THE IMPACT OF TRADE ON DEVELOPMENT

The Case of Sub Saharan Africa

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All peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligations arising out of international economic co-operation, based upon the principle of mutual benefit, and international law. In no case may a people be deprived of its own means of subsistence.

United Nations International Covenant on Economic, Social and Cultural Rights (Article 2, Paragraph 2)

“If the money collected went where it is supposed to go, Côte d’Ivoire would be a rich country, very rich”

(Lauren Gbagbo, former President of Côte d’Ivoire, 5. August 2008)

Achte auf deine Gedanken, den sie werden zu Worten
Achte auf deine Worte, denn sie werden zu Handlungen
Achte auf deine Handlungen, denn sie werden zu Gewohnheiten
Achte auf deine Gewohnheiten, denn sie werden dein Charakter
Achte auf deinen Charakter, denn er wird dein Schicksal.

(Talmud)

List of abbreviations

ADB – African Development Bank

ADM – Archer Daniels Midland

BCEAO – Banque Centrale des Etats de l'Afrique de l'Ouest

CFA – Côte d'Ivoire Franc

COMESA – Common Market for Eastern and Southern Africa

CSSPPA – Caisse de Stabilisation (The Ivorian Cocoa Marketing Board)

EIA – U.S. Energy Information Administration

FAM – Forças Armadas de Defesa de Moçambique (Armed Forces for the Defence of Mozambique)

FAO – Food and Agriculture Organization of the United Nations

FAOSTAT – Statistical Database of the FAO

FRELIMO – Frente de Libertação de Moçambique (The Liberation Front of Mozambique)

GDP – Gross Domestic Product

GTS – Green Tobacco Sickness

IMF – International Monetary Fund

IOC – International Oil Company

MCP – Malawi Congress Party

NSOM – National Statistical Office of Malawi

PDCI – Parti Démocratique de la Côte d'Ivoire

PETROCI - Société National des Opérations Pétrolières de la Côte d'Ivoire

PPP – Purchasing Power Parity

RENAMO – Resistência Nacional Moçambicana (Mozambican National Resistance)

SAP – Structural Adjustment Program

UNDP – United Nations Development Program

UNTAD – United Nations Conference on Trade and Development

WCED - United Nations World Commission for Economic Development

WTO – World Trade Organisation

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1 Introduction

1.1 The topic

Trade is an omnipresent aspect of the world we live in today. I would go so far as to claim that there is not a single part of a developed economy which is void of some factor of production being fuelled by input from or output to a foreign country. Be it through imported raw materials or machinery, or sales across borders and oceans, almost every sector is in some way or form dependent on suppliers or customers in a different country than one's own.

The ever increasing importance of worldwide trade becomes apparent when looking at the figures. In the period between 1991 and 2011, worldwide trade figures for services increased by a factor of almost five, while total merchandise trade increased even more (WTO Statistics Database 2012).

It would be hard to argue against the fact that trade has made citizens both in developed and underdeveloped countries better off in terms of access to goods otherwise unattainable, be it for reasons of more affordable access, or for the simple fact of a good not being available in an area.

As for any other region in the world, trade can and does play a vital role in Sub-Saharan Africa by facilitating access to goods from foreign countries at prices not achievable for local production possibilities, especially to achieve subsistence in times of crisis, such as drought or war. Also, to mitigate the region’s unique problems, a range of goods beyond those only for consumption is especially important. One way to alleviate the suffering from disease, and to also alleviate the threat of spreading them, is to import knowledge and medicine, at least until local production is feasible and training of staff can be done independently. Similarly, machinery and technical expertise are factors which can play a part in making the region overall sustainably better off. Any improvement which brings about a ten per cent increase in agricultural productivity moves seven million people above the dollar a day poverty line (IAASTD 2009) Imported technology can be a source of such a productivity gain. At the same time, acquiring (perhaps more stable) foreign currency via exports can also be considered a way of cushioning fluctuations in the value of one's own currency in times of crisis and devaluation for internal as well as external reasons (Ames 2001).

However, the case for worldwide free trade is far from clear cut as might be suggested by looking at instances of increased living standards and income.

Other factors inextricably linked to the issue of trade have to be considered. The ecological impact of transporting goods halfway across the world to save production costs to lower prices or increase profitability is one example. The issue of a widening equity gap between those who can participate and thereby profit in an international framework of trade – both on the micro scale within a country, and on a macro scale worldwide – and those who cannot, simply for reasons of different access to means is also a point which both researchers and policy makers have to address. Thirdly, one might watch internationalisation and integration critically due to cultural impacts not measurable in terms of numbers. In the developed world, this process today is as visible as anywhere else, as traditional customs, consumption patterns and identities are replaced by Starbucks and McDonald's, H&M and Seven Eleven.

In the developing countries the same process is visible on a different scale. While elites seek to adopt what is deemed a modern Western style of living, traditional customs and ways of life are disappearing due to the impact of globalisation. All over the world, be it in Brazil, China or Africa (Chamberlain 2012; Wet 1999; Heming et al. 2001), groups of people who have lived in the same fashion for sometimes hundreds of years, some of which never to have had contact with the outside world are threatened by the never quenched thirst for natural resources and for access to cheap labour. Irretrievable ecosystems have to make way for mining of scarce resources. Trade is a crucial part of this process.

The way towards a developed Africa, independent from foreign Aid and politically stable, is still a long one. A crucial question in this context is whether or not – and if yes, in what ways - the countries in the developed world should play a role in this. The roots of the problems the continent faces today are numerous, and well beyond the scope of any singular study. Nevertheless, the policies of the developed countries and their institutions, as well as the actions of their people and companies have and still do profoundly impact the region.

In the period of 1980 to 1995, more than 30 African countries have had implemented Structural Adjustment Programs, as part of emergency assistance measures by the IMF and World Bank (Tsikata 1995). A more or less standardised list of measures was then implemented in the course of the events to restructure the recipients' economy and thereby lead to development. They were essentially in line with what later would be defined as "What Washington means by Policy Reform" (Williamson 2004).

This was a ten point list of policies originally designed as guidance what Latin American governments ought to understand when hearing phrases such as "setting their houses in order" concerning the receipt of aid payments. This list has since become known as the *Washington Consensus* (ibid). These measures included, amongst other market oriented policies motivated by the rather fundamental views of *laissez-faire*[1] point number 6, namely *Trade Liberalization.* This point prescribed the following as strategy where trade with the outside world is concerned:

> *liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs*

While this policy amongst the others was implemented in a great number of countries, development in Africa is still lagging behind the rest of the world. Whether the policies implemented from afar had anything to do with this lack of development is the question I want to answer, and I have chosen the opening to trade as the policy I to investigate.

This thesis therefore sets out to establish a link between the opening to trade and the consequences thereof in a sample of countries in Sub Saharan Africa, to establish a representative overview over the issue. The following problem was formulated to that end:

"*As part of the Structural Adjustment Process in the 1980s, a number of Sub Saharan African Countries have relaxed their trade regimes. Has this been beneficial in terms of economic growth and development for Côte d'Ivoire, Malawi,*

[1]*Laissez-Faire,* literally translated as "let it happen", refers to the concept that a government should not interfere in economic on-goings (See chapter 3.2.1)

and Kenya?"

To answer this question, there are two key factors to consider, which will provide a foundation for answering the question, and which will form the remainder of this introductory chapter:

- What constitutes development?
- How did the countries come to be in the position to require structural adjustment in the first place?

The third question then is the one which is dealt with in the analysis:

- Why have these countries (not) developed since the opening to trade?

1.2 Growth vs. Development

Empirically, the link between trade openness and *economic growth* is fairly well established, both in country specific case studies and aggregates (Busse and Königer 2012; Gries, Kraft and Meierrieks 2009; Parikh and Stirbu 2004). The question I am looking to answer however is in what way increased trade has contributed to *development*. Since, while growth plays a vital role, the two are not synonymous, so a definition of what development means for this purpose is required. This will be elaborated in the theoretical section.

In addition to already established definitions which will form the basis of what will be referred to as development, aside from growth there will be a focus on the evolution of these aspects: income distribution, the situation of land ownership, working conditions and the environmental impact or sustainability. Also important to these factors, one crucial question pertaining to development is in what ways does trade openness enable a country and its people and government to make decisions based on their merits, in other words to be sovereign. These provide in my opinion crucial aspects of development not only as the accumulation of wealth or of goods, but to the equity and the quality of life in a society as far as it is measurable. In addition, they can be directly linked to trade openness, perhaps more so than other indicators which concern human development, such as life expectancy, or education levels.

1.3 The Countries

What follows is an overview of the history of the countries in question, and what happened in terms of trade in years between 1995 and today, during which as part of the Structural Adjustment programs installed by IMF and World Bank, an across the board opening to trade with the outside world occurred.

1.3.1 Malawi

This subchapter serves as an overview over the post-colonial history of Malawi. An overview over the history before the mentioned drop in tariffs in the mid-nineties is given in order to provide a context in which to interpret the thoughts which led to the decision.

1.3.1.1 A short history of the Banda years

Having been colonized by Great Britain in 1891 – from 1907 known as Nyasaland - it gained independence in 1964, and remains part of the British Commonwealth of Nations until this day.

From 1966, when a republican constitution was instituted, Malawi became a one party state under the rule of the MCP, with Hastings Banda; a US educated medical Doctor from Kasungu becoming “President for Life” in 1971. He remained in power until 1993. (Encyclopaedia Britannica 2012), a period which – as sometimes is the case with dictatorships - may be revered and missed by some Malawians, and politicians for its stability (Tietze 2008) but nevertheless also characterised by harsh regulations and control over societal circumstances and behaviours and an estimated 250000 Malawians were imprisoned without trial (Magolowondo 2007).

He expressed this willingness to achieve his aims at all costs very directly and openly, for example in a speech on April 1st 1965, when he declared that

If, to maintain political stability and efficient administration I have to detain 10,000, 100,000, I will do it. I want nobody to misunderstand me. I will detain anyone who is interfering with the political stability of this country…When a country is building its political institutions it’s likely to do many, many nasty things. Well, we are building our political institutions here *now…* (Short, 1974 in Robinson, 2009)

During the early Banda years, Malawi was one of the few African nations to retain trade relations with Apartheid South Africa and accepted aid from the country, a state which was interpreted by many to be an affront against the peoples of Malawi and their heritage. With the neighbouring states, to ensure access to oceans and overcome Malawi's landlockedness, the Banda administration was

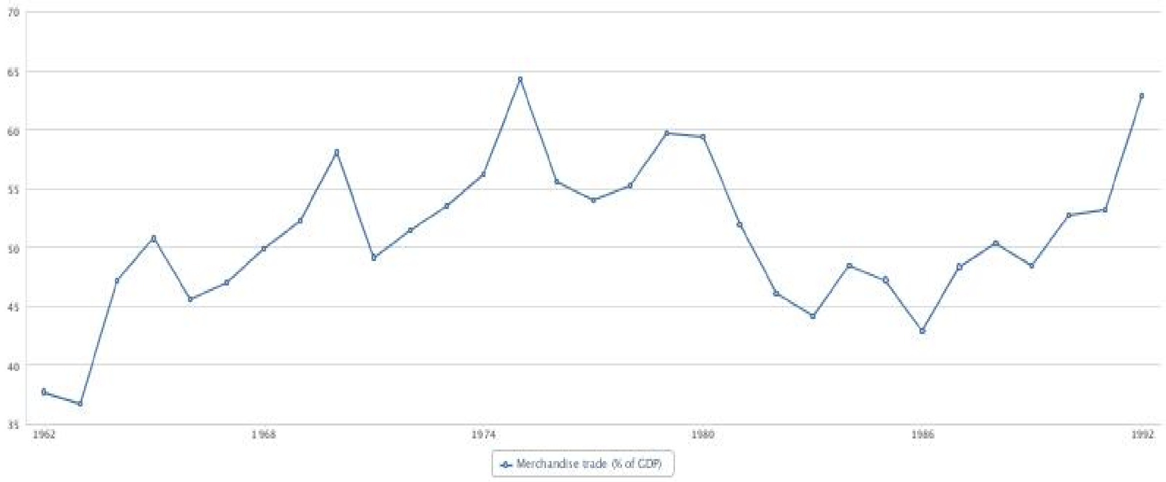

Figure 1: Malawi Merchandise Trade to GDP Ratio in per cent, 1962-1992 (Source: World Bank Development Indicators)

In that period, trade played a varying role in the Malawian economy (see Figure 1). The share of imports and exports has varied over time, but it never fell under 40% of GDP in the period between 1962 and 1992.

