

Institution: University of Nottingham
Unit of Assessment: Economics and Econometrics (18)
Title of case study: Increasing the Effectiveness of Trade Policy Reform in Africa
<p>1. Summary of the impact</p> <p>Research by the School's Centre for Research on Economic Development and International Trade (CREDIT) on the relative importance of trade policy and non-trade policy barriers (especially high transport costs) in determining international trade costs and export performance in Africa has directly influenced the design of the national trade policies of Uganda and Kenya. It has also contributed to shaping changes in the policy guidance given by agencies such as the UK's Department for International Development (DFID), the African Development Bank and Commonwealth Secretariat about the need for developing countries to use appropriate, complementary non-trade policies to improve the effectiveness of trade reforms and policies in developing countries (in particular in Africa). Specifically, the research has contributed to a body of evidence about the need to increase the emphasis given to trade facilitation and transport infrastructure in African trade policy reforms, which has in turn informed trade policy design and implementation in a number of African countries.</p>
<p>2. Underpinning research</p> <ul style="list-style-type: none"> • <i>Context</i> <p>The research was inspired by earlier engagement with operational trade policy evaluation. In 1995 Chris Milner was a member of a World Bank Country mission team to Uganda, given the specific remit of assessing why the liberalisation of Uganda's trade policies in the late 1980s had not induced an export response (especially for non-traditional exports). The assessment given to the World Bank in an internal report was that non-trade policy sources of trade costs associated with 'natural' geographical features (e.g., landlocked, distance to export markets) and avoidable features of the poor infrastructure, uncompetitive transport sector, inefficient ports and custom procedures (in Uganda and transit countries) were likely to be important constraints on or sources of implicit taxation of exports. Subsequent research within CREDIT, including that supported by ODA funding [7], allowed Milner and Oliver Morrissey to explore the nature and extent of transport costs in Uganda's international trade with more precision and, distinctively, with sector/industry breakdown.</p> <ul style="list-style-type: none"> • <i>Research insights and findings</i> <p>The research outputs [1], [2] listed in section 3 provided an analytical framework for capturing the implicit and explicit subsidisation and taxation effects of trade policy and non-trade policy sources of trade costs, and for measuring the relative incentive effects of both for import-substitution and export-oriented production. In [1] the effective protection concept is used to summarise the taxing and subsidising effects of trade policies and non-trade policy sources of trade costs on production for domestic and export markets, and to model and measure the relative importance of the alternative sources of trade costs for trade regime or anti-export bias. In [2] a general equilibrium (true protection) framework is used to summarise the relative (implicit and explicit) taxing effects of trade policy and non-trade policy sources of trade costs.</p> <p>Outputs [3], [4] report on the application of these frameworks for measuring the relative importance of trade policy and other sources of trade costs for trade regime bias and export performance in Uganda and Malawi respectively. Subsequently, Morrissey secured further funding [8] to extend and update the estimates of transport costs, distinguishing land, sea and air transport and extending the country coverage to Kenya and Tanzania. The output of this research is reported in [5]. The insights from this research were incorporated into a broader study of EU- ACP Economic Partnership Agreements (EPAs) funded under FP6 of the EU and by DG Trade (European</p>

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Commission). The need for trade facilitation measures and reducing transport and other trade costs in African and other developing countries in the face of wider trade policy developments eroding the preferential tariff treatment of these countries' in their export markets was also specifically addressed in output [6].

The research overall demonstrated the potential for and existence of larger anti-export bias to be induced by non-trade policy sources of trade costs than by trade policy, and potentially larger scope therefore for export growth from the lowering of non-trade policy barriers than of trade policy barriers. It also highlighted the importance of including complementary measures to reduce trade costs and facilitate trade in the design of national, bilateral and regional trade policies. Other research has contributed to policy interest in this issue, but it generally post-dates the initial research cited here. The research below is also distinctive in investigating the relative importance of trade policy and non-trade policy sources of trade costs at a disaggregated (industry/sector) level and for the **Africa** region.

- *Key researchers*

Chris Milner, Professor of International Economics, University of Nottingham since 1995.

Oliver Morrissey, Senior Lecturer (1995-2001), Reader (2001-04), Professor of Development Economics (since 2004), University of Nottingham. (Rudaheranwa and Zgovu were research students in the School of Economics.)

