The Shift to Liberalisation & The African Economy

Esther Golakai

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ABSTRACT:

1. The international norms informing economic policy in and between states have undergone a radical transformation in the last 40 years.

2. In response to widespread fiscal and macroeconomic distress of poor and developing nations in the world, especially in Latin America, international financial institutions with the help of North-American policy-makers designed ‘reform package policies’, which were a comprehensive restructuring of internal trade, monetary, fiscal and social-welfare standards. However by 1990 these ideas incorporated into almost every form of financial dealing of the developed world with the undeveloped world, were producing some very negative results, with the that there is now a movement to shift away from them in favour of an alternative.

3. The means by used by developed countries to industrialise and garner most of their post-war gains from trade, are no longer readily available or encouraged as a means of policy for other nations, especially ones that have usually followed foreign policy advice.

4. The emphasis on globalised trade policy, based on the idea that convergence and interdependence are primary means of reducing conflict, encouraging specialization within nations, and realizing mutual gains from export-import parity, have left little room for countries to pursue the national agenda where necessary, or opt out of a global trade regime to shape domestic policies which set forward on the basis of pressing national interests.

5. Developing nations may be at risk within this ‘top-down global trade approach, being as they are earmarked by a particular set of manifestations generally accepted in economic theory as undesirable, worrisome, and capable of either triggering severe economic distress, or perpetuating it. A study of 25 developing African countries returns a result that shows an alternative trend to many of the standard advice on trade.

6. African states can benefit from an individual assessment approach to free trade norms, and should not adopt them where there exists excessive macroeconomic fragility as evidenced by key markers widely recognised as indicative of potential or ongoing economic distress.

7. It is advisable for states to undertake an approach to free trade policy which takes full cognizance of the existing framework of the state, projected costs over a medium to long term period, managed transition (the bottom up approach)

1. INTRODUCTION:

The importance of trade as a key driver of economic growth and national development is not a matter of dispute among economists and political scientists. The gains from trade recognised by advanced nations during the historical period of the early 1900s, as well as their very existence now as a powerful bloc made up of the highly developed nations of the world, (the "Global North" in some circles), is proof positive that indeed historical successes in the area of external, inter-connected trade is a major contributor to the subsequent development of a country. [1]

However, the nature of national trade policy, in particular what kind of political philosophy should shape it and to what extent, is not yet settled, and has been the centre of fierce debate for at least the last 20 years. In the face of rising poverty and income inequality, as well as pressing social, economic and environmental problems in the larger proportion of the world despite the continued application of a particular set of prescriptions at the global level, hard questions have been raised about the effectiveness of one global recipe to solve the diverse issues of the developing world.

In particular, Africa has emerged as a region sorely in need of immediate, effective strategies to relieve the extremes of poverty, lack of basic amenities (i.e. health-care, housing, water, food), and slow development that exists in most of its 54 countries. In response to these facts, it has been stated that reforming Africa's trade policy can play a vital role to increase volumes of overall trade, thereby creating new revenues for social and economic progress. The leading and overwhelming body of advice has been to move African trade towards liberalisation as a means of stimulating earnings from benefits through comparative advantage, increasing foreign reserves, creating employment, and creating a more production efficient environment (based on competition) that will result in economic growth over time. This advice can be traced directly back to the leading views of the Bretton Woods Conference of 1944 and the subsequent Washington Consensus of the 1980s as consistently applied by the IMF.

This dominant view further asserts that the concept of a "global South" (a natural counterpart to the 'global North') is no longer relevant, citing the commonalities of issues facing all nations of the modern international space as proof that there are more areas of convergence than there are differences. As such, nations should be able to see the obvious benefits of standard policies and be more willing to adopt common values of interaction, such as trade, in order for all parties in the global space to realize greater gains and foster mutual dependence and goodwill.

However, it is argued in this paper that the advice for African nations to hasten their full integration into the world economy through extensive and rapid liberalisation appears to run counter to even the most cursory investigation of some of the factors affecting the physiognomy of existing African governance structures, which still display a high dependence on very few sources of revenue. Chief among them is trade earnings via import tariffs, quota systems, and protectionist subsidies to primary domestic industries- regardless of their level of competitiveness. Other major means of revenues are aid dependence and external FDI, but those are not at issue here.