While in power, the Ngwazi (Father-Leader), as Banda liked to be referred to (Mitchell 2002:5) enjoyed support from powerful allies in the West, especially as a force against the communist tendencies some leaders were concerned to spread in Africa in addition to Asia, Latin America and Europe (Duignan and Gann 1994:8) He amassed a fortune for himself firstly via controlling of the tobacco production on huge estates and plantations, encouraged from developmental and trade organisations from abroad, as a measure to for development through exports. Secondly, via the conglomerate *Press Corporation,* he exerted control over a third of the Malawian economy, making possible a system of patronage by which to bind the political and administrative elite to himself (Meinhardt 2008:58-67).

As such, not much changed in terms of land ownership since the colonial days, on the contrary, estate owners were put in a position to further their expansion through regulation, and in the time under Banda, one million hectares of arable land changed hands from smallholder farmers to those already holding the majority (GRAIN 2012:80).

Changes to this status quo began in the late 1970s. This process was however not necessarily fully compatible with the wishes of the Banda administration. On the contrary, it was the result of an economic crisis mostly due to the 1979 oil shock and the negative impact of the intensification of the Mozambique Civil War[2] at the time (Chilowa, 1998:554). The consequences were then “deteriorating terms of trade, transport bottlenecks, rising costs of fuel, adverse weather conditions and weakening internal demand." (ibid:558)

Under such pressure, the Malawi leadership deemed it necessary to involve international organisations in the resolution of the issue. Adaptation and implementation of an IMF sponsored Structural Adjustment Program (SAP), conditional on policies of liberalisation, began. These policies included the abolishment of the up to that point dominating system of “discretionary allocation of foreign exchange on imports, pervasive non-tariff barriers, a large number and wide dispensation of tariff bands, high tariff protection against imports, restrictive licencing requirements on imports and exports, and surrender requirements on export proceeds” (Mbekeani, 2004:222) in order to “liberalize trade and agriculture and promote development through growth of the private sector”. They culminated in the late eighties, when the Banda administration opened up the production of Burley tobacco to smallholder farms and began a program for fertiliser subsidisation and increases in the supply of seeds, as well as simplifying the access to credit. The full extent of these reforms however became especially noticeable the early nineties, after the Banda administration was voted out of office (Harrigan, 2003:852).

[2]Malawi did provide military support to the RENAMO forces in the fight against the FRELIMO and FAM. However, the main burden and reason for economic downturn was the closing of her main trade route along the Pungoe River through Beira, and the consequent loss of access to the Indian Ocean.

Discontent especially amongst many Malawians and especially the Catholic Church in the early nineties led to the ousting of Hastings Banda, and to the first public elections in 1994. The events preceding this mostly peaceful overthrow began after eight Catholic Bishops, encouraged by the visit of Pope Paul II to Malawi in 1989, wrote a pastoral letter addressed to all members of the Catholic Church of Malawi "denouncing censorship of mass media, infringement on education, and frequently illegal imprisonment of hundreds of Malawians", demanding "greater governmental accountability to the Malawian people"(Mitchell 2002:6).

In addition international organisations who financed 40 per cent of the Malawian budget at the time, began to push for reform as well (Meinhardt and Patel 2003:7).

After the collapse of the Soviet Union, the need for anti-Communist leaders in Africa such as Banda relaxed and now organisations "demanded more than lip service to human rights and democratic participation [author's translation from German]" (Tietze 2008:51).

These influences were coupled with the resistance of smallholder farmers in peril because of decreasing worldwide tobacco prices, and led by a small group of public officials, academics and businessmen fallen from grace. This group which was to become the nucleus for the establishment of the *United Democratic Front (UDF),* and Banda was eventually forced to agree to the 1993 referendum to hold public elections. After surprisingly not winning the vote of the rural populous in this poll, elections were held in 1994, where the UDF became the strongest party, and formed a coalition with the *Alliance for Democracy,* the most popular party in the North.

1.3.1.2 Summary

As this historical overview has shown, the reason the liberalisation which occurred in Malawi in the 1980s and was subsequentially deepened in the 1990s was deemed necessary, has its roots in the socioeconomic crises in the period after independence. These resulted in part due to the political circumstances to which Malawi was subjected, and the dissatisfaction of people due to a perceived suppression by the powers that were, and the mismanagement which happened under their rule. However the most important factors were external shocks the vulnerable economy was poorly equipped to deal with (see chapter above).

1.3.2 Kenya – The Kenyatta years

Having gained independence in 1963, as well as her counterparts Malawi and Côte d'Ivoire, Kenya experienced a period of sustained economic and political stability. These conducive circumstances can be to some extent accredited to Jomo Kenyatta, displaying "universally accepted leadership [under which] Kenya created one of the best examples in the continent of multi ethnic stabilities" (Hatch 1974 in Tamarkin 1978:298) and who was therefore described as "the cornerstone of Kenya's stability since independence" (Legum 1971 in ibid). But there were voices of dissention where he was concerned as well. The Luo for example, the third largest ethnicity in Kenya did express dissatisfaction, and followed their own leader, Odinga, into the Kenya People Union (KPU). After Josiah Mwangi Kariuki, a socialist MP was found murdered in 1975, protests by students and also members of his own tribe called for Kenyatta to step down (Tamarkin 1978:229). Thus, Kenyatta was as any African leader at the time subject to criticism, just as much as Banda and Houphouët-Boigny.

What made his government different from that of the previously described countries however, was its commitment to anti-capitalist ideas, or what the government called "African Socialism". Where the others either openly denounced socialism, Kenya's newly formed government embraced it, at least in name. However, as Stewart (1976:85-86) refers to it, it was more a system of "managed capitalism, or a mixed economy", in which "domestic and private ownership [were] encouraged, and the public sector simultaneously [expanded] rapidly, as [did] government intervention in the economy."

The newly established government oversaw a period of growth in the sixties to seventies of 6.5 per cent of GDP, with per capita income rising by 30 per cent in the same time. While inequalities persisted, and perhaps even widened for some Kenyans, there were many who achieved standards of living not attainable without such growth (Killick 1981:4).

In terms of trade, Kenya began to turn away from the European Economic

Community (EEC), especially as Britain did no longer enjoy preferential treatment and trade possibilities in the Kenyan market. Fearing civil unrest and also the economic impact of the measures taken to distance Kenya from its colonial rulers and the rest of the Western world, many Asian and European skilled workers left the country (Kimenyi, Mbaku and Mwaniki 2003:126).

A defining characteristic which signifies this period is that not only did agricultural output rise, but so did the industrial one. Public sector investment contributed hugely to this, and led to an average growth of the industrial sector by 12.6 per cent per annum. Despite quarrels with Great Britain, Kenya played a very active role trade-wise, imports and exports adding up to more than 60% of domestic value added throughout the time between independence and 1974 (World Bank Databank) Most of these exports were agricultural in nature, especially coffee and tea played a significant part, composing almost two thirds of total export value in 1970, with some exotic outliers such as Pyrthrum extract, for which Kenya was the world leading supplier by a wide margin in terms of quantity until 2004 contributing as well (FAOSTAT).

1.3.2.1 Economic Peril Post Kenyatta

The favourable economic circumstances during the first years of Kenyatta's rule however did not last, and as for many other African countries in a similar position, the period between 1974 and the 1980s became one of much economic peril. Mostly due to the oil shock of 1973, and the quadrupling of prices which occurred, Kenya as a non-oil producing nation was hit hard. Petroleum related imports out figured the exports by K£35 million for the next 4 years, followed by almost K£47 million in 1978 and K£69 million in 1979 (Killick 1981:11). This was to some extent cushioned by the huge price increase for coffee and tea, reasons for which have been mentioned above (Chapter 1.4.2.1) Nevertheless, the circumstances made visible a number of structural weaknesses, and her vulnerability to outside shocks.

By the early 1980s, the Kenyan government thus found themselves having to ask for funding from the IMF, which was subsequently granted, and a first payment of $250 million dollars was taken out. (Mosley 1986:109) The Fund made this (first) structural adjustment allocation conditional on three points to be adhered to over the next years, lest further funding would be withhold: First, the government was to include a complete public investment review with economic justifications in the upcoming budget, listing all “operations of parastatal bodies”; second and most importantly the rationalisation of all industrial protection and the reduction of average tariff levels, and thirdly that there was to be worked out an export promotion procedure (ibid).

The government did adhere to the first point, the second was in part fulfilled by loosening quotas on many goods, but raising tariffs on others, and the third one was not adhered to at all. The Fund thus asked for even more extensive reforms concerning trade liberalisation, in addition to which they included a (vague) suggestion of land reform in their list of demands, and proposed the liberalisation of the production of maize, Kenya’s most important subsistence crop (ibid:110) This, as was the case with the tobacco farming in Malawi, was at the time subject to the oversight by a governmental marketing board (NCPMB), which procured maize at a set price regardless of its origin or amount sold, gave out licenses for the production and had the right to stop all national and international trading of Kenyan maize by private producers. As it paid comparatively little to producers while asking for a high price from consumer, this practice led to Kenyans mostly growing maize themselves, regardless of land suitability or the availability of other crops. The IMF recommended a restructuring of this practice, mostly as to move maize production to areas particularly suitable, and diminish the oligopolistic position of large maize growers in the possession of the majority of growing permits (ibid).

Reluctantly, the government began to implement these measures in 1984, also in response to pressure by aid donors not directly related to the adjustment programs (Brown 2010:726), the World Bank and the IMF then proceeded to work together closely to implement further adjustments and liberalisation in the following years, which were developed in agriculture, industry, the financial sector, export development and education in the years 1986-1992 (Swamy 1994:13-14).

During that time, as a response to the declining economic situation, and - similarly to Malawi – as pressure for political reform by donor countries mounted after the end of the cold war, the Kenyan one party state was faced increasingly with calls for democracy from within the country and without. Members of the clergy, students and a newly formed opposition consisting of urban and middle class professionals such as lawyers who were punished for defending political opponents were on the forefront of this, and at times served as martyrs against an increasingly oppressing regime (Holmquist and Ford 2012:100). So after a number of months of further resistance, the Moi junta gave into the demands and allowed public elections to take place in late 1991.

1.3.2.2 Overview over the post-colonisation to liberalisation period

The early years of the post colonisation phase were characterised by a mixed economic policy of import substitution and high tariffs in order to protect industries. These were in part fuelled by foreign investment, creating a mixed economy referred to as *African Socialism.* Both Multinational Corporations (MNC) and parastatal organisations obtained monopoly statuses for the production of various goods in both the manufacturing and the agricultural sector. The industrial sector output increased dramatically fuelled by publicly financed investment schemes, and coffee and tea export revenues benefited intensely from the surge in world market prices for tea and coffee. By the end of the seventies however, the boom in the Kenyan economy was over, due to external changes in access to major export markets and price shocks for oil.

Facing an increasingly unfavourable balance of payments and terms of trade, the Kenyan regime was forced to begin a process of restructuring the economy and its trade regime, in exchange for loans and donations. While the process was started only reluctantly, under increasing pressure it gained momentum, and finally almost all steps demanded by the IMF, World Bank and other donors were implemented.

1.3.3 Côte d'Ivoire – A short History of the Houphouët-Boigny years

Similarly to the chapter on Malawi to provide some context, here is described a short history of Côte d'Ivoire between independence in 1960 and the move towards trade openness in the early nineties.

1.3.3.1 Houphouteism

From the outside, the history of this Western African country is in some ways remarkably similar to the one of Malawi. Also one of the thirty-three African countries to gain independence during the 1960s, its post colonization history was also very much shaped by a single man - namely Félix Houphouët-Boigny – and occurred under single party rule. Defiantly pro West, and remaining in close relations with France and French expatriates already established in Côte d'Ivoire, his rule was less one of oppression, his but more one of cooperation and appeasement of rivals, although he experienced his share of controversy. Even today, he is considered a "charismatic figure was a determining factor in the orientation of the political praxis and thought in the country" (Akindès 2004:7) His legacy, sometimes referred to as Houphouteism, was comprised of three parameters.

