

# THE SHIFT TO LIBERALISATION AND THE AFRICAN ECONOMY

ESTHER F. GOLAKAI/ IPE/ 2014



## INTERNATIONAL ACKNOWLEDGEMENT OF STATUS QUO

- ◆ There has been widespread acknowledgement of a “crisis” in African development.
- ◆ (It has been called: **Stagnant, Non-performing, Regressive**)
- ◆ In clarifying reasons for this, theories have ranged from:
- ◆ **Poor Governance/ Low Democracy/ Conflict/ Latent industrialisation/ Difficult Environmental conditions**
- ◆ While it is generally agreed that all these factors play a role- by far the most contentious area in correctly diagnosing (& therefore treating) this ‘crisis of development’ has been whether **economic structural reforms** undertaken in previous decades have impacted negatively on African development. In particular, the area of trade is highlighted for this study, to investigate whether “**Free Trade**” and present day **trade liberalisation policies** can have an effect of eradicating or exacerbating the problem.
- ◆ Free Trade: The “Unregulated operation of market forces across borders”; also defined as “International trade (i.e. imports and exports) left to its natural course without tariffs, quotas, or other domestically imposed restrictions.”

## HYPOTHESIS

- ◆  $H_0$ : Free Trade favour strong economies over weak ones, and creates imbalances that widen disparities instead of convergence
- ◆  $H_1$  Trade Liberalisation creates an even market platform that is mutually beneficial to all economies, and creates minimal diversities between economies at best.

### ◆ Prominent Arguments for Free Trade

- ◆ Trade liberalisation argues for the increase in market activity by: *Removing barriers to trade such as quotas, tariffs, subsidies*
- ◆ Giving poorer countries *access to international markets*, incentive to *diversify their exports, increase imports*, and wean off aid
- ◆ Encouraging a *competitive approach to market expansion by increasing FDI*, which in turn will boost GDP & growth
- ◆ Domestic consumers benefit from a *wider range of goods & services*.
- ◆ Goods sold brings expansion to a nations *foreign currency reserve*

## PROBLEM STATEMENT

- ◆ Trade- especially more liberalised, globalised trade subject to fewer government regulations, subsidies and tariffs- has been aggressively advanced as one of the most frequently recommended and 'fail-safe' methods of policy reform that African countries should implement to turn the tide on rising inequality, endemic poverty, and a generally abysmal quality of life.
- ◆ However, these economies are often hampered by macroeconomic imbalances, rooted and growing poverty levels, high dependence on debt, and a contemporary level of external involvement in policy which is not present in developed nations- these factors present a unique set of features for consideration in the matter of the shift to Free Trade.
- ◆ Given the commonalities of African countries with regard to a particular set of factors, would the acceptance of Free Trade regimes be a beneficial (positive) or detrimental (negative) policy shift?

## ANTICIPATED VALUE OF RESEARCH

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

## RESEARCH PARAMETERS

- ◆ How do historical, exogenous factors contribute to an economy's current state?
- ◆ How do historical, SAPs contribute to an economy's current state?
- ◆ How does conflict affect the suitability to international trade? How does macroeconomic disequilibria affect the status of trade? How does high public & external debt affect macroeconomic health?
- ◆ How does the aggregate snapshot of an economy, once established according to the above-listed paradigms, give an indication of whether trade liberalisation is recommended in the case of that country?

