade deflection. This would practically lead to a shift of "finishing touch" activities to ACP countries in order to profit from ACP preferences. These activities may contribute to employ resources in ACP countries which would otherwise remain idle and may thus support the developmental targets of the Lomé conventions. Yet the protection of its own domestic industries has been given priority by the EC. Thus, minimum requirements of domestic value added content in gross output have been fixed which are widely identical with requirements set for other preferential arrangements (GSP, Mediterranean preferences). The explicit ones determine that the cif value of imported materials does not exceed an upper limit fixed as a percentage of the ex factory value of the exported product (percentage criterion). The implicit requirements constitute specific processing operations to be carried out in the ACP country on the non-originating materials (process criterion). The jump from a 4-digit CCCN heading to another one mostly serves as the criterion of substantial processing, but not always. The so called regulation lists A and B of the rule of origins enumerate the cases where the tariff jump does not qualify a product for preferential treatment because of insufficient processing and where even without a tariff jump origin rule requirements are met because of substantial processing. In contrast to origin rules fixed for GSP beneficiaries the ACP countries have been granted two cumulation options which basically reduce the restrictive nature of origin rules. Value added contents of several ACP countries can be added together which encourages vertical specialization and intra-ACP trade and second, inputs imported from the Community are considered as originating products (donor content rule). Whereas the former option is not likely to have much impact because of the low industrialization level of the countries concerned and because of low level of trade among each other (1), the latter may be more important. However, it has the stigma of "tied aid". No doubt the donor country content reduces the options of ACP countries to buy from the cheapest sources of supply. However, the preferences are a non-negotiable unilateral concession and no recipient can complain about the real value of the concession which is deflated by its tiedness.

(1) See for an exception Chapter VI, Chart 2.

b. Domestic Value Added Content: Implications for ACP Countries

On the basis of an UNCTAD study in which the implicit value added requirements for garments and woven cotton fabrics were transformed into explicit value added shares (86 and 76 percent of the finished product) [McQueen, 1982] comes to the conclusion that less advanced ACP countries are unable to meet such criteria.

In fact, Table 22 yields for twelve ACP countries at the end of the seventies that the recorded value added shares in gross output of manufacturing industries did not exceed 50 per cent for the majority of cases (73 percent). This proportion was even worse some years ago [McQueen, 1982]. Out of the two most industrialised ACP countries, the Ivory Coast and Kenya, only one industry (beverages) in the former exceeded the 50 per cent limit.

There are several factors responsible for this result. First, the ACP countries at their given stage of industrialisation hardly possess vertically integrated processing chains which would raise the domestic value added content. Second, the import substitution policies pursued by most of the ACP countries inhibit the establishment of local industries producing intermediates. Third, the distortion of factor prices in ACP countries through minimum wage legislation and interest rate ceilings favour capital intensive techniques which lead to a high share of non-originating inputs imported from industrialised economies. Fourth, also the goods prices are distorted through tariffs and subsidies. Tariffs are highest in finished goods and lowest for primary commodities. Capital goods can often be imported duty free because of tax holidays conceded to foreign investors (1). In terms of world market prices the domestic value added sometimes turns out to be negative. Fifth, the donor country content provision enhances the existing tendency of investors from EC countries to apply the same labour saving techniques in ACP countries with which they are familiar in their home countries. The above price policies as well as the application of technical standards and norms used in the home countries of foreign investors reinforce this tendency.

Under these conditions one could expect that most of the ACP non-traditional exports have been denied preferential treatment in the EC because of their not being in conformity with its rules of origin. But this is not true. Though data on ACP exports to the EC market under MFN conditions are not available, it seems that full tariff exemption has been conceded to all ACP exports in privileged items. This is indicated by a few ACP exports which are classified as GSP-receiving imports in the German import statistics because the importers of these goods filled in the GSP Form A instead of the movement certificate for preferential trade between the EC and the ACP states. Hence, instead of special preferences the GSP was applied. Though origin rules are even more rigid in the GSP (lack of donor content), ACP exports could obviously jump over this hurdle.

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(1) See for an empirical evidence of goods and factor price distortions Section V.1 and 2.

Table 22 - Share of Domestic Value Added in Gross Output (a) in Selected Manufacturing Industries of Selected ACP Countries

ISIC		Ethiopia	Fiji	Gambia	Ghana	Ivory Coast	Kenya	Mauritius	Papua N.Gui.	Rwanda	Somalia	Swaziland	Zimbabwe
		1979	1979	1978	1977	1979	1980	1980	1979	1979	1977	1979	1978
311/2	Food products	55.1	25.6	11.1	51.3	22.3	19.5	17.8	26.6		34.2	29.8	23.8
313	Beverages	72.9	24.3	53.2	74.9	52.6	32.0	23.9	45.5	63.1	68.1		59.5
314	Tobacco	46.8		-	85.7	-		13.5	28.4			-	57.6
321	Textiles	45.0	30.4	-	49.4		27.6	31.4	70.6	39.2	55.4	18.2	31.9
3211	Spinning, weaving etc.	46.4	-	-	-	37.7	30.2	-	-	-	-	-	30.0
322	Wearing apparel	33.5	-	-	60.9		16.8	33.4	42.0	-	57.9	-	46.0
323	Leather and products	32.2	-	44.8	50.0	33.3	36.6	50.0		-	37.4	-	-
324	Footwear	43.5	38.4	-	57.1		41.4	45.2	-	-		-	52.8
331	Wood products	54.5	50.8	-	61.7	30.0	33.3	45.0	54.2	-	-	49.8	47.5
332	Furniture, fixtures	58.7	26.7	44.8	61.2		31.1	37.5	44.9	29.3	21.0		44.7
341	Paper and products	60.4	42.0	-	58.6	36.7	22.7	40.9	37.7	-	-	37.2	34.4
3411	Pulp, paper etc.	-	-	-	-	-	28.7	-	-	-	-	-	-
351	Industrial chemicals	66.1	-	-	60.6	29.7	22.6		55.0	32.1	-	-	32.9
3511	Basic excl. fertilizers	-	-	-	-	-	-		-	-	-	-	53.6
3513	Synthetic resins etc.	-	-	-	-	-	-	24.1	-	-	-	-	-
352	Other chemical products	36.9	13.3	45.5	39.5	-	6.6		51.5	-	19.5	-	47.8
3522	Drugs and medicines	-	-	-	-	-	31.6		-	-	-	-	-
355	Rubber products	48.1	27.7	-	48.7	10.6 (b)	35.3	36.7	45.4	-	-	-	44.4
356	Plastic products n.e.c.	32.6	27.5	40.2	57.3	-	13.4	37.0	55.0	-	71.9	-	47.7
361	Pottery, china etc.	-	-	-	83.1		16.9	-	-	-	96.9	-	
362	Glass and products	48.8	-	-	36.5	29.2		-	52.6	-	-	-	57.2
369	Non-metal products n.e.c.	50.8	36.9	42.0	28.8		22.7	39.2		-	42.3	-	
371	Iron and steel	32.3	-	-	53.0	26.2	12.6		48.2	-	-	-	53.9
372	Non-ferrous metals	-	-	-	83.0			29.9	-	-	-	-	
381	Metal products	38.5	29.3	38.8	55.0	34.2	27.3		43.5	35.0	30.6	-	50.2

(a) In producer's prices. - (b) 1978.
n.e.c. = not elsewhere classified.

Source: UN [b, 1982, Vol. 1].

Why this was possible in spite of the low value added content in gross output can be explained by making references to the actual application of the rules. In specific cases and under various conditions to be approved by the Customs Cooperation Council established under the ACP agreement exemptions from the rules of origin can be granted and have been granted in practice.

c. Effects of the Donor Country Content Rule

The donor country content provision combines both a short-term derogation as well as a long-term impasse for ACP exporters.

The annually published Ivorian "Centrale de Bilans" allows for assessing the importance of this cumulation provision combined with the ACP group cumulation since intermediates used are disaggregated according to their origin. Table 23 provides a breakdown of the value added content in turnover, of the direction of sales and of the origin of inputs in manufacturing industries classified as exportables. The group "Franc-Zone countries" comprises francophone ACP countries as well as France, so that inputs and intermediates imported from this group and processed in the Ivory Coast, fully meet the donor country content and/or the ACP group cumulation provision.

Additionally, the group "other third countries" includes the rest of EC members so that part of the inputs and intermediates from this source can be added to the domestic value added too. As far as the value added share is concerned the findings derived from Table 23 hold: except for rubber, the shares do not exceed 50 per cent. On the other hand, however, the share of non-originating inputs(excluding intermediates) amounts to less than 20 per cent at the maximum if we assume that inputs from other third countries originate from non-EC sources to the full extent. However, this is rather unlikely.

Thus, in spite of the low value added shares, origin rules are mostly fulfilled according to the percentage criterion and probably also according to the process criterion. Without the donor country content rule many Ivorian industries would fail to meet them. In general, the export oriented Ivorian industries (food processing, wood processing, clothing and rubber) are based on the processing of local inputs, whereas imported inputs dominate in industries oriented towards domestic market. This again reflects partly the impact of distortions induced by trade policy.

Are the rules of origin protectionist tools of the Community in the sense that they inhibit ACP exports and if so, against whom are these tools used by the Community? As long as no distinction can be made between preference-receiving imports on the one hand and preference-eligible imports from ACP countries which did not receive preferences on the other hand, there is no direct answer to this question. But even if preference-eligible and preference-receiving imports from the ACP region would be identical, there is evidence that rules of origin are protectionist tools, not against ACP countries but against those third countries which are excluded from both of the cumulation provisions. Such coun-

tries are the non-EC industrialized economies and particularly the non-ACP advanced developing countries. Fabrics cannot be exported from Asian countries to ACP members in order to be processed there to clothing even if wage costs in the ACP group would make such a trade profitable. Since this holds generally, ACP countries are cut off from transfers of technological and commercial know-how originating from advanced developing countries and this is exactly what they need. Instead incentives are provided by the donor country content rule to import advanced technologies from the highly developed countries of the Community which do not correspond to the factor endowment of ACP countries.

d. Implications for ACP Exporters

Whereas cost differentials between inputs from the EC and cheaper substitutes from non-EC sources may give rise to concern in the short run as they are equal to an income transfer from the ACP group to the EC, the long run implications of the donor country content provisions are more serious. ACP countries become increasingly dependent on the EC for their exports because inputs originating only from the EC can be considered as originating products if the finished goods are to be exported to the EC. Rules of origin of potential third markets such as Japan or the USA will deny preferential treatment to these ACP exports under their GSP. Finally, the division of labour with non-ACP advanced developing countries which might be crucial as a development stimulant for ACP countries, is impeded.

To conclude, as long as discriminatory preferences do exist, rules of origin are indispensable for separating the beneficiaries from the non-beneficiaries. In the ACP case, non-competitive ACP countries are neighboured by competitive non-ACP countries whose labour intensive industries threaten vulnerable domestic industries of the EC. In this respect rules of origin, which require substantial transformation with value added contents of more than 50 per cent, have the principal objective of reducing incentives for trade deflection. Proceeding along this line means to close possible loopholes for indirect exports of advanced developing countries via ACP countries but unfortunately it also hampers potential ACP exports. In order to achieve both targets, viz. the prevention of indirect exports from NICs and the promotion of ACP exports, the donor country content rule serves as a way out of this impasse. However, as it has been pointed out above it is a selfish solution of the problem.

Table 23 - Source of Inputs, Value Added Content and Sales Direction in Ivorian Manufacturing, 1981 (per cent)

	Share in turnover (including turnover tax and self-consumption)							Share in turnover (excluding turnover tax and self-consumption) sold		
	input materials originating from			intermediates consumed(a) originating from			value			
	local sources	Franc-Zone countries	other third countries	local sources	Franc-Zone	other third countries	added	locally	in Franc-Zone countries	in other third countries
Biscuits, noodle	42.6	10.3	9.0		9.5		28.6	66.6	33.4	0
Canned fruits and juices	54.2	4.6	0.7	31.7	4.2	2.2	3.1	7.0	41.7	51.3
Coffee and cocoa derivates	57.9	1.1	1.6	8.4	3.3	1.8	25.9	5.9	46.7	47.4
Beverages	25.9	6.2	6.6	7.1	1.3	3.4	49.5	96.7	3.0	0.3
Vegetable oil industries	38.4	1.2	1.6	25.4	0.9	0.1	32.3	88.6	5.9	5.5
Other food industries, sugar, tobacco	14.0	11.1	8.9		20.0		46.0	91.6	5.0	2.5
Spinning, weaving and dyeing	35.0	2.0	13.2		13.2		36.6	78.0	13.6	8.4
Sacks, twines	26.7	5.9	16.8		8.2		42.4	97.9	2.1	0
Clothing	41.9	6.0	3.6		13.0		35.5	53.1	24.4	22.5
Other textile products	16.0	6.0	19.2		11.1		47.7	93.8	6.2	0

Leather and shoe industries	37.4	7.9	9.8		10.7		34.2	90.9	9.1	0
Sawmills and planning-mills, plywood	24.2	0.2	0.2	33.2	0.3	0.9	41.0	38.3	14.2	47.5
Wood products except furnitures	36.9	0.1	1.0	21.1	2.1	2.9	35.9	42.9	17.8	39.3
Furnitures	35.4	1.4	0.2		14.0		49.0	99.4	0.6	0
Paints and lacquers	29.3	9.3	9.0		5.1		47.3	96.6	3.1	0.3
Cosmetics, perfumes	36.3	15.5	9.5		9.7		29.0	91.6	3.6	4.8
Plastic products (except plastic shoes)	23.0	20.2	14.7		10.8		31.3	90.8	9.1	0.2
Other chemical industries	30.9	4.1	13.8		17.2		34.0	75.7	22.4	1.9
Rubber	5.6	0	0.1	36.6	2.3	0.1	55.3	10.3	42.8	46.9
Rubber products	30.0	0.6	7.2		14.8		47.4	84.5	15.5	0
Bricks and tiles	18.1	1.8	9.1	20.1	0.6	1.9	48.4	100.0	0	0
Metal products	16.0	33.8	12.4		9.5		28.3	93.8	5.6	0.6
Forgings	12.5	2.8	0	42.1	4.0	0.3	38.3	99.0	0.8	0.2
Metal fixtures	52.8	2.8	2.6	20.5	0.3	0	21.0	100.0	0	0

(a) Electricity, water, fuels, spare parts, office rents, transport and other services.

Source: MEF [1983]; own calculations.

V. ACP Policy-Induced Barriers to ACP Export Growth and Export Diversification

Internal price distortions are probably the most serious bottleneck to the integration of ACP countries in the world economy because they inhibit domestic producers to export goods with a factor mix which is commensurate with the country's factor endowment. A sample of 31 developing countries ranked by the World Bank [d] according to the degrees of their price distortions in the seventies, denotes six ACP countries in the lower half of the sample, viz. the Ivory Coast, Senegal, Jamaica, Tanzania, Nigeria and Ghana. The latter three countries together with Bangladesh had the highest amount of price distortions (1).

Price distortions in developing countries are a result of administered prices for production factors through which labour is usually made more costly and capital cheaper than what they would be under market conditions. Further determinants of distortions in developing countries lie in the realm of product pricing (tariffs and inflation) as well as in the lacking adjustment of exchange rates to the changing differentials between domestic and international inflation. The latter determinant often results in overvalued nominal exchange rates and hence in an appreciation of the local currency in real terms.

1. Factor Price Distortions

a. Minimum Wages

α. Labour Abundance and Labour Aristocracy

A relative abundance of unskilled labour is a common feature of Third World countries and especially of those which are in the early stages of development such as the ACP members. According to the traditional theory of international trade these countries can improve their welfare if they specialize in the production and export of those goods which make an intensive use of this factor. Yet, in almost all of these countries the employment of unskilled labour is subject to some form of minimum wage regulations (2). Obviously the protection of the most vulnerable group of workers has considerable political appeal because it is a visible expression of declared targets of many governments to achieve a greater de-

(1) The ranking does not show the wide range of the distortions between for example the Ivory Coast on the one hand and Tanzania or Ghana on the other. A recent study by Balassa [1982] concludes that the so-called market-oriented ACP countries such as Botswana, the Ivory Coast, Cameroon, Kenya, Malawi, Mauritius, Niger, Burkina Faso, and Togo showed a better performance with regard to the response to external shocks than the more interventionist or "étatist" countries which imposed a greater amount of policy distortions upon their economies (Ethiopia, Benin, Ghana, Madagascar, Mali, Zambia, Senegal, Sudan, Tanzania).

(2) Exceptions within the group of ACP countries are e.g. Ethiopia, Nigeria, Somalia and Suriname [Starr, 1981, p. 11].

gree of social justice and to improve the distribution of national income. However, whether minimum wage fixing is an adequate method to reach these targets is a controversial issue. The main objection against the use of this policy instrument is that it will raise labour/capital price ratios and will foster the introduction of labour saving techniques. While offering wage rents to a relatively small group of the already employed workers, which is defined here as labour aristocracy, minimum wage fixing reduces employment opportunities for a majority of the unskilled labourers.

Evaluation of the economic impact of minimum wages, however, faces considerable empirical hurdles. Its impact on labour costs, prices, employment, investment and economic growth largely depends on their level and effectiveness, especially in the long run when adjustments to increases in labour productivity and general price level have to be made. Nonetheless, some general comments on the importance of minimum wage legislation for economic development in the ACP countries, especially the African ones, are possible.

8. Minimum Wage Legislation in ACP Countries in Historical Perspective

Minimum wages are administered in almost all African ACP countries, where they were introduced first by the colonial powers [Acharya, 1981; Arrighi, 1973, p. 122]. At the end of the colonial period the leadership of labour price was in the hands of the public sector. Here the wage level was relatively very high and characterized by a big difference between wages of skilled and unskilled labour. This difference was caused mainly by the efforts of the colonial powers to facilitate recruitment of administrative staff from their own countries. For the same reason a similar wage structure existed also in the private sector which was dominated by foreign firms.

After independence a massive Africanisation began of the administrative cadres of the public sector. For reasons of egalitarianism, however, it was found to be politically untenable to pay lower salaries to the Africans while retaining the old pay scales for the ex-colonial expatriate staff on which these countries were still dependent in the skill-intensive technical government functions. In the private sector, foreign firms also continued to pay their expatriates at the same high level as before. Thus for the newly established African governments, it was easier to meet the political pressure for reducing the massive income disparities within the already employed labour force by raising wages at the bottom of the pay scale than by reducing salaries at the higher levels. As a result, during the first decade after independence earnings of workers in the modern sector increased substantially.

However this wage policy resulted in some adverse economic consequences which soon became perceptible and can be summarized as follows (1):

- With rising minimum wages the already existing income differences between rural and urban areas increased leading to a massive migration into towns and to increasing urban unemployment and poverty.

(1) For more detailed information see e.g. Malan [1981] and the literature cited there.

- In most of these countries the public sector was and still is the largest single employer. High and increasing minimum wages often followed by corresponding increases in wages and salaries of the upper grade employees resulted in a swelling of government current expenditure and decrease of government savings and investment. Further, this increased the pressure on private enterprises to raise the level of their wages and salaries.
- In the private sector minimum wage regulations have tended to increase the substitution of unskilled labour by capital. Thus while ensuring a relatively high standard of living for a comparatively small number of urban workers, minimum wages have harmed the majority of unskilled labourers because of their adverse influence on the employment creation.
- Last but not least, increasing unit labour costs called for increasing protection of the nascent industries. This in turn biased industrialization in favour of import-substituting activities while competitiveness of export industries suffered.

Studies on wages in some anglophone African countries (e.g. Zambia) confirm that wages paid by foreign firms did have an influence on the wages in the rest of the economy [Knight, 1975]. Usually these firms are engaged in manufacturing and mining and therefore tend to use highly capital-intensive technologies. This implies a high factor productivity, a low weight of labour costs in total costs and therefore a greater willingness of the employers to concede high and increasing wages above the minimum levels.