The first aspect which made up Houphouteism was a centralised openness to the outside world. Instead of opting for a socialist system like many other African leaders did after independence, Houphouët-Boigny focused on links to companies offering "a particularly attractive investment code", hoping to achieve international prestige and regional leadership. In addition, he decreed policies which "resulted in the concentration in Côte d'Ivoire of capital and manpower that originated primarily in the West-African Sub Region". (ibid:9). Workers especially from Burkina Faso and also from Mali and Guinea and other neighbouring countries came to Côte d'Ivoire, in order to participate in the economic upturn happening in the country, and in part to escape the uncertain political situation in their home countries. In combination with the favourable circumstances of the time, especially in 1975 and 1977, where competitors for Ivorian main agricultural outputs (coffee, cocoa and wood) were hindered in production due to various reasons (war in Angola, unusually cold winters and frost in Brazil and production problems in many competing nations in Africa), this policy of openness started a period of unparalleled growth on the African continent, with the Gross Domestic Product expanding by more than 700% in the time between 1970 and 1980 (ibid).

Secondly, Houphouteism specifically included the aim of creating an environment conducive to the creation of an Ivorian middle class, referred to as "the peanut roasters". Akindès (ibid:11) describes the reference made as follows:

This African parable is only meaningful in the context of specific attributes of political power in Africa, in particular Côte d'Ivoire. Roasting peanuts presumes that, at some point in the process, the cook tastes them for salt. Symbolically, the relationship between the act of roasting and tasting relates to the privilege of the roaster in belonging to a select circle of political clientèle who benefit from an unequal but socially recognised distribution by the mere fact of belonging to this group.

He specifies further:

The mouth here refers to the logic of mastication that is strongly present in the social representation of the exercise of political power in Africa. In other words, it is a legitimation of the prevarication and the primitive accumulation specific to Côte d'Ivoire. Hence, for President Houphouët-Boigny it was a question of creating a state bourgeoisie.

This 'state bourgeoisie', filled with party associates grown rich from cooperating with Houphouët-Boigny and the receipt of his patronage, was then to gradually phase out the foreign moguls dominating the Ivorian economic landscape, and to be less dependent on imports and investment from France.

The third element of Houphouteism was then an active and paternalistic role in managing Côte d'Ivoire's social diversity. A country comprised not only by diverse ethnicities, varying cultural backgrounds, but also as a result of the opening to foreign workers, the Ivorian population is now and was then characterised by conflicting interests and sometimes open adversity. The government under Houphouët-Boigny sought to use this to its advantage by appeasing those of foreign origins via "unequal distribution of political favours", to guarantee their support. Much of the potential for conflict between 'real' i.e. born Ivorians and the étrangères remained dormant for a long time however (see chapter 4.3.4), due to an inclusive economy in which most people prospered, a time which now is referred to as the *Ivorian Miracle* (Kirwin 2006:44).

1.3.3.2 1960-1980: The Ivorian Miracle

The period between 1960 and 1980 was overall incredibly successful in terms of economic growth. While the year per year figures displayed a large extent of variance, the overall trend was upwards. In the years between 1960 and 1979, the economy grew by 7.3 per cent on average per annum, by the end of which the per capita income was close to $1,150, the highest for an African non-oil exporting country (Hecht 1983:25).

To a vast extent, these boom years were fuelled by an export driven economy, which benefited from the doubling of world prices for coffee and cocoa, the main crops for Ivorian farmers. Especially cocoa exports rose on a huge scale, and in 1980 the country supplied the world with more than three times as it did in 1960. While less so, coffee exports to the world increased to some extent as well, with an increase of almost 60 per cent (FAOSTAT).

The domestic market for these however was under scrutiny by the government. Firstly, the production of these cash crops was (indirectly) taxed heavily, by setting a kilo price, at which the marketing board bought up coffee, at well below world price. The actual sale to foreign buyers was then done by the government itself, which also pocketed the resulting profits. These were then used for public sector investment, the marketing board being responsible for more than half of the total input in that sector (Hecht 1983:30).

As such, the governmental influence to strengthen output and thereby external trade in that period led to an interesting contradiction. On the one hand the number of farmers who could sustain an income from the harvesting and sale of crops increased, which was the main reason for the increase in production. Also, as a result there became noticeable substantial linkages as non-related local economies sprang up to satisfy the demands of these farmers. On the other, smallholder farmers did not participate in the economic miracle to the extent which they could have. Farm size and effectiveness for the majority only grew slightly, if at all (Grootaert 1995).

1.3.3.3 The long way down – the 1980s to early 1990s

Being the main beneficiary of the income generated by exports and the resulting profits, the Ivorian government continued the expansion of the public sector and kept on investing into the public sector. Boasting one of the few positive balances of payments on the African continent, the Houphouët-Boigny administration financed the expansion not only with actual earnings however, but also with borrowings from foreign institutions, and foreign debt more than doubled from twenty to fifty per cent of GDP in the period of 1970 to 1980. Reacting to these circumstances, the government asked for help from the international community, and at the same time as its Malawian counterpart, Côte d'Ivoire was granted funding conditional on Structural adjustment (Lambert, Schneider and Suowa 1991:1564).

This period of adjustment was accompanied by external influences which added to the already dire situation of the country. The investments financed by the export earnings largely did not pay off, and as such, the debt burden became even heavier. Coupled with a the impact of the second oil shock and a long drought in 1983, a decline in cocoa and coffee prices and the thereby induced recession and GDP decline of 10%, the burden on the country became almost too much to bear. The already tight restrictions on governmental spending on subsidies and education had to be made even tighter, and a subsequent second restructural program with the IMF in 1985 and another one with the World Bank in 1986. Thus the process from being one of the poster children of Africa in terms of economic development to being the country with the highest per capita debt on the continent was completed (ibid:1565).

So constrained by the burden placed on its shoulders by its own failures and external pressures alike, the Ministry of Agriculture cut back the already low price paid out to coffee and cocoa farmers for their produce. In response to the resulting to growing discontent amongst the farmers both small scale and wealthy who saw their income decline, and to growing pressure also from sources inside the party, Houphouet-Boigny induced a process of democratisation leading to the first public elections.

Widner (1991:36-36) establishes three reasons why Houphouët could be convinced to let these happen, aside from pressure from stakeholder in the export industries. The first was pressure from a few dedicated civil society groups, encouraged by the prospect of greater participation. Among them for example were the transportation stakeholders, who opposed the frequent roadblocks put up by the military, which increased costs for getting produce across the country and ready for export. Some members of the political elite also demanded their chance for greater participation, and expressed their wish for an overhaul of party politics and the *modus operandi*. These 'dissidents' often part of the younger PDCI generation were appeased by disallowing the repression of opposition movements and the choice of a new secretary general. The second reason identified here then is that the administration simply was sure to be able to win the contest. Exercising a tight grip on the national media, both in print and in radio and television, public opinion was to a large extent influencable by those in power. While the opposition did find ways to get their message out, the majority of what the populous saw and heard about political on-going was determined by the government. Also, the opposition groups, as opposed to the current leaders did not bring anything to the table in terms of experience and expertise, and thus found it difficult to establish form positions on issues, thus further providing arguments in favour of voting PDCI. The final reason for Houphouët's deliberate move towards public elections was then the picture he himself wanted to go down in the history books. He did not wish to be mentioned in the same breath as those African leaders who had seized power through coups, and held onto it for as long as humanly possible. So not to threaten the position he had established for himself, and to damage the perception of himself in France and the also the Vatican, which open repression of the will of the people certainly would have done, elections were approved by the ruling party.

1.3.3.4 Summary

The post colonisation period of Côte d'Ivoire is characterised by one man, as was the case in Malawi. His vision of "Houphouteism", by which he aimed to establish Côte d'Ivoire as a West African powerhouse, was pursued and at first successful. By integrating the economy into the world through attracting (mainly French) investors, and by encouraging foreign workers to come to the country, while the state kept tight control via various ministries and institutions a foundation was laid for a period of strong growth. The second aspect was to lay the foundation for becoming independent from outside sources of financing by encouraging the growth of an Ivorian middle class. Thirdly, he sought to consolidate his position by gaining the support of the growing number of foreigners, uniting them against possible resentment by one of the 'real' Ivorian factions.

Despite its ethical shortcomings, this approach laid the foundation for a long period of growth during the 1970s and 80s, the *Ivorian Miracle,* which until the late seventies brought prosperity especially to those attached to the government, and those producing export goods on a large scale. Not being able to withstand external shocks however, the economy was in tatters by the late 1980s, and a program of structural adjustment administered by the IMF and World Bank was deemed necessary. In the wake of such dire economic peril, as well as pressure from the outside and from within, the Boigny administration made the choice of allowing democratic elections for the first time.

1.3.4 Group Overview - The Similarities

The three countries all share some very distinctive similarities, which have become apparent in this short overview of their histories: the dictatorship immediately post-colonisation; an economic upturn in the 1960s and 1970s under varying degrees of openness, followed by economic collapse due to external shocks; and subsequent requirement for structural adjustment funding. Consequentially, markets were liberalised, and export driven policies were implemented. In addition, international donors' intervention and the economic distress and structural adjustment problems led to widespread calls for democratisation, which occurred in the early 1990s.

Country	Malawi	Kenya	Côte d'Ivoire
Independence	1964	1963	1958
Period of Economic Growth	1961 to 1980	1980 - 1984	1960 to 1980
Period of Economic Decline	1980 to 1986	1974 to 1984	1980 to 1985
First Structural Adjustment	1981	1981	1981
First Public Election	1994	1992	1993

Table 1: Ante-Liberalisation Similarities

Thirty years have passed since the implementation of the first structural adjustment, and the question now is whether the liberal agenda which was enforced in these countries has brought the development which was the proclaimed goal.

2 Methodology

This chapter is intended to provide an overview over the approach taken to answer the problem formulation. It explains why and how the problem was formulated, what foci were subject of the paper (and which were left out), why the countries were chosen, how research was conducted as well as the rationale behind the choice of theory. Here also included are limitations of the study itself in addition to what factors which may be of importance but were left out, and why.

2.1 Formulating the Problem

I chose to formulate the question as a "how" question, as this gives room for unbiased in-depth analysis, as opposed to formulating a hypothesis, which indicates an expected outcome, as proposed by David and Sutton (2004:6).

The problem itself relates to the question of whether the ever larger amount of trade in and out of countries, both developing and developed, does actually do the nations involved well or whether it harms them. Thus, the question of how and in what ways has trade affected the countries is asked.

Choosing a sample of three countries as opposed to one then reflects the hope to achieve a sort of representativeness. Firstly I hope to achieve this by looking at whether or not there are across the board indicators which point towards similar developments in all three countries, secondly by establishing what occurred in each country individually, and whether the overall tendency induced by trade is positive or negative.

2.2 Country Choice

I chose the countries for three reasons, the first one being obvious for the area of research: all three can be considered to be developing economies (IMF 2012) This includes measures of income per capita, purchasing power, access to clean water resources, malnourishment and other indicators. The second reason is that all three began to decrease the average tariff substantially at roughly the same time in the mid-nineties. As a result, trade volume increased considerably. This represents the attempt to establish a linkage between the opening to trade and what the consequences were. And thirdly, exports are driven to a large extent by a single branch of the economy, as is the case with most countries in SSA, where the average score on the index of export diversification is 2.2 (World Bank 2012).

While of course every country's history is different than others', Kenya, Malawi and Côte d'Ivoire do share remarkable similarities in their histories post-independence. The first government to be installed after independence was in all three cases a one party-state and (at least quasi-) dictatorship. They then flew high economically, with at times huge economic growth, only to fall very low after external shocks in the 1970s, having to obtain assistance from without, as did 18 other countries at roughly the same time (Stein 1992:83). All three oversaw predominantly agricultural economies. In terms of societal structure, the group was composed at the time of opening to the world of a small ruling elite, which included the governmental body and the proprietors of large agricultural estates (the latter one boasting varying influence, but nevertheless did influence policy to some extent). Thirdly, the majority of the population is comprised mostly of small-scale and subsistence farmers. As such, the three countries can be seen as representative of Sub Saharan Africa where trade is concerned.