Another counter-argument of this paper to trade liberalisation for African economies in their current form is that there is a distinct and very meaningful difference between them and those who devised these policies, particularly in terms of successful economic growth and industrialisation. The 'development debate' is not yet over; those who push a lesser state role in favour of the market as the determinant of world prices and subsequent gains neglect to mention that there is far greater parity as "players" among them than there is between them and African countries. The sophisticated trade structures that now exist in developed countries are a far cry from any Trade Ministry or Customs Department in an African country- the main differences are costs, technology, internal efficiency of bureaucracy, and capital. Trade is not a cheap business: it requires among other things diversity of exports, managed imports in order to score surplus trade balances, and smooth operations between logistics, transport networks, and capital flows.

Thirdly, the trade policies that have propelled nations like Japan, U.S.A, Australia and the EU to global prominence have been the product of a very long evolutionary process over several historical seasons. In their rise to power these countries employed a well-documented mix of strategies in different seasons according to national needs. That helpful, flexible trade set-up is no longer available to developing countries, who now find themselves with the one option of ratifying trade rules at the international level, and participating in multi-lateral and bi-lateral Free Trade Agreements as a means of being allowed access to global markets. The global market itself has become protected, in the sense that most countries (especially smaller ones) cannot participate in it without the national role of shaping policy being subjugated to it. Countries must ratify at the global level, and then adjust policy to international standards regardless of what is truly needed at home.

These factors show that there are in fact significant concerns about applying the conventional wisdom of liberalisation in Africa, which begs the underlying question of what conditions are ideal for less developed countries to participate fully in the organization of the world economy.

2. **APPROACH:**

This paper seeks to establish by means of a 'value-assigned' set of indicators, what the projected suitability of a random group of African countries is to full trade liberalisation as established by the current international framework. The experiment operated under a set of "givens", or non-disputed facts based on widely known and freely reported information that is readily available in the public space. Within the parameters of these facts, the approach then sought to test the suitability of countries exhibiting a certain number of 'indicators' to operations under the auspices of full trade liberalisation, as it exists, and in spite of any potential for harm based on their current macroeconomic state.

2.1 Purpose of the Methodology

The purpose and value of this research, is to employ a set of empirically researched values that look beyond limited statistical data to explore influences closer to the ground in determining whether a country that has an admitted set of existing parameters whether past or present (A), affecting its economy (B), should adopt a more liberal trade system (C). Although this research takes place admittedly after the countries of the data set have committed to adopting free trade policies, its value lies in assessing these countries for *suitability* to these policies. If they are found not to be suitable, this could have meaningful policy implications for their future reforms, not only vis-à-vis trade, but also in other areas of their economy directly or indirectly affected by trade.

Since Africa is the most cited example of underperformance in development, being the region with highest concentrations of the poor excepting some in SE Asia, there is an immediate need for clear-eyed assessment of future trade decisions. These decisions need to be based on fluid and adaptive markers that are clearly aligned to the particular needs of each African country from its existing macroeconomic standpoint, rather than on mass adherence to the many FTAs Africans have already signed, and are continuously being pressured to sign. Ill-advised trade reform policies in some countries have been a significant contributor to stagnation and decline in the past, so it is important to study meaningful ways to avoid them to being a potential cause of further decline in future.

In short the question is: *How do particular factors in an economy, acknowledged as established according to current existing paradigms, give an indication of whether trade liberalisation is recommended in the case of that country?*

2.2 *Why This Method Of Assessment?*

What is so different about a non-conventional study of free trade efficacy in the African region? Does it lend anything new to the existing modal or binary approaches to valuating trade as a component of economic growth? After all, many studies exist that factor liberalised trade along a vector of causality in relation to one or several variables: trade and its effects on poverty [2] (Winters, 2000); trade as a function of agriculture (Matsuyama, 1991), and even a rather ambitious paper also by Alan Winters on effects of trade on the whole economy itself (Winters, 2004). However in that paper Winters' language shows a trend which has already been alluded to here, namely that the basis for what are actually very strongly advocated '*positive effects of trade liberalisation'* have not been absolutely proven. He admits that liberalisation provides at best a "plausible" result that "may" be interpreted to mean its overall effect is positive, and that liberalisation can be seen to produce a temporary "but possibly long lived" increase in growth. Possibly. Yet much of the work advocating free trade is similar; outcomes are not absolute or conclusive, and many camps advance views based on what free trade '*should*' do as opposed to what it actually (conclusively from a reality standpoint) *does* do.