Thus, at the end of the seventies most of the African ACP members were still maintaining the colonial heritage of a relatively high wage level. In the following section the development of wages during the seventies is discussed on the basis of some quantitative information.

γ. Minimum and Real Wage Rates in the Seventies

During the seventies, especially after the first oil price shock in 1973 (see Section V.2.c.) inflation in the African ACP countries sharply accelerated. In almost all the countries included in Table 24 minimum wages were adjusted to rising prices as shown by the increases in the nominal minimum wages, though they were not always sufficient to compensate for inflation. The real minimum wage in these countries declined by 1.7 per cent per year during the period 1970 - 1977. This decrease was much more pronounced in the CAR (5.7 per cent), Zambia (6.6 per cent) and Zaire (15.8 per cent). On the other hand in Kenya, Mali, and Mauretania real minimum wages increased by an annual average rate of 1.5, 4.3 and 2.5 per cent, respectively. In Senegal and Tanzania they remained constant during 1970-1977. The highest increase in minimum wages was found in a non-African ACP country, viz. Papua New Guinea, where they rose by 11.7 per cent per annum.

Besides the real minimum wages, the real wages paid in the manufacturing sector also declined in a number of African ACP countries (Table 25). The biggest decline in 1970-1977 was in Ghana with an annual average rate of 11.7 per cent followed by Somalia (6.8 per cent), Rwanda

Table 24 - Indices of Nominal and Real Minimum Wages in ACP Countries, 1970-1977 (1970=100)

		1970	1971	1972	1973	1974	1975	1976	1977
Cameroon	nominal	100	100	100	110	126	126	164	.
	real	100	97	90	95	92	79	95	.
CAR	nominal	100	100	100	100	125	125	125	125
	real	100	94	87	83	94	81	74	66
Chad	nominal	100	100	100	100	100	100	100	135
	real	100	93	90	87	80	67	67	80
Congo	nominal	100	100	100	100	170	170	170	170
	real	100	96	87	85	137	115	111	96
Ghana	nominal	100	100	100	100	100	100	100	533
	real	100	95	87	78	61	43	28	85
Ivory Coast	nominal	100	100	100	125	158	158	197	197
	real	100	101	101	114	122	109	122	96
Kenya	nominal	100	100	100	129	137	171	171	200
	real	100	98	95	115	107	113	105	111
Mali	nominal	100	100	100	125	219	219	219	328
	real	100	81	78	81	128	122	113	134
Mauritania	nominal	100	100	108	108	237	237	237	237
	real	100	93	93	86	169	150	131	119
Niger	nominal	100	100	100	100	133	133	133	192
	real	100	96	87	78	121	111	90	87
Rwanda	nominal	100	100	100	100	188	188	188	188
	real	100	100	97	88	125	97	91	78
Senegal	nominal	100	100	100	115	212	212	212	212
	real	100	97	91	93	147	112	110	100
Tanzania	nominal	100	100	141	141	200	224	224	224
	real	100	95	125	114	134	119	111	100
Togo	nominal	100	110	110	110	121	145	145	167
	real	100	101	97	92	90	91	82	78
Zaire	nominal	100	120	132	132	132	176	211	211
	real	100	113	108	93	73	75	48	30
Zambia	nominal	100	100	123	123	123	123	123	123
	real	100	95	112	105	97	88	74	62
Papua New Guinea	nominal	100	114	164	197	286	369	388	406
	real	100	107	145	161	215	221	217	217

Source: Starr [1981, pp. 189-193].

(4.1 per cent), Malawi (1970-1975: 3.7 per cent), Ethiopia (1970-1980: 3.4 per cent), Kenya (1970-1980: 2.7 per cent), the Ivory Coast (1973-1980: 0.9 per cent), and Zimbabwe (1973-1979: 0.2 per cent). An increase in the real wages was registered in Fiji (4.5 per cent), Jamaica (4.2 per cent) and Mauritius (1970-1980: 2.6 per cent). It is interesting to note that in Somalia and Ethiopia where the decline of real wages was more pronounced, minimum wage regulations did not exist.

Table 25 - Indices of Nominal and Real Wages per Worker in the Manufacturing Sector (a) of Selected ACP Countries, 1970-1980

		1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Ethiopia	nominal	100	104	108	113	.	.	140	152	156	163	175
	real	100	104	115	111	.	.	92	85	76	69	71
Gambia	nominal	.	.	.	.	.	.	100	104	105	279	261
	real	.	.	.	.	.	.	100	93	86	216	189
Ghana	nominal	100	108	118	.	.	.	210	309	.	.	.
	real	100	98	98	.	.	.	62	42	.	.	.
Ivory Coast	nominal	.	.	.	100	116	123	136	158	193	223	265
	real	.	.	.	100	99	94	93	84	91	81	94
Kenya	nominal	100	101	102	100	128	136	146	157	186	209	235
	real	100	97	93	83	90	81	78	73	73	77	76
Malawi	nominal	100	98	95	99	118	130	.	.	.	.	.
	real	100	90	84	84	87	83	.	.	.	.	.
Mauritius	nominal	100	103	111	.	.	.	.	371	382	437	501
	real	100	103	106	.	.	.	.	170	161	161	129
Rwanda	nominal	.	.	.	100	116	187	183	194	204	346	.
	real	.	.	.	100	89	110	100	93	87	127	.
Somalia	nominal	100	91	79	82	82	91	109	112	.	.	.
	real	100	92	82	80	67	63	66	61	.	.	.
Zimbabwe	nominal	.	.	.	100	110	124	137	148	160	178	.
	real	.	.	.	100	103	106	105	103	102	99	.
Fiji	nominal	100	127	137	143	184	217	251	317	339	341	.
	real	100	120	118	111	124	129	134	158	159	149	.
Jamaica	nominal	.	100	117	165	187	.	275	332	405	.	.
	real	.	100	112	132	120	.	137	149	134	.	.

(a) Wages and Salaries of employees in ISIC 3, divided by average number of employees; in the case of Ghana, Kenya and Mauritius divided by average number of persons engaged.

Source: UN [b].

Whether the decline in real wages has actually contributed to the greater use of labour in production is difficult to assess only on the basis of this information because the decrease of real wages may reflect a decline in productivity of labour. What is essential in order to assess the distortional impact of wage changes, is the information on their relation to changes in national income per capita. In Table 26 therefore the development of per capita real wages in manufacturing is compared with the growth of per capita real income adjusted for changes in the external terms of trade. The latter variable can be regarded as a rough proxy of the overall productivity. Thus if for example real wages increase more than the adjusted real income it would mean that the cost of labour has risen more than the productivity of labour and that the profits have

Table 26 - Annual Average Rates of Growth of Real Wages in Manufacturing (a) and of Terms of Trade Adjusted GDP per Capita (b) in Selected ACP Countries, 1970-1980

	Real wages			GDP per capita		
	1970-1975	1975-1980	1970-1980	1970-1975	1975-1980	1970-1980
Ethiopia	3.6(c)	-6.3(d)	-3.4	1.7(c)	-0.4(d)	0.2
Gambia	.	29.3(e)	.	.	1.5(e)	.
Ghana	.	.	-11.7(f)	.	.	-3.1(f)
Ivory Coast	.	.	-0.9(g)	.	.	2.1(g)
Kenya	-4.2	-1.3	-2.7	3.5	1.6	2.6
Malawi	-3.7	.	.	2.7	.	.
Mauritius	3.0(h)	-2.7(i)	5.4(j)	9.4(h)	-0.9(i)	7.5(j)
Rwanda	.	.	4.1(k)	.	.	-1.8(k)
Somalia	-9.0	-1.2(l)	-6.8(g)	1.7	0.02(l)	1.3(g)
Fiji	5.3	.	6.7(g)	6.4	.	4.8(g)
Jamaica	6.3(m)	2.9(n)	4.3(o)	0.2(m)	-3.0(n)	-1.7(o)

(a) Defined as in Table 25. - (b) Defined as $(GDP - (X - M) + \frac{(X - M)}{IPI}) \frac{1}{POP}$;

Constant Market Prices, GDP = Gross Domestic Product, X = Exports, M = Imports, IPI = Import Price Index, POP = Population. - (c) 1970-1973. - (d) 1976-1980. - (e) 1976-1979. - (f) 1970-1977.- (g) 1973-1980. - (h) 1970-1972. - (i) 1977-1979. - (j) 1970-1979. - (k) 1973-1979. - (l) 1975-1977. - (m) 1971-1974. - (n) 1974-1978. - (o) 1971-1978.

Source: UN [b]; World Bank [e]; own calculations.

gone down. As Table 26 shows, such a development occurred in Gambia, Rwanda, Fiji and Jamaica.

The deterioration of the real income of wage earners in the sample countries as a consequence of decline in real wages during the seventies must have increased the employment and profits. Therefore the climate for private investment must also have improved. However, whether the decline in real wages during the seventies was sufficient to compensate its increases during the sixties cannot be easily assessed. In a World Bank analysis [d, p. 62; see also Agarwala, 1984], which is based on the same indicator as used here but takes into account other "qualitative information" and longer-term effects of rapid increases in wages in the sixties, Ghana, Kenya and the Ivory Coast are qualified as countries with medium or highly distorted prices of labour.

Given the small size of the manufacturing sector in ACP countries, it is however questionable whether it is this sector rather than the leading public sector or the large agricultural sector which determines the wage level in these countries.

6. Wage Costs in ACP Countries in International Comparison

ACP countries face a number of locational disadvantages in export-oriented production compared with many other developing countries. Among

other things, what determines the desire of foreign investors to establish production facilities in ACP countries is not the wage cost difference between the EC and the ACP countries but the difference between the latter and other LDCs (1). This is because ACP countries compete with non-ACP developing countries where unskilled labour is abundant as well.

Given the obvious shortages of wage data and their inconsistencies, the comparison between wage costs in ACP countries and other LDCs undertaken in the following should be interpreted with due caution. For that purpose labour costs per unit of gross output in the textile industry of those ACP countries where data were available and of some medium-size and middle-income competing countries were compared. The textile industry as a fairly homogeneous industry has been chosen firstly because it is one of the leading export industries of many developing countries absorbing unskilled labour and secondly because it changes its location rapidly in response to wage cost differentials among developing countries. Because of the latter characteristic the textile industry has ceased to be the major export industry of the NICs such as South Korea, Taiwan or Singapore and has shifted to other middle-income countries in Latin America, Asia, and North Africa. Therefore textile exporters of the "second generation" such as Colombia, the Philippines and Tunisia and also small open economies such as the Central American countries Costa Rica and Guatemala who are closely linked to an industrialised market were selected as reference countries.

The comparison yields a fairly homogeneous result (Table 27). The average wage cost content in gross output was roughly speaking higher by more than 30 per cent in ACP countries than in the reference countries. This difference remained stable during the seventies in spite of technology-induced decreases in the wage cost content in both groups of countries over time. The only exception was Mauritius which is the most successful ACP exporter of textiles and where wage costs per unit of output declined in line with the reference countries.

Nonetheless, it may be concluded that though unskilled labour in ACP countries seems to be at least as abundant as in the reference countries, there is no evidence that they were more attractive as an investment location than other developing countries because of lower wages.

Two observations underline this conclusion. First, "generous" labour legislation in francophone African countries seems to have led to a shorter weekly working time than in other developing countries (2). Second, it has been estimated that for instance in the Ivory Coast additional so-

(1) This aspect has been widely neglected in the study commissioned by the EC on selection criteria of export industries in African associated countries. Furthermore, it considers nominal wage rates and not wage costs per unit of output which would be more relevant [EG, b].

(2) According to the UN Yearbook of Industrial Statistics operatives in the Cameroonian and Malagasy (Madagascar) textile industry worked 2080 and 2225 hours respectively in 1978, whereas working time in Guatemala, Hong Kong, the Philippines and South Korea was 2307, 2760, 2564 and 2385, respectively.

Table 27 - Wages per Output (a) in ACP Countries' Textile Industries, 1970-1981

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Cameroon	0.115		0.128						0.160			
CAR				0.128					0.137			
Ethiopia	0.118			0.102		0.109			0.178			0.146
Fiji	0.220			0.154		0.124				0.163		
Gambia											0.157	
Ghana							0.125	0.154				
Ivory Coast				0.154		0.149				0.184		
Kenya	0.177			0.160		0.166		0.132		0.130		
Madagascar	0.180			0.157		0.128			0.131			
Malawi	0.126			0.106		0.110						
Mauritius	0.301		0.285						0.134			0.088
Nigeria	0.078			0.134			0.136		0.179			
Papua New Guinea	0.131			0.179		0.329				0.249		
Rwanda								0.092		0.110		
Senegal						0.140						
Seychelles								0.315			0.311	
Somalia	0.624			0.176		0.210		0.169				
Sudan	0.219	0.157										
Suriname								0.220				
Swaziland				0.092				0.071			0.086	
Tanzania	0.176			0.167								
Togo	0.135			0.083				0.167				
Tonga											0.427	
Trinidad & Tobago						0.195						
Zaire			0.186									
Zambia	0.257			0.149	0.157							
Zimbabwe								0.123		0.121		
ACP average (b)		0.176					0.143				0.147	
For comparison:												
Colombia	0.134			0.116		0.113				0.111	0.109	
Costa Rica											0.048	
Guatemala		0.130			0.082	0.105			0.099			
Philippines	0.114			0.102		0.088		0.100		0.116		
Tunisia	0.144			0.181		0.164				0.124	0.153	
Average		0.131					0.114				0.109	

(a) Wages and salaries of employees/gross output in ISIC 321. - (b) Excluding the extreme cases of Somalia in 1970, Seychelles and Tonga in 1980, respectively, and Papua New Guinea and Seychelles in 1975 and 1977, respectively.

Source: UN [b].

cial charges on wages amounted to 45 per cent of wages for African labour in 1975 [den Tuinder, 1978, Table SA 89, p. 428]. Indeed, it seems to be a colonial heritage in some ACP countries that social fringe benefits granted to the labour aristocracy have reached an amount which is incompatible with the overall income level of the countries and which the countries can afford only by shifting the costs to the mass of unemployed people in the rural and urban areas.

b. Low-Interest Rate Policies

α. The Case for Interest Rate Ceilings

Physical capital is a scarce factor of production in most of the ACP countries. Domestic savings are - given the low income level - too low. Opportunity cost of savings is often relatively high because of high inflation. Domestic financial markets are narrow, rudimentary and not open to everybody. Access to private short-term world capital markets is very limited because of insufficient creditworthiness of ACP countries. In many cases the flow of private long term capital from abroad (foreign investments) is confined to the exploitation of natural resources. Consequently it does not lead to much employment in the secondary sector. Finally, the access to development aid, especially of soft loans (IDA credits), is adversely affected by unforeseeable political disputes on "burden sharing" between the donor countries. The tension on the latest 7th IDA replenishment bears witness to this point. Thus, one would expect higher interest rates on the local markets than abroad in order to

- counteract the outflow of expatriates' remittances and savings,
- give incentives to increased domestic savings,
- reduce the import intensity and hence the physical capital intensity of local industrial production in the long run,
- discourage the introduction of labour saving technological progress,
- stop the drain of financial assets into unproductive physical assets in the case of inflationary pressures,
- attract the financing of foreign investments through external funds and hence to shift the risk of failure entirely to the investor instead of allowing the host country to participate in the risk through subsidized local funds,
- avoid credit rationing because of excess demand for capital at interest rates below equilibrium level,
- foster viable export industries which employ the most abundant production factor, i.e., unskilled labour.

But in reality all these countries have followed low interest rate policies

- to promote investment and thus growth,
- to avoid destabilizing effects of frequent interest rate changes on small credit markets,
- to keep the debt services low (1).

As in other low-income countries, the public sector in ACP countries is usually the major borrower. Therefore low interest rates are justified with the need to limit budget deficits and to maintain the state's flexibility in financing development programs.

(1) The pros and cons of low interest rates in francophone African Franc-Zone members whose CFA-Francs is tied through a fixed currency peg to the French Franc, were extensively discussed in 1972, when the IMF and the World Bank found the monetary policy of the West African Monetary Union (UMOA) to be inadequate for the reasons cited above [BCEAO, No. 203, 1973].

β. Empirical Evidence and Consequences of Interest Rate Rigidities

These arguments have been attacked by economists as frequently as they have been defended and implemented by politicians in developing countries in general and in ACP countries in particular. A recent study on interest-rate policies of the seventies in West African countries [Leite, 1982] provides evidence for what the World Bank admonished for the francophone African countries and Kenya [World Bank, g, pp. 362-365], i.e. interest rates have been generally fixed at a lower level than in France and the UK, which are the major trading partners and the major sources of capital inflow. Furthermore, interest rates have remained relatively stable. Only recently they were adjusted upward in line with the higher nominal interest rates on world capital markets. Domestic inflation is higher than the nominal interest rates so that real interest rates (lending as well as savings deposit rates) turn out to be negative. What is most crucial, however, is that such an outcome does not emerge episodically but over a longer period. Table 28 shows that this holds at least for the second half of the seventies in two francophone currency unions in West and Central Africa as well as for the anglophone West African countries. Because of high domestic inflation the level of real interest rates in Ghana was subject to disruptive changes, but it remained negative throughout the whole period.

Though in the UMOA the central bank discount rate was strongly raised in the early eighties, the real savings deposit rates (for instance in the Ivory Coast in 1982) remained negative which raised the opportunity costs for private savings.

The implications of such long-term distortions for the export acitivites of the ACP countries concerned can be summarized as follows.

- The capital intensity of production is fostered by low interest rate policies over a long period which results in deterioration of competitiveness of exportables on world markets. This seems to have happened in the West and Central African ACP countries.
- Lower rates of interest in the long run favour imported investment goods because they tend to be of longer life than similar domestic investment goods and hence are financed by long term lending [World Bank, g]. As already discussed, this is an incentive to decrease the share of domestically originating inputs and to apply a labour saving technology which is inappropriate given the abundance of unskilled labour in ACP countries. Excess capacities and a protection structure which provide additional shelter to the scarce factor, viz. capital, are then inevitable consequences.

Lending rates which in real terms are lower than the rates of return on the majority of projects requiring capital will result in a crowding out of viable projects because of credit rationing. Thus, export diversification strategies are impeded by wasting scarce resources. Instead of the market the administration takes decisions on the allocation of the funds which may be misleading because of distorted price signals. The inflow of foreign equity capital for new export oriented and labour intensive branches and the promotion of domestic savings are widely accepted targets for ACP countries. However, just the opposite has happened. The inward looking and relatively capital as well as import intensive branches financed through subsidized loans raised on local financial markets have

Table 28 - Interest rates in France and in Selected West and Central African Countries, 1976-1982 (per cent)

	1976	1977	1978	1979	1980	1982
	Central bank discount rate					
UMOA Countries(a)	8.0	8.0	8.0	8.0	10.5	12.5
BEAC Countries(b)	6.5	6.5	8.5	8.5	8.5	8.5
France	10.5	9.5	9.5	9.5	9.5	9.5
Mali	3.5	6.0	6.0	6.0	6.0	6.0
Nigeria	3.5	4.0	5.0	5.0	6.0	8.0
Ghana	8.0	8.0	13.5	13.5	13.5	10.5
UK	14.25	7.0	12.5	17.0	14.0	.
	Central bank preferential discount rate(c)					
UMOA Countries(a)	5.5	5.5	5.5	5.5	8.0	10.0
BEAC Countries(b)	4.5	4.5	4.5	5.25	5.25	5.25
	Lending rate(d)					
UMOA Countries(a)	7.0	7.0	7.0	7.0	7.0	.
France	9.6	9.3	8.8	11.5	12.3	.
Mali	5.0	7.5	7.5	.	.	.
	Savings deposit rate					
UMOA Countries(a)	5.5	5.5	5.5	5.5	7.5	9.5
France	6.5	6.5	6.5	7.5	7.5	.
Mali	2.9	4.0	4.0	.	.	.
	Real savings deposit rate(e)					
Cape Verde	-1.3	-4.7	-6.8	-0.4	-3.5	.
Gambia	-13.8	-8.9	-5.2	-2.6	-1.8	.
Ghana	-48.6	-108.9	-61.1	-42.4	-38.1	.
Ivory Coast	-6.6	-21.9	-7.5	-11.1	-7.1	.
Liberia	-0.6	-1.3	-0.3	-3.6	-5.8	.
Mali	-4.8	-21.0	-29.2	.	.	.
Senegal	4.4	-5.8	2.0	-4.1	-1.3	.
Sierra Leone	-10.2	-1.4	-3.9	-13.2	-1.1	.