2.3 Choice of Theories

The theories from whose point of view the findings were analysed were chosen for reasons of applicability to the issue, in that they directly relate to the issues of why trade should be encouraged or discouraged.

Liberalism and both Dependency Theory and the Infant Industry Argument stand on essentially opposing sides of the spectrum, when it trade is concerned. To interpret the actions of decision makers and those who have influenced them, they prove useful as all of them all allow a differing perspective over the on-goings, and therefore provide a diversified platform from which to interpret and answer questions.

2.3.1 Liberalism

Especially since the early 1980s, the political scene in the Western World has been dominated by liberal ideas of free market and free trade (Haque 1999:206). The international institutions which step in to aid countries in economic peril do derive their policy instructions and the conditionalities attached to them largely based on this framework. Based on the ideas expressed in the *Washington Consensus* and later in the *Comprehensive Development Framework* of 1998 by the World Bank, as well as the *New Partnership for Africa's Development (NEPAD)* three years later, both donors and African leaders have over the past three decades endorsed these ideals (Owusu 2003:1656).

As all three countries which are dealt with in this study have - at points in time not very distant from one another - had to make use of these institutions in order to maintain some level of control over economic on-goings, and as such were encouraged to apply a liberal framework onto the overall economic and political system, and in terms of trade especially. The motivations and what outcomes were hoped for have to be considered, and for that reason the basics of the liberal trade model are established in some detail, and some reasons why it dominates the political scene – both in terms of thought processes behind the inceptors and also results of scientific study today.

2.3.2 The Infant Industry Argument

The Infant Industry argument provides an insight into why countries ought to go – at least until a certain point in time – in essentially the opposite direction as promoted by the liberal viewpoint, when trade relations are concerned. As history has shown, those countries which now promote the liberal agenda with the most fervour are those which had hidden behind barriers of trade for years at a time, until their industries were ready to face international competition. The thoughts pertaining to this theory are implemented in order to ascertain whether the protection which remained in some sectors of the specified countries' economies has led to development.

2.3.3 Dependency Theory

Dependency thoughts on the other hand engage the debate from still another opposing point of view. It explains the changes in relation between nations which results from an increased economic interrelation. So the question thus becomes what happens when firstly international aid organisations start to regularly transfer payments on which the receiving country comes to rely? What implications does this have for the policy making process, and how much sovereignty remains with the government? Secondly, what is the role of international MNCs in the country's economy? Do their actions promote development? Or does the liberalisation and the subsequent attribution of profits to MNCs rather than governmental organisations lead to loss of revenue, so that the country becomes even more dependent on aid payments and as such liberalisation actually makes a country more dependent? Therefore, the dependency perspective was chosen as a third starting point for the analysis.

2.4 Epistemology, Sources and Research Method

To acquire knowledge in order to find an answer for the proposed research question, I used secondary sources only. These included books, newspaper and journal articles, databases by international organisations, especially the World Bank and FAOSTAT, and the internet.

Especially where theory and history was concerned, books were a major source. However, since much of the thoughts and generalisations which make up the theory section were written sometimes hundreds of years ago, and fifty at the least I also included more recent articles voicing opinion on the theories, and adding some substance and a more modern context.

2.4.1 Reliability and validity of sources

On the history of the countries there have been written only a limited number of books when the last 20 years or so are concerned, indeed the vast majority of books relates to the pre-colonial or colonial history. Out of the ones which actually proved useful for the purposes of this study, most were biased in one way or another, as such the findings of these have been added to through adding information coming from other sources, especially scientific articles.

Taking care to study material which has gone through some measure of review and where findings have been confirmed and approved by independent authorities is important to establish conclusive and reliable findings. Therefore limiting research to peer reviewed journals, serious and accredited newspapers, and literature by established authorities in the area is therefore of the utmost importance to ensure reliability.

2.4.2 Research Method

As the topic is fairly broad, and deals mostly with aggregates and data pertaining to entire economies, I chose to collect only secondary sources, in other words what other authors had found in relation to the subject in question, and to interpret their findings in light of the proposed theories. Primary research was not conducted.

While quantitative methods such as the gathering of statistics relating to development indicators naturally play a large role in the project at hand, qualitative deduction is also important. Development can be expressed to some extent in terms of numbers, but it is also important to establish how the numerical results affect people in their ways of life, in their attitudes, and general well-being.

This of course however can also only be deducted in part from the writings of others, and as such a certain bias is unavoidable, not only because of the researcher's opinion at the outset of the project, but also when reading biased sources. Especially newspaper articles or sources from development organisations often have a very clear picture in mind which they want to paint. To this, one has to pay attention and attempt to ideally find a multitude of sources relating to the same subject, in order to maintain a neutral unbiased stance on a particular issue.

Overall the research method is deductive, as in that it is attempted to establish a theoretical framework consisting of two opposing approaches, and then collecting data to verify one or the other. I do not attempt to establish a theory myself, based on the observations, as an inductive approach would suggest.

2.5 Thoughts on Limitations and Scope

This paper poses various sub questions, as referred to in 3.1. While the numerical data proves a good basis for comparison, specific case studies dealing with the same issues in all three countries have proven to be hard to find, as the literature has proven at times to be very much focused on a single issue in a country.

Most of the trade and export related literature on Malawi relates to the tobacco industry for example and its importance, while other issues are hardly written about (if) at all. For Kenya there has been established a good body of literature especially dealing with the effects of trade liberalisation, but again concerning itself with specific issues, which have not been researched in the other two states. For instance, the clothing and fishing industries have been researched intensively, while in the other two it they have not.

A factor which has deliberately been left out was the analysis of the political situation in the countries. During the period analysed there have in all three countries there happened crises and major political events, such as the process in Kenya towards free elections in 1997 or the crisis over the elections in December 2007; and even – in the case of Côte d'Ivoire – full scale civil war with international involvement after the racial tensions before the 2000 elections. Issues such as these have hardly been touched upon, although in its own right they contribute vastly to development.

Another idea as to what might contribute to providing a more thorough interpretation of relations between donor institutions, the developed nations' governments and the Multinational Corporations and the recipient countries would have been also interesting in this context. This could have been done perhaps in light of the neo-colonialist theories of Chomsky and also Sartre, and may be a good idea for further study.

2.6 Research Design

Introduction

- Observation:Trade has increased in recent years, due to ever more liberal policies throughout the world. This can be beneficial but also poses risks
- Question: How then does trade relate to development?
- Why did the countries need financial assistance?
- What constitutes development?

Problem Forumulation

- Obervation: The countries are good examples, as they have liberalised and trade has subsequently increased
- Question: Has this fact been beneficial to growth and development?

Methodology

- How did I formulate the specific problem?
- Why did I choose these countries
- Which theories relate to the problem?
- How do I find the information I need?
- What was left out?

Chosen Theories

- Liberalism: Why are the policies implemented by the institutios? Trade brings about growth, wealth and other benefits.
- List: Trade must come, but only when competitive. The point in time was too early.
- Dependency Theory: Trade is not aimed at growth and prosperity, but at resource extraction and dominance.

Analysis

- What has happened in since the liberalisation in these countries?What is the data over time? Are there correlations and similarities between the three?
- Have there been concrete linkages between the opening to trade and the factors deemed as relevant when development is concerned?
- What theory has predicted the outcome correctly?

Conclusion

3 Theoretical Considerations

The purpose of this chapter is to provide the theoretical framework under which the analysis takes place. First, a definition for what is to be considered development in this context is provided. Then an overview of the history and theory of today's dominant theoretical framework concerning trade – namely the liberal ideals – is provided as a justification for why these policies are established and what the outcomes are which are hoped for. Secondly, a contrasting method of interpreting on-goings is presented, namely the theories of Singer and Prebisch, and the Dependency Theory.

3.1 Defining Development

While there are many indicators which play a part when one attempts to define development as an overall concept, only some are directly linkable to trade itself. The tendency in especially the economic literature is to relate the impact trade has on economic growth, while neglecting other indicators. Even though economic growth is of course preferable to stagnation, it cannot be the sole aim of development policy. This view is endorsed by numerous multilateral institutions, such as the United Nations, demonstrated by the inception of its Human Development Index in 1990, in which non-GDP related indicators such as education, life expectancy and child mortality as measures of development play an increasingly important role. In 2011, for the first time the HDR included the Multidimensional Poverty Index, to describe development using even more detailed indicators, such as nutrition levels, access to cooking fuels, sanitation, water or electricity (UNDP 2006).

In light of this attitudinal change in the measurement indices, I provide a framework by which to measure trade related development.

3.1.1 A definition of Trade related Development

The *Brundtland report,* also known as *Our Common Future* was published in 1987 by the WCED. It provides the perhaps most cited definition of sustainable development, and what may be called the first of its kind (Alam 2008:5).

It is defined as:

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Going by that definition, development must happen in such a way that it allows the present generation to achieve what can be done in order to not only increase living standards for those alive today. It must also provide the framework for the generations thereafter to realise their ambitions in an environment at least as, or perhaps even more conducive. To contribute to sustainable development, trade therefore needs to be uncompromising for future generations also.

Indicators measuring development related to trade have to fulfil two conditions. First and foremost, a direct linkage to the on-goings of trading has to be establishable. Secondly, it has to be an indicator which directly benefits a group of people. It must not however harm others in any way, so that the overall result is to be deemed negative. This includes future generations, and as such, the focus will be on sustainability as well.

In my view, aside from GDP growth and industrialisation, there are four indicators which fulfil these conditions. Firstly, the gini coefficient, when available is used as a measure of equity in the countries concerned. Economic growth can only be seen as part of development, when it benefits a broad part of society, rather than only a small number of people. Secondly, working conditions in the industries concerned play an important part for the quality of life and development. Does the increase of production due to trade cause an empowerment of those employed? The third criterion analysed are environmental issues. To what extent can and does play trade a part when sustainable use of resources and land is concerned?

Therefore, what will be referred to as *development* in this context is the following concept: The improvement or prevented deterioration of the quality of life and the environment, due to international trade.

3.2 Liberalism and Trade

Classic Liberalism can be defined as "the liberalism of 1776 that was espoused by Thomas Paine, Thomas Jefferson Benjamin Franklin and many of the other leaders of the American Revolution. In 1776, "liberal" generally meant a belief in representative government, the free market and greater equality under the law"

(Farmer 2006:64)

The point about free markets is the essential one in this context, as it provides the basis for the argument of free trade, as in that it pertains to limiting government involvement into the flow of goods in and out of a country, or from one into the other.

3.2.1 An overview of the history of the Free Trade concept

Mercantilism[3] dominated the sphere of trade for hundreds of years, forming the basis for the early international integration across Europe and the world through the process of colonisation. Trade was in essence nothing more than a means of filling a government’s coffers with gold and silver, the most important means of payment of those days, by pursuing what was deemed "good trades" by which were meant the export of cost intensive manufactured goods, and avoiding "bad trades", namely the importing of luxury items, or exporting of raw materials or other unfinished stuffs, which could be used by the importing nations to add value (Gomes 2003:21). Trade was seen as profitable, as long as it provided a surplus in the balance of trade. Concepts such as efficiency, i.e. the optimal resource allocations not only for *generating* profits, but *maximising* them seemed to have played no part in the mercantilist' modus operandi, neither was the concept of a negative balance of trade to possibly be beneficial. Trade was part of "the international zero sum game of power and influence" and as such "the wealth of one country meant poverty to another" (Kirkelund 2000:16). Beggar thy neighbour was the name of the game.

