

Did the World Bank Drive Tariff Reforms in Eastern Africa?

CHRIS JONES

Aston Business School, Birmingham, England, UK

OLIVER MORRISSEY

University of Nottingham, Nottingham, England, UK

and

DOUG NELSON*

Tulane University, New Orleans, USA

Summary. — This paper explores tariff reform in Ethiopia, Kenya, Tanzania and Uganda between the early 1990s and early 2000s. Tariffs were reformed in an across the board manner consistent with implementing World Bank programs: the average tariff was reduced and the dispersion of tariffs was compressed, with the highest tariffs being eliminated. There is limited evidence of political economy influences on the cross sector pattern of tariffs and reforms, except for a tendency to offer greater protection to larger manufacturing sectors in all countries except Uganda. The technocratic reforms have diluted relative protection and political economy influences in all the four countries.

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1. INTRODUCTION

The majority of African countries have implemented significant liberalization of trade since the 1980s, with reforms related principally to import liberalization and initiated, at least, under World Bank policy-based lending programs. By the end of the 1980s, those sub-Saharan African (SSA) countries that had implemented trade reforms had eliminated many quantitative import restrictions and export taxes (Foroutan, 1993; Morrissey, 1995), and subsequent reforms related mostly to further tariff reductions. The unweighted average tariff for Africa was reduced from 21.7% in 1995 to 13.1% in 2006 (UNCTAD, 2008, p. 7). The extent of trade liberalization in Africa, especially tariff reductions, is well documented, with some discussion of the response in terms of imports and export performance (Ackah & Morrissey, 2005; Morrissey, 2005; UNCTAD, 2008). However, few studies have attempted to analyze the pattern of policy reform, in particular to identify factors that help to explain why tariffs are higher in some sectors than others, and have been reduced by more in certain sectors. This is the issue addressed in this paper, for four Eastern African countries—Ethiopia, Kenya, Tanzania and Uganda.

Policy choices determine the cross sector pattern of tariffs and tariff reductions, and political and economic factors influence these choices. To properly analyze this process would require extensive information on actors and their interests. Who decides policy (on tariffs in this case) and what factors do they consider when doing so? Who has influential access to these policy makers and what policy choices do they request? Such information is not typically available in detail, especially for African countries. Oyejide and Njinkeu (2010) provide case studies of trade policy making in SSA countries, but these focus on the institutional structures and lack data or analysis of actual policies implemented. Studies of trade policy in individ-

ual SSA countries rarely consider why tariff reductions took the form they did at the time they did, usually for the simple reason that adequate political economy and policy-making data were not available.

Focusing attention on countries for which some relevant data are available can yield insights into the factors influencing tariff structures and policies in SSA countries. The basic data requirement is sector-level tariffs covering a period of time in which tariffs changed. The pattern of cross-sector tariffs and changes can be informative. Morrissey and Nelson (2004) highlight the role of the World Bank in influencing the process, notably by promoting and encouraging (at least) trade policy reform of an ‘across the board’ type: all tariffs would be reduced and initially the highest tariffs would be reduced most, resulting in a new pattern more narrowly dispersed around a lower mean. Section 2 considers the evidence for such a technocratic pattern of tariff reform in the four countries considered.

Even if tariff reductions were driven largely by the World Bank, certain sector interests may be reflected in the cross-industry pattern of tariffs or tariff reductions. Are tariffs higher in more important sectors, or are tariffs reduced least in those industries most susceptible to import competition (such as manufacturing sectors that had higher initial protection)? The latter would be at variance with across the board tariff reductions, suggesting political economy influences on tariff reform in Africa. Sections 3 and 4 look for evidence of this,

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relating the structure of tariffs and reform to industry characteristics suggested by the literature on the political economy of trade policy. Although this literature relates mostly to developed countries (in conception and application), given that political economy models are based on common building blocks “the same framework of analysis is relevant for developed and developing countries” (Drazen, 2008, p. i20). Although the analysis is based on a very restricted set of variables (the only ones for which data are available), Section 3 provides evidence that the pattern of protection is related to the size of a sector.

The paper is an attempt to bring together the pieces of evidence that may help us understand tariff reform in SSA. Section 2 presents descriptive statistics for the pattern of tariff changes since the 1990s for the four countries (Ethiopia, Kenya, Tanzania and Uganda), to assess if it is consistent with an across the board technocratic reform. Section 3 considers the political economy approach; many possible sector variables have been proposed to capture political economy influences on trade policy, but most are either inappropriate or unavailable for Africa. We exploit the Grossman and Helpman (1994) model to identify three political economy factors that are likely to affect tariff structures (the cross-industry pattern of protection): the inverse import penetration ratio (industry output divided by industry imports); the industry import elasticity of demand; and an indicator variable to capture whether an industry has political influence. This is applied to data for two countries (Kenya and Tanzania) for periods during 1990–2002. Section 4 considers if similar variables may also capture influences on the pattern of tariff reform (for all four countries). Section 5 concludes by bringing together the results for each of the four countries and relating it to other information on those countries.