(a) Member countries of the Union Monétaire Ouest-Africaine (Benin, Ivory Coast, Niger, Senegal, Togo and Burkina Faso). - (b) Member countries of the Banque des Etats de l'Afrique Centrale (Cameroon, CAR, Congo, Gabon, Chad). - (c) Valid for the sales and stock-keeping of local crops, for export credits in the crop sector and for small- and medium-sized local firms. - (d) For the UMOA countries and Mali, crop financing rate; for France, prime lending rate. - (e) Nominal rates minus inflation rate as given by the consumer price index.

Source: BCEAO [current issues]; Bourdin [1980]; IMF [c]; Leite [1982, Tab. 7, 9]; Secrétariat du Comité Monétaire de la Zone Franc [1983, Annexe 74].

received strong incentives from low interest rate policies in a number of ACP countries. While many other developing countries seem to have been aware of the incompatibility between interest rate subsidization and export diversification strategies [Fischer, 1982] and have consequently liberalized their financial markets, the ACP countries as shown above implicitly impose taxes on their exports through an inappropriate level of interest.

2. Goods Price Distortions

a. Tariffs

α. The Role of Tariffs in Industrialisation Policies of Low-Income Countries

Tariffs play an important role as an instrument of industrialisation policy in virtually all developing countries. Since import tariffs raise the domestic prices of tariff ridden products they reduce the domestic demand for imports and provide an incentive to engage in the domestic production of substitutes for imports.

This holds in general. Tariffs in the context of low-income developing countries, however, have a special meaning to be derived from their industrialisation level and budget constraints. To begin with the industrialisation level, low-income countries in the early stage of industrialisation have a very small and less diversified manufacturing sector. Production focuses on the final stage of processing (i.e. assembling activities) with strong backward linkages to foreign suppliers of inputs. Domestically produced finished goods replace imports of only those competing goods which face very high cost disadvantages because of transportation and higher labour charges in highly developed countries. Tariffs imposed on competing imports are often redundant but are levied for revenue purposes. The same is true for tariffs imposed on imports which do not compete with local production. This stage of inward-looking industrialisation based on infant industry argument (1) is often called "natural" import substitution and implies a few distortions only. However, because of small market size this stage does not last very long and import substitution becomes a part of the policy with systematic distortions in favour of import competing domestic industries. This stage may be called import substitution or policy excessive import substitution. This policy has thus become an ingredient of development policies in

(1) According to this argument temporary protection is necessary because the market process fails to take account of the full social returns from investment in new industries. The main problem is seen in externalities associated with the learning process. However, if there are divergences between private and social benefits, which prevent private investment from reaching a social optimum, the appropriate policy calls for compensation through subsidies rather than through tariffs because subsidies give a better guarantee that the social benefits like teaching activities are actually supplied [Baldwin, 1969].

which tariffs change their functions from being mainly budgetary to protectionist tools. Under this policy costly tariff protection is granted to old industries, which do not have the productivity growth of competing imports, and to new industries having excess capacities and relatively high absorption of capital for the protected market. At this stage the structure of tariffs - as it will be shown below - becomes at least as important a tool of protection as the average level of tariffs. Many ACP countries are in this stage of economic development.

β. Nominal and Effective Rates of Tariff Protection in ACP Countries

The tax burden on imports in ACP countries in many cases is higher than is shown by the import duties. This is due to the fact that a number of additional fiscal charges is levied on them (1). On the other hand, however, a study on the difference between average nominal tariff rates and the rates of effective duty collection (share of collected import charges in total value of imports) in 19 ACP countries yields that effective duty collection amounted only to 46 per cent of average tariffs in the mid-seventies with a range between 71 per cent (Malawi) and 10 per cent (Bahamas) (2). This large discrepancy stems from tax holidays for investors which are allowed in many ACP countries to import inputs free of import charges under the various investment codes. Such tariff exemptions widen the gaps between tariffs on intermediates and finished goods which are an integral part of tariff schedules (tariff escalation) in all the ACP countries. Both the tariff structure and the practice of tariff exemptions point out one of the main elements of import substitution policies in ACP countries, viz. the high amount of protection given to the domestic value added process. This is defined as effective rate of protection. The higher the tariffs on finished goods compared to those on inputs, the higher will be the effective rate of protection in comparison to the nominal tariff rate. Such a difference between value added

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(1) The most important individual fiscal duty in many African ACP countries has been part of a two-tiers tariff scheme comprising the fiscal duty ("droit fiscal" in the West African Customs Union (WACU) or "droit d'entree" in the Central African Customs and Economic Union (CACEU)) and the customs duty (droit de douane). The fiscal duty is generally higher and - during the time of the "reverse" Yaoundé and Arusha association agreements - was imposed on all imports, whereas imports from the EC countries were exempted from the custom duty. The introduction of the two-tiers system aimed at bridging the trade-off between the requirements of reciprocal preferences and the need for revenues from import duties. It has for a long time been attacked by the USA as being discriminatory and GATT-violating and it became obsolete when the non-reverse Lomé agreements were launched. However, in multilateral GATT negotiations the two-tiers system has maintained its importance as ACP countries offer concessions on the basis of the lower customs duty only and not on the sum of customs and fiscal duties.

(2) The countries are Bahamas, Benin, Burundi, Gabon, Ghana, Jamaica, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Suriname, Togo, Burkina Faso, and Zaire [Tymowski, forthcoming].

measured at domestic prices (plus tariffs) and at world market prices is furthermore an increasing function of the share of inputs in gross output. As discussed in Chapter IV most of the ACP countries are still in the stage of low domestic value added content in gross output, which is itself a result of discrimination against domestic intermediate industries through tariff escalation.

Under such circumstances it is not surprising that many studies on nominal and effective rates of protection in ACP countries show a rather homogenous pattern of effective rates of protection higher than the nominal rates.

As Table 29 shows, all industrial activities in Nigeria for instance are protected at a higher rate than is indicated by the nominal tariff rate on the final output. Also in Tanzania effective rates of protection for fifteen out of a total of seventeen industries are higher than the nominal rates. In Kenya, in 11 out of 19 industries the effective protection is higher than the nominal protection. This also means that the other industries are taxed according to the existing tariff structure. Further empirical evidence on effective rates of protection in ACP countries is provided in another study on the members of the CACEU [Langhammer, 1978, p. 113] in which the rates were calculated for seven so-called "taxe unique" industries (1) of the member countries Cameroon, Congo, CAR and Gabon. They reveal that effective protection of all industries in each member country was higher than the nominal protection. The most protected activities in Cameroon, Congo and the CAR were the manufacturing of chemical products, wood and wood products. In Cameroon the manufacturing of food was also highly protected. Another study on the Ivory Coast [Olopoenia, 1975, p. 21] shows that nominal tariff rates escalate with the degree of processing of cocoa beans, fruits, sugar, rubber, hides and cotton implying also that effective protection in the respective industries is higher than nominal rates on their final output.

γ. Implications of Tariff Protection on Resource Allocation in ACP Countries

The empirical evidence confirms that tariff structures at least in African ACP countries tend to end up in higher effective rates of protection than is indicated by the nominal rates (2). In other words the excess costs of the domestic production in ACP countries resulting from the protection are higher than those indicated by the nominal tariff rates or by the excess of domestic over world market prices. Apart from this there are other well-known following adverse effects of extensive and selective use of tariffs as a tool to foster industrialisation:

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(1) Food, tobacco, beverages, textiles (including clothing and footwear), wood and wood processing, chemicals and metal manufacturing. These industries comprise goods which are subjected to a single tax accruing to the country of destination within CACEU (taxe unique). Under the "taxe unique" regime all essential inputs can be imported free of customs charges.

(2) The estimates were made in the late sixties. However, as most ACP countries did not offer tariff concessions in the Tokyo Round negotiations, the results still hold.

Table 29 - Nominal and Effective Rates of Protection (a) in Tanzania, Kenya and Nigeria, 1966 and 1967 (per cent)

ISIC		Tanzania (b)		Kenya (c)		Nigeria (c)	
		rates of protection					
		nominal	effective	nominal	effective	nominal	effective
311/312	Food manufacturing	24.0	79.5	28.4	270.4	64.5	88.7
313	Beverage industries	135.0	82.0	62.4	0.1	97.5	117.7
314	Tobacco manufactures	314.0	538.0	308.7	266.4	100.0	128.2
321	Textiles	29.3	90.3	25.0	54.2	41.1	78.5
322	Manufacture of wearing apparel	60.0	144.0	45.3	37.7	50.0	136.6
323	Leather	30.0	130.0	25.5	421.1	75.0	89.6
324	Footwear	43.0	123.0	32.6	88.2	40.0	55.0
331	Wood and wood and cork products	.	.	10.9	24.5	50.0	103.6
332	Furniture and fixtures	30.0	58.0	21.8	58.0	75.0	120.2
341	Paper and paper products	12.5	26.0	8.8	8.3	25.0	91.9
342	Painting, publishing and allied industries	1.0	-1.0	2.9	-4.4	10.0	83.4
351	Manufacture of industrial chemicals	0	24.0	.	.	33.3	53.2
352	Chemical products	81.6	301.3	29.3	88.5	62.5	107.8
353	Petroleum refineries	.	.	51.7	44.1	.	.
354	Manufacture of miscellaneous products of petroleum and coal	.	.	.	.	33.3	85.0
355	Rubber products	36.0	270.0	.	.	.	.
356	Plastic products n.e.c.	.	.	.	.	66.7	90.0
361	Pottery etc.	.	.	.	.	50.0	75.0
362	Glass and glass products	30.0	51.0	11.9	6.7	33.3	43.2
369	Other non-metallic prod.	7.5	12.0	9.9	4.2	33.3	75.4
371	Iron and steel	.	.	.	.	10.0	15.0
372	Non-ferrous metal	.	.	.	.	10.0	32.3
381	Fabricated metal products	25.0	95.0	6.8	8.8	11.0	38.3
382	Non-electrical machinery	.	.	.	.	30.0	44.9
383	Electrical machinery	50.0	95.0	14.3	18.1	53.3	91.2
384	Transport equipment	.	.	29.6	97.4	.	.
385	Professional goods	.	.	.	.	.	.
390	Other manufacturing	.	.	28.7	81.8	62.5	103.7

(a) The sectoral data are averages based on raw data for individual products. - (b) 1966. - (c) 1967. - n.e.c. = not elsewhere classified.

Source: Kessel [1968, p. 7, Tab. 1]; Oyejide [1975, pp. 52 f., Tab. 5.1]; Reimer [1971, pp. 36 f., Tab. 1]; own calculations.

- Protection of the manufacturing sector implies a discrimination of all other activities in ACP countries which are not protected. Of special importance is that the internal terms of trade turn against the unprotected agricultural sector. This impedes investment and therefore growth of output of that sector. In return the protected sector absorbs scarce resources which otherwise would have been allocated to sectors with higher factor productivities.
- Within the manufacturing sector intermediate industries are impeded so that industrial production remains biased towards "early" industries like food, tobacco, beverages and textiles.
- As in the case of agricultural production tariff protection discriminates also against export industries. While their prices are broadly determined by the world market, inward-looking industries can shift excess costs to the consumer and attract resources away from export industries. Furthermore, high rates of effective tariff protection lead to balance-of-payments pressures, foster currency overvaluation and import licencing and thereby hinder non-traditional exports.
- Existing tariff structures also tend to increase physical capital intensity of domestic production because they make the use of imported capital goods more profitable than it would be in a situation under freer trade. Thus, employment of the relative abundant factor, labour, on which comparative advantages of these countries are based is discouraged.

To sum up, there is much evidence from country studies that it is a distorted tariff structure rather than the nominal tariff level which determines tariff protection as an important element of the import substitution policy pursued in many ACP countries. In this respect tariff holidays launched through the investment legislation seem to have had a decisive influence on high rates of effective protection in finished goods and on the poor record of non-traditional export-oriented industries.

b. Quantitative Restrictions

α. Non-Tariff Measures as a Substitute for Tariffs

Parallel to the reduction of tariff barriers (TBs) in international trade because of both GATT negotiated MFN cuts and the introduction of unilateral tariff concessions, non-tariff barriers (NTBs) have gained importance. As the current discussion on trade-impeding measures outside the GATT framework highlights, NTBs in the form of voluntary export self-restraints have proved most controversial.

The number of NTBs ranging from quantitative restrictions to import deposit requirements, health and technical standard regulations and government procurements in favour of domestic suppliers - to mention only a few - makes it ambitious if not impossible to quantify NTBs and to make them comparable to TBs. However, exactly this problem confronting trade policy analysts just illustrates the advantage of NTBs for protectionist purposes vis-à-vis TBs. For example, they are not transparent and therefore difficult to dismantle in international trade policy negotiations; they are selective according to sectoral application and can be handled very flexibly; and they are effective in restricting the import volume since unlike tariffs they do not allow domestic purchasers to sa-

tisfy additional import demand by paying the world market prices plus the tariffs. Any rise in the case of quantitative restrictions in domestic demand will therefore raise the domestic price and simultaneously the costs of protection giving rise to misallocation of domestic resources.

β. The Spread of Quantitative Restrictions in ACP Countries

Attention to NTBs has mostly been devoted in only one direction of world trade, that is exports of developing countries to developed countries. However, developing countries in general (1) and ACP countries in particular apply NTBs as well. With regard to the latter group a distinction should be made between those NTBs which the countries inherited from their former metropolitan countries in terms of technical standards (2) and those which they introduced after independence. The former are left out of discussion here, and so is a sub-group of the latter category comprising short-term NTBs for balance of payments purposes (import deposit requirements, for instance). The remaining NTBs include one of the most important of them, viz. quantitative restrictions which are applied as a permanent complement to tariffs. However, even if the analysis is confined to quantitative restrictions, their pattern remains diffuse and widely spread. ACP countries apply the full scale of quantitatative controls encompassing automatic or facultative licencing for import surveillance, facultative and obligatory quotas and import prohibitions. This is evident even from a cursory glance on the import regime schedules of 17 ACP countries at the end of the seventies (3). The schedules are highly selective in order to give an effective shelter to import-competing industries.

A specific form of quantitative restrictions linking import-competing industries with the non-tariff protection in a direct way has been implemented in Cameroon. Here so called "produits jumelés" are allowed to be imported only if domestic industries issue a certificate saying that they cannot deliver that product in volume and quality within a given due time. It appears that this regulation is the most far-reaching way of giving non-tariff shelter to domestic industries.

The adverse impact of quantitative restrictions on internal resource allocation in the Ivory Coast has been recently pointed out by the World Bank at the time of granting adjustment loans [Marchés Tropicaux et Méditerranéens, 1984]. Not only did the World Bank recommend - as discussed above - a tariff reform through which the escalation of tariffs should be abolished (4) but also that the quantitative restrictions should

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(1) For a recent empirical comparison see Langhammer [1983].
(2) Francophone countries use French industrial norms and hence only allow imports to enter if they are consistent with these norms, whereas anglophone countries apply British norms.
(3) These countries are Cameroon, the Ivory Coast, Kenya, Madagascar, Mali, Tanzania, Nigeria, Zambia, Zaire, Sierra Leone, Jamaica, Ghana, Malawi, Sudan, Rwanda, Ethiopia and Somalia.
(4) Tariffs on imports of intermediates which can often be imported duty-free under the Ivorian investment code as well as in many other ACP countries' investment codes should be reimposed in order to lower effective protection rates of finished goods production and to stimulate the emergence of local intermediate industries.

be replaced by temporary surcharges on imports to be progressively eliminated within five years. According to "Marchés Tropicaux" this procedure would affect mainly the Ivorian footwear production, textile and clothing industry. The effectiveness of quantitative restrictions can be assessed by the reported reactions of affected Ivorian groups. According to them the quantitative restrictions appear to be the most effective shelter against imports in the Ivory Coast. Then come the tariff structure with its escalation effect and the tariff level in descending order of importance.

γ. The Incidence of Non-Tariff Distortions in ACP Countries

Transforming the non-tariff measures into an equivalent of tariffs in order to make NTBs comparable and negotiable is a delicate task. It requires making assumptions on world market prices and on the degree of substitutability between imports and domestic goods. However, if we assume that the extent of protection can roughly be assessed by the difference between local and world market prices comparisons should be feasible as far as data on both the prices are available. Differences between the two prices can then be separated into a tariff component and a residual. The latter broadly reflects non-tariff restrictions if the goods are fairly homogenous and tariffs are effective. National indirect taxes may also explain price differences but as tariffs are the major source of budget revenues in low-income countries and as excise taxes are mostly imposed upon luxury goods which are not discussed here, taxes are not considered in the following analysis. But transportation costs are considered by referring to cif/fob ratios of imports as analysed in Section III.3.a.

The basic source of domestic and world market price comparisons for a few ACP countries presented in the following is the UN International Comparison Project (ICP) which has assessed purchasing power parities for 33 countries plus the USA and for the wide range of goods and services in order to adjust for income differentials between countries. Among the sample countries there were three African ACP countries (Zambia, Malawi, and Kenya) and one Caribbean member country, viz. Jamaica. The latter is not included here because of the inavailability of tariff data for the year 1975 which is relevant in this case. Using a proxy for the world market prices and confining the comparison to textiles, clothing and footwear which are the most heavily protected industries in ACP countries, the calculations in general yield higher equivalents for non-tariff measures than the nominal tariff rates (Table 30).

These equivalents are much higher for Zambia than for Malawi and Kenya. However, this pattern is not uniform. On the contrary, the rates of tariff equivalents fluctuated widely between sub-categories of textiles as well as between the three countries. A negative rate for household textiles in Malawi indicates that there was "water in the tariff" (positive tariff redundancy).

Since the sharp fluctuations can indicate both, the selectiveness of non-tariff measures applied differently to product categories and the doubtfulness of the domestic market price assessments in the ICP project, the adequateness of this method for policy conclusions is questionable. However, what is relevant is that tariffs cannot solely explain differences

Table 30 - Estimates of Tariff Equivalents of Non-Tariff Distortions in Zambia, Malawi and Kenya, 1975 (per cent)

ISIC		World market price proxy(a)				Domestic market price(a)			Nominal tariff			Tariff equivalent of non-tariff barriers(b) (residual)		
		without costs of transportation to ACP countries	with costs of transportation to											
			Zambia	Malawi	Kenya	Zambia	Malawi	Kenya	Zambia	Malawi	Kenya	Zambia	Malawi	Kenya
3211, 3212, 3213, 322-23	Textiles	35.8	41.4	40.7	40.0	110.3	75.4	76.9	30.8	19.6	34.8	135.6	65.7	57.5
3212	Household textiles	47.9	55.4	54.5	53.5	121.5	47.4	167.7	28.3	13.3	35.9	91.0	-26.3	177.6
3214	Floor coverings	42.7	49.4	48.6	47.7	140.0	110.7	83.9	29.3	21.5	39.6	154.1	106.3	36.3
324	Footwear	26.4	30.5	30.0	29.5	57.0	39.3	101.9	20.7	22.0	38.1	66.2	7.4	207.3

(a) Average of the five lowest domestic price levels (United States equal to 100) obtained from binary purchasing power parity calculations in the UN International Comparison Project (ICP). PPP is defined as the number of units of a country's currency that are required to buy what can be bought in the United States with one US $. The three ACP countries' PPPs have been converted into a domestic market price index (United States equal to 100) by dividing them by the exchange rate in 1975 (currency units per US $ and multiplying by 100). The average world market price was assessed from data for 33 individual countries in the ICP project. (b) $NTB_j = \left(\frac{P_{dj}}{P_{wj} \cdot T_j} - N_j - 1\right) 100$ where NTB_j is the tariff equivalent for commodity group j, P_{dj} and P_{wj} are world market prices proxies and domestic market prices, T_j is the IMF cif/fob ratio for ACP country imports as a proxy for costs of transportation and N_j is the nominal tariff rate.