The notion of income maximisation through specialisation and to see trade as something which is mutually beneficial for the countries involved, (rather than the mercantilist inkling that trade is the pursuit of one’s own interest, while at the same time hurting the others) came about in the early 18th century, put forward by writers such as Henry Martyn. In his 1701 pamphlet *Considerations upon the East-India Trade,* he thought up the idea that it would be "a loss of so much value" if a

[3]Mercantilism is an economic theory and practice common in Europe from the 16th to the 18th century that promoted governmental regulation of a nation’s economy for the purpose of augmenting state power at the expense of rival national powers. It was the economic counterpart of political absolutism.

country did not import something which was cheaper to produce abroad, but instead waste man hours to make it at home. People would gain from this process in a similar way as from the technological advances and domestic division of labour. Other writers, such as North and Devenant referenced this aspect. However, while "Victorian liberals were full of praise for these writers, who they regarded as pioneers of the *laissez-faire* and free trade doctrines" (Gomes 2003:23) their ideas did not garner much attention, before being picked up by those coming after them, who brought these thoughts to worldwide prominence.

3.2.2 Liberalism or the Case of open markets

The idea of openness to trade is an ideal which dates back to the writings of Adam Smith, who established what is now referred to as the *Eighteenth Century Rule* (Viner 1937:440)*:*

> *If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.* (Smith 1776:293)

Today, theorists would refer to this statement as a country making use of the *Absolute Advantage* in production. This means nothing more than one party being able to produce the same amount of goods, using a smaller amount of resource than another. Here Smith of course points out what appears obvious today, but what was revolutionary about it was conception of the idea that one has to not only choose what to produce, but also how to utilise the means of production in their most efficient way. In order to maximise output, one does not only have to consider what is being produced, but also what *is not* produced. By that, he produced the groundwork for the notion of the concept of *Comparative Advantage*.

3.2.3 Ricardo's impact on liberal ideas of trade

The concept of Absolute Advantage, as put forward by Smith (though not by this name) covers the cases where a country can import what can be produced more cheaply abroad, and exports what can be produced more cheaply domestically. While a strong argument for opening to trade in its own right, it does not necessarily cover the entire spectrum of possibilities. In 1817, David Ricardo demonstrated that not only does it pay off for a country to trade when there is something cheaper to be had abroad, but in many cases, a country and its citizens may be better off even when it can produce *everything* more cheaply than would be possible somewhere else.

This argument is based on the notion of opportunity cost, which implies that one can only use production capabilities for one thing at a time. As such, when one is producing something, *one automatically loses out on producing something else*. In other words, the cost of producing good A is considered not in monetary terms, but as the amount of another good B which could have been produced utilising the same production capabilities (Gomes 2003:36).

Using an example of two countries, both of which are able to produce two goods, wine and cloth, both of which are demanded in both countries:

Cost of Production:

	Cloth	Wine
England	100	120
Portugal	90	80

As can be seen, Portugal enjoys an absolute advantage in the production of both products, i.e. it produces both goods at a cheaper price. As such, one might assume that Portugal is better off not importing from England at all. However, as the cost of producing wine in England is very high compared to Portugal, the English will be prepared to pay a high price for importing it, rather than producing it at home. There is an opportunity there to not only produce what is required in Portugal, but also to profit from exporting. Assuming this, Portuguese businesses may shift production capacities from cloth to wine, to satisfy Portuguese and English demand. To satisfy the demand for cloth, England would in turn focus on it, which is then exported to Portugal. Even though importing cloth would mean for the Portuguese to have to pay a higher price than to produce it domestically, the profit made from selling wine to the English would more than make up for that fact. Overall, production will increase through the exchange, and larger quantities of both goods will be available in both Portugal and England.

Still today, this principle forms the basis of the argument for free trade. Economic models such as the Heckscher-Ohlin Theorem, which predicts a country will export those goods for which factors of production are relatively abundant in its production possibilities, and import those for which the factor of production is relatively scarce (Gomes 2003:55). Others have elaborated and specified these, such as Leontief or Stolper and Samuelson (ibid:114). However, the basic underlying principle has remained the same, or as Eric Sheppard puts it: "Notwithstanding successive generalizations, elaborations and criticisms of Ricardo's 1817 principle of comparative advantage, today's discussions are minor variations on those of yesteryear" (Sheppard 2005:152).

There is however "from a normative perspective no question that the liberal tradition has gained the upper hand" (Kirkelund 2000:15) in the debate on trade openness amongst IR theorists.

3.2.4 Conceptualisations today

In this chapter I will provide an overview of some arguments for the opening to trade, which have become apparent through research.

The literature on the subject does indeed reflect Sheppard's view. The essential arguments for opening to trade remain the same, aside from changes in the technicality of what is being said, or the given context.

In his book *Sustainable development and Free Trade*, Alam (Alam, 2008:2)for example quotes the 1985 Leutwiler Report, which explains the importance of trade and comparative advantage as follows:

> *Trade allows countries to concentrate on what they do best. No two countries are exactly alike in natural resources, climate or work force. Those differences give each country a 'comparative advantage' over the others in some products. Trade translates the individual advantages of many countries into maximum productivity for all. This is the classic theory of international trade. It is still valid today.*

These factors, natural resources, climate and work force, which naturally distinguish between countries, and categorise them according to their inherent strengths, make possible what is referred to as a "mutually beneficial division of labour" on an international scale and "greatly improves the potential real national product of all nations" (ibid). This outcome is achieved essentially by minimising the cost of production of the individual goods, and as such at least theoretically making possible access to the widest possible group of people, who might otherwise be unable to afford the goods in question. For global trade however, one must also not forget the fact that the monetary cost of production and trading is not the only one.

3.2.5 Trade liberalisation and the environment

Alam (2008) argues that trade growth does not only contribute to economic growth and the growth of human capital, but also lowers pollution. He quotes a working paper by the CID, which finds that increased trade benefits the environment by (i) opening markets and thus decreasing costs, technology which is less harmful to the environment becomes more readily available; (ii) increased access to and reliance on foreign markets which are more environmentally demanding than local ones; (iii) foreign investment, which brings with it the more environmentally friendly technology and standards; and (iv) an "increased diffusion of the fast-growing export-oriented environmental goods and services industry" (Panayotou 2000:32). Thus trade becomes "a natural ally of sustainable development [...] especially when implemented in conjunction with complimentary environmental policies" (2008:207).

3.2.6 Liberals on the issue of externalities

Externalities are referred to as for example "a cost or benefit from any activity which does not accrue to the person or organisation carrying on the activity" (Black 2002).

The issue here is that these inherent costs of international trade to a large extent have to be borne by *others*. One question that time and time again arises is whether and how these costs are to be incorporated into the decision making process of those who benefit in one way or another from such activities, and how they can be made accountable for their actions.

3.2.6.1 Internalising negative externalities

One alternative to deal with the issue of externalities would be an outright ban of activities which are harmful to the environment or other people. This would however require institutional involvement not permissible from a liberal perspective. So a compromise would be what is referred to *internalisation of negative externalities.*

When talking of internalising externalities, social scientists refer to the practice of shifting the cost borne by those not involved in the transaction to those which are. This can be done in a number of ways, "usually [via] a change in property rights" (Demsetz 1967:348), in other words by forcing (in case of a negative externality) the perpetrator to pay for the damages, or by encouraging (in case of a positive externality) him to produce more of the same.

As a first alternative, one might add a tax onto the cost of trading, which is then used to clear up damages done or compensate those which are otherwise affected. Oppositely, a possibility could be to compensate the trading partners via a subsidy *not to trade*, and thus prevent the harmful activity from happening in the first place. These possibilities may be solutions, but aside from quantifiablility of external costs, there arises also the problem of responsibility when dealing with issues of globalisation and international trade. As some of the damages done through trading occur in areas over which there exists no clearly defined sovereignty of a state, such as international waters, or air space. Similarly, the ecological and cultural impact of trading is not limited at all to national borders. Thus, no government could rightly claim these taxes or could be seen responsible for paying out subsidies. So for a system of taxation or subsidisation, unilaterally accepted supranational institutions are required, which are able and willing to enforce it. Thirdly, an option for internalisation would be to establish a system of tradable permits, which has been applied to other contexts, such as the Kyoto protocol for environmental (McKibbin et al. 1999:1) damages through production, which allows countries to trade pollution permits. This is arguably the most favoured option for liberal thinkers, as it determines the decision for or against trading not by government direct influence and rulings, but by the mechanism of competition.

The main issue however remains assigning a price to the damages involved, which the profiteers have to be made to pay themselves. Anderson and Blackburst (1992:19 in Roepke, 1994) establish this view in *The Greening of World Trade Issues,* where as a result of their research they state:

The impact of trade and trade liberalization on a country's overall welfare depends on whether the country's environmental resources are correctly priced. [...] If they are, trade and trade liberalisation benefit the environment because the resulting economic growth stimulates the demand for environmental protection and generates additional income to pay for it.

3.2.7 Realising Economies of Scale

A central point which liberal thinkers stress as a benefit of a country opening up to the outside for the purposes of trade and thereby accessing a broader customer base are the resulting economies of scale. To satisfy not only local demand, but a regional or even global one, production increases as local producers become aware of opportunities which become apparent abroad. Resulting from this, economies of scale can be realised, making production not only more efficient, but also leading to increased capacity utilisation and the strengthening of inducement for technological change (Ram 1985:418).

3.2.8 The non-economic side

Unhinging the concept of trade from economic indicators is of course impossible. Nonetheless, there are several issues which proponents of trade openness mention, which do not necessarily have to do with economics only, as far as one is able to, when dealing with the social sciences.

3.2.8.1 Prevention of war

Peace is the natural effect of trade (Baron de Montesquieu, 1750).

The relation between trade and war, has been subject of a large amount of research (Oneal and Russett 1999:423) The liberal perspective is that "interdependence lowers the likelihood of war by increasing the value of trading over the alternative of aggression" (Copeland 1996:5). Rephrasing this statement, when a country and its decision makers benefit from a trade the relationship with another one, it will gear the decision making progress where armed conflict is concerned towards peace.

3.2.8.2 Trade and Corruption

Put very simply, corruption can be defined as "the abuse of public trust for private gain" (Todaro and Smith 2003). According to the World Bank (2002), over a trillion dollars changes hands in the shape of bribes, kickbacks or other illicit means for gains of individuals, at the expense of others every year. Considering this scale, it could be deemed one of the most important factors hindering development today: It hinders empowerment, as opportunities for participation, such as travelling to a voting station or other means of voicing ones political opinion is available to a smaller part of the populace, if bribes have to be paid on the way. It stands in the way of social equity. When a standardised bribe is added to processing for documents for example, it constitutes a larger share of income for a poor household, than for a rich one. Access to documents and also permission slips to start businesses and the suchlike are therefore much more readily available to those in the higher income brackets. It stands in the way of development, as the cost for investment and to do business increases, lowering the rate of return for those willing to start up companies or acquire technological means in order to be more productive or sustainable.

While corruption can be found in just about any society to some extent, its ramifications are of much greater importance for developing countries, which more often than not lack institutions to control and punish cases of corruption, and also where missing out on an economic opportunity may mean the difference between life and death. Trade integration may play a part in reducing levels of corruption. For example, Ades and Tella (1999) find that "competition from foreign firms will reduce rents enjoyed by domestic firms, reducing rewards from corrupt behaviour by government officials." In other words, when, as a result of foreign competition, profits in the private sector fall, there is less cash readily available to use for bribes. Similarly, in a different study, Sandholtz and Gray find that integration provides a greater exposure to “economic and normative pressures against corrupt practices” (Sandholtz and Gray 2003:787). These pressures take shape in international companies and investors being reluctant to get involved in a country where corruption reigns, due to higher costs and perhaps loss of reputation, forcing governments to counteract corruption in order to attract foreign businesses.

3.3 The Case against Trade Openness

The considerations which follow establish the counter framework to the liberal view that there essentially is no alternative to immediate trade openness.

First the concept of Infant Industry Protection are introduced, part of the argument of Economic Nationalism, mainly attributed to Friderich List. A historical background is provided, followed by the justification for differing views with Adam Smith. The third subchapter deals with the rationale for the protection of Infant Industries, and the fourth with how this protection should actually be applied.

After that follows the more recent theory as propagated by especially Latin American scholars from the 1950s, the Dependency Theory.

3.3.1 The Infant Industry Argument

The Infant Industry Argument asserts that in order to build up an industrial base, a country's government has to protect the industries in their early stages of development from competition from afar. These early stages are characterised by the companies not having achieved similar levels of expertise nor the economies of scale as their foreign counterparts, and as such are from the onset not in a position to compete on price nor quality, and are thus doomed to fail.