Taken together, the literature amounts to an overwhelming body of articles, conference pieces, institutional and peer-reviewed studies arguing either for or against the perceived positive, negative, (or in a more moderate vein) "significant" or "not significant" statistical effects of liberalised trade on various sectors of an economy in different states of 'open', 'closed', or 'transitional'. Also, these studies are mostly statistical, and do not account for a very important, relevant component of the trade equation: the country itself. As with any other science it is perhaps unwise to factor out the prevailing setting from any assessment, because the result could end up being largely predictive, rather than based on simple and readily available facts of what actually exists.

2.3 *The Operative Environment: Shadowing Reality*

The parameters of this paper endeavoured to stay as close to reality as possible in terms of assessing the givens of both the policy space regarding international trade, and the current state of a random set of African domestic economies. Because of sample size and written requirements an exhaustive exposition of facts is not possible; nevertheless, the data produced interesting fault lines even among a sample of only African countries, lines that could be carefully traced back to historical factors, conflicts, and debt. Perhaps new fault lines would show in a diametric study that measures Africa relative to more developed nations like Canada, the UK, the EU, Japan and the United Sates.

Below are the major "givens" of the current international political economy with regards to 'FREE TRADE', as expounded by one or two of the more widely known literature pieces in the field.

(1) Given the underperformance of African countries in different arenas for a variety of reasons, trade stands out as an immediate and unifying means of securing effective growth and development across a range of visibly and understandably diverse economies. (Winters, 2000, 2004)

(2) The Bretton Woods dominant focus of open markets, and the massive drive in later years towards enshrining the nuts and bolts of the Washington Consensus into almost all visible international trade policy we see today, is the best way to close the gap between the rich and poor countries, as well as stir development and growth in the latter. Minor matters of divergence can be worked out by international cooperation in collaborative forums along the way. (Williamson, 1993)

(3) Trade is such an influential catalyst in national development, that nations will take great care to enhance and preserve it, even to the exclusion of war. Trade is mutually beneficial to all players, and because of a relatively level playing field, it is in the mutual interest of all parties to preserve the status quo and seek collaboration rather than rely on the use of force to resolve differences. Where trade is disrupted by war, everybody loses. (Angell, 1910 [3]; Copeland, 1996)

On the other hand, the main counter-arguments of this paper hold that that:

(1) The "one-size-fits-all" approach of the Washington Consensus twin prongs of "good policies" and "good institutions", coupled with the widespread IMF/ WB structural adjustment periods of 1960-1990, have not produced good results for domestic African growth, or development, or trade. The general bankruptcy of this approach is well documented in the literature, typified by an initial boost in trade like what Latin America experienced before it stagnated, while Africa and some parts even of Eastern Europe and Asia declined in the latter period. (Easterly, 2003)

(2) Trade liberalisation as a policy should be intuitive to the existing natural state of a domestic economy, with as few exogenous interferences as possible, especially when said economy is in a roughly primary state or transitional state (diversifying or industrialising). (Chang, 2002)

(3) The current (and perhaps even projected) realities of African nations' economic physiognomy should be factored into trade policy, rather than employing multi-lateral rules as indicative of 'consensus'. Issues like previous structural adjustment programs, conflict, and high debt burdens all have an effect on the general economic ability of a country to realize strong gains from trade on the supposedly level playing field of liberalised trade. Presently, even those economies least-suited for the advocated trend of certain measures are nonetheless pressured into adopting them, but is this the most effective and best-suited approach given their current status?

1.4 Data Analysis

In order to capture salient variables like war, armed conflict and debt, there is a better response from qualitative analysis rather than quantitative. There is yet no standard numerical value for the impact of such factors, usually making it possible to capture in studies only by acknowledging its presence rather than content. Therefore this paper allows for studying variables via 'marking' its existence and factual effects, rather than just listing numerical statistical outcomes. In this way multiple realities and perspectives can be incorporated into a cohesive observation of the data.

Data was used from the following sources: Index Mundi, UNCTAD, IMF, WB, WTO Working Papers, Fact Sheets and Country Statistics.

An initial group of 54 countries was reduced twice on the following basis:

- Countries that are sovereign and recognised by all international governments: (original 54)
- Countries that traditionally identify as African: (54 → 52)
- Countries that are members of the African Union: (52 → 48)

The final data set was assigned numerical values in alphabetical order from 1- 48. Then countries were entered thrice into a randomizer to produce three different results streams between 1 and 48.