Source: Kravis et al. [1982, Multilateral Tab. 6-3; Appendix Tab. 6.3, pp. 176-179; 208-215]; National Customs Schedules, derived from Deutsches Handels-Archiv, Vol. 128, 1974, No. 5; Vol. 129, 1975, No. 16; Vol. 131, 1977, No. 24.

between domestic and world market prices. This suggests that NTBs are probably more important for price distortions of goods than TBs. Whether this is due to quantitative restrictions or for example due to the existence of state trading companies operating especially in Zambia cannot be said definitely. Nevertheless, NTBs are apparently strong components of policies biased in favour of import substitution in ACP countries, and they therefore heavily discriminate against non-traditional exports of these countries.

c. Inflation

α. Effects of Inflation in Low-Income Countries

Inflation defined broadly as an upward trend in prices distorts the relation between current and future consumption of goods. It is often used to finance expansionary development strategies in Third World countries. This is especially true for the low-income countries where domestic savings are insufficient to finance capital formation. While the Keynesian approach to inflationary development finance stresses the redistribution of income within the private sector (from wage earners to entrepreneurs), the quantity theory approach emphasizes the fact that inflation is like a government tax on the holders of cash balances [Johnson, 1967, p. 124]. Thus both the theories suggest a shift in income distribution, in the first case to the detriment of wage earners and in the second case to the detriment of cash holders. Observed patterns of reactions by those who are negatively affected are of two kinds: the emergence of parallel currencies (a kind of anti-Gresham's law in the sense that stable money displaces unstable money) and the substitution of financial assets by unproductive real assets (durable consumer goods, cattle, land, gold) [UN, a, p. 7]. Supply of lending capital is thus frustrated, whereas the dependence on foreign savings (aid, private capital) increases. Such adverse effects of inflation are exacerbated if nominal interest rates are not allowed to adjust. As already shown in Section V.1.b a number of ACP countries pursue such a policy of putting low ceilings on nominal interest rates for loans and deposits at banks and other institutions in the organized financial market (financial repression). Real interest rates are thus very low or even negative in several ACP countries.

As a result, both inflation and financial repression provide survival rents for the non-monetized sector. This means that structural changes in the economy in the sense that this sector shrinks over time are impeded. Given the poor income on financial assets in some ACP countries - as discussed above - it is therefore not surprising that especially in African and Pacific ACP countries non-monetary activities are of considerable importance (1). As inflation encourages people to adhere to

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(1) The share of non-monetary output in GDP at the beginning of the seventies was estimated to be well above 20 per cent in some African countries (e.g. 45 per cent in Ethiopia, 39 per cent in Malawi, 42 per cent in Niger, 28 per cent in Tanzania, 38 per cent in Burkina Faso). In the Asian countries the highest share estimated was 21 per cent; in the Latin American countries 13 per cent. These estimates

subsistence production the vicious circle of low domestic capital formation, low productivity, low growth and hence low savings continues to exist.

Apart from these adverse effects there are additional reasons why inflation retards economic growth:

- While inflation raises the nominal rate of return on capital, it reduces the real rate of interest (especially in the context of a low interest rate policy). This amounts to a waste of capital because it makes projects profitable which in a situation of price stability would be qualified as unproductive. Credit rationing is then a further source of efficiency losses.
- During inflation governments try to control prices of specific goods and services (e.g. prices of basic food and public utilities) to protect parts of the community (especially the urban population) from losses in real income. However, if food prices are not allowed to rise in an inflationary situation production and investment in the agricultural sector and thus rural development is impeded. Further, administered prices of public utilities imply a subsidy to consumers and therefore a loss of government resources which could be used for investment.
- Finally, inflation increases the need for adjustments in exchange rates (see Section V.3).

β. Empirical Evidence of Inflation in ACP Countries

Table 31 provides some information on the development of consumer prices in the ACP countries during the period 1965 - 1980. In the African member states the average rate of inflation rose from 4.2 per cent in 1965-1970 to 6.7 per cent in 1971-1973 and then sharply to 17.4 per cent in 1974-1979. This includes high rates of inflation in Ghana, Uganda and Zaire where the average inflation rate leaped up during the same period to 58.0, 51.8, and 60.6 per cent, respectively. However, even if these countries are not taken into account, the average rate of inflation in the period 1974-1979 more than doubled to 13.7 per cent compared to the average rate of 6.1 per cent in the early seventies. Since the early eighties inflation in the African ACP countries as a whole has not increased although it continued to persist during 1980-1982 at a high level of 17.4 per cent.

However, differences in inflation rates of the African ACP members have increased considerably. This is indicated by the coefficient of variation which rose from 0.21 (1974-1979) to 0.47 (1980-81) (1). Some of this divergence may reflect the fact that in nineteen out of forty-five sample countries stabilization programs supported by the IMF were carried out in 1980 and 1981 [Zulu, Nsouli, 1984].

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were provided by Blades [1975, p. 80]. In Papua New Guinea, Fiji, Tonga and (Western) Samoa this share was estimated at 29 per cent, 15 per cent, 37 per cent and 39 per cent, respectively at the beginning of the seventies. For reference, see Chandavarkar [1977, p. 680].

(1) Excluding Ghana, Uganda and Zaire. Coefficients of variation for all the African ACP members are given in Table 31.

Table 31 - Average Annual Inflation Rates in ACP Countries, 1965-1982 (a)

	1965-1970	1971-1973	1974-1979	1980-1982
African ACP Countries				
Benin	3.8	2.7	10.5	11.9(b)
Botswana	.	.	11.5(c)	13.9(b)
Burkina Faso	1.4	2.2	12.1(c)	10.4
Burundi	2.7(d)	4.5	17.6	11.5
Cameroon	1.7	7.5	12.4	11.1
Cap Verde	.	12.1	18.0	13.1(b)
CAR	3.9	7.2	11.3	17.4
Chad	4.8	4.8	9.7(e)	.
Congo	2.1	5.8	10.4	12.2(b)
Ethiopia	2.3	1.1	15.1	5.5
Gabon	2.9	4.5	15.5	12.6
Gambia	1.7	6.2	13.3	7.9
Ghana	8.3	12.5	58.0	63.0
Ivory Coast	4.7	3.3	16.3	10.3
Kenya	2.2	6.3	14.7	15.3
Lesotho	3.4	7.2	12.9	15.3(b)
Liberia	4.5(d)	7.6	10.6	9.4
Madagascar	2.6	5.7	9.8	24.4
Malawi	5.2(f)	5.6	9.9	12.8
Mali	..	15.7	16.4(g)	.
Mauritania	3.4	7.8	10.9	14.2
Mauritius	2.8	6.4	14.8	22.8
Niger	4.1	8.6	12.8	14.9
Nigeria	5.6	8.1	19.9	16.1(b)
Rwanda	1.4(d)	4.3	18.5	8.6
Senegal	2.3(h)	7.1	12.3	10.6
Sierra Leone	4.7	3.2	15.4	21.8
Somalia	3.3	1.0	16.1	42.3
Sudan	2.8	10.0	19.9	23.9
Swaziland	2.8(d)	6.0	13.7	16.6
Tanzania	11.5(d)	7.6	14.9	28.3
Togo	1.8	6.0	12.2	14.4
Uganda	5.5	12.4	51.8	.
Zaire	19.9	12.4	60.6	38.1
Zambia	6.5	6.0	13.8	12.7
Zimbabwe	2.0	3.0	10.2	9.8
Average	4.18	6.67	17.73	17.37
Coefficient of variation	0.85	0.52	0.72	0.66
Caribbean ACP countries				
Bahamas	5.8(h)	5.6	7.7	9.7
Barbados	6.1(i)	12.0	16.5	13.1
Guyana	2.6	4.5	12.6	19.4(b)
Jamaica	5.0	9.7	21.1	20.0(b)
Surinam	5.3	5.5	11.5	10.2
Trinidad and Tobago	3.5	9.2	14.4	14.5
Average	4.72	7.76	13.97	14.48
Coefficient of variation	0.29	0.38	0.33	0.31
Pacific ACP countries				
Fiji	3.4	9.0	10.1	10.9
Papua New Guinea	.	7.3(k)	9.6	8.6
Samoa	2.2	8.1	11.1	26.8

(a) Based on consumer prices. - (b) 1980-1981. - (c) 1975-1979. - (d) 1966-1970. - (e) 1974-1977. - (f) 1969-1970 . - (g) 1974-1978. - (h) 1968-1970. - (i) 1967-1970. - (k) 1972-1973.

Source: IMF [c]; World Bank [e]; own calculations.

Also the Caribbean ACP countries suffered from high rates of inflation during the seventies which increased from an average of 7.8 per cent in 1970-73 to 14.0 per cent in 1974-79. As in the African ACP countries, the sharp increase in inflation rates however did not continue in the early eighties. Data on inflation in the Pacific ACP countries are available only for three countries, namely Fiji, Papua New Guinea and Samoa. In none of these countries such high rates of inflations are observed as in the other two groups of countries.

γ. Inflation Rate Differentials between Franc Zone and Non-Franc Zone Members

Differences in average inflation rates among ACP countries may be due to the fact that some of them are members of the French monetary union and therefore face larger constraints on monetary growth than others. This hypothesis was subjected to statistical tests comparing average inflation rates of the francophone member countries of the Union Monétaire Ouest Africaine (UMOA) (1) and of the Banque Centrale des Etats d'Afrique Centrale (BEAC) (2) with those of the non-members who are devided in two groups, viz. A (3) and B. B includes in addition to those in A the three high-inflation countries Ghana, Uganda and Zaire. The tests show that in 1965-70 the inflation in the francophone countries was significantly lower (about 10 per cent) than in group B but in the following period there was no significant difference. However, during 1974-1979 when inflation sharply increased in general, the average rate of inflation in the member states of the monetary unions (12.3 per cent) was significantly lower than in group B (23.1 per cent) and group A (15.3 per cent). This result suggests that in face of accelerating inflation the close coordination of monetary policies in the Franc Zone countries with France and among each other has contributed to their greater price stability. In the following period (1980-1982) the difference in inflation rates of francophone countries and group B was statistically significant but not that between those of francophone countries and group A. Both of these results can be attributed to the fact that inflation rates showed large variations between the countries of group A in this period (4).

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(1) Members of the UMOA today are Benin, Ivory Coast, Niger, Senegal, Togo and Burkina Faso. Up to 1972, Mauretania was also member and is therefore included in the first two subperiods.

(2) This group consists of Cameroon, the CAR, Congo and Gabon. Up to 1973, Madagascar was also member of the Franc Zone and is therefore included in the monetary union group during the first two subperiods.

(3) Group A consists of Ethiopia, Gambia, Jamaica, Kenya, Malawi, Nigeria, Sierra Leone, Somalia, Sudan, Tanzania, Trinidad and Tobago, Zaire, and Zambia.

(4) If the three countries with exceptionally high inflation are included for this comparison, the expected pattern of significantly lower inflation rates in the Franc Zone countries emerges again.

δ. Inflation in ACP Countries in International Comparison

Inflation is, however, not confined to the ACP countries and a comparison with inflation rates in other areas is in order, especially for the seventies (1). In the industrialized countries the average inflation rate declined from 11.2 per cent in 1971-1973 to 9.3 per cent in 1974-1979. Unless exchange rates in the countries were allowed to depreciate in accordance with the differences between their inflation rates and those of the industrialised countries, competitiveness of the ACP manufactured exports suffered losses on their major markets (see also Section V.3). It is interesting to note that for example in the Asian developing countries (excluding the oil-exporting countries) the average rate of inflation (16.3 per cent) in 1971-1973 rose by only 0.2 percentage points in 1974-1979. Compared with the acceleration of inflation in the African and Caribbean ACP countries during the late seventies, this negligible increase suggests that inflation in ACP countries cannot be regarded as a result of only external shocks like that of oil prices after 1973.

ε. Price Change Variability and Administered Prices in ACP Countries

While a steady rate of inflation makes it easier for people to adjust to inflationary processes, an erratical inflation does the contrary and increases the uncertainty. Uncertainty impedes the development of local capital markets even if the current inflation rate is low simply because of the loss of confidence in the steadyness of monetary policies. It is noteworthy that especially the relatively unexperienced local population rather than the expatriates who can deposit their savings overseas have to cope with uncertainties. Table 32 shows that even in member countries of the UMOA, where inflation rates did not increase as dramatically as in other ACP countries, fluctuations in the annual inflation rates were considerable during the seventies. This holds in particular for Senegal and Togo where the local population was confronted with an increase in consumer prices between 0.5 and 30.6 per cent. In food, which is the most important expenditure item of African households, the fluctuations in price increases were even much more pronounced. Given the high weight of food in the goods basket of African households (Ivory Coast: 51.1 per cent; Senegal: 56 per cent; Togo: 47.9 per cent [BCEAO, 1983]), changes in the indices of consumer prices seem to be determined to a great extent by changes in food prices.

Compared with the African households, European households in these ACP countries were less affected by inflation as indicated by the average rate of increase in consumer prices in the period 1973-1981. Further, in Senegal and Togo, for instance, the fluctuations in increase of consumer prices for European households were substantially lower; this may be partly due to the fact that increases in food prices were much more uniform for the Europeans than for African households.

Fluctuations in price increases may be especially noticed in those products whose prices are controlled or determined by governments. During times of inflation prices of these goods tend to lag behind the prices of

(1) Average inflation rates for these areas were calculated from the IMF consumer price indices for different regions [IMF, c].

Table 32 - Cost of Living in Selected ACP Countries, African and European Households, 1973-1981 (annual percentage changes)

	African household		European household	
	total	food	total	food
	Ivory Coast			
1973	11.1	16.6	4.0	1.7
1974	17.4	17.6	16.3	17.4
1975	11.4	10.3	18.9	25.5
1976	12.1	7.3	12.7	13.9
1977	27.4	39.7	13.4	12.1
1978	13.0	11.5	19.5	8.5
1979	16.6	21.8	9.0	10.0
1980	12.2	18.9	8.4	10.2
1981	11.2	5.2	13.4	15.2
Average	14.71	16.54	12.84	12.72
Standard deviation	5.29	10.30	5.08	6.58
Coefficient of variation	0.36	0.62	0.40	0.52
	Senegal			
1973	12.2	19.8	6.1	7.3
1974	16.7	13.3	15.2	18.3
1975	30.6	39.5	21.4	22.4
1976	2.8	0.2	6.1	7.4
1977	10.2	11.8	6.5	9.0
1978	2.9	4.1	7.4	9.3
1979	9.5	8.8	8.4	12.3
1980	8.8	8.3	13.0	11.8
1981	5.9	0.8	11.3	12.4
Average	11.07	11.84	10.6	12.24
Standard deviation	8.55	12.09	5.2	5.09
Coefficient of variation	0.77	1.02	0.49	0.42
	Togo			
1973	3.6	3.7	11.8	3.5
1974	12.8	10.8	8.9	11.4
1975	18.1	22.2	12.7	12.3
1976	11.6	16.8	8.7	12.0
1977	22.2	21.7	10.2	14.7
1978	0.5	-4.6	8.4	7.8
1979	7.5	7.4	5.6	8.4
1980	12.3	11.7	8.1	10.0
1981	19.7	24.7	7.5	7.0
Average	12.03	12.71	9.1	9.68
Standard deviation	7.28	9.65	2.18	3.37
Coefficient of variation	0.61	0.76	0.24	0.35

Source: BCEAO [current issues]; own calculations.

goods in general. This calls for occasional adjustments with corresponding price pushes. To test this hypothesis price movements for two bundles of goods and services (basic food as well as transport, energy and public utilities) whose prices were assumed to be heavily influenced by government interventions were examined in the case of Cameroon (1). During 1973-1981 fluctuations in the price increase of basic food were substantially higher than fluctuations in the increase of all consumer goods. The average rate of price increase in basic food, however, was in line with that in the total of consumer goods. Fluctuations in the price increase of the second bundle of goods were also considerably higher than those of the total of consumer goods. Furthermore the average rate of price increase in this bundle was substantially lower than that of total consumer goods (7.3 per cent and 11.7 per cent, respectively).

To conclude, though inflation in ACP countries in general has not been as excessive as for instance in Latin America, its adverse effects in low-income countries with high shares of subsistence economies should not be underrated. It hampers the monetization of the economies, the formation of local savings and the growth of capital markets in these countries. In addition, fluctuations in inflation rates caused partly by discretionary adjustments of administered prices seem to discourage mainly local households to keep their savings in financial assets. As the development of non-traditional export activities crucially depends on a sizeable domestic capital supply and its efficient allocation to local private borrowers both inflation and the variability of its rates tend to retard changes in economic structures of ACP countries.

3. Exchange Rate Policies

a. Purchasing Power Parity Exchange Rates of ACP Countries

Trade preferences are expected to stimulate exports of the preference-receiving countries because they give them a price advantage vis-à-vis the non-beneficiaries. However, in those cases where the difference between the prices of the preference-receiving countries and those on the world market is higher than the preference margin, the preference must fail to stimulate exports of the beneficiaries. Some ACP agricultural exports presented in Section IV.2 bear witness to the negative preference redundancy.

As already shown one can find a strong tendency for inefficient high-cost production in ACP countries due to a variety of policy-induced distortions in factor and goods markets. As a consequence official exchange rates become overvalued. To compensate this competitive disadvantage on foreign markets devaluations of currencies would be necessary. In an inflationary context where domestic inflation is higher in its trend than

(1) To economize on space the related table was dropped. It can be made available on request. Basic food includes bread, maize flour, rice and sugar; the second bundle comprises prices for transportation, petrol, electricity and water.

inflation in major trade partners this means that a country wishing to improve its competitive position on world markets would have to depreciate its currency by more than the inflation rate differential, that is to depreciate in real terms.

However, in many ACP countries exchange rates during the seventies had a tendendy to appreciate in real terms, i.e. depreciations were less than the differentials between the inflation rates. According to World Bank estimates for Sub-Saharan Africa real exchange rates appreciated on the average by 44 per cent during 1973-1981 [World Bank, d, p. 58]. One has to bear in mind that if exchange rates at the beginning of the period were already overvalued, this rate of appreciation would indicate only the additional loss in competitiveness during the seventies. It also suggests that on the average at least the African ACP members could not have taken much advantage of the preferences conceded by the EC (1).

The development of nominal and real (purchasing power parity) exchange rates of some selected ACP countries (Table 33) shows that appreciation in real terms was quite substantial between 1970 and 1980 in Cameroon (34 per cent), Ghana (78 per cent), Ivory Coast (43 per cent), Nigeria (55 per cent), Senegal (29 per cent), Tanzania (20 per cent) and Zaire (60 per cent). This coincides with the findings for the 1963-77/78 period when in the majority of African countries exchange rates appreciated in real terms (2). However, in some of these countries this trend seems to

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(1) A hypothetical example may illustrate the impact of exchange rate changes on the effectiveness of preferences. Assume that the world market price of a specific commodity is US $ 10. If the EC tariff rate on this product is 10 per cent its price on the EC market then is US $ 11. Cost of production of that commodity is shilling (sh.) 105 in ACP country A; the exchange rate is 1$=10 sh. Clearly country A is not competitive on international markets. The price of its product on the EC market would be US $ 11.55 including the tariff of 10 per cent. If country A now is granted duty-free entry on the EC market it would be a competitive supplier at the prevailing exchange rate (the price at which it can offer its product would be US $ 10.5). Suppose now that there is inflation in country A which has raised its costs of production to sh. 115.5 (rate of inflation 10 per cent) while inflation outside is zero. If the nominal exchange rate does not change, i.e. the real exchange rate appreciates by 9.1 per cent, the trade preference would be ineffective because the price of the commodity it offers would be US $ 11.55 as before. On the contrary if country A devalues the nominal exchange rate by the differential inflation rate (10 per cent) the real exchange rate would remain constant. In this case it could take full advantage of the trade preference. At the new nominal exchange rate of 1$/11 sh. the foreign currency price of its commodity would be again US $ 10.5.