Its origins lie in the arguments of Alexander Hamilton, the first United States Secretary of the Treasury at the time. He argued for the protection of American Industries against imports from Great Britain. As such, incidentally, it was in the United States, the most vocal proponents of freedom of trade today, where "the modern protectionist school of thought was [...] born" and it was also "the mother country and the bastion of modern protectionism" (Bairoch 1993:30)

3.3.1.1 Basis for argumentation

List's argumentation is based on the five stages of development he identified as the set way of development of a country (1865:72): (i) the savage state; (ii)the pastoral stage; (iii) the agricultural stage; (iv) the agricultural and manufacturing stage and (v) the agricultural, manufacturing and commercial stage. As opposed to progression from one to three, advancement beyond the agricultural stage can only happen via industrialisation and not through the "natural course of things, i.e. through market forces" (Shafaeddin 2000). In order to catch up with countries in different stages of development, which "have outdistanced others in manufactures", infant industry protection is necessary. This protection, no matter how vital in the early stages of development, should however gradually be phased out as industries 'mature'. Also, it should be confined to certain well-chosen industries, and not to the agricultural sector, where productivity growth should be emphasised above all (ibid)

3.3.1.2 Differences in argumentation with Adam Smith

To List, this diversion from the writings of for example Adam Smith's assumption of individual desires naturally leading to the furthering of the collective interests, was formed on the notion that individual interests do not necessarily concur with the collective interests, and that social interests may be different from private ones. The same applies for nation states, who arguably do not place much of a focus on worldwide welfare, but who first and foremost attempt to assert their own interests, and as such choose to at least temporarily isolate themselves from the world economy to build up a competitive base of production (List 1856:2-61).

3.3.1.3 The Justifications for the Infant Industry argument in modern terms

Shafaeddin provides a good overview and also a ’translation’ of List’s views into modern terminology. According to him, there are four justifications than can be deducted from List's writings.

First of all, newly established industries are not in a position to compete with international market participants, who are well advanced in terms of experience in manufacturing. So industrialisation will not take place in the "natural course of things", as they do in the earlier stages of development, i.e. In the progression from primitive to agricultural (i-iii). On the contrary, exposing these industries to competition, or 'market forces' in today's terminology will lead to their failure. The key here is that international competition, just as domestic competition, can only lead to stage advancement if (and only if) competitors "engaged at the same time in manufacturing industry shall be in the same degree of progress, and civilization, when they shall place no obstacle in the way of the economic development of each other and not impede their respective progress by war or adverse commercial legislation" (List 1856:72-73)

The second justification is that in order to establish an industry, the entrepreneurs face great risks in any case, even independent of competition. So incentives have to be provided, and one such incentive is the protection from outside competition. The progress of establishing an internationally competitive industry then is: establishment of a domestic monopoly to gather experience and learn cost cutting and efficiency measures, and to realise economies of scale. Then, gradually, domestic competition is allowed to enter the market, to also ensure the safeguarding of consumer interests, and not have them suffer from monopoly pricing. When a domestic market then is established, the protection via tariffs and import quotas can be lifted, as the industry concerned is now deemed in a position to withstand foreign competition.

Third, Shafaeddin established that Infant Industry protection leads to the development of what is now referred to "human capital". ("Industrial training or education of the country as a whole" is the way List refers to it.) Thereby is meant the development not only of industrial experience such as efficiency gains, but also the development of other skills, less directly connected to the production process itself but general ones. These might include gaining knowledge on how to start up businesses in new sectors or the skills necessary to run companies rather than the former alternatives, mostly farms or other primary commodity producing entities.

This third point relates directly to the fourth one, which has to do with the concept mentioned earlier in section 3.3.2., what is today referred to as externalities. While it must be mentioned that this term was "not common in his days" (Shafaeddin 2000:9) the notion becomes clear in his argumentation. The human capital, skills and knowledge acquired through the process of industrialisation do not only benefit the concerned industries and those employed in them. They also benefit the economy as a whole when industries start cooperating with one another, and these influences need to be part of the decision making process by which is decided which industries to protect (ibid).

3.3.2 Dependency Theory

Dependency Theory has its roots in Marxism[4], as such that it looks at the world in terms of class relations. This concept is applied to the world community as such that the individual countries belonging to it are also part of a certain class: the underdeveloped (periphery) countries one the one hand, which supply low-profit primary goods, raw materials and cheap labour to a class of developed nations (core). This group in turn produces high-profit manufactured secondary goods and technology via the means of a highly skilled labour force, and by controlling the necessary capital for their production (Cardoso and Faletto 1979:17).

To a large extent, Dependency Theory is a counter reaction to the theoretical themes which dominated the political discussion prior to the First World War (as it does in its form of neoliberalism today). These ideals were composed of the political ideals of classical liberals, economic ideals of classical capitalists, and socially of the ideals of those who were at the time called the *Social Darwinists* by some. (Bauzon and Abel in Tétreault and Abel 1986:44). The tenor was a division of the world into a "tropical zone" and a "temperate" one, the latter being considered industrially, creatively and culturally superior, and thus responsible for bringing the "higher ideals of humanity, and a higher type of social order" to the tropics. (ibid) While not intended, the active division of the world into classes becomes obvious when one looks at this statement, except the use of different terminology.

This view was challenged after it became increasingly clear that neither economic nor other forms of development were notable in the countries where the "higher

[4] Even though the roots can be found in Marxism, I would like to note here that further similarities between the two points of view are scarce. While Marx argued that capitalism would inevitably spread to the developing countries who saw "the image of its future" in the industrialised country, and once "[machinery is introduced] into the locomotion of a country which possesses iron and coal, you are unable to withhold it from its fabrications". So through trade and interrelation, within these countries an industry and the corresponding industrial class would develop. Dependency theorists on the other hand argue that such development does not occur. (Balassa, 2008:260)

ideals" were supposed to be spread. On the contrary, a 1949 report[5] by the Economic Commission for Latin America (ECLA) headed by Raul Prebisch demonstrated that the terms of trade[6] had retrogressed to such an extent, that "on the average, a given quantity of primary exports would pay, at the end of this period [late 19th century until the late 1930] for only 60 per cent of the quantity of goods which it could buy at the beginning of the period" (Love 1980, in Chirot and Hall 1982:91) This was seen as disproving the argument of comparative advantage working to the benefit of all those involved, but on the contrary, it "did not operate in favour of the primary producers." (Chirot and Hall 1982:91).

Seeing this argumentation against the prevailing thoughts of 'trade to benefit all' Dependency Theory might best be described not as a consolidated movement or theory, but as a collection of ideas and arguments. These were brought forward to counteract against theoretical constructs which did not bring about the desired changes to lead poor nations into prosperity, but on the contrary lead to a continuation of the status quo and indeed arguably a worsening of the situation (Packenham, 1992:24-26). However, according to Vernengo (2006:2), there is at least as much disagreement as there is concordance amongst the writers.

3.3.2.1 The Singer-Prebisch Thesis or the Theory of Deteriorating Terms of Trade

In addition to the ECLA report of 1950, Raùl Prebisch in his paper *Commercial Policy in the Underdeveloped Countries* established the apparent lack of development in underdeveloped economies as being the result of a deterioration in the terms of trade.

He argued that "the pressure upon export prices and the corresponding tendency towards deterioration in the terms of trade in the peripheral process of growth subject to the unrestricted play of market forces is the result of disparities in income elasticities of demand and the uneven form in

[5]The report to which reference is made here was the publication by the Economic Affairs Department of the United Nations on the "*Relative Prices of Exports and Imports of Under-developed Countries".*

[6] The Terms of Trade is "the ratio of an index off a country's export prices to an index of a country's import prices" (Black 2002). They are said to increase when each unit of a country's exports pays for more of the country's imports, and to deteriorate in the opposite case.

which technical progress has spread into the world economy" *(1950:261)* (Prebisch 1950)*.*

This observation leads to the following two interrelated conclusions: first of all, the "disparities in income elasticities", by which he refers to the propensity to consume the principle products of core and periphery as the result of an income increase, lead to the stagnation of demand for primary products, and an increase of demand for manufactured goods. As income increases, consumers tend to spend a larger amount of the additional income on secondary goods and luxuries, than on secondary ones, which in essence provide subsistence. For this, a certain level is deemed sufficient, beyond which demand will not increase. Therefore, trade in the current form, as an exchange of primary for secondary goods, cannot lead to development. The second conclusion is that differing technological progress in core and periphery is at the base of the discrepancy of purchasing power. To overcome it, independent Import Substitution industrialisation (ISI) has to take place, rather than a focus on the immediate comparative advantage, i.e. a primary good in one shape or another.

Also in 1950, Hans Singer noted that "past foreign investment, and the type of trade which went with it, failed to spread industrialization to the countries in which the investment took place" (Singer 1950:483). Foreign investment was according Singer the source of most industrialisation and thus competitiveness which had by then taken place. However, the means of production and thereby the profits resulting from the process of industrialisation remained in the hands of those who invested. So the increases in income were not realised to benefit the countries where investment took place, but were reserved for those who brought in the capital and retained control over it from abroad, thus leading to a further concentration of capital in the hands of those who already own the lion's share of it.

The combination of these two factors, that trade leads to a deterioration of relative purchasing power of developing countries, and that trade and openness to investment from abroad has not brought about industrialisation or competitiveness in the developing world forms the basis of the Singer-Prebisch Thesis. As Toye and Toye (2003:437) summarise: "it implies that, barring major changes in the structure of the world economy, the gains from trade will continue to be distributed unequally (and, some would add, unfairly) between nations exporting mainly primary products and those exporting mainly manufactures. Further, inequality of per capita income between these two types of countries will be increased by the growth of trade, rather than reduced"

3.3.2.2 Paul Baran or "How to Control the Periphery – Two Simple Steps"

Paul Baran, another one of the founders of modern dependency (Balassa 1986:261) contained that the first step by which the core will exert dominance over the periphery is extracting most of the surplus[7] a country produces through trade, while leaving the rest to supply with luxury goods a small local elite in league with the foreign dominators. This elite will then do the foreign bidding, leading to the establishment of “semifeudal or *comprador* elites and impeded industrialisation” (Baran, 1986 in Evans and Timberlake 1980:532).

Secondly, controlling the periphery occurs via the multilateral institutional framework set up to influence developing nations' policies from afar. These institutions, which supply the developing nations with funds when in dire straits, maintain control by attaching conditionalities on aid payments. The negotiations between their representatives and those of the developing nations then is not an eye-level discussion, but a state of *unreciprocated reliance*, as McKinley and Little (1977:63) refer to it. Once aid begins to flow in substantial amounts and the recipient comes to rely on payments, the donor can “terminate the provision of aid with little or no cost”, in fact money, even if comparatively little, would be saved in such a circumstance. The recipient however incurs a massive cost resulting from a termination of aid, while at the same time also debt repayment has to be taken into consideration. This puts the donor in firm control in the negotiation process to dictate conditions, and short term solutions for immediate problems are solved by entering a relationship of dependence on outside sources of funds.

The policies pursued by donors then “are clearly and directly intended to serve the interests of the government providing [aid]” (Hayter 1974:15). These interests

[7] Marx explained the surplus as the difference between the input and output of production, in other words the value added by the labourer. Applying this concept to dependency thinking, the surplus here are the goods beyond consumption necessities, which a developing country exports.

involve the relaxation of trade barriers and the opening to FDI, in order to gain access to raw materials - either by importing them or by simply buying up the land on which they can be found - which are then turned into high priced technological goods.

3.4 Revisiting the Problem Formulation in light of the proposed theories

Having established a definition of development in relation to trade, as well as an opposing framework with which to interpret the findings, the problem formulation can now be extended in the proposed context of differing views concerning a single issue. As has been established, the liberal paradigm expects development from trade through a focus on a country's comparative advantage, resulting in an efficient international division of labour whereas the dependency theory states that this model leads to developing countries remaining in their state of dependence and underdevelopment. To stop this from occurring, state sponsored industries are to be established, in order to be able to benefit from their own resources and become independent from aid payments and influence from without. This is in line with the argumentation that List proposes, that industries have to be protected via tariffs at first, and only when a competitive level is reached, the markets are to be opened.