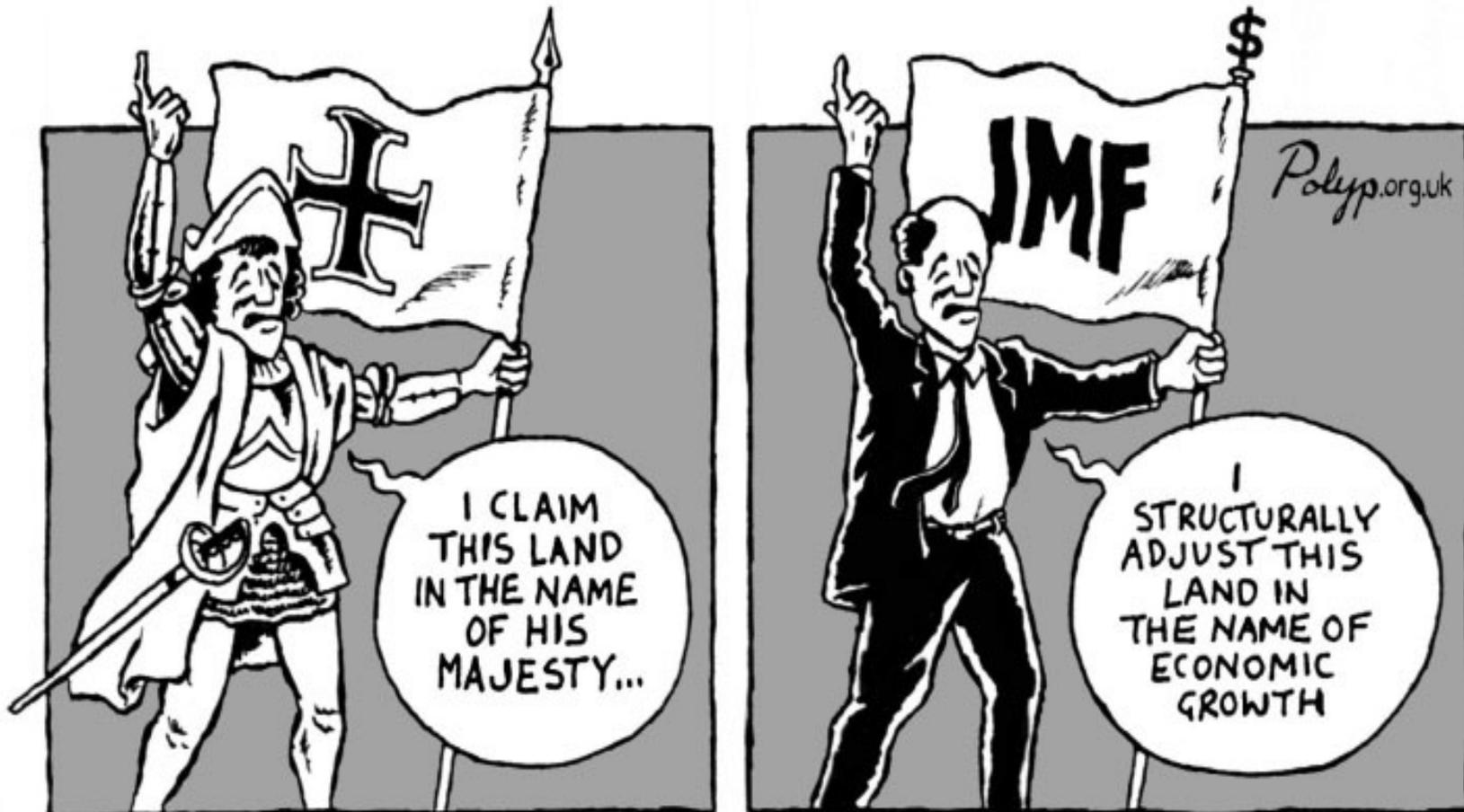
## DATA ANALYSIS

- ◆ An initial sample of 54 countries was used, and reduced by certain equal requirements to 48, which were then randomly selected, and finally reduced to 25 countries.
- ◆ Parameters:
- ◆ Countries that are sovereign and recognised by all international governments: (54)
- ◆ Countries that were traditionally identified as one African nation: (52)
- ◆ Countries that are members of the African Union: (48)
- ◆ 3 random outputs of 48 were then reduced to a final 25.
- ◆ Data was collected from the following sources: World Mundi Index, UNCTAD, IMF, WB, WTO Working Papers, Fact Sheets and Country Statistics. Data listed in the final paper for Literature Sources were also be assessed and employed.

# FINDINGS

- ◆ Factors like war, debt, and forced structural adjustments, affect the robustness of the trading regime in a country
- ◆ However war/ armed conflict does not always have the expected effect on trade. It can cause it to grow very rapidly even though, because it is outside of the legitimate state mechanism, the gains are wasted and used for the benefit of a sliver of the population.
- ◆ Conventional wisdom in liberal economic theory has greatly deviated from the historical trajectory, leaving modern day states that want to realise gains from trade stuck with “laissez-faire” open market advice that was not relied on by developed countries for their own advancement.

# Has Policy Really Changed?



'PROGRESS'

# 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.

## SAMPLE OF SOURCES

- ◆ Trade Liberalisation And Economic Performance: An Overview, L. Alan Winters (2004)
- ◆ What Did Structural Adjustment Adjust? The Association Of Policies And Growth With Repeated IMF And World Bank Adjustment Loans, William Easterly (2003)
- ◆ The Globalisation Paradox; Dani Rodrik (2011)
- ◆ A New International Order; Fair Redistribution Of World Resources; J Singh (1977)
- ◆ Fifty Years is Enough: The Case Against the World Bank and the International Monetary Fund; Danaher & Yunus (1999)
- ◆ Democracy and the Washington Consensus; Williamson J. (1993)