(2) African Centre of Monetary Studies, Balance of Payments Problems of African Countries and Their Effects on Development Objectives, Dakar, August 1979; cited in World Bank [a, p. 25]. Since 1980 many African countries have witnessed a greater willingness to depreciate their nominal exchange rates in real terms, a turnaround compared with the 1970s [World Bank, f, p. 35].

Table 33 - Indices of Nominal and Real Exchange Rates (a) of Selected ACP Countries, Colombia, Uruguay and Sri Lanka, 1970-1982 (1970 = 100)

	Cameroon		Ghana		Ivory Coast		Jamaica	
	nominal	real	nominal	real	nominal	real	nominal	real
1970	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1971	99.79	101.41	100.00	97.85	99.79	107.27	98.62	98.87
1972	90.82	90.64	128.61	119.62	90.82	102.12	96.14	95.76
1973	80.19	77.90	113.66	97.04	80.19	89.17	109.10	98.87
1974	86.60	90.56	112.70	91.94	86.60	96.49	109.10	86.85
1975	77.17	70.19	112.70	79.97	77.17	85.65	109.10	84.02
1976	86.05	77.68	112.70	56.05	86.05	92.77	109.10	83.59
1977	88.46	75.62	112.70	28.23	88.46	80.92	109.10	82.46
1978	81.25	66.54	113.16	17.34	81.25	69.15	172.22	104.39
1979	76.60	64.41	269.53	29.17	76.60	59.31	212.04	111.03
1980	76.09	65.71	269.53	22.04	76.09	56.60	213.78	100.71
1981	97.85	85.07	269.53	11.02	97.85	72.07	213.78	99.43
1982	118.33	95.56	269.53	9.54	118.33	85.98	213.78	100.42

	Kenya		Malawi		Nigeria		Senegal	
	nominal	real	nominal	real	nominal	real	nominal	real
1970	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
1971	100.00	102.69	99.71	99.43	99.69	91.18	99.79	101.69
1972	100.00	102.30	96.20	98.30	92.10	86.69	90.82	91.57
1973	98.02	100.00	98.32	81.02	92.10	88.02	80.19	78.82
1974	100.00	99.46	100.95	105.95	88.03	83.53	86.60	82.14
1975	102.80	99.13	103.66	111.62	86.17	69.05	77.17	62.20
1976	117.14	113.56	109.56	127.76	87.72	61.90	86.05	75.10
1977	115.87	109.38	108.35	137.96	90.24	60.57	88.46	75.28
1978	108.21	94.06	101.26	125.50	88.91	51.75	81.25	72.87
1979	104.65	93.37	98.03	121.25	84.38	48.59	76.60	68.56
1980	103.88	93.91	97.46	117.00	76.51	44.76	76.09	70.76
1981	126.66	114.34	107.44	130.03	85.93	45.92	97.85	96.58
1982	152.91	125.30	126.67	149.29	94.25	45.92	118.33	110.62

	Tanzania		Zaire		Zambia	
	nominal	real	nominal	real	nominal	real
1970	100.00	100.00	100.00	100.00	100.00	100.00
1971	100.00	101.46	100.00	99.09	100.00	100.82
1972	100.00	99.35	100.00	89.86	100.00	100.82
1973	98.30	95.58	100.00	83.51	90.84	93.99
1974	99.89	92.59	100.00	73.55	90.09	99.45
1975	103.79	86.77	100.00	63.59	90.09	104.10
1976	117.31	101.31	161.40	61.96	99.86	108.47
1977	115.84	99.04	171.40	42.21	110.46	111.48
1978	107.65	88.39	167.20	29.53	113.75	105.46
1979	115.50	92.00	345.80	31.70	110.92	103.28
1980	114.73	80.11	560.00	40.22	110.39	105.19
1981	116.05	71.33	876.80	51.81	122.09	113.12
1982	130.69	67.19	1150.00	54.53	130.25	116.39

Table 33 continued

	Colombia		Uruguay		Sri Lanka	
	nominal	real	nominal	real	nominal	real
1970	100.00	100.00	100.00	100.00	100.00	100.00
1971	108.07	104.80	104.00	89.12	99.71	103.00
1972	118.55	105.74	225.20	115.34	100.82	103.38
1973	128.16	101.20	350.00	97.91	107.61	108.83
1974	141.31	99.94	486.40	85.08	111.71	115.20
1975	167.69	105.08	919.60	98.61	118.45	129.37
1976	188.11	104.16	1358.00	104.88	142.12	168.23
1977	199.39	95.10	1900.00	100.56	153.78	196.62
1978	211.97	84.51	2450.00	95.54	262.23	319.13
1979	230.70	80.27	3167.20	80.89	261.58	314.33
1980	256.34	78.63	3664.00	64.44	277.79	298.31
1981	295.44	77.41	4348.40	62.90	323.39	323.76
1982	347.55	77.58	5924.00	77.82	349.66	339.29

(a) The following formula was used for computations:

$$E_R = E_n \left(\frac{\sum_{i=1}^{5} g_{ij} \cdot p_i}{p_j} \right)$$

where: E_R = real exchange rate; E_n = nominal exchange rate; g_{ij} = share of exports and imports of major trading partner i in total exports and imports of ACP country j in 1975; p_i = consumer price index of major trading partner country i; p_j = consumer price index of ACP country j.

Source: IMF [a; b].

have reversed since 1981. In Cameroon, the Ivory Coast and Senegal nominal depreciations in 1981 and 1982 were sufficient to depreciate the real exchange rates considerably. Further Table 33 shows that appreciation of the real exchange rate is not common to all African ACP countries. This is especially true for Malawi and Zambia as well as for Kenya. During the seventies depreciations in these countries secured their competitiveness vis-à-vis major trading partners. Major devaluations in 1978 and 1979 also in Jamaica brought its domestic inflation in line with price changes on its most important export markets.

Table 33 contains further the development of the real exchange rate of three potential competitors of ACP countries in non-traditional exports on the EC market, that is Colombia, Uruguay and Sri Lanka. These three countries belong to the so-called second generation of developing countries exporting manufactures and hence appear to be more appropriate reference countries than the "giants" of the first generation, e.g. South Korea or Taiwan.

While in Colombia and Uruguay also the real exchange rate appreciated by 22 per cent in each case between 1970 and 1982, Sri Lanka had a

strong currency depreciation of over 200 per cent during the same period. The Latin American countries have thus lost competitiveness on their major export markets while Sri Lanka seems to have improved its international competitiveness substantially.

b. Effects of Exchange Rate Distortions on Sectoral Output

Apart from this statistical evidence there are further indicators of exchange rate overvaluation. Since an overvalued exchange rate implies an excess demand for foreign exchange, governments especially in Africa have increasingly resorted to import restrictions to cope with the limited supply of foreign exchange [World Bank, a, p. 55]. On the export side currency overvaluation reduces competitiveness of the ACP countries on foreign market and is therefore a serious barrier to their exports in general and export diversification towards manufactures in particular. In combination with other policy measures it is an important factor in explaining the poor export performance of the ACP countries. These measures refer to the treatment of the agricultural sector as well as to industrialization policies. Of course, not all of the ACP countries pursue the same policies but one can find for a number of them the following two common characteristics (1):

First, exchange rate overvaluation means low proceeds in domestic currency for producers of traditional agricultural exports whose prices are determined on the world market and are fixed in convertible currencies. Further, export crops are heavily taxed expecially in Africa [World Bank, a, p. 55]. Here one has also to take into account the implicit taxation by state trading agencies which in almost every ACP country operate in the marketing of export crops. They are characterized by serious inefficiencies. So in several African countries the price actually paid to farmers did not even cover their costs of production and for major agricultural exports of seven African countries (Ghana, Kenya, Nigeria, Senegal, Sudan, Tanzania, Zambia) producers frequently received less than 50 per cent of the real value of their crops [World Bank, a, p. 26]. Discrimination of the agricultural sector via heavy taxation and an overvalued exchange rate provided thus strong disincentives to farmers to engage in the production of agricultural exports.

Second, what might be of greater importance for the long-term development prospects of ACP countries is that the exchange rate overvaluation should not be allowed to hamper the process towards export orientation in manufactured goods. By maintaining overvalued exchange rates, ACP countries cut themselves off from the fastest growing part of international trade and discourage potential foreign investors who have to pay

(1) It holds without saying that an autonomous exchange rate policy is not feasible for those African countries which are members of the Franc-Zone. This lack of an important policy instrument imposes constraints on individual countries with regard to monetary expansionary policies and to coordination requirements with partner countries pooling their exchange reserves too. These constraints accentuated by the French control of monetary growth seem to have, however, a sizable pay-off concerning convertibility guarantee, resource inflow and monetary stability.

more for local factors of production than under equilibrium exchange rates. The bias against exports is reinforced if industrialization is tried to be achieved mainly by import substitution. Here an overvalued exchange rate enables relatively cheap imports of capital goods and raw materials. At the same time tariff rates on these "essential" inputs are low (or zero) while local industry output in finished goods is protected by high nominal tariffs or other import restrictions against foreign substitutes. Thus a high effective rate of protection makes it much more profitable to invest in industries producing for local markets rather than for exports. An exchange rate depreciation in this context could provide the necessary price incentive to switch resources in the production of manufactured exports. At the same time it would make import restrictions superfluous and contribute to a more efficient allocation of imports allowing for a better use of the existing factor endowment.

c. Cases Against Exchange Rate Adjustments and Their Validity

Since depreciation is an effective measure to promote exports the question arises why ACP countries in many cases did not make use of this policy instrument. Though there is no coherent answer given by the governments of ACP countries, two often cited arguments against the usefulness of a depreciation should be mentioned (1).

- First, foreign exchange earnings of many ACP countries depend heavily on the export of agricultural products and/or industrial raw materials. Price elasticity of export demand in these products is low. A depreciation is expected to reduce total export earnings because the loss of earnings from traditional exports could not be compensated by the possible increase in export earnings from non-traditional manufactured products. The elasticity of supply of exports is also expected to be low. Such an argument, however, is based on given economic structures and underestimates if not neglects structural changes. In reality this need not be the case. A depreciation combined with an export tax on traditional commodities would leave their price in foreign exchange constant, thereby also foreign exchange earnings. At the same time depreciation would provide the incentive necessary to stimulate both risk capital inflow in non-traditional sectors and exports of manufactured goods.
- Second, a depreciation is feared to end up in a vicious circle of accelerated inflation and further depreciation. Overvalued exchange rates are hence taken as a tool to fight inflation. In evaluating this proposition one has at first to bear in mind that it is often an inflationary domestic policy that causes balance-of-payments problems and thus a pressure for devaluation. In the course of such a policy import demand will rise and worsen the trade balance. At the same time the price of non-traded goods will rise in relation to the price of traded goods, the latter being broadly determined by the world market. This will induce resources to move in the production of non-tradeables while demand switches to traded goods; the trade balance will deteriorate further.

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(1) See for a recent contribution on a pessimistic view of an "IMF supply-side" approach to exchange rate determination for an ACP country with "rigid" and "sticky" goods and factor markets Hussain, Thirlwall [1984].

Production of tradeables also becomes less profitable because domestic costs of production have risen whereas their prices are determined by the world market. Hence output in this sector will stagnate or decline. Flight of capital might also be encouraged because of higher real interest rates abroad and because of the extra profit to capital owners if expected depreciation does actually take place.

A depreciation in this context must be seen as a measure to compensate the adverse effects of such a policy on the country's external position. In combination with a policy-induced reduction in domestic absorption it implies a real burden to the economy. However, this burden could be reduced if depreciation would not be postponed for a long time. The higher the external deficit is, the greater the rate of depreciation has to be to restore external equilibrium and the greater the costs of adjustment would be.

To sum up, arguments against the policy of exchange rate changes in a flexible, predictable and coherent manner are based on the given and presumably unchangeable predominance of primary commodities in the export supply of ACP countries. In addition to this comes the pessimism on price elasticities of demand and supply. However, such attitudes are self-defeating since they preserve a short-sighted pessimistic view towards structural changes. It is also a short-sighted though politically understandable view to refuse exchange rate adjustments because of their short-term pecuniary losses. Financing export diversification policies through depreciation will most likely result in losses of export earnings for traditional goods. For many developing countries such a loss seems too high a price. Instead they urge for preferences of importing countries because a unilateral cut of tariffs is expected to shift the burden of financing to the importing countries, in our case to the EC countries, and to non-beneficiaries. However, as the poor results of ACP preferences show, this strategy seems to be inferior to the policy of directly compensating for international factor price distortions through currency depreciations or - even better - through removing the factor price distortions themselves.

4. Disincentives to the Formation of Indigenous Entrepreneurship

a. Size and Pay of Government

Human capital embodied in managerial, commercial and technical know-how is scarce in developing countries in general and in low-income developing countries in particular. Thus ACP countries also suffer from the shortage of this production factor which is indispensable for economic progress both in quantitative and qualitative terms.

Import of this factor is one way to overcome its shortage. ACP countries have done so by attracting expatriates of various kinds of skills under market conditions in extractive industries. However, the spillover of know-how from foreigners to local people has mostly not taken place because of the capital-intensive nature of extractive activities, except in some technical fields. Foreign skills were also imported under technical aid, where transfer of know-how was supposedly greater. However, none

of these was able to promote a strong growth of indigenous entrepreneurship, especially in export-oriented industries.

The other method to encourage the growth of local entrepreneurs is to introduce a set of incentives for risk-bearing and profit-oriented activities. But they are rather scarce in ACP countries. On the contrary many disincentives can be found there. Some of them are endogenous. For example the spread of the Islam in many African ACP countries seems to have impeded rather than supported risk-bearing activities. It is more a trading than a production oriented religion with strong reservations against the explicit remuneration for savings through interest payments. Furthermore, individual welfare is not defined as the accumulation of goods during his lifetime but by his conformity with the Islamic laws.

Other disincentives are determined by natural environmental constraints. The climatic "trap" in tropical areas reduces physical efficiency. However, as the economic progress in tropical areas outside the ACP countries shows, these handicaps need not necessarily hamper production.

A third group of disincentives to be elaborated here is influenced by the role of governments. By setting the constitutional framework for economic activities (public goods aspect), by fixing limits to movements of goods and factor prices as discussed above and by participating actively in markets as suppliers or purchasers, they can crowd out individuals from the market towards the governmental activities which may in many cases lead to waste of resources.

The larger the size of a government in an economy is, the greater will be the impact of its activities on the economy as a whole. In the case of ACP countries this impact is indeed sizable in terms of government share in employment in the non-agricultural sector (Table 34). On the average, the public sector absorbed more than fifty per cent of total employees outside agriculture in thirteen ACP countries at the end of the seventies. This is higher than the average of non-ACP developing countries, though statistically not significant due to enormous differences among individual ACP countries varying between 87 per cent in Benin and 19 per cent in the Bahamas.

What, however, raises the ACP average above that of other developing countries is the government pay. The latter is measured as the share of wages paid by central government in total wages (on the average 22 per cent in the sample ACP countries) and as the ratio between the average government wage and the per capita income which is almost 6:1 compared to 3:1 in other developing countries (1). In addition, central government wages in some ACP countries are on the average higher than wages paid in the other major source of permanent income, i.e. manufacturing. However, this holds for other developing countries too and is not as relevant as the other shares, since people employed in both manufacturing and the public sector receive permanent incomes and are hence privileged minorities.

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(1) Since most ACP countries are centrally governed with minor influences of state, district or local public agencies, the wages in central government are the relevant yardstick.

Table 34 - Government Employment and Pay in ACP Countries Compared with Non-ACP Averages

	Indicators of government size		Indicators of government pay		
	general government employees (a)	public sector employees in total non-agricultural employment (a)	share of central government wages in total wages in the economy (b)	ratio of central government average wage to per capita income (b)	ratio of average central government wage to average wage in manufacturing (a)
	per 100 inhabitants	per cent			
Benin (1979)	0.88	86.95	29.70	9.81	.
Botswana (1979)	3.04	.	23.20	4.49	.
Burundi (1978)	0.51	.	39.15	15.11	2.84
Cameroon (1981)	0.66	.	.	7.39	2.38
CAR (1979)	.	29.90	.	.	.
Congo (1978)	.	.	.	5.60	.
Ghana (1979)	.	73.90	.	.	.
Kenya (1980)	2.23	39.05	27.62	4.44	0.95
Liberia (1982)	2.41	59.78	.	5.52	.
Madagascar (1980)	1.07	.	.	.	.
Malawi (1979)	.	39.20	16.94	.	.
Mauritius (1980)	5.99	52.84	26.57	2.04	2.56
Sierra Leone (1979)	.	.	27.87	.	.
Senegal (1976)	0.90	45.64	.	9.90	.
Sudan (1978)	1.61	.	4.26	.	.
Swaziland (1982)	3.35	24.27	23.18	2.72	0.55
Tanzania (1978)	1.43	78.09	.	5.42	.
Togo (1980)	1.53	.	20.65	5.85	.
Uganda (1982)	1.40	42.20	.	3.90	.
Zambia (1980)	2.60	81.03	21.17	4.05	0.96
Zimbabwe (1979)	1.85	.	18.66	6.73	0.58
Bahamas (1978)	4.98	18.57	.	1.98	1.49
Barbados (1981)	10.71	.	.	.	.
Belize (1981)	1.94	.	6.07	.	.
Jamaica (1980)	4.88	.	22.40	4.28	.
Guyana (1979)	.	.	26.80	.	.
ACP country average	2.70	51.64	22.28	5.84	1.54
Non-ACP developing country average	3.65	33.84	15.10	3.03	1.89

(a) Differences between ACP and non-ACP country averages not significant. - (b) Differences between ACP and non-ACP country averages significant at the 1 per cent level.

Source: Heller, Tait [1983]; own calculations.

The government size and pay in ACP countries provide a very strong incentive towards a brain drain from private to public employment. Due to job security as well as pecuniary benefits it pays to be employed in the public sector. Since the educational requirements in public sector in ACP countries are not much higher than in other sectors, human capital is largely absorbed by it. Individuals behave rationally and acquire the necessary skills in order to be employed in the public sector. However, these skills are mostly related to administrative but not to entrepreneurial activities, and this has its costs in terms of entrepreneurship forgone. Since the run for employment in the public sector is strong and the non-acceptance rate high, people whose education process was fully targeted at the public sector employment find themselves in an impasse at the end of this process after the point of return has already passed. The high school graduates or even university graduates employed in low-graded private services (taxi driver) rather than in the private industrial sector are a consequence of misallocation of scarce resources which no ACP country can afford.

b. Administration of Justice and Government Control

Private lending for financing investments is based on legal contracts covering current payments and future repayments including debt service. Interest rates in real terms determine the allocation of credits to different uses. Whether, however, savings are allocated to risk-bearing activities at all, depends on the authority of the governments to ensure that credit contracts with rights, obligations, and sanctions will be protected by independent courts regardless of any personal affiliation of debtors and donors to the government. If this public good called administration of justice is not provided by the government, credit contracts will not be made or will be confined to selected groups - sometimes based on ethnical grounds - where a binding code of conduct and other loyalties exist. In some ACP countries this public good has not been sufficiently produced. This happened not only in the few obvious cases of flagrant dictatorship, but also in other countries faced with numerous riots and illegal activities in the black market. They signify a lack of strong state authority with regard to supratribal loyalty and a discrepancy between the rules and their implementation. Likewise, governments have often supported grudge of the majority against ethnical minorities which are commercially successful because of ethnical reliable codes of conduct (Indians in East Africa, Greek and Levantines in West Africa or indigenous groups and tribes), and this attitude has enhanced barriers to the consolidation of nation states.