2. TECHNOCRATIC TARIFF REFORMS?

African countries have been encouraged to liberalize tariffs by external institutions, specifically the structural adjustment programs promoted by the World Bank, and to a lesser extent through commitments under the WTO.¹ Trade policy reforms in Africa were largely driven by the World Bank (Nash, 1993), and featured prominently among the measures included in conditional lending from the 1980s (Greenaway & Morrissey, 1993). Morrissey and Nelson (2003), Morrissey and Nelson (2004) argue that global institutions such as the WTO and the World Bank influence the process of trade policy learning and reform, for example, by providing information on policy knowledge and choices (e.g., on which policies have worked elsewhere), on policy transfer and supporting implementation. Such institutions have promoted technocratic reforms, building on research on the relatively robust welfare properties of concertina tariff reforms (Falvey & Kim, 2000; Thomas & Nash, 1991). This suggests that tariffs were reformed in an essentially technocratic manner, eliminating peak or redundant tariffs with across the board reductions and rationalization of other rates. In other words, the reforms were administrative adjustments reducing the level and dispersion of tariffs. This is broadly consistent with what can be observed. Since the 1980s, average unweighted tariffs have been roughly halved on average for countries in Africa over the period 1980–85 to 2000–02, from about 33% to 16%, albeit with considerable variation across countries (Ackah & Morrissey, 2005, Table 6). There is sector variation within countries, but the general pattern is reductions in mean, dispersion, and number of tariff rates.

The broad pattern of tariff reductions is illustrated for each country in Figures 1–4, where columns show the number of tariff lines in different rate bands at the start of the period and for the final reform year (based on the same data as for Table 1). Appendix figures plot the data for each country by sector classified at the Harmonized System (HS) 2-digit level ranked in descending order according to initial tariff rate. The analysis is based on scheduled most favored nation (MFN) tariffs. Although exemptions and preferential rates imply that the actual tariff applied on a product is often less than the MFN rate, the cross-sector pattern is likely to be highly correlated. Preferential rates, such as through regional trade agreements, apply to a relatively small share of imports and exemptions are not systematically concentrated in particular sectors. Thus, MFN tariffs are likely to be representative of the cross-sector pattern of tariffs and reductions.

Figure 1 illustrates the case of Ethiopia. There were many high tariffs (above 50%) in 1995 but these had all been eliminated by 2001, when the majority of product lines had tariffs under 20%. The significant reduction in the range of tariff rates during 1995–2001 is evident; the distribution becomes more compressed with relatively fewer tariff lines above the mean. Appendix Figure A1 shows this clearly as it is evident that the initially high tariffs have generally been reduced the most.

Figure 2 shows the significant reduction in tariffs in Kenya (see also Figure A2): the bunching of tariff lines above 30% was eliminated with the median tariff in the range 10–20% by 2001. Starting with a relatively large proportion of high tariffs in 1994, by 2001 the distribution was more compressed and relatively flat (the “low peaks” is seen in the low kurtosis values in Table 1). Figure 3 shows that the pattern for Tanzania is quite distinct: the peak in the 10–20% range in 1993 became two peaks (0–10% and 20–30%) in 2000, although rates above 30% were eliminated. This is very evident in Figure A3: although the highest tariffs (on about a third of the HS2 sectors) were reduced considerably, for remaining sectors the pattern is mixed between small reductions and some increases. The Ugandan case is illustrated in Figure 4 (and Figure A4): rates are lower than in the other countries and the spread to the right (skewness towards rates above the mean) becomes skewness to the left in 2000. Tariffs were almost all reduced and the highest tariffs were reduced proportionally the most.

It is evident that all the four countries shifted the distribution toward lower tariffs; this is more pronounced in Ethiopia and Kenya, which began with more products in relatively high tariff bands, than in Uganda (which had the lowest tariffs) and Tanzania. Further evidence is summarized in Table 1, which provides descriptive statistics for the four countries. Tariffs

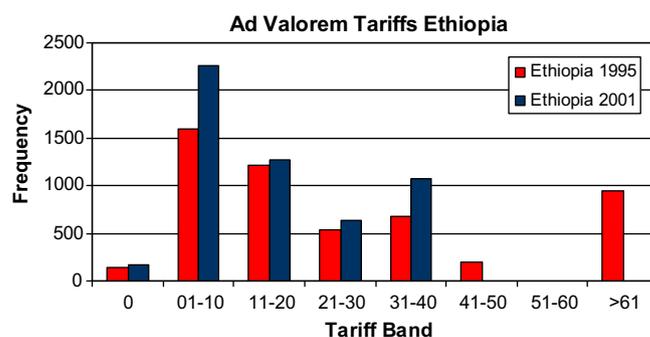


Figure 1. Tariff structure in Ethiopia 1995 and 2001. Notes: The tariff (t) bands are: 0%, $0 < t \leq 10\%$; $10 < t \leq 20\%$; $20 < t \leq 30\%$; $30 < t \leq 40\%$; $40 < t \leq 50\%$; $50 < t \leq 60\%$; $t > 60\%$.

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