Countries were counted 1-30 from each stream to create a final list chosen according to frequency of numbers: first by "3s" (three appearances of a particular number in the streams) and "2s" (two appearances). First stream of 1-30 numbers chosen from top down, second stream 1-30 numbers chosen from bottom upward, and third stream was chosen from exact middle.

A final working data set of 25 countries was selected from this process.

3.1 FOCUS POINTS: BRETTON WOODS & THE IMF

"The economic health of every country is a proper matter of concern to all its neighbors, near and far." - President Franklin Delano Roosevelt, Brettons Woods Conference (1944)

It is common knowledge that the existing body of international institutions and global governance norms were established in response to a very unique set of circumstances: the end of World War II. Developed nations, (most of whom completed the industrialisation process prior to 1945, including (1) establishing an embedded democratic process, (2) inventing heavy machinery and the use of fundament technology of the times, (3) facilitating the shift of society away from agrarian reliance to manufacturing and other energy-producing industries, (4) forming a coherent and well-defined labour force, and (5) overseeing the urbanization of cities, gathered to shape the new, mostly Western, political economic order of the day. Their aim: to create a system of jointly managed interests, a system of 'universal rules' that would dispel the fog of WWII and re-establish the close international ties and interdependence that existed before the war. Trade was high on the agenda.

Trade, especially international trade, has long been isolated as a key component of economic growth, and international cooperation. In fact, it was believed to be a variable so crucial because of how it connected distant regions and different national economies that it has resolutely persisted as the lynchpin of liberal ideology in international relations theory to this day. Trade in the 20th century was considered essential (and powerful enough) to be capable of having a strongly deterrent effect on war, and although this particular belief was twice dispelled in short order by the advent of World War I and II, it was nevertheless this core liberal ideology that prevailed at the Bretton Woods Conference of 1944.

The pivotal objective of that month-long meeting, skillfully realized under the leadership of such esteemed politicians and economists as Henry Morgenthau, John Keynes, and Harry Dexter White, was the idea of open markets. The idea was to engineer the end of 'economic nationalism', whereby states' reliance on trade blocs, special "spheres of influence" (i.e. traditional colonial holdings), and other barriers to trade would be effectively removed in order to re-instate the pre-war order of interdependence among developed nations. Bretton Woods also covered issues of financial openness and the creation of the gold standard but, for the purpose of this paper, 1944's legacy of trade liberalisation is the aspect that will be examined for its influence on, and control of existing international trade policies, if any.

3.2 <u>FOCUS POINTS: A SHIFT IN POLICY</u>

It is the key argument of this paper that the last 40 years has seen a major shift in trade policy, one that does not leave much room to craft individual domestic programs that can play up strengths and minimize or manage weakness. Instead, the formation of GATT and the World Trade Organisation, World Bank Group, IMF and other IFIs (i.e. the African Development Bank) has resulted in an effective hegemony of trade that is very hard for a nominal player to opt out of. These institutions have global heft and legitimacy, and have created a new international arrangement whose influence extends well beyond traditional trade matters into almost every aspect of international relations.

Aside from this is there is another consideration- historically, the developed nations did not employ liberal market strategy to recognise their huge strides in growth. All of them started out as agricultural communities, and indeed it has been aptly observed by Matsuyama (1992) that there is a strong positive link between agricultural production and growth in the small closed economic model, while there is a corresponding *negative* link in the small open economy model. In order to increase production, feed their populations, develop start-up industry and grow to a competitive size, every developed nation from the UK to the U.S., to France and the Netherlands, closed their borders and focused on driving towards the "industrial miracle" whereby their could produce their own needs and reach the point of competitive exports that would draw in additional revenue. Britain in particular built up a massive navy through gains from trade with all its colonies as a ready market, and the actively suppressed the growth of any type of manufacture in the colonies stating that the Americans should "never be allowed to produce so much as a horseshoe nail" because it would diminish British exports. (Chang, 2002)

This is clear evidence that indeed <u>an alternative process of trade is possible</u>, a more grassroots attempt to revitalize slumping exports and diversify the export base to that African countries do not depend so heavily on one or two primary raw goods, but can perhaps over the next 10-15 years transition to producing and refining key mineral/ raw resources at home for sale at the higher price for such secondary goods in the world market. Even where African nations currently produce high-demand raw goods like rubber, diamonds and oil, the price of refined diamonds and crude for end consumption is many, many times that of what is paid to producers who sell the raw product.