Many efforts have been made to build up nation states in post-colonial Africa. One of them was the imposition of state controls on private economic activities and was based on the colonial heritage of paternalism and public intervention in order to cope with economic problems. Yet, while controls may be adequate in the legal framework, they can be self-defeating and costly if the state considers itself to be a better entrepreneur than the private investors. Apart from public enterprises state participation in the private sector is widely spread in many ACP countries, not only in the so-called "étatist" states, but also in market-

oriented countries (1). Effective state controls in the management of private enterprises, however, detract administrative skills of senior officials from other occupations in running the public sector where such skills have a higher marginal productivity. Another shortcoming of direct state control is that it lowers the necessity of private equity holders to finance their investments on private capital markets and that it shifts the risk of investment failure to the public sector. The latter aspect is crucial since the state - once it is committed in the enterprise - is not likely to be neutral to gains and losses. Instead it will probably help avoiding investment failures ("moral hazard" problem) and thus will provide security at zero costs for the private shareholders. That is why many foreign investors in ACP countries welcome a minority state participation as an insurance against failures and foreign competition. The emergence of entrepreneurship which includes risk assessment and managerial responses will thus be suppressed rather than be supported.

c. Discrimination of Entrepreneurship in the Informal Sector

The urban informal sector in ACP countries is the main source of indigenous local entrepreneurship. It is the basis for upgrading managerial skills and for employment of non-family members also. Its two most noteworthy characteristics are its inaccessibility for state controls by its nature and its need for capital for improvement. These two elements form a trade-off. Capital is usually only lent to those who can meet security requirements, have legal and permanent accounting systems and maintain at least minimum standards of buildings, health and safety. This is just what the urban informal sector fails to meet. By its very nature its activities are nonlegal (2) (not necessarily illegal) and much of its attractiveness for small scale entrepreneurs is derived from the freedom of operating outside wage legislations and other regulations. Bringing the managerial skills developed in the informal sector to an upgraded level, that is to formal activities for future export-orientation, requires a compromise on both sides.

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(1) Two examples illustrate this point. In the Ivory Coast state and para-statal agencies' participation in equity capital of the industrial sector increased from 17 per cent in 1974 to 64 per cent in 1981 [MEF, 1976; 1983] at the cost of foreign investors as the share of private Ivorian capital decreased from 10 per cent to 9 per cent. In Gabon recently a new "Code of Participation" has been launched claiming that any new enterprise under Gabonese law has to offer 10 per cent of equity capital free of charge to the state. If equity is increased, 10 per cent of this increase also has to go to the state. The state can have a representative in the board of directors. Furthermore, it can participate in important enterprises against payment. See Law No. 8/83 (Decret No. 01759/PR) cited in Bundesstelle für Außenhandelsinformation, Nachrichten für Außenhandel, No. 119, 25 July 1984.

(2) See for two country studies elaborating the issue of entrepreneurship in the informal sector ILO/UNDP [1972]; World Bank [g, Annex 3, Ch. 1]; Joshi et al. [1976].

Entrepreneurs have to obey laws if they do not want to be cut off from private and public capital markets. ACP governments on the other hand should reconsider regulations under the criteria that they should not frustrate infant entrepreneurial activities and that they are not superfluous for the mass of African households supplied by the informal sector. That means that credit allocation should not systematically discriminate against informal activities. If private capital should assess the risk of lending capital to nonlegally working entrepreneurs as too high, public capital should fill the gap in order to facilitate the upgrading process and bring local entrepreneurs in conformity with local laws.

Though most ACP governments have recognized the necessity to mobilize local indigenous entrepreneurship and though small scale business lending has improved, credit allocation rules in many ACP countries are still counterproductive for the emergence of local entrepreneurs: Enterprises which can borrow abroad have every incentive not to do so, whereas for those enterprises which must borrow domestically banks have no incentive to lend [World Bank, g, p. 286]. By easing the access to local capital market for the latter group the governments would remove one of the major obstacles to local entrepreneurship.

To conclude, given the colonial heritage of paternalism and state intervention which automatically led to a concentration of skills inside the public sector, ACP governments play a major role in economic development of their countries. This role has often been - nolens volens - dismotivating and paralysing for the emergence of indigenous entrepreneurship because of the size, pay and rules of government. It is rationale that individuals outside the public sector adjust to the predominance of this sector either by going into this sector or by circumventing government rules and prices when they are not in conformity with the local demand efficiency conditions.

Whereas ACP governments can easily act as "entrepreneurs" on well-protected local markets, they fail on the export markets, where a complete shift of losses to the purchasers is not possible. Governments adhering to market-oriented stimulants would therefore be well-advised to concentrate their skills to guarantee fair chances for everybody to become entrepreneur.

VI. The Role of Multinational Corporations in the Growth of ACP Exports

1. Foreign Direct Investment and Export Shares of ACP Countries

The growth of exports especially of manufactured goods of a country depends among other things very much on its technological capability to produce goods at competitive level of costs of production and on its network of sales and servicing in foreign countries. In both of these fields ACP countries are generally deficient and could be helped by multinational corporations (MNCs) if suitable conditions are created for the inflow of their foreign direct investments (FDI) in these countries.

In many of the newly industrialising countries (NICs) MNCs account for a considerable share of total manufacturing production and export. In the case of manufacturing production it ranges between 11 per cent (South Korea) and 83 per cent (Singapore). In countries like Brazil, Colombia, Malaysia, and Peru foreign firms produce about two fifths of the manufacturing goods sold. In the nine countries (Argentina, Brazil, Colombia, Hong Kong, India, Mexico, Pakistan, Singapore, South Korea) for whom the data are available, MNCs accounted for 5 per cent (India) to 92 per cent (Singapore) of their manufactured exports. In the Latin American countries cited above MNCs are deeply involved in their export promotion process and are responsible for one third of their exports of manufactured goods [UNCTC, 1983, p. 136 f.]. MNCs have not only information about export markets but also a worldwide network of sales organisations which can be made available to their affiliates in the host developing countries for purposes of their exports without additional initial costs.

The mere presence of MNCs in a country is however no guarantee for a solid and rapid export growth. The export intensity of MNCs in developing countries is generally not higher than that of domestic firms (1). The contribution of MNCs to export growth of their host developing countries depends on a proper mix of the latter's macroeconomic policies for industrialisation and foreign trade. In many of today's successful NICs the foreign firms participated as much in their import substituting industrialisation as their domestic firms. It was the policy shift towards export promotion and diversification in these countries which encouraged the affiliates of MNCs to raise their export/sales ratios. In other countries especially those with smaller domestic markets such as Hong Kong and Singapore, foreign firms have gone into export production from the very beginning. They were attracted there by relatively lower labour costs and were facilitated by very liberal economic policies of their governments.

A comparison of ACP shares in exports and total stock of FDI in LDCs shows that the former are lower than the latter in most of the countries.

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(1) Cohen [1975]; Helleiner [1973]; Lall, Streeten [1977]; Morgenstern [1976], Newfarmer, Marsh [1981]; UNCTC [1983].

Table 35 - Shares of Selected ACP Countries in FDI and Exports of All Developing Countries, 1978 and 1980 (per cent)

	Share in total stock of FDI in LDCs	Share in total exports of LDCs		Share in total number of affiliates in all LDCs		Share in total stock of FDI in LDCs	Share in total exports of LDCs		Share in total number of affiliates in all LDCs
	1978		1980			1978		1980	
Bahamas	2.31	0.42	0.46	1.9	Malawi	0.11	0.05	0.06	0.4
Barbados	0.20	0.04	0.04	0.3	Mali	0.01	0.02	0.03	.
Benin	0.04	0.01	0.01	0.1	Mauritania	0.03	0.04	0.04	.
Botswana	0.06	.	.	0.1	Mauritius	0.03	0.09	0.08	0.1
Burkina Faso	0.02	0.01	0.02	.	Niger	0.11	0.08	0.11	.
Burundi	0.03	0.02	0.01	.	Nigeria	1.27	2.93	4.45	2.2
Cameroon	0.42	0.23	0.26	0.3	Papua New Guinea	0.97	0.21	0.21	1.0
Central African Republic	0.08	0.02	0.02	.	Rwanda	0.03	0.02	0.01	.
Chad	0.03	0.04	0.04	.	Senegal	0.38	0.12	0.09	0.3
Congo	0.19	0.03	0.15	0.1	Seychelles	0.01	0.004	0.003	.
Djibouti	0.01	0.01	0.01	.	Sierra Leone	0.09	0.05	0.04	0.1
Equatorial Guinea	0.02	0.003	0.01	.	Somalia	0.11	0.03	0.02	.
Ethiopia	0.11	0.09	0.08	0.1	Sudan	0.07	0.14	0.10	.
Gabon	0.88	0.33	0.44	0.3	Suriname	0.47	0.11	0.11	0.2
Gambia	0.02	0.01	0.01	.	Swaziland	0.06	.	.	0.2
Ghana	0.31	0.26	0.21	0.4	Tanzania	0.19	0.13	0.10	0.4
Guinea	0.22	0.09	0.08	0.1	Togo	0.11	0.07	0.06	0.1
Guyana	0.26	0.09	0.08	.	Trinidad & Tobago	1.46	0.59	0.73	0.6
Ivory Coast	0.59	0.68	0.59	0.6	Uganda	0.01	0.10	0.09	0.3
Jamaica	1.01	0.22	0.18	1.0	Vanuatu	0.04	0.01	0.004	0.1
Kenya	0.58	0.30	0.26	1.7	Zaire	1.40	0.26	0.44	0.6
Liberia	1.38	0.14	0.11	1.5	Zambia	0.37	0.24	0.29	0.9
Madagascar	0.21	0.11	0.08	0.3	Zimbabwe	0.45	0.02	0.07	1.6
					Average	0.4	0.2	0.3	0.6

Source: IMF [b, 1983]; UNCTC [1983].

The same result is obtained when ACP's export shares are compared with their shares in the total number of MNC affiliates in the Third World (Table 35) (1). The average share of an ACP country in LDCs' exports amounted to 0.2 per cent in 1978 and it rose to 0.3 per cent in 1980. The corresponding shares in FDI and MNC affiliates were 0.4 per cent and 0.6 per cent, respectively (2). Naturally there is no sound reason why the shares in exports and in the inflow of foreign equity capital should be equal. Indeed it would be surprising if they were so in many or all ACP countries. Nonetheless, a positive relation between these two variables can be expected because in most of the ACP countries a greater part of foreign capital had traditionally gone into extractive branches for export purposes. As the cross-country regression results in Table 36 show this hypothesis cannot be rejected also. Although the variation of export shares among ACP countries can be explained only up to 23 per cent in 1978 and 30 per cent in 1980 through the variations of the shares of FDIs, one can say that they do significantly influence their exportability. They can therefore as domiciles of the affiliates of MNCs who do have a better access to world markets than the domestic firms of these countries improve their export performance by motivating these foreign affiliates through suitable policies for higher exports. Further, fresh FDI can be encouraged into export production by means of incentives and establishment of free trade zones as practised by some other developing countries like Taiwan, South Korea, India, Ceylon and Mexico. The success of free trade zones however depends on the expected profitability and stability of investment conditions. But countries following import substitution policy - as many of the ACP countries do - have sometimes no other choice than to opt for free trade zones if they want to encourage export oriented activities.

2. Importance of FDI in Total Resource Flow and Capital Formation

The total stock of FDI in ACP countries in 1978 amounted to about 14.9 bill. US $ which comes to around 17 per cent of FDI in all developing countries. The average annual flow of these investments during 1978-1980 in ACP countries was of about 1016 Mill. US $, i.e. about 10 per cent of the flow of FDI in all LDCs. These figures include Bahamas and Liberia where most of FDI is likely to be of financial nature on account of their very liberal tax practices. If they are excluded, the shares of ACP countries in the stock and flow of FDI in the Third World go down

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(1) All the preceding four averages refer to only those countries in Table 35 for which data on both the export share and the corresponding share in FDI or in total MNC affiliates are available.

(2) The most important exception is Nigeria. It has the highest share in total exports of LDCs and in total number of affiliates in these countries. It has the fifth highest share among ACP countries in terms of shares in stock of FDI. Nigeria's greater participation in exports in comparison to that in the inflow of foreign equity capital is solely because of its oil exports.

Table 36 - Regression Estimates of ACP Shares in LDCs' Exports (y), 1978 and 1980 (Least Squares)

		N	R^2
1978	$y = 0.04 + 0.42x_1$ (3.52)	44	0.32
1980	$y = 0.11 + 0.73x_2$ (3.44)	29	0.30

x_1 = ACP share in total FDI in all LDCs in 1978; x_2 = ACP share in total number of MNC affiliates in LDCs in 1980; t-values are given in brackets and coefficients of x_1 and x_2 are significant at a significance level of one per cent or less.

Source: Table 35; own calculations.

to 13 per cent and 5 per cent, respectively (1). If the FDI in resource richer countries such as Gabon, Nigeria, Trinidad and Tobago (oil), Ivory Coast (wood and oil), Jamaica (bauxite), Papua New Guinea, Zaire and Zambia (copper) are excluded the shares of the remaining ACP countries in the stock and flow of FDI dwindle down to about 5 per cent and 2 per cent, respectively, confirming the view that poorer countries are usually not quite attractive for foreign investors. In the poorer ACP countries, the ratio of FDI to total flow of resources from abroad is also very low amounting in most of the cases to less than five per cent. Exceptions are Kenya (8 per cent), Mauritius (13 per cent), Swaziland (7 per cent), Uganda (15 per cent), and Vanuatu (11 per cent).

The share of FDI in domestic investments (DI) is a better criterion to judge the contribution of foreign investors to economic development of a host country. In this respect the two resource rich countries, viz. Papua New Guinea and Zaire, stand in the forefront, having FDI/DI ratios of 6 and 9 per cent, respectively (Table 37). The high FDI/DI ratio in Zimbabwe is due more to closer cultural and political relations with the UK than to natural resources. The ratio of 24 per cent for Liberia is an exception and is to a great extent related with financial capital transfers. The opposite group is formed by Congo, Jamaica, Malawi, Mali, Mauritania, and Togo, which had negative flows of FDI during the period of 1978-1980. In most of the remaining countries the contribution of FDI to domestic capital formation was less than 2 per cent. Judging on the basis of experience of other countries this was not bad. Nonetheless, there is still enough scope for raising the contribution of foreign investors to domestic investments in these countries.

Although most of the statistical information available so far refers to the period prior to Lomé II in which the EC and the associated ACP countries agreed to promote the EC foreign investments for accelerating the economic growth of ACP countries and the latter for giving a MFN-treat-

(1) All the figures quoted here are calculated from the data given in UNCTC [1983] and Table 37.

Table 37 - FDI and Some of Its Important Features in Selected (a) ACP Countries, 1978-1980

	Stock of FDI (b)	FDI from OECD countries	Share of FDI in total flow of resources(c)	Share of FDI in domestic investment	Share in total number of affiliates in all LDCs(d)	Home country with the largest share in total number of affiliates	Share of the EC in all foreign affiliates(e)
	mill. US $		per cent				
Bahamas	2060	435.6	91.5	.	1.9	USA, 46	35
Barbados	180	6.5	24.6	4.2	0.3	UK, 49	49
Benin	34	0.7	0.4	0.3	0.1	France, 61	96
Botswana	57	1.9	2.6	0.5	0.1	UK, 77	82
Burundi	26	1.7	1.8	1.7	.	.	.
Cameroon	370	25.0	4.5	1.9	0.3	France, 65	94
CAR	70	2.2	2.3	2.1	.	.	.
Chad	26	0.2	0.3	0.2	.	.	.
Congo	170	-0.1	-0.2	-0.1	0.1	France, 43	82
Ethiopia	100	0.3	0.2	0.1	0.1	UK, 31	85
Gabon	780	18.0	313.4(f)	1.8	0.3	France, 59	90
Gambia	15	1.0	1.9	1.0	.	.	.
Ghana	280	0.5	0.2	.	0.4	UK, 53	80
Guinea	200	0.2	0.2	0.1	0.1	UK, 33	78
Guyana	230	0.6	1.3	0.4	.	UK, 64	68
Ivory Coast	530	8.9	1.3	0.3	0.6	France, 63	83
Jamaica	900	-21.1	-14.9	-5.0	1.0	USA, 51	3
Kenya	520	45.8	8.3	3.1	1.7	UK, 76	85
Liberia	1230	85.9	17.4	23.7	1.5	USA, 49	14
Madagascar	190	-0.3	-0.1	.	0.3	France, 67	88
Malawi	100	-2.9	-1.7	-0.8	0.4	UK, 78	87
Mali	10	-0.4	-0.2	-0.2	.	.	.
Mauritania	25	-4.9	-2.8	-2.6	.	.	.
Mauritius	24	7.5	12.8	2.1	0.1	UK, 69	81
Niger	100	7.9	3.2	3.4	.	.	.
Nigeria	1130	107.2	13.3	0.5	2.2	UK, 54	75
Papua New Guinea	860	30.9	8.8	5.6	1.0	UK, 19	21
Senegal	340	0.4	0.1	0.1	0.3	France, 68	90
Sierra Leone	82	3.0	4.5	1.9	0.1	UK, 60	86
Sudan	60	4.1	0.6	0.3	.	.	.
Suriname	420	0.5	0.6	0.2	0.2	Netherlands, 50	63
Swaziland	50	4.9	7.2	2.6	0.2	UK, 87	91
Tanzania	170	6.2	0.9	0.6	0.4	UK, 74	89
Togo	100	0.5	-0.2	-0.1	0.1	France, 53	83
Trinidad & Tobago	1300	22.8	27.8	1.8	0.6	UK, 43	48
Uganda	10	2.7	15.2	0.4	0.3	UK, 71	86
Vanuatu	40	4.2	11.4	.	0.1	UK, 12	21
Zaire	1250	117.1	15.9	9.3	0.6	Belgium, 47	82
Zambia	330	34.5	9.6	5.2	0.9	UK, 73	80
Zimbabwe	400	53.9	64.2	8.6	1.6	UK, 87	89

(a) Countries for which data for at least four of the columns of this table were available. - (b) 1978.- (c) Flows reported by the OECD countries. - (d) 27541 affiliates of 19 developed countries (including Spain) in the Third World; 1980. - (e) 1980. - (f) More than 100 per cent, because of net outflow of resources in 1979 and 1980.

Source: UNCTC [1983].

ment to the FDI of all member countries, there is no evidence that the inclusion of articles 60 to 64 (and Annex IX) in the Lomé II agreement has improved the flow of FDI in the envisaged direction. It is true that FDI depends on a variety of factors [Agarwal, 1980] and cannot be simply moved in one or the other direction by means of international preference and promotion treaties. Nonetheless, it is possible that the halfhearted welcome to these investments by some of the ACP delegates during the Lomé II negotiations and their concern for national sovereignty which found its expression in Annex IX of the agreement did not contribute to the intensification of EC investment activities in most of the ACP countries, especially those which are not endowed with large amounts of energy and mineral resources.

3. EC Dominance in Direct Investments in ACP Countries

In 1980 ACP countries had about five thousands affiliates of MNCs accounting for about 18 per cent of the recorded number of affiliates in all LDCs. This is roughly the same as their share in total stock of FDI in the Third World. Thus there may be no difference between the ACP countries and the remaining LDCs with regard to the size distribution of the affiliates of MNCs. More interesting to note is, however, that in two thirds of the cases the EC affiliates account for four fifths or more of the foreign firms domiciled in individual ACP countries (Table 37). This is an indication of strong economic ties between them and the EC. Together with the preferential relations they may be acting as entry barrier for investments from other developed countries and advanced developing countries such as South Korea (1). This is, however, merely a hypothesis. Though it is supported by some of those countries who could not invest in ACP countries, it cannot be relied upon without a detailed examination which is not intended to be done here.