3. References to the research

- [1] **Milner**, C.R. (1997) 'On natural and policy-induced sources of trade regime bias', *Review of World Economics*, 132, 740-52. [doi: 10.1007/BF02707592]
- [2] **Milner**, C.R. (1998) 'Trade regime bias and the response to trade liberalisation in sub-Saharan Africa', *Kyklos*, 51, 219-36. [doi: 10.1111/1467-6435.00046]
- [3] **Milner**, C.R., **Morrissey**, O. and Rudaheranwa, N. (2000) 'Policy and non-policy barriers to trade and implicit taxation of exports', *Journal of Development Studies*, 37 (2), 67-90. [doi:10.1080/713600069]
- [4] **Milner**, C.R. and Zgovu, E. (2006) 'A 'natural' experiment for identifying the impact of 'natural' trade barriers on exports', *Journal of Development Economics*, 80 (1), 251-68. [http://dx.doi.org/10.1016/j.jdevec.2005.02.008]
- [5] **Morrissey**, O. (2007) 'Trade policy and transport costs: what can the EU do to promote growth in East Africa', pp. 47-55 in W. Hout (ed), *EU Development Policy and Poverty Reduction: Enhancing Effectiveness*, (Aldershot, Ashgate). [Available on request]
- [6] **Milner**, C.R., **Morrissey**, O. and Zgovu, E. (2010), *Policy Responses to Trade Preference Erosion*, (London, Commonwealth Secretariat). [Available on request]

Associated research grants

- [7] 'Infrastructural and institutional constraints to export promotion for private enterprise' (grant of £168,058 to **Milner**, **Morrissey** and McKay), as part of a Research Programme grant of £500,000 from the ODA over 1996-99 on 'Responding to the Changing Environment for Trade and Enterprise' managed by Morrissey.
- [8] DfID EC-Prep, 'Trade and transport costs in East Africa', euros 160,000 (**Morrissey** and **Milner**), 2002-04

4. Details of the impact

- *Dissemination and engagement*

This research was directly disseminated through lectures or training sessions up to and after 2008 organised by the **World Bank** (Nairobi, 1998; Delhi, 1999 - **Milner**), **UN Economic Commission for Africa -UNECA** (Addis Ababa, 2004 - **Milner**), for **DFID** economists (University of Nottingham, 2005- **Milner** & **Morrissey**), the **New Zealand Treasury** (Wellington, 2009 - **Milner**) and at a public lecture chaired by the Minister of Trade in **Ghana** (Accra, 2010 - **Morrissey**). The findings of the EC-PREP study were presented by **Morrissey** at workshops in **Kenya**, **Tanzania** and **Uganda**

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in 2004, which included participants from government ministries (trade, planning and transport), local **World Bank** and **EC** offices. **Morrissey** also provided a policy brief disseminated through EC-PREP to **DFID** and to **EC** offices in Brussels and overseas. He was interviewed on local radio and TV about trade policy in **Ghana** (2010).

The findings of the research and their implications for trade facilitation and 'aid for trade' programmes were indirectly disseminated through a number of policy-oriented publications and through papers, reports and workshops for the **Commonwealth Secretariat**, **UNCTAD**, and **WIDER**, again both before and after 2008. The academic research is also cited in the policy research of a number of agencies – **DFID**, African Trade Policy Centre at **UNECA**, **World Bank**, **OECD** and **NBER**. The research gave rise to an invited theme paper on operationalizing aid for trade; presented at a conference (Delhi, 2008) on 'Partnerships for Development' (with participants from the policy and aid communities in south Asia and **Africa** and sponsored by the **Consumer Unity & Trust Society (CUTS)**, **Commonwealth Secretariat**, **World Bank** and **Federation of Indian Chambers of Commerce**, subsequently published in 2009) [A].

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The research demonstrates that trade policy reform in many African economies may be necessary, but is unlikely to be sufficient, to support export development because other obstacles prevent this, such as poor transport infrastructure and poor customs procedures. In order to enhance economic development in these countries, trade policy reforms should be coupled with complementary infrastructure and related reforms to increase the efficiency of transport and other services that affect trade costs. These findings have had major impact on international policy formulation, including in the 2008-12 period. For example, the research influenced **DFID** in the design of the **Trademark Southern Africa** trade facilitation programme [B]. An independent evaluator of DFID's trade work in Southern Africa writes that it has:

'clearly influenced and informed the emphasis DFID has placed on addressing transport costs and trade facilitation in the type of trade policies and interventions implemented through Trademark Southern Africa.' [L]

The research influenced the work of the **African Development Bank (AfDB)**, which assists African governments and policy-makers in their efforts to achieve sustainable economic development and social progress; the African Development Fund providing finance in concessional terms, with a recent focus on transport infrastructure. In 2009 **AfDB** commissioned **Morrissey**, given the research cited in section 3, to review the evidence and policy implications on 'Trade and Transport Costs' as a background paper [C] to its 2010 **African Development Report** [D], having earlier commissioned a paper by him on constraints to African exporting that was published in the ADB research working paper series.