It is *possible* to revitalize trade by considering an alternative trade model, but it is as yet unclear whether that is <u>*feasible*</u> given the incredible pressure and vested interests of the current status quo.

3.2 FOCUS POINTS: A LOOK AT THE LANDSCAPE

It is said that no one builds a house without first counting the cost. This means in order to successfully undertake anything one must first do an honest evaluation of where he is, where he needs to be, and then find the most efficient way to bridge the gap. In a way, trade policy is exactly the same; one ideally should assess the personalized impact of the deep-running changes required in liberalisation, be honest about its implications and costs, before signing on at the global level.

Trade can be said to be as much a product of 'actual outcomes' (fact-based results) as it is 'expected outcomes' (reasonable expectations of the future). It shares commonalities with political democratic systems in that strategic moves to shape policy can either be based on results in a previous period (denoted as time *t*), as they can be based on expected results for the next period (time $t + 1$). If trade is then viewed as a repeated macroeconomic 'game' where policies are set and players do not lessen but rather increase with each round, losing players may become aware over time that the only room for improvement after a series of cycles of disappointing results in past periods, is to seek variance in their strategy. Since they cannot change the rules of the game or the strategies of other players, the only option for redress of past failures may be to vary their stance vis-à-vis the current gaming landscape ("change tack").

However the feasibility of this, as mentioned before, vary. Dani Rodrik in his astute commentary 'The Global Paradox' likens this low likelihood of national change to a "golden straight-jacket": in order to become embedded in trade policy at the global level African states (along with most of the developing world except for a few hard-liners like China) have sacrificed a great deal of sovereignty over what is good for their particular economies. The exchange may not be as beneficial as it is sold, especially given the effects of structural adjustment. In this matter Argentina remains the perennial "cautionary tale", a nation that followed IMF prescriptions to the letter and surged ahead in growth in the 1990s, only to visibly crash and burn at the Millennium.

And yet, we have choice. The 'Beijing Consensus' is proves that there is a role for government in the successful design of domestic markets. The concept of 'equitable development' may be vague at the onset, but there is no denying the flexibility of the Chinese model adapted trade for its own needs. China's current growth model has staggered the international community in every way, and they did it without Washington's help. It is perhaps no wonder that developing countries are cautiously clustering around the Asian behemoth, hoping to find an alternative to emulate in future.

3.3 FOCUS POINTS: THE EFFECTS OF WAR AND DEBT

The effects of war on trade do not require lengthy explanation: when fighting disrupts the daily movement of civilian life, economic life comes to a standstill along with it. Roads are blocked by military convoys, rebels section off the land into personal strongholds that drive huge population displacements, factories close or are bombs, transport networks fall into disrepair, ships and airplanes cannot enter the combat zones for goods, and key power sources like hydro-electric dams or power stations may be destroyed. (Africa has no nuclear or 'clean' industry as yet). The Liberian civil war reached such desperate proportions that food had to be air-dropped into major living centres so that people could scramble and salvage something to eat. Not only trade suffers in war.

However as the results of this study proved, there is an erroneous assumption in current international trade discourse. Simply: *"war disrupts trade, so nations will seek to avoid war, even civil war"*. Yet clear evidence exists in Africa, enshrined indirectly in UN Security resolutions, that in fact war does not disrupt trade. The proof shows that in times of war trade can mushroom very rapidly, especially clandestine trade in high quality, high-demand raw goods like timber, gold, and diamonds. Insurgents race to control centres of production and use the revenues from the unscrupulous buyers as grist for the war mill. Displaced populations provide plenty of forced labour to extract resources, and those armed factions that control areas like the airport or the harbour can effectively carry on trade with whichever international party is willing to come ashore and trade.

Likewise, massive debt negatively affects the balance of trade. African countries have traditionally carried an inordinate burden of debt throughout the last four decades, so much so that watching the interest alone double on a monthly basis can serve as grim comic relief. Large current account and fiscal deficits have fuelled a cycle where many nations borrow simply to meet current consumption needs (i.e.