The dominance of the affiliates of MNCs of the EC in ACP countries is in almost all the cases to be attributed to their former metropolitan countries. The EC shares in foreign affiliates in Barbados, Guyana, Papua New Guinea, and Zimbabwe are identical or almost identical to those of their former metropolitan country, viz. the UK. Further, in 19 out of 32 ACP countries the British multinationals have the largest number of affiliates. In Botswana, Kenya, Malawi, Swaziland, Tansania, Uganda, Zambia, and Zimbabwe 70 per cent or more of the foreign affiliates belong to British multinationals. The French multinationals dominate in eight associated countries (Benin, Cameroon, Congo, Gabon, Ivory Coast, Madagascar, Senegal, Togo), the Dutch and the Belgian MNCs each in one country (Suriname and Zaire, respectively). The predominance of these three countries in their former colonies in terms of their largest shares in total number of foreign affiliates is however not as great as in the case of the British companies. There are only three ACP countries which

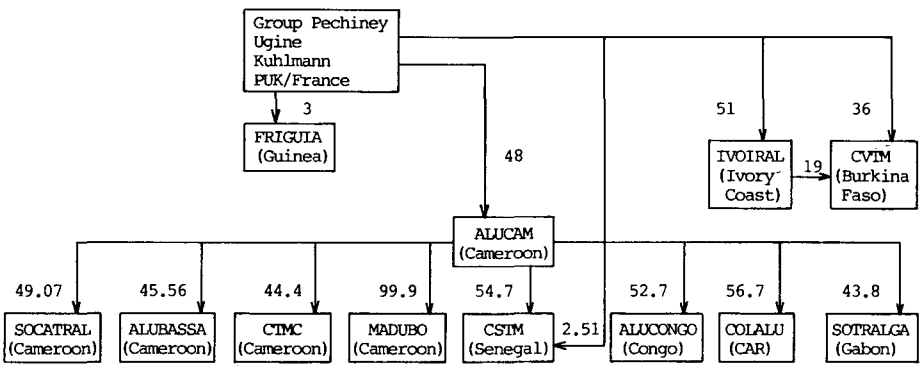
(1) Though much of the FDI of South Korea is currently in trading and construction companies, it can be regarded as being in the first stage of becoming a bigger foreign investor [Dupont, 1982; Africa 1980].

form exceptions to the observation that the multinationals from the former metropolitan countries have the dominating positions in these countries. The Bahamas and Jamaica belonged to the British empire, but the American multinationals have the largest number of firms there. In both the cases the geographical factor appears to have played the most important role. Guinea had been a part of French empire but the UK has the largest share in foreign affiliates there. However, the difference of two percentage points between British and French shares in Guinea is ignorable [UNCTC, 1983].

Many of the foreign firms in ACP countries are vertically integrated in the activities of their parent concerns. They are either supplying raw materials from their host countries to the parent firms and their other affiliates or acting as distributors of their products in the host country or they are doing both the functions simultaneously. Charts 1 and 2 show a typical capital and trade involvement between a French firm (the French multinational Pechiney Ugine Kuhlmann (PUK)) and its affiliates in different African countries (1). A notable peculiarity of this multinational is that it participates also in a "multi-multinational" extraction of bauxite in an ACP country (Guinea) from where aluminium is exported for further processing not to an industrialised country but to another ACP country, viz. Cameroon. The trade flows resulting from this processing chain comprising all stages up to the final products proved to be very stimulating for trade among the ACP countries.

Statistical information on intra-firm trade of other EC multinationals in ACP countries are not available. Nonetheless, its incidence on the for-

Chart 1: Synopsis of Equity Capital Shares of a French Multinational in Francophone Africa (per cent)

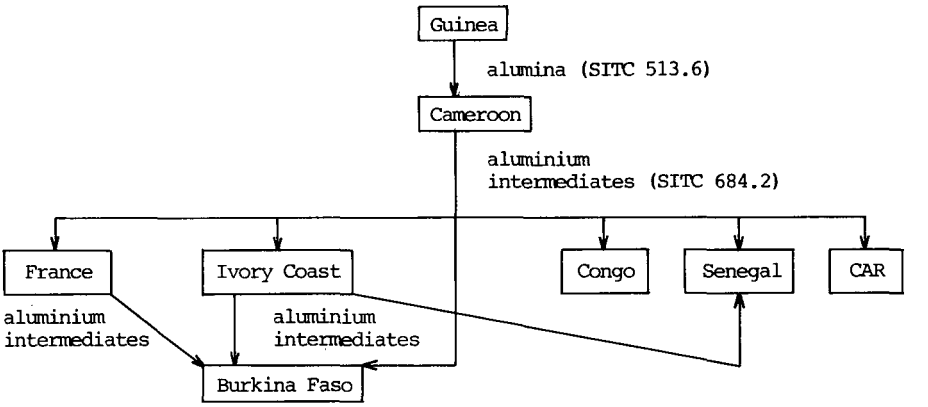


Figures refer to capital participation (percentages) in the affiliates.

Source: Ediafric [a; b].

(1) For a more detailed discussion of characteristics of multinationals operating in Subsaharian Africa see Masini et al. [1979]; Chudson [1973].

Chart 2: Synopsis of Intra-ACP Trade Flows in Francophone Africa in the Seventies



Source: UN [c].

eign trade, especially exports, of ACP countries must be very high for the following reasons:

- Shares of extractive branches including petroleum where the MNC affiliates have been traditionally active is rather high in ACP exports.
- Absorptive capacity of domestic markets of most of the ACP countries is relatively very low. Hence in those cases in which foreign affiliates are doing some large scale local manufacturing a major portion of production has to be exported.
- ACP countries have a high concentration of the affiliates of their former mother countries. During the colonial period these affiliates were the prime agents of their foreign trade acting either as raw material exporters or as importers of finished goods or both. In so far as these characteristics of the foreign affiliates have not changed since the independence of the ACP countries, their contribution to the exports of these countries is likely to be very high.
- The available statistical informations for 1977 indicated that intra-firm trade accounts for about one third of total exports of parent companies in developed countries. This share was a little lower for the UK (30 per cent) than for France (32 per cent) and West Germany (35 per cent). The corresponding figures for imports are likely to be similar or a little higher. Affiliates of German companies in Argentina, Brazil, India and Mexico sold nearly 60 per cent of their exports to the parent companies or their affiliates. For the US firms in Brazil and Mexico in 1972 these shares were as high as 73 per cent and 82 per cent, respectively [UNCTC, 1983, p. 160 f.].

Data on sectoral structure of FDI of the EC in the ACP countries are scarce. A micro study based on legal equity capital of about 700 foreign

affiliates in 13 francophone African countries showed that in 1975 primary and manufacturing sectors accounted for roughly one third and two thirds of total FDI, respectively. More than half of the FDI in manufacturing was in textiles, chemical and food industries [Langhammer, 1977]. Other data which are for all the developing countries together suggest that the investments in primary sectors which used to be the traditional strongholds of foreign investors in these countries have been declining (Table 38). The share of these branches in total FDI of the United Kingdom in LDCs went down from 25 per cent in 1971 to 8 per cent in 1979. This is a direct consequence of the policies of most of the developing countries to bring their natural resources under their own national control [Agarwal, 1979]. The incidence of nationalisation has been higher in these branches than in any other. About seven tenths of all politically motivated nationalisations and nine tenths of economically motivated nationalisations during 1956 to 1972 in the developing countries were of firms in primary sectors [Agarwal, 1976]. But for the new wave of FDI in energy sector in the seventies, which was encouraged as a result of the oil crisis both by the host developing countries and the home developed countries, the share of primary sectors in total FDI of other EC countries like West Germany and the Netherlands would have also gone down considerably further. Most of the ACP countries do not have enough technical and financial resources to develop their primary industries requiring considerable investments in physical capital and know-

Table 38 - Sectoral Structure of FDI (a) of West Germany, the Netherlands and the United Kingdom in Developing Countries, 1971-1980 (per cent)

	Agriculture, forestry and fishery	Mining	Manufacturing	Other
West Germany				
1971	0.2	10.2(b)	78.5	11.2
1975	0.8	8.2(b)	73.2	17.9
1980	0.6	7.7(b)	65.3	26.3
Netherlands				
1976	1.0	32.0(b)	42.3	24.7
1978	0.9	28.3(b)	41.5	29.3
UK				
1971	18.0	7.2(c)	41.1	33.6
1975	12.3	4.1(c)	47.5	36.1
(in Africa)	(2.3)	(1.7)(c)	(12.0)	(15.8)
1979	5.6	2.7(c)	51.4	40.4
(in Africa)	(3.6)	(1.8)(c)	(10.8)	(14.4)

(a) Stock of FDI in the cases of West Germany and the UK, flow of FDI in the case of the Netherlands. - (b) Including petroleum. - (c) Excluding petroleum.

Source: BMWi [various issues]; HMSO [1979]; Krägenau [1982].

how. They should therefore create an atmosphere of long term stability and policy predictability to attract foreign capital in these branches, especially energy.

The share of the manufacturing sector of developing countries in British FDI has increased. But the African countries have not profited from this trend. In the case of German and Dutch FDI, this share has rather declined (Table 38). Considering the locational advantages of ACP countries such as their natural resources, cheap labour and preferential trading arrangement with the EC there is enough room for attracting the EC multinationals in manufacturing industries.

If there has not been a large scale inflow of foreign investments in this sector of ACP countries, then mostly because of smaller size of their domestic markets and price distortions on their goods as well as factor markets. These distortions tend to function as taxes on ACP exports. If these distortions are removed, the favourable options of the Lomé conventions would gain considerable importance for potential foreign investors from the EC.

VII. Conclusions

The analysis of the role of ACP countries in world trade in general and in EC trade in particular showed that their performance has been poor in spite of relatively generous preferences.

Both growth rates of exports and speed of their diversification in these countries lagged far behind those of non-ACP developing countries. Some exceptions to this gloomy outcome had more to do with the imponderables of commodity bonanzas than with the economic policies of the countries concerned. However, the very few ACP countries where internal economic policies seem to have given growth impulses in the past are becoming increasingly vulnerable to crises originating in neighbouring countries having bad policy management or natural disasters.

Economic stagnation of many ACP countries is reflected not only in their trade performance, but also in poor growth rates of their incomes. During 1960-1982 they grew economically at a lower rate (2.0 per cent per year) than even the non-ACP low income countries, who achieved a growth rate of 2.1 per cent per year. The growth rate of the other non-ACP developing countries was even higher (3.1 per cent per year).

With this negative background of overall economic performance, the export-promoting influence of privileged market access had necessarily to be small. It can improve only if the EC irrevocably removes uncertainties with respect to its future trade policies not only for the ACP countries but also for other third countries with whom ACP countries compete for direct investments. However, this prerequisite of success can only be labelled low profile therapeutics. Even a free access to the EC market for ACP countries with constant preference rates in absolute and relative terms (compared to non-beneficiary countries) will be ineffective if the incentive system in ACP countries remains as it is now, i.e. against the opening of markets for goods and factors and in favour of domestic market orientation. This is not to say that future preferences free from safeguard threats and restrictions for CAP products cannot help ACP countries to see their comparative advantages in a much better way than now. Such improvements in market access will facilitate a reorientation of economic policies in ACP countries. But a clear perception of the right policies and their actual implementation are two different things. The latter is, of course, the only way to success, but apparently it has not been given a high priority by all ACP countries.

Such implementation calls for

- trade policy changes, through which import barriers should be lowered in general and many non-tariff barriers be replaced temporarily with surcharges;
- changes in interest rate policies, through which interest rates should be linked to inflation rates and raised in order to promote financial savings of private households;
- changes in wage policies and wage legislation, through which wage costs should be reduced to the level of other developing countries in order to attract investors from abroad;

- investment policy changes, through which tax holidays and customs drawbacks for foreign investors should be cut down in order to lower effective rates of protection and to remove discrimination of those local investors whose production is not based on imported inputs;
- changes in monetary policies, aiming at a reduction of budget deficits through expenditure cuts instead of financing them through inflation. Such policy changes would promote private savings and avoid the crowding out of private investors;
- changes in exchange rate policies, through which the discrimination of exports should be removed even at the cost of losing foreign exchange earnings for primary commodities in the short run.

The focal point of changes in the policies of ACP countries should be the role of statal and para-statal agencies. This role needs to be reconciled with the objective of removing one of the crucial bottlenecks of structural changes in these countries, viz. the lack of entrepreneurial human capital in the private sector. For historical reasons, which have been reinforced by current policies, human capital in these countries is concentrated in the public sector which goes far beyond the production of collective goods. Such tasks comprise the administration of state-owned enterprises in the primary and secondary sector, the control of private enterprises, and the fixing and monitoring of prices for goods and factors of production. All these activities lead to a massive state intervention in the economies of ACP countries and draw scarce resources including human capital into the public sector, some of which could definitely be used more profitably in the private sector. However, many of these policies are deeply rooted in ACP countries and it is difficult to remove them. They are based on closed markets and supported by strong vested interests which are against the opening of markets. Nonetheless, efforts should be made to overcome these difficulties in view of the gloomy economic prospects of many ACP countries.

Appendix Tables

Table A1 - Share of ACP Countries in World Exports, 1970-1982

	1970	1975	1982		1970	1975	1982
African ACP Members				Togo	0.019	0.016	0.013
				Uganda	0.099	0.035	0.022
Benin	0.012	0.004	0.002	Zaire	0.260	0.174	0.101
Botswana	-	-	-	Zambia	0.354	0.101	0.052
Burkina Faso	0.007	0.005	0.005	Zimbabwe	0.023	0.020	0.062
Burundi	0.008	0.004	0.005	Sub-Total for African ACP			
Cameroon	0.082	0.056	0.101	Members	2.429	2.318	2.024
Cape Verde	0.001	0.000	0.002				
CAR	0.012	0.006	0.006	Caribbean ACP Members			
Chad	0.011	0.006	0.006				
Comoros	-	-	-	Antigua & Barbuda	-	-	0.006
Congo	0.011	0.022	0.054	Bahamas	0.031	0.311	0.090
Djibouti	0.001	0.004	0.002	Barbados	0.016	0.013	0.015
Equatorial Guinea	0.001	0.003	0.002	Belize	0.007	0.008	0.005
Ethiopia	0.044	0.030	0.024	Dominica	-	-	0.002
Gabon	0.043	0.117	0.114	Grenada	-	0.002	0.001
Gambia	0.005	0.006	0.002	Guyana	0.050	0.045	0.023
Ghana	0.162	0.100	0.055	Jamaica	0.120	0.097	0.050
Guinea	0.015	0.017	0.024	Saint Lucia	-	-	0.002
Guinea-Bissau	0.001	0.001	0.001	Saint Vincent & the Grenadines	-	-	0.001
Ivory Coast	0.166	0.147	0.143	Suriname	0.047	0.034	0.022
Kenya	0.108	0.075	0.066	Trinidad & Tobago	0.171	0.220	0.177
Lesotho	-	-	-	Sub-Total for Caribbean ACP			
Liberia	0.084	0.049	0.071	Members	0.442	0.730	0.394
Madagascar	0.051	0.037	0.025				
Malawi	0.021	0.017	0.014	Pacific ACP Members			
Mali	0.012	0.005	0.005				
Mauritania	0.032	0.027	0.015	Fiji	0.025	0.021	0.017
Mauritius	0.025	0.037	0.021	Kiribati	-	0.003	0.000
Niger	0.011	0.011	0.018	Papua New Guinea	0.037	0.059	0.043
Nigeria	0.438	0.993	0.875	Samoa	0.002	0.001	0.001
Rwanda	0.009	0.005	0.005	Solomon Islands	-	0.002	0.003
Sao Tome & Principe	0.003	0.001	0.001	Tonga	-	-	-
Senegal	0.054	0.057	0.028	Tuvalu	-	-	-
Seychelles	0.000	0.000	0.002	Vanuatu	0.005	0.001	0.001
Sierra Leone	0.036	0.016	0.010				
Somalia	0.011	0.011	0.008	Sub Total for Pacific ACP			
Sudan	0.105	0.055	0.034	Members	0.069	0.087	0.065
Swaziland	-	-	-				
Tanzania	0.092	0.048	0.028	Grand Total	2.940	3.135	2.483

Source: IMF [a; b].

Table A2 - Concentration of Total Exports of ACP-Countries, 1970-1980

	1970		1977		1980	
	Deviation from World Trade Structure (a)	Concentration Index (b)	Deviation from World Trade Structure (a)	Concentration Index (b)	Deviation from World Trade Structure (a)	Concentration Index (b)
African ACP countries						
Benin (c, d)	0.87	0.34	0.88	0.38	0.90	0.44
Botswana	.	.	.	.	.	.
Burkina Faso (c)	0.89	0.44	0.91	0.45	0.89	0.48
Burundi (c)	0.92	0.83	0.96	0.91	0.97	0.87
Cameroon	0.83	0.37	0.89	0.40	0.75	0.40
Cape Verde	0.93	0.49	.	.	0.94	0.40
CAR	0.90	0.48	0.94	0.46	0.95	0.43
Chad (d, e)	0.93	0.70	0.88	0.64	0.88	0.64
Comoros (c)	0.97	0.58	0.97	0.60	.	.
Congo	0.90	0.49	0.78	0.54	0.80	0.89
Djibouti	.	.	0.81	0.52	.	.
Equatorial Guinea	.	.	.	.	.	.
Ethiopia (c)	0.89	0.60	0.90	0.56	0.90	0.63
Gabon (f)	0.88	0.50	0.85	0.80	0.82	0.77
Gambia	0.97	0.59	0.98	0.58	.	.
Ghana (d)	0.94	0.75	0.93	0.73	0.95	0.75
Guinea	.	.	.	.	.	.
Guinea-Bissau	0.95	0.85	0.96	0.73	.	.
Ivory Coast (f)	0.86	0.42	0.83	0.43	0.83	0.41
Kenya	0.81	0.34	0.82	0.45	0.81	0.38
Lesotho	.	.	.	.	.	.
Liberia	0.93	0.71	0.94	0.61	0.92	0.53
Madagascar	0.80	0.32	0.85	0.48	0.85	0.50
Malawi	0.91	0.47	0.92	0.53	0.92	0.49
Mali (c, d)	0.87	0.38	0.93	0.52	0.94	0.58
Mauritania (d, e)	0.95	0.86	0.94	0.65	0.94	0.85
Mauritius (c, d)	0.97	0.93	0.91	0.77	0.90	0.68
Niger (c)	0.91	0.57	0.94	0.64	0.95	0.82
Nigeria (f)	0.88	0.58	0.85	0.92	0.81	0.95
Rwanda (d, e)	0.96	0.64	0.97	0.64	0.98	0.81
Sao Tome and Principe	0.88	0.63	0.98	0.95	.	.
Senegal (c)	0.79	0.31	0.75	0.30	0.81	0.28
Seychelles (c)	0.97	0.62	0.97	0.61	0.96	0.57
Sierra Leone	0.90	0.54	0.90	0.62	.	.
Somalia (c)	0.91	0.57	0.94	0.54	0.93	0.76
Sudan (e)	0.95	0.64	0.92	0.53	0.94	0.43
Swaziland	.	.	.	.	.	.
Tanzania (c)	0.85	0.26	0.84	0.33	0.83	0.27
Togo	0.91	0.48	0.92	0.54	0.89	0.46
Uganda	0.92	0.60	0.95	0.85	.	.
Zaire (c, d)	0.90	0.66	0.92	0.53	0.90	0.40
Zambia (f)	0.96	0.95	0.97	0.90	0.98	0.82
Zimbabwe (f)	.	.	.	.	0.77	0.18
Caribbean ACP countries						
Antigua and Barbuda (d, e)	0.97	0.74	0.87	0.86	0.88	0.30
Bahamas (e)	0.77	0.36	0.75	0.66	.	.