As such, the problem formulation can now be extended as follows:

"*As part of the Structural Adjustment Process in the 1980s, a number of Sub Saharan African Countries have relaxed their trade regimes. Has the abolition of Infant Industry protection and Import Substitution policies of the 1960s, 70s and 80s and the subsequent focus on their comparative advantage been beneficial in terms of economic growth and development for Côte d'Ivoire, Malawi, and Kenya?"*

4 The Post Liberalisation Period in Malawi, Kenya and Côte d'Ivoire

This chapter forms the analytical section of the paper, and scientific findings from the period after the trade liberalisation in the mid-nineties are analysed in order to establish whether or not the increase in trade has been beneficial.

4.1 Malawi

The period concerned in this study (early nineties until today) for Malawi was a comparatively stable one, when compared to for example the years in Côte

Country	Kenya			Malawi			Côte d'Ivoire		
Year	1992	2000	2009	1992	2000	2009	1992	2000	2009
Population (million)	25,0	31,3	39,5	9,7	11,2	14,4	13,4	16,6	19,4
GDP/capita (2000 US$)	423,7	406,1	455,9	129,4	155,3	177,4	618,8	628,2	585,3
GDP (billion US$)	10,6	12,7	18,0	1,3	1,7	2,6	8,3	10,4	11,3
Net aid received (million US$)	883,1	512,7	1776,2	577,0	446,1	771,4	755,7	350,6	2401,6
Agriculture (% of GDP)	28,7	32,4	27,2	38,8	39,5	30,5	34,0	24,2	24,7
Services, etc. (% of GDP)	52,9	50,7	53,6	29,7	42,5	53,4	44,7	50,9	49,9
Manufacturing (% of GDP)	19,4	17,0	19,2	31,5	18,0	16,1	21,3	24,9	25,4
Manuf exports (% of exports)	36,4	20,8	36,6	11*	7,4	8,5	6,6**	14,5	15,1
Manuf imports (% of imports)	54,0	59,6	60,0	74*	72,1	74,5	56,6**	46,2	48,6
Human Development Index[8]	0,45**	0,44	0.5	0.34**	0.34	0.39	0,37**	0,37	0,4

*1994

**1995

Table 2: Overview over selected economic indicators, 1992 - 2009

d'Ivoire. Free of major armed conflict, and hopeful as a new democracy was instituted, the population was hoping for a bright future. As will be seen however, the circumstances did not improve as much as was hoped for.

[8] The index increased worldwide by a margin of roughly .8 points, and the indices for "low human development were .363 (1995), .383 (2000) and .448 (2009) respectively, so the gains displayed in this table have to be taken with a grain of salt.

4.1.1 Post Banda

The transition process towards a multi-party democracy happened as one might expect not entirely without friction, but both sides remained relatively calm. While the elections, due to frequent cases of intimidation by members of the MCP could not be called “free and fair” by the body of international observers which attended the process, overall it was established that Malawians “were able to vote in the way they wanted” and “[reflected and expressed] accurately the wishes of the Malawians electorate on polling day” (Forster 1994:496-497)

In the early years of the new administration, the trade framework in Malawi was relaxed extensively with regards to imports as part of the restructural efforts by IMF and World Bank, in order to encourage an export driven economy. Foreign exchange controls were mostly removed, price controls abolished, industrial licenses were removed and a maximum tariff of 25 per cent was introduced (WTO, 2002)

This process of liberalisation was in part the result of what led to the structural change in Malawi and the end of the Banda domination. The need for financial aid in the form of foreign exchange in order to supply the country with direly needed technological and scientific advancements such as high output maize seeds did not disappear by changing the governmental structure. On the contrary, as mentioned, part of the process of undermining Ngwazi's rule was the withholding of foreign aid. As such after the transition to democracy had been completed, the newly elected government had practically no other choice than to fulfil the donor's conditions (Forster 1994:496-497).

Dependency thinkers will argue here that this state of affairs is how the core exerts dominance over the periphery. Firstly, via the international framework of multilateral institutions, an undermining of the political process happens from the outside. Decisions are based not on the will of an elected parliament, but – at least in part – on the threat of withholding funds as punishment for non-compliance. Secondly, the processes set off lead to an even increased focus on the production of primary products, instead of moving towards industrialisation. Contrastingly, the liberal perspective would be that the democratisation of Malawi was only the result of integration into the world market, and the pressures exerted by the international community, which in part at least is true as was explained above.

4.1.2 The impact of trade liberalisation on the economy of Malawi – Crunching Numbers

By 1999, the scheme of liberalisation "had produced one of the most liberal and transparent regimes in Africa" (Mbekeani 2004) Exports levies were to a vast extent eliminated, and the maximum import tariff was reduced to 13 per cent, with import duties on non-agricultural items substantially higher than agricultural ones Since 2000 Malawi is also part of the COMESA trade agreement, which makes available most goods from nineteen other African nations without burdening them with tariffs.

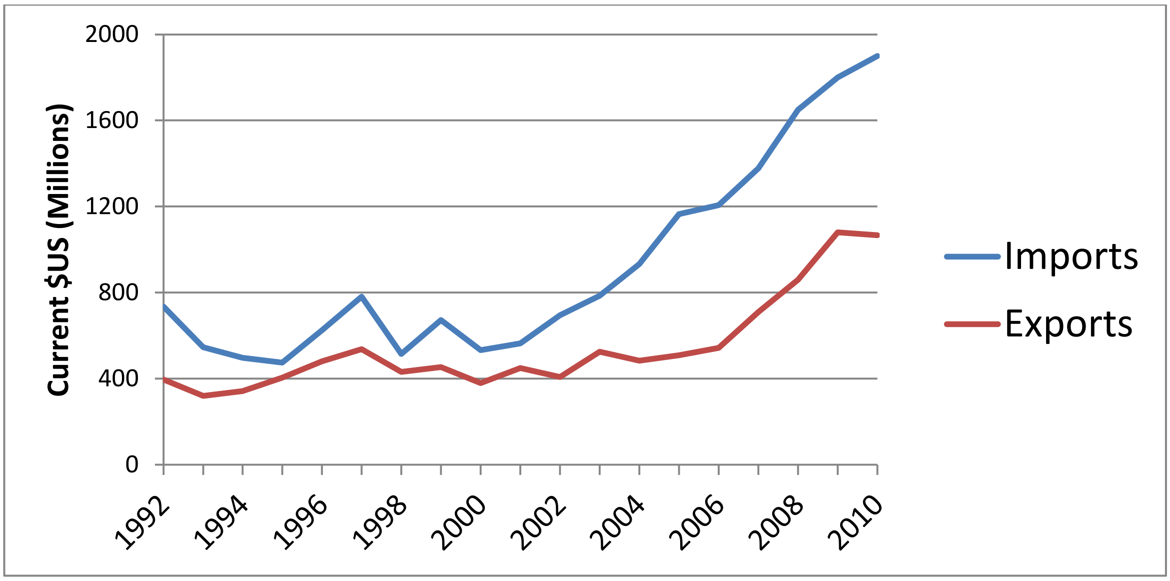

Figure 2: Malawi's Merchandise Trade, 1992 - 2010. (World Bank DataBank)

One of the aims of trade regulation relaxation was to allow Malawian companies and producers easier access to broader (worldwide) markets, and to facilitate access to markets abroad. In the period between 1995 and 2010, both happened when one looks at the numbers, however imports increased substantially more than exports. While the balance of trade in 1995 amounted to merely $248 million, the difference in 2010 was already at over $800 million, (see Figure 2). As such, the balance of payments further pressures the already struggling economy, with substantially more funds flowing out of the country than flowing in (not including aid payments).

Agriculture and Tobacco farming still are the number one breadwinner for Malawians, and industrialisation away from the sector has not taken place. In terms of GDP, industry is still the third significant output, comprising only 16.1 per cent in 2009 (compared to 19.6 per cent in 1995), agricultural output making up 30.5 per cent (30.4 per cent), and services being the number one contributor, at 53.4 (compared to 50) (World Bank DataBank) So in terms of composition, the opening to trade seems not to have benefited Malawi towards a move to industrialisation.

4.1.3 Interpreting Malawi Today – the social perspective

Today, on average, a Malawian contributes $791 per year to GDP (measured in PPP), making it the sixth poorest country in the world based on GDP per capita. While a comparatively little gain in absolute terms, the average Malawian income has risen by over 80 per cent in the last 20 years. One has to bear in mind however sometimes extreme fluctuations, usually caused by external factors such as drought, growth has been positive over the last two decades (with the exception of 1992 and 1994, where the economy shrunk by 7.3 and 10.2 per cent respectively), and Gross Domestic Product as of 2010 is now over $5bn per annum. Overall however, the country is still faced with a huge poverty problem. In 2005[9] 52.4 per cent of the rural population lived on less than $1,25 a day, while 25.4 per cent of the urban population did. Still, the richest 10 per cent hold almost 31.9 per cent of the wealth of the nation, with the lowest twenty per cent only holding roughly seven. This however constitutes an improvement for the only other measurement of this indicator from 1998, when these values where 50.3 and 4.8 respectively. Inflation has varied greatly over the past ten years, averaging 12 per cent per annum with values ranging from 22.7 per cent in 2001 to 7.4 in 2010. Since on average, 70 per cent of household income is spent on food consumption, price increases of such magnitude drastically affect the poor (World Bank DataBank).

In 2008, 27 per cent of Malawians suffered from malnourishment (ibid), despite 80% of employed Malawians working in agriculture, almost sixty per cent of the

[9]Source: National Statistics Office of Malawi; More recent data on poverty levels in Malawi is to the best of the author's knowledge not available

Malawian landmass being used for agricultural purposes and food products (Potatoes, Maize and Cassava) being the three most produced agricultural products in the country, both in terms of quantity and aggregate value (see Figure 3).

Much of this malnutrition is due to frequent droughts which have been plaguing the country especially since the early 1990s every two to three years, destabilizing the maize production, which provides the basis for most meals. As such, the country at periods still hugely depends on the import of foodstuffs in order to ensure a level of subsistence, when the required annual production – circa 1.5 million tonnes of maize – is not met (JAICAF 2008). This occurred most recently in 2002-2005 and 2009, when a famine struck the country, affecting almost five million people. As is often the case with famines, the ordeal was not necessarily the lack of food, but the distributional situation, where prices rose to 40 Kwacha (=15 US$ cents) a kilo, ten times as much as it used to be (Bearak 2003). But food availability in times of frequent crisis can at the moment only be ensured through trade with the outside world. Figure 4 indicates this trend, depicting how food imports during the 2002 and 2008 food crises shot up.

In terms of aid, Malawi has received over $700 million in 2010 alone, roughly fifteen per cent of GDP per annum. This represents more than three times as much as it was in 1994, and the years after, indicating that Malawi is increasingly dependent on foreign assistance (World Bank DataBank).

Overall, the data indicates a trend which suggests that so far the way towards the country being an independent in a position to fend for itself is still a long one, and the opening to trade did not contribute overly to a development in that regard.

4.1.4 Trade related development in the last twenty years

As mentioned in the introduction, there are a number of points which form the basis for the analysis of whether trade has contributed to development. What follows here is an overview over some research results pertaining to the subjects mentioned earlier, land ownership, working conditions, the environmental impact and income distribution in the period in question.