The high level and international nature of the impact of the research on the policy community is evidenced by the citing of papers [1], [3] and [4] in the **World Trade Report**, 2013 [E] and **Milner's** publication in the **Commonwealth Ministers' Reference Book** [F]; a central source of information on key aspects of policy issues for government ministers in Commonwealth countries, including many developing countries in Africa. The Head of the International Trade Division of the **Commonwealth Secretariat** writes:

'...the Secretariat has greatly benefited from the research Commissioned to Professor Chris Milner and Professor Oliver Morrissey; commissioned because of their research and expertise on trade and trade policies in developing countries (including Commonwealth developing countries). Their high-quality analytical work in a range of areas comprising intra-Commonwealth trade and cooperation, Aid for Trade, impact of the Rise of China and India on Sub-Saharan Africa, and promoting trade within the African, Caribbean and Pacific countries have hugely informed discussions involving Commonwealth nations in various fora including high-level meetings and conferences organised by the Commonwealth Secretariat, the World

Trade Organisation and UN agencies. [K]

Direct impact on policy formulation in some African economies themselves is evidenced by **Milner's** direct involvement in the support and advice given for the preparation of **Uganda's and Kenya's National Trade Policies**; giving advice on the content and assisting in the drafting of these documents, both of which have substantive sections on the complementary reforms (including on infrastructure, institutions and non-trade policies) to improve the effectiveness of export promotion measures [G], [H] –the operative national trade policies, post-2008 and up to the present of these two countries. In the case of **Uganda**, **Milner** had earlier advised on and prepared a zero draft of the national trade policy, having engaged with a range of stake holders [I]. This zero draft specifically included a section on complementary measures to reduce trade costs, and the final national policy retains many of these elements. In the case of **Kenya**, **Milner** was invited to comment on early drafts of the national trade policy document both through a presentation to a **National Trade Policy Workshop** (November, 2008) in Nairobi and through the submission of commentaries [J] to the country's **National Trade Policy Task Force**.

This body of research by **Milner** and **Morrissey** on the relative importance of trade policy and other sources international trade costs (in particular transport costs) in **Africa** has therefore directly influenced national trade policy design in **Kenya** and **Uganda**, and has informed the advice given by several national and international agencies (specifically **AfDB**, **Commonwealth Secretariat**, and **DFID**) to African and other developing about increasing the scope for improved trade performance and increasing the effectiveness of trade policy reform through enhanced trade facilitation and transport infrastructure improvement.

5. Sources to corroborate the impact

[A] **Milner**, C.R. (2009), 'Operationalising aid for trade: who is (should) doing (do) what? in *Reflections on Global Partnership for Development*, CUTS International. (pp.91-116). [Available on request].

[B] **DFID** (2013), 'Confidential Background Paper on Trademark Southern Africa', provided to the Independent Commission for Aid Impact (ICAI) for its review of DFID's trade development work in Southern Africa (content can be verified by [L] below). [Available on request].

[C] **Morrissey**, O. (2009) 'Transport and transport-related costs of trade in Africa', background paper for African Development Report, 2010.

[D] **African Development Bank** (2010), African Development Report, 2010.

[E] **World Trade Organisation** (2013), World Trade Report, 2013.

[F] **Milner**, C.R. (2008a) 'Lowering infrastructure and other barriers to exports in the Commonwealth', *Commonwealth Ministers Reference Book: 2008*, (pp. 111-5), (Henley Media Group in association with **Commonwealth Secretariat**, London). [Available on request].

[G] **Republic of Kenya** (2010) *National Trade Policy*, (Ministry of Trade).

[H] **Republic of Uganda** (2007) *National Trade Policy*, (Ministry of Tourism, Trade and Industry).

[I] **Milner**, C.R. (2003) *Zero draft of 'Pro-Poor International Trade Policy of Uganda* (prepared for Government of Uganda).

[J] **Milner**, C.R. (2008b) *Comments on Framework/Structure of the National Trade Policy (NTP) Document*, Mimeo.

Referees

[K] Head of International Trade and Regional Cooperation, **Commonwealth Secretariat**.

[L] Director, **CTA Economic & Export Analysts Ltd**.

[M] Division Manager, Regional Integration and Trade Division, **African Development Bank**.