4. RESULTS: MAJOR VARIABLES AFFECTING TRADE (IN THE SAMPLE)

4.1 Diversity & Representativeness

Out of a data set of 25 countries, certain trends became almost immediately evident. (Fig 1)

(A) First, the countries were dispersed in a way that made them very representative of the continent:

NORTH	SOUTH	EAST	WEST	CENTRAL
ALGERIA	BOTSWANA	DJIBOUTI	BENIN	CHAD
LIBYA	SOUTH AFRICA	ERITREA	LIBERIA	CONGO
	SWAZILAND	ETHIOPIA	MALI	EQ. GUINEA
	ZAMBIA	KENYA	MAURITANIA	RWANDA
	ZIMBABWE		NIGER	SUDAN
			NIGERIA	
			SIERRA LEONE	
ISLANDS:	CAPE VERDE	COMOROS		

(B) There is a representation of every kind of country type in terms of geography: (Fig 2)

Size:

(1) **Large:** Chad, Mali, Libya, Sudan, Niger, Nigeria, Algeria, Mauritania, Ethiopia, South Africa, Congo

(2) **Medium:** Botswana, Zambia, Zimbabwe, Kenya

(3) **Small:** Djibouti, Eq. Guinea, Benin, Liberia, Eritrea, Rwanda, Swaziland, Cape Verde, Comoros, Sierra Leone

Climate:

(4) **Desert/ Semi-Arid:** Chad, Mali, Libya, Sudan, Niger, Mauritania, Algeria, Ethiopia, Djibouti

(5) **Densely Forested:** Congo, Rwanda, Benin, Liberia, Nigeria, Eq. Guinea, Sierra Leone, Nigeria

(6) **Temperate:** South Africa, Kenya, Cape Verde, Comoros, Swaziland, Botswana, Zimbabwe, Zambia

These characteristics are important because it is often indicated that trade efficiency can be compromised due to poor state control of too-large, underdeveloped territories, and adverse natural conditions such as being land-locked, (i.e. Zimbabwe, Zambia, Mali, Mauritania & Niger).

4.2 Incidence of War/ Armed Conflict: (Fig 3)

SAMPLE COUNTRIES	WAR: 2-4yrs (1) 5-10yr. (2) 10-15+ yr. (3)	VIOLENT CONFLICT: 4mth- 1yr+ (1)
ALGERIA	3	0
BENIN	0	0
BOTSWANA	0	0
CAPE VERDE	0	0
CHAD	2	1
COMOROS	0	0
CONGO	3	1
DJIBOUTI	0	0
EQ. GUINEA	0	0
ERITREA	0	1
ETHIOPIA	0	1
KENYA	0	1
LIBERIA	3	0
LIBYA	1	1
MALI	0	1
MAURITANIE	0	0
NIGER	0	0
NIGERIA	0	1
RWANDA	2	1
SIERRA LEONE	3	0
SOUTH AFRICA	0	0
SUDAN	3	1
SWAZILAND	0	0
ZAMBIA	0	0
ZIMBABWE	0	0

Fig. 3 Rating Scale: Effects of War

Long-term war, 3; Medium term war, 2

Short-term war, 1; Violent conflict with/ without state forces, 1

Another striking effect in the sample was the number of countries affected by war or armed conflict. "War" is defined as 'a state of warfare between different countries or between groups within one country, where one of the groups seeking power is the national army operating aside from legitimate state power'. Armed Conflict is defined as 'a state of warfare carried on by military insurgents against the legitimate government, and possibly involving the official military operating under state control'.

According to conservative tallies there are 25 states at war in Africa overall, which by one interpretation would make the entire sample representative of the whole. However, for these purposes war was evaluated according to length of conflict, with each time frame given a separate rating.

War has a significant effect on trade in two ways: it is emphatically believed that the mutual dependence of trade acts a *deterrent* to states in making their calculus for the benefits of war. (See end-notes Angell, 1910).

Also, war and conflict is believed to always *disrupt* trade. Therefore the premise is because the global system is so connected, states will not be keen to resolve issues through violent conflict because it destroys the platform for trade growth that everyone depends on. However, many conflict states of the sample demonstrate a completely opposite result. Trade has thrived to the point where they were able to sustain a trade surplus and therefore achieve a lower "unsuitability" score than would otherwise be expected.