Table A2 continued

	1970		1977		1980	
	Deviation from World Trade Structure (a)	Concentration Index (b)	Deviation from World Trade Structure (a)	Concentration Index (b)	Deviation from World Trade Structure (a)	Concentration Index (b)
Barbados	0.85	0.53	0.84	0.42	0.80	0.39
Belize (d)	0.91	0.52	0.76	0.40	0.80	0.42
Dominica (c, d)	0.93	0.73	0.92	0.68	0.96	0.67
Grenada	0.98	0.61	.	.	0.95	0.50
Guyana (f)	0.92	0.58	0.89	0.46	0.91	0.53
Jamaica (c)	0.85	0.46	0.86	0.68	0.87	0.58
Saint Lucia (e)	0.89	0.63	0.95	0.41	0.88	0.34
Saint Vincent and the Grenadines	0.97	0.55	0.95	0.63	.	.
Suriname (e)	.	.	0.92	0.49	.	.
Trinidad and Tobago	0.81	0.68	0.78	0.63	0.73	0.63
Pacific ACP countries						
Fiji	0.91	0.70	0.93	0.80	0.94	0.85
Kiribati	.	.	.	.	.	.
Papua New Guinea (c, f)	0.90	0.38	0.93	0.59	0.94	0.48
Samoa (e)	0.95	0.51	0.94	0.61	0.94	0.54
Solomon Islands (e)	0.98	0.64	0.96	0.44	0.96	0.43
Tonga	0.96	0.63	0.97	0.67	0.96	0.48
Tuvalu (e, f)	0.99	0.86	0.99	0.81	0.99	0.85
Vanuatu (e)	0.92	0.55	0.95	0.51	0.94	0.67
For comparison:						
Belgium/Luxembourg	0.36	0.10	0.38	0.11	0.40	0.11
Denmark	0.51	0.10	0.47	0.10	0.48	0.10
France	0.25	0.09	0.27	0.10	0.29	0.09
West Germany	0.34	0.13	0.33	0.14	0.35	0.13
Ireland	0.63	0.17	0.57	0.13	0.56	0.13
Italy	0.37	0.11	0.38	0.11	0.41	0.11
Netherlands	0.36	0.08	0.41	0.11	0.43	0.13
UK	0.31	0.10	0.29	0.09	0.28	0.10
USA	0.33	0.10	0.37	0.11	0.37	0.09
Japan	0.43	0.13	0.47	0.19	0.50	0.20

(a) Absolute deviation of the country commodity shares from world structure, as follows: $S_j = \frac{\sum_i \left| h_{ij} - h_i \right|}{2}$, where h_{ij} = share of commodity i in total exports of country j; h_i = share of commodity i in total world exports. - (b) Hirschman index normalized according to the following formula:

$$H_j = \frac{\sum_{i=1}^{182} \sqrt{\left(\frac{x_i}{X}\right)^2} - \sqrt{1/182}}{1 - \sqrt{1/182}}$$

, where j = country index; x_i = value of exports of commodity i; $X = \sum_{i=1}^{182} x_i$ and 182 = number of products at the three-digit level. Both indices range between zero and 1.0, the latter representing the most extreme deviation and concentration, respectively. - (c) Second year reported is 1976. - (d) Third year reported is 1978. - (e) Second year reported is 1975. - (f) Third year reported is 1979.

Source: UNCTAD [a; b].

Table A3 - ACP Country Shares in Leading Commodity Exports of Developing Countries and World Exports, 1972-1980

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
011	Meat, fresh, chilled or frozen						
	Zimbabwe	.	.	1.4	0.2	1.2	0.1
	Kenya	.	.	0.7	0.1	.	.
	Madagascar	1.1	0.2	.	.	.	.
	Recorded Total ACP Share	1.1	0.2	2.1	0.3	1.2	0.1
031	Fish, fresh and simply preserved						
	Senegal	1.1	0.3	1.2	0.5	1.7	0.7
	Papua New Guinea	1.0	0.3	1.1	0.4	.	.
	Mauritania	1.7	0.4	0.9	0.3	0.5	0.2
	Madagascar	1.1	0.3	0.8	0.3	.	.
	Suriname	.	.	0.5	0.2	.	.
	Vanuatu	1.7	0.4	0.5	0.2	.	.
	Solomon Islands	.	.	.	.	0.6	0.2
	Fiji	1.4	0.4	.	.	.	.
	Guyana	0.9	0.2	.	.	.	.
	Bahamas	0.6	0.2	.	.	.	.
	Recorded Total ACP Share	9.5	2.5	5	1.9	2.8	1.1
042	Rice						
	Suriname	1.6	0.7	1.2	0.7	2.1	1.1
	Guyana	3.0	1.6	1.8	1.0	1.4	0.7
	Madagascar	1.6	0.7	.	.	.	.
	Recorded Total ACP Share	6.2	3.0	3.0	1.7	3.5	1.8
051	Fruit, fresh, and nuts, fresh or dried						
	Ivory Coast	1.7	0.7	1.2	0.5	2.4	0.9
	Tanzania	1.8	0.7	.	.	0.8	0.3
	Kenya	.	.	.	.	0.5	0.2
	Jamaica	1.3	0.5	0.8	0.3	.	.
	Somalia	0.9	0.4	.	.	.	.
	Recorded Total ACP Share	5.7	2.3	2.0	0.8	3.7	1.4
054	Vegetables, fresh, frozen or simply preserved (including dried leguminous vegetables); roots, tubers and other edible vegetable products, n.e.s., fresh or dried						
	Niger	.	.	0.8	0.3	1.2	0.4
	Kenya	1.0	0.2	1.0	0.3	0.8	0.2
	Tanzania	0.7	0.2	0.6	0.2	0.7	0.2
	Ethiopia	2.8	0.7	1.5	0.5	0.6	0.2
	Madagascar	0.9	0.2	.	.	.	.
	Malawi	0.6	0.1	.	.	.	.
	Recorded Total ACP Share	6.0	1.4	3.9	1.3	3.3	1.0

Table A3 continued

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
061	Sugar and honey						
	Mauritius	4.1	3.3	4.4	2.9	2.8	1.8
	Fiji	1.8	1.1	2.1	1.4	2.3	1.5
	Guyana	2.2	1.4	1.5	1.0	0.9	0.6
	Zimbabwe	.	.	.	.	0.7	0.5
	Barbados	0.7	0.4	0.6	0.4	0.6	0.4
	Jamaica	1.9	1.2	1.5	1.0	.	.
	Trinidad and Tobago	1.3	0.9	0.7	0.5	.	.
	Recorded Total ACP Share	12.0	8.3	10.8	7.2	7.3	4.8
071	Coffee						
	Ivory Coast	4.8	4.5	6.9	6.3	4.3	3.9
	Uganda	5.0	4.7	4.6	4.2	3.0	2.7
	Cameroon	1.9	1.8	1.9	1.7	2.7	2.4
	Kenya	2.2	2.1	4.1	3.8	2.6	2.3
	Ethiopia	2.5	2.4	2.2	2.0	2.4	2.2
	Madagascar	1.5	1.4	1.4	1.3	1.7	1.6
	Papua New Guinea	0.8	0.7	1.4	1.3	1.6	1.4
	Zaire	1.8	1.7	1.6	1.5	1.5	1.3
	Tanzania	1.7	1.6	1.9	1.7	1.2	1.1
	Burundi	0.7	0.7	0.7	0.7	.	.
	Rwanda	.	.	0.6	0.5	.	.
	Recorded Total ACP Share	22.9	21.6	27.1	25.0	21.0	18.9
072	Cocoa						
	Ivory Coast	13.4	11.3	15.4	12.5	21.7	17.2
	Ghana	30.9	26.2	20.2	16.4	18.9	15.8
	Nigeria	21.2	18.0	16.8	13.7	12.3	9.7
	Cameroon	7.3	6.2	6.5	5.2	6.9	5.5
	Papua New Guinea	1.6	1.4	2.1	1.7	1.8	1.4
	Togo	1.8	1.5	1.2	1.0	1.0	0.8
	Sierra Leone	0.5	0.4	.	.	0.6	0.5
	Benin	0.7	0.6	.	.	.	.
	Recorded Total ACP Share	77.4	65.5	61.8	50.5	64.2	50.9
074	Tea and Mate						
	Kenya	8.2	7.1	11.3	9.9	12.0	10.2
	Malawi	2.7	2.3	3.0	2.6	2.8	2.4
	Tanzania	1.3	1.2	1.4	1.2	1.7	1.5
	Rwanda	.	.	.	.	.	.
	Papua New Guinea	.	.	0.7	0.6	1.0	0.8
	Uganda	3.1	2.7	0.8	0.7	.	.
	Mauritius	0.7	0.6	.	.	.	.
	Recorded Total ACP Share	16.0	13.9	17.8	15.5	18.5	15.7

Table A3 continued

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
081	Feeding stuff for animals						
	Nigeria	1.6	0.6	0.7	0.3	1.4	0.5
	Sudan	1.8	0.6	0.9	0.3	1.2	0.4
	Senegal	3.6	1.2	2.5	1.0	0.8	0.3
	Ivory Coast	.	.	1.1	0.4	.	.
	Tanzania	0.5	0.2	.	.	.	.
	Recorded Total ACP Share	7.5	2.6	5.2	2.0	3.4	1.2
121	Tobacco, unmanufactured						
	Zimbabwe	.	.	10.3	4.2	12.1	5.1
	Malawi	9.0	2.2	8.2	3.4	8.6	3.6
	Tanzania	2.0	0.5	2.2	0.9	0.9	0.4
	Zambia	1.1	0.3	0.6	0.3	.	.
	Madagascar	0.8	0.2	.	.	.	.
	Recorded Total ACP Share	12.9	3.2	21.3	8.8	21.6	9.1
221	Oil-seeds, oil nuts and oil kernels						
	Sudan	9.1	2.1	7.7	1.9	4.9	0.9
	Nigeria	9.7	2.2	3.2	0.8	2.2	0.4
	Papua New Guinea	1.9	0.4	1.4	0.3	2.1	0.4
	Malawi	1.5	0.4	0.6	0.2	1.2	0.2
	Gambia	1.2	0.3	1.4	0.3	1.0	0.2
	Mali	0.6	0.1	0.9	0.2	0.9	0.2
	Solomon Islands	.	.	.	.	0.7	0.1
	Burkina Faso	0.5	0.1	.	.	0.6	0.1
	Senegal	0.7	0.2	1.4	0.4	.	.
	Vanuatu	.	.	0.7	0.2	.	.
	Ivory Coast	0.7	0.2	0.6	0.2	.	.
	Ethiopia	3.6	0.8	0.5	0.1	.	.
	Niger	2.9	0.7	.	.	.	.
	Benin	1.1	0.2	.	.	.	.
	Tanzania	0.8	0.2	.	.	.	.
	Sierra Leone	0.8	0.2	.	.	.	.
	Recorded Total ACP Share	35.2	8.1	18.4	4.6	13.6	3.5
231	Crude rubber (including synthetic and reclaimed)						
	Liberia	2.6	1.6	1.7	1.1	1.7	1.1
	Nigeria	1.0	0.6	0.5	0.3	.	.
	Zaire	1.0	0.6	0.5	0.3	.	.
	Recorded Total ACP Share	4.6	2.8	2.7	1.7	1.7	1.1

Table A3 continued

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
242	Wood in the rough or roughly squared						
	Bahamas	0.6	0.3	.	.	.	.
	Ivory Coast	14.1	6.6	12.0	5.7	7.4	3.6
	Cameroon	1.9	0.9	2.8	1.4	3.0	1.5
	Liberia	0.9	0.4	1.1	0.5	1.8	0.9
	Gabon	3.8	1.8	3.6	1.7	1.3	0.6
	Papua New Guinea	0.7	0.3	0.6	0.3	0.8	0.4
	CAR	.	.	.	.	0.8	0.4
	Ghana	3.6	1.7	2.4	1.1	.	.
	Congo	3.3	1.5	1.0	0.5	.	.
	Nigeria	0.7	0.3	.	.	.	.
	Recorded Total ACP Share	29.6	13.8	23.5	11.2	15.1	7.4
243	Wood, shaped or simply worked						
	Ivory Coast	4.0	0.4	5.4	0.7	2.9	0.5
	Cameroon	1.1	0.1	1.3	0.2	1.5	0.3
	Ghana	4.7	0.5	2.3	0.3	0.6	0.1
	Papua New Guinea	.	.	0.9	0.1	.	.
	Suriname	.	.	0.6	0.1	.	.
	Nigeria	1.0	0.1	.	.	.	.
	CAR	0.6	0.1	.	.	.	.
	Recorded Total ACP Share	11.4	1.2	10.5	1.4	5.0	0.9
263	Cotton						
	Sudan	11.7	6.7	13.1	8.0	6.9	2.9
	Zimbabwe	.	.	1.0	0.6	2.5	1.0
	Mali	0.7	0.4	2.0	1.2	2.4	1.0
	Ivory Coast	0.6	0.3	0.7	0.4	1.9	0.8
	Tanzania	2.6	1.5	2.3	1.4	1.5	0.6
	Cameroon	.	.	0.7	0.4	1.2	0.5
	Burkina Faso	.	.	0.8	0.5	1.1	0.5
	Chad	1.3	0.8	2.0	1.2	1.1	0.5
	Nigeria	.	.	0.5	0.3	1.0	0.4
	Senegal	.	.	0.7	0.4	.	.
	Uganda	2.8	1.6	0.5	0.3	.	.
	Benin	0.6	0.4	.	.	.	.
	Recorded Total ACP Share	20.3	11.7	24.3	14.7	19.6	8.2
271	Fertilizers, crude(b)						
	Togo	.	.	9.6	6.4	10.2	7.1
	Senegal	.	.	10.2	6.8	5.9	4.1
	Kiribati	.	.	.	.	1.5	1.1
	Recorded Total ACP Share	.	.	29.8	13.2	17.6	12.3

Table A3 continued

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
281	Iron ore and concentrates						
	Liberia	18.9	6.9	13.0	5.6	10.3	4.3
	Mauritania	7.6	2.8	6.0	2.6	5.0	2.1
	Sierra Leone	1.4	0.5	.	.	.	.
	Recorded Total ACP Share	27.9	10.2	19.0	8.2	15.3	6.4
283	Ores and concentrates of non-ferrous base metals						
	Papua New Guinea	1.7	0.8	8.6	3.9	10.1	4.7
	Jamaica	15.4	6.7	5.7	2.6	4.3	2.0
	Guyana	4.2	1.8	3.6	1.6	2.8	1.3
	Gabon	3.1	1.4	3.9	1.8	2.5	1.2
	Suriname	8.4	3.6	2.3	1.1	1.6	0.7
	Zaire	1.4	0.6	2.0	0.9	.	.
	Ghana	0.6	0.3	0.7	0.3	.	.
	Niger	0.6	0.3	.	.	.	.
	Recorded Total ACP Share	35.4	15.5	26.8	12.2	21.3	9.9
292	Crude vegetable materials n.e.s.(c)						
	Kenya	5.3	1.1	.	.	4.0	0.9
	Zaire	.	.	.	.	1.6	0.4
	Ethiopia	1.0	0.2	.	.	1.1	0.3
	Cameroon	.	.	.	.	1.1	0.2
	Ivory Coast	1.8	0.4	.	.	0.8	0.2
	Madagascar	1.3	0.3	.	.	0.6	0.1
	Sudan	9.9	2.0	.	.	.	.
	Tanzania	1.5	0.3	.	.	.	.
	Mauritania	0.7	0.2	.	.	.	.
	Senegal	0.7	0.1	.	.	.	.
	Recorded Total ACP Share	22.2	4.6	.	.	9.2	2.1
331	Petroleum, crude and partly refined for further refining (excluding natural gasolene)						
	Nigeria	9.6	8.3	8.3	7.6	8.6	7.7
	Bahamas	.	.	0.9	0.8	0.9	0.8
	Gabon	.	.	0.8	0.7	0.6	0.5
	Trinidad & Tobago	.	.	0.7	0.6	0.6	0.5
	Recorded Total ACP Share	9.6	8.3	10.7	9.7	10.7	9.5

Table A3 continued

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
332	Petroleum products						
	Trinidad & Tobago	7.5	3.5	5.8	2.7	5.2	2.2
	Bahamas	4.9	2.3	3.0	1.4	4.8	2.1
	Kenya	0.6	0.3	1.0	0.5	1.1	0.5
	Tanzania	0.6	0.3	.	.	.	.
	Recorded Total ACP Share	13.6	6.4	9.8	4.6	11.1	4.8
421	Fixed vegetable oils, soft						
	Senegal	21.1	7.1	20.4	6.4	5.6	1.5
	Sudan	3.2	1.1	1.0	0.3	1.1	0.3
	Gambia	1.1	0.4	1.9	0.6	0.7	0.2
	Mali	.	.	0.8	0.3	.	.
	Nigeria	4.3	1.5	.	.	.	.
	Niger	1.6	0.5	.	.	.	.
	Recorded Total ACP Share	31.3	10.6	24.1	7.6	7.4	2.0
422	Other fixed vegetable oils						
	Nigeria	2.0	1.4	.	.	1.7	1.5
	Ivory Coast	2.0	1.4	2.3	1.9	1.5	1.2
	Papua New Guinea	1.7	1.2	1.4	1.1	1.3	1.1
	Zaire	5.8	4.0	.	.	.	.
	Benin	1.6	1.1	.	.	.	.
	Fiji	0.6	0.5	.	.	.	.
513	Inorganic chemicals: Elements, oxides and halogen salts(b)						
	Jamaica	.	.	39.0	7.1	31.1	5.4
	Suriname	.	.	14.2	2.6	16.1	2.8
	Trinidad & Tobago	.	.	1.5	0.3	2.9	0.5
	Guyana	.	.	3.0	0.6	.	.
	Recorded Total ACP Share	.	.	57.7	10.6	50.1	8.7
611	Leather						
	Nigeria	2.0	0.7	1.6	0.5	2.1	0.8
	Kenya	.	.	0.6	0.2	0.9	0.3
	Recorded Total ACP Share	2.0	0.7	2.2	0.7	3.0	1.1
631	Veneers, plywood boards, "improved" or reconstituted wood and other wood, n.e.s.						
	Gabon	2.5	0.6	2.5	0.7	1.3	0.4
	Ivory Coast	2.0	0.5	2.0	0.6	1.3	0.4
	Cameroon	1.5	0.4	1.0	0.3	1.2	0.4

Table A3 continued

		1972		1977		1980	
		Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports	Share in LDC exports	Share in world exports
631	continued						
	Papua New Guinea	0.8	0.2	1.1	0.3	.	.
	Nigeria	0.8	0.2	.	.	.	.
	Ghana	0.7	0.2	.	.	.	.
	Recorded Total ACP Share	8.3	2.1	6.6	1.9	3.8	1.2
652	Cotton fabrics, woven (not including narrow or special fabrics)						
	Ivory Coast	1.4	0.4	2.4	0.7	2.3	0.7
	Cameroon	.	.	0.6	0.2	0.6	0.2
	Senegal	0.8	0.2	0.6	0.2	.	.
	Madagascar	.	.	0.6	0.2	.	.
	Recorded Total ACP Share	2.2	0.6	4.2	1.3	2.9	0.9
667	Pearls and precious and semi-precious stones, unworked or worked(a)						
	Sierra Leone	.	.	7.1	0.6	8.9	0.6
	Zaire	.	.	8.1	0.7	4.7	0.3
	Congo	.	.	0.7	0.1	2.9	0.2
	Botswana	.	.	.	.	2.4	0.2
	CAR	.	.	2.4	0.2	2.2	0.2
	Tanzania	.	.	2.6	0.2	1.2	0.1
	Recorded Total ACP Share	.	.	20.9	1.8	22.3	1.6
682	Copper						
	Zambia	35.5	14.2	29.8	11.1	26.1	9.1
	Zaire	21.1	8.4	14.7	5.5	14.3	5.0
	Uganda	0.8	0.3	.	.	.	.
	Recorded Total ACP Share	57.4	22.9	44.5	16.6	40.4	14.1
687	Tin						
	Nigeria	6.3	5.1	1.6	1.3	1.7	1.5
	Zaire	0.9	0.7	1.1	0.9	0.8	0.7
	Recorded Total ACP Share	7.2	5.8	2.7	2.2	2.5	2.2
719	Machines, n.e.s., non-electric(b)						
	Ivory Coast	.	.	0.7	0.0	0.5	0.0
	Recorded Total ACP Share	.	.	0.7	0.0	0.5	0.0

(a) At the SITC 3-digit level. - (b) Commodity groups not recorded in 1972. - (c) Commodity groups not recorded in 1977. - Nil, not available or less than 0.5 per cent of developing country exports. - n.e.s. not elsewhere specified.

Source: UNCTAD [a; b].

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