4.3 *Economic Factors: Structural Reform, Debt And Balances Of Trade (Fig. 4)*

<u>Fig. 4 Rating Scale: Macroeconomic Health</u> (Indicators for important factors affecting overall economic health)

Practice of historical IMF country reform programs- 1

Balance of trade surplus/ deficits: No deficit- 0, Deficit- 2 (Based on aggregate time period 2012-2014, 2 yr. value)

Debt, only external IMF denominated debt- 2

HIPC Debt Eradication/ Reduction/ Transitional Loan- 1

COUNTRIES	IMF/ WB SAPs	BALANCE OF TRADE	IMF DEBT	HIPC MEMBER
ALGERIA	1	0	2	0
BENIN	1	2	2	1
BOTSWANA	1	0	2	0
CAPE VERDE	1	2	2	0
CHAD	1	0	2	1
COMOROS	1	2	2	1
CONGO	1	0	2	1
DJIBOUTI	1	0	2	0
EQ. GUINEA	1	0	2	0
ERITREA	1	2	2	0
ETHIOPIA	1	2	2	1
KENYA	1	2	2	0
LIBERIA	1	2	2	1
LIBYA	1	0	2	0
MALI	1	2	2	1
MAURITANIA	1	2	2	1
NIGER	1	2	2	1
NIGERIA	1	0	2	0
RWANDA	1	2	2	1
SIERRA LEONE	1	0	2	1
SOUTH AFRICA	1	2	2	0
SUDAN	1	2	2	0
SWAZILAND	1	0	2	0
ZAMBIA	1	0	2	1
ZIMBABWE	1	2	2	0

Current ideas in economic policy, especially trade among others, are almost unanimously based on recommendations from the IMF and WB on how to create attractive environments that promote greater volumes of trades, stimulate export-led growth, and by association push overall development. Widespread industrialisation should have been the result of these policies, especially because they have been in operation for almost 40 years, but instead they have produced "severe macroeconomic distortions" and a large numbers of developing countries stuck in a cycle of cyclical borrowings to drive the economy. (Easterly, 2003)

5. DISCUSSION OF RESULTS

Results have been very simply interpreted by calculating each country's "indicator score"; the lower the number, the greater the general assumption of robustness of the macroeconomic framework, and therefore the predicted suitability of that country's existing framework to better cope with the pressures attendant in trade liberalisation and the extensive changes it entails on a developing country in terms of reforming institutions, costs of developing new institutions, and rising to the generally higher standard of international trade. The main things countries need to successfully navigate this divide is capital flows, a smart imports-exports strategy that actually allows to it build up net gains from trade rather than net losses, relatively low debt dependency, and a consistently peaceful physical environment (political stability and absence of conflict).

However the results produced patterns that in the qualitative framework are interesting to note. There is a clear lower index in areas without war (i.e. the islands and Southern Africa), and a very high index in Central and West Africa. West and middle African countries (Congo, Rwanda, Sudan, Sierra Leone, Liberia, Ethiopia, Chad, either posted 3s and 2s for a mixture of wars of great length, or 1s for shorter wars or armed conflict. Corresponding with peace were relatively low overall scores (3-5 bracket) because in addition to no wars, some countries (Botswana, Zambia, and even Swaziland) posted net surpluses for consecutive years, effectively lowering their scores. Zimbabwe and South Africa are in that region but received overall scores of 5 simply because despite peace, they face trade deficits for consecutive years, Zimbabwe perhaps because of habitual IMF arrears. (Source: IMF Country Statistics, Zimbabwe)

Nigeria is a surprise result: although known for systemic weakness in governance structures, the low score of 4 is perhaps due to combination of oil exports, no major wars, and a trade surplus.

Countries scoring in range 6 were the largest group- Algeria, Benin, Comoros, Eritrea, Kenya, Mauritania, and Niger. These countries signal a combination of factors at work. Some have trade deficits (Benin, Comoros, Kenya, Niger, Chad) that raise their index, while others have destabilization of conflict. Last was the '7-9' group: they are Rwanda, Liberia, Sierra Leone, Sudan, Ethiopia, Congo & Chad. These nations either suffered extended conflict that broke down the very fabric of civil society while spurring a furious trade in precious commodities that were banned internationally for a decade (loss of revenue), or they still have ongoing conflict zones today.

5.1 Fragile States and Trade Surplus

Another interesting correlation is between states traditionally defined as fragile, and their absence from the weakness of trade deficits. Trade deficits emerge where a country's exports are less than imports, or perhaps where exports exceed imports but are of much lower quality when compared to the quality of import goods- i.e. primary food goods as exports vs. imports of high tech audio-visual equipment. (Swaziland illustrates this point. 60% of its trade is with South Africa and only 8.8% with the EU- this is because its main export are sugar cane, wood pulp, yam, and fruit.) ,

Fragile states are usually where warfare threatens life on a more or less consistent basis (or has in the recent past), and where most citizens are poor despite the presence of rich natural resources in many cases. It is usually also a country with very poor governance, where state participation in basic socio-political infrastructure like providing roads, hospitals and schools, is low. When these factors are all evident simultaneously, countries can become trapped in cyclical fragility.

The states below are all listed (with the exception of Nigeria and Algeria) as international fragile states. Yet these fragile states are somehow "paying their bills in terms of trade". The table below offers some helpful insight as to why.

Fig. 5: High Demand Goods Producers in the sample

Country	Surplus	Main Resource ($$)	Peace
Nigeria	Yes	Oil	Moderate to No
Libya	Yes	Oil	No
Algeria	Yes	Oil, Natural Gas	10 yrs. war (2005)
Sierra Leone	Yes	Diamonds, Timber	10 yrs. War (2002)
Chad	Yes	Oil	5 yrs. War (2010)
Sudan	Yes	Oil	1955-72, 1983-2005, Ongoing insurgency

The commodities found in these countries has continued to flow in spite of the fiercest fighting in these nations, simply because they are high-demand exports driven by very close Western interests in the energy and precious minerals markets. Their share price rarely declines even through world events that cause a depressing slump in the world price of other goods, so these countries have a steady market and incentive to keep up their current levels of production. This is likely to be the case even if only a low percentage of earnings are directed to re-establishing the state in some cases, or fortifying governance in others.

6. CONCLUSION:

The historical words of a foremost economist offer priceless and very precise insight into the current situation surrounding trade at the global level:

"It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations… Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, and turn to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth."

-Friedrich List

It can be challenging to implement economic changes at the best of time, because of political resistance from interest groups. But times of stagnation or crisis can offer a ("window of a thousand years", when such reforms can have a positive impact. However it takes skill, timing, and strategic planning to know how to implement reforms, especially what form they should take among other things. Systems vary from country to country, and can be quite problematic to change too quickly, especially when the effect of major economic contributors like trade can affect the very personal lives of citizens in the short, medium or long term.

In conclusion, the results of this study would indicate that internal macroeconomic coordination is required in the area of policy, developed more in tandem with the precise needs of individual states rather than conducted from a distanced, assumption model of what should happen is a certain recipe is applied. It is not at all impossible for developing nations of Africa to regenerate over time into dynamic liberalised economies that are well integrated into the global market, but ratifying first and working the details out later is not a wise approach for such a vastly different group of countries.

ENDNOTES:

[1] Ha-joon Chang excellently expounds this view in his award-winning book, 'Kicking Away The Ladder'. By using a wealth of historical examples Chang shows that trade played the pivotal and defining role in developing the economic wealth and even military might of almost every developed country that is now a world power- i.e. United States, Great Britain, and even to a large extent, demilitarized post-war Germany and Japan. Especially interesting is his detailed outline of British protectionism over a 100 year period, from 1820 ending relatively recently in 1910 (20th century). Unable to compete with the rapidly diversifying Dutch, Britain introduced high import tariff and protectionist measures that put the French to shame (they had up until that time been heavily criticized & bullied by Britain for not opening up the borders for trade). France, a poor and mostly agrarian nation at this time, chose to ignore this tirade from the British. British tariffs were some of the highest in the entire European region, and they actively suppressed the development of any kind of industry in all their colonies, including the Americas, as a means of preserving their large export markets.

[2] Alan Winters states in both 2000 and 2004 papers that there are unfortunately no clear links between trade liberalisation and poverty alleviation. With no clear empirical linkages between the two, the pro-stance advances on "fragmentary evidence"[Winters, 2000, pp.1] of the main arguments. Both papers still conclude that as neo-liberal policies have been the dominant force for trade policy over the 15-year period leading up to 2000, it is the accepted stance that *"open trade is **generally** an important component of development policy, and one which **can** play a positive role in poverty alleviation."* Similar statements appear in many articles and papers, hedged in favour of a 'probability of good' as opposed to real proof of same, empirically proven by application in developing nations over time.

[3] Norman Angell, The Great Illusion, made the famous argument that international trade dependence that created the foundational for today's neo-liberal trade theory and the doctrine of 'mutual deterrence'. Angell argued that the use of power would decline in settling disputes as nations depended more and more on one another for gains from trade. Although his views were proven wrong shortly after publication with war in 1914 and again in 1941, liberal theory has continued to shape the mass of views in support of Bretton Woods and the Washington Consensus.

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