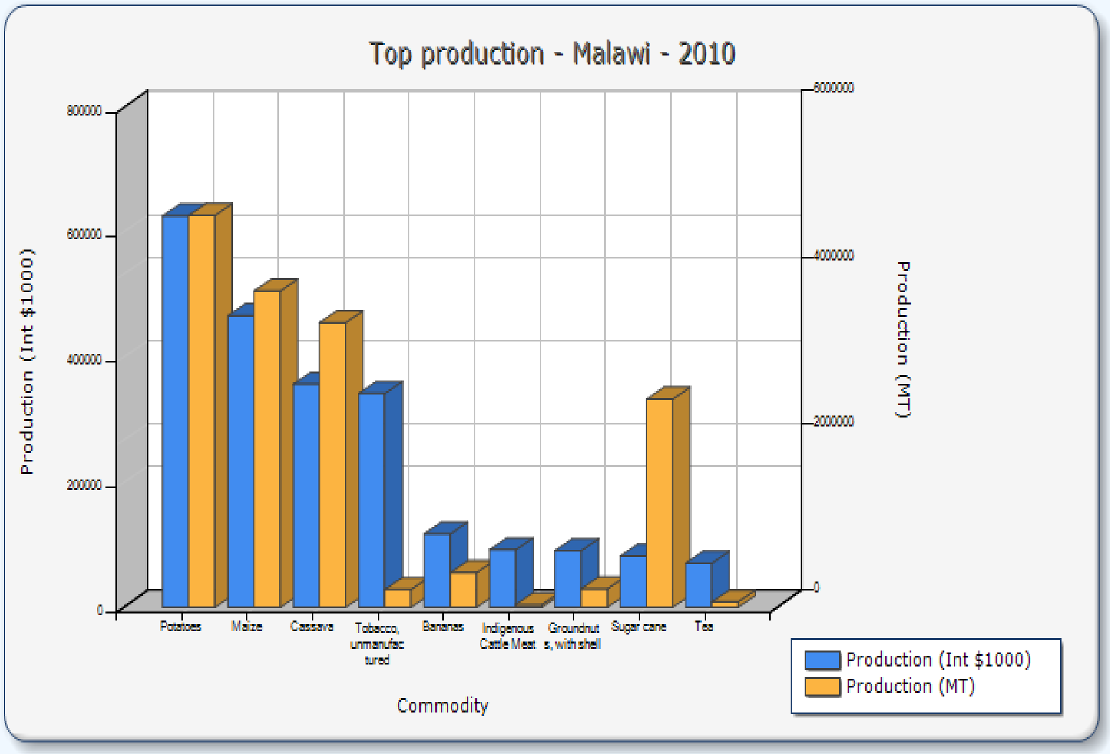

Figure 3: Agricultural Production Values for Malawian $1000 and Metric Tonnes. (Source: FAOSTAT)

4.1.4.1 Is Malawi still addicted to smoking?

Following the turnaround in the political sphere another important change occurred in the immediate years following the 1994 election. While the successes were in part due to favourable weather conditions and extremely good harvests, there became apparent the result of the previously mentioned reforms, namely a profound compositional change in the agricultural sector. First of all, as a response to the liberalisation of agricultural production possibilities for smallholder farms, the share of burley tobacco[10] producing small farms increased substantially. In the period between 1994 and 1999, their output increased from 3,000 tonnes to roughly 75,000, peaking in 1998 at 81,000. This constituted 70 per cent of the nation's total production, an almost six fold increase compared to 1990. Smallholder income grew by almost 44 and 41 per cent in 1995 and 1996 respectively. While these were mostly middle income farmers, some very small farms with less than one hectare participated in this as well (Harrigan 2003:852).

[10]Burley Tobacco is a very profitable strain of the plant, which composes 20-35 per cent of "American Blend" Cigarettes, the most smoked variety in the world (Drachev et al.2004)

Aside from market share of smallholder production, another part of this change in composition of the agricultural sector was the diversification of outputs. Drought resistant crops replaced the farming of maize; especially cassava began to play an increasing role. (ibid:853)

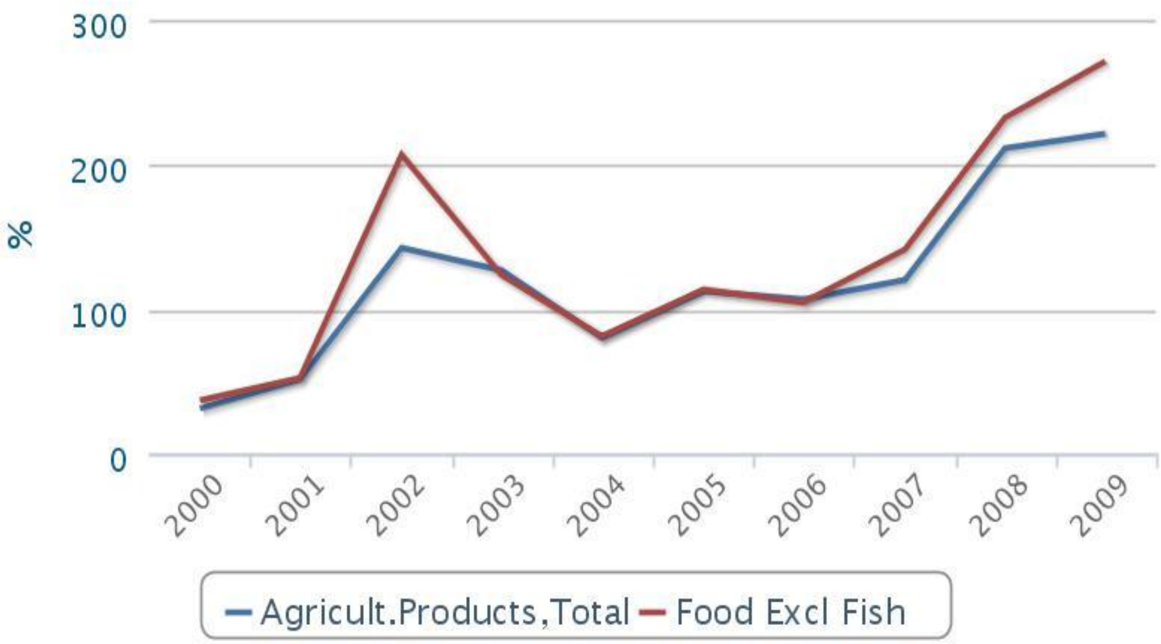

Figure 4: Import Values for foodstuffs in Malawi 2000 - 2009 (2004-2006 = 100. Source: FAOSTAT)

In terms of land ownership and control of production, much has changed since the Banda years and the successive opening to trade and liberalisation of the agricultural sector. Over the years, the institution of collective small scale tobacco grower cooperatives, also known as “Burley clubs” initiated in the early 1990s, has become vastly popular. These collectives comprised of 10-30 smallholder farmers with smaller acreages than 1.5 hectares are now the main competition for tobacco estates had direct access to auction floors, and did not have to go through the Agricultural Development and Marketing Corporation (Porto 2008:1).

Overall, the role tobacco plays in the Malawian economy has decreased somewhat, even though there are over 400,000 smallholder farmers, who make a living in that sector, in addition to roughly 160,000 which work on plantations, and the plant still makes up 70% of export revenue for Malawi. Access to the market has been made available for smallholder farmers via the repeal of the Special

Crops Act in 1990, which banned smallholders in order to ensure production of food essentials (Nsiku and Botha 2007:2).

Do Tobacco Farmers fare better, now that trade has been liberalised? The key word to answering this question in the last paragraph is “somewhat”. What can be said is that they do not face centralised governmental price controls anymore. Contrastingly, the 75 per cent of tobacco growing households, who do not belong to a collective, have two options. First, they auction off their produce themselves, via the centralised auction house, to which 40 per cent of foreign exchange taken in has to be surrendered. The second option is to have it brought to the world market via supply chains set up by tobacco companies, who oversee the transport and set “such low prices with leaf companies that production requires child labour and debt servitude” Collectives have a stronger bargaining position, and enjoy economies of scale, but the lion's share of profitability rests still with tobacco companies who distribute and sell (Otañez and Glantz 2011:403).

Farmers are largely subject to fluctuating tobacco prices and weather conditions. So even though while it remains the most profitable way of making a living for many Malawians, diversification into other areas not only of agricultural nature but also on a grander scale is required for long term development (Nsiku and Botha 2007:17).

Overall the question of whether Malawi is still “addicted to the green leaf” must then be answered with a fairly resounding 'yes'. There has been some, if little diversification in income for Malawians towards the service sector of the economy, however the majority still are employed in agriculture, where tobacco is still the number one crop when it comes to profitability and therefore choice. The opening to trade and the subsequent relaxation of access to the farming of tobacco has not noticeably raised living standards, on the contrary, it has made the country arguably more vulnerable to bad weather conditions due to the decrease in food output.

4.1.4.2 Children in the agricultural Industry

Child labour is a most worrisome issue in the industry. Specific legislation has been enacted in 2000 to protect children and disallows their employment under the age of fourteen, and limits it between fourteen and eighteen. Nevertheless, while child labour was almost exclusively limited to rural areas in the 1980s and even there it was sporadic and seasonal, today it is estimated that over 2,5 million children live on large estates alone, most of which (78 per cent) are taking part in the farming process in some shape. They are mostly not working for money at all, but merely for extra food and add to the family's subsistence. This is encouraged through bringing the entire family onto an estate and demanding a high production quota to be met by a household. Parents are thus almost forced to make their children participate (Eldring, Nakanyane and Tshoaedi 2000:38-39).

Particularly in the tobacco industry, child labour is predominant. In a report by Plan Malawi (Clacherty 2009), the situation of these children was analysed. An estimated 78000 children work in the production of tobacco, many of which work more than twelve hours daily for very little pay, similar to the situation on the agricultural estates. With tobacco farming, there is a specifically related issue, namely the contraction of tobacco related illnesses, especially GTS (Green Tobacco Sickness) which is caught through absorption of the nicotine in tobacco leaves (sometimes the equivalent of 50 cigarettes per working day) through the skin (McKnight and Spiller 2005:603).

What can be inferred from this in relation to trade? Two things: Firstly, child labour has become more predominant in the tobacco sector since the liberalisation of the tobacco market. That fact is not enough to prove causality; but in general, this trend reflects findings that that child labour general increases after a period of liberalisation. Second: The process of opening has resulted in an increase in tobacco farming; as such the problems which arose from it may be attributed in part to the opening. However, the problem of child labour is not the result of Malawi trading with the outside world of course, but the result of the actions of those employing the children. Today, these are, as they were before the owners of estates, who work together closely with international tobacco companies, who benefit from easier access to markets and lower prices due to the abolishment of regulations. These companies, who are also now much deeper involved in the process of production and delivering the produce to the market as a consequence of the liberalisation now also bear a much greater responsibility for ensuring that the product is made in a sustainable way,.

4.1.4.3 The environmental impact

An ancient problem in agriculture is posed by the depletion of soil due to an excessive cultivation of a single crop. Rotation is essential in order to let nutrients regenerate and ensure future good harvests. Tobacco especially is an immensely intense crop in terms of nutrient demand, and uses up between 10 and 36 times as many nutrients as subsistence crops such as Cassava. Thus, in general it is advised not to plant tobacco on the same soil more than once every four years (Knausenberger and Tobin 2012).

Nevertheless, most Malawian farmers deplete their fields substantially by growing tobacco season after season, being the only real source of income. To counteract the problem of soil depletion problem, fertilizers are used on a large scale, by as many as 70 per cent of farmers. In addition, chemical pesticides, mostly imported from abroad are utilised to combat insects and other pests, keeping the crops safe from damage. Lacking irrigation and drainage sewers, as well as other means or knowledge of disposal, this profoundly affects the already scarce water resources in the country. Thirdly, growing tobacco presents a challenge to the environment due to deforestation. This results foremost from the first point, when the soil of a particular field is depleted; farmers move on to assimilate fertile grounds, often by logging forests. The wood is used for erecting wooden sheds for curing the harvested leaves, and firewood (ibid). Deforestation in Malawi due to claiming of land for farming purposes but also for purposes of selling charcoal has resulted in the loss of 600,000 hectares of overall forest cover in the years between 1990 and 2010, two thirds of which occurred in the latter decade (Butler 2011).

The opening to trade has played a major role in this, as it did create incentives for increased farming for land intensive crops and the subsequent requirement for arable land. If land had been used to cultivate subsistence crops land would have stayed arable longer, and perhaps would have brought the country closer to autarky where food is concerned.

However, much of the logging which occurs happens not only for claiming land for agricultural purposes, but out of necessity, to provide an income for landless

Malawians. Loggers self-proclaim to have no other choice but to fell trees and turn them into charcoal, lacking other sources of energy (Wines 2005).

4.1.5 Theoretical Interpretation

Looking at Malawi today, the claims of the liberal paradigm that opening to trade and a focus on comparative advantage cannot be validated. On the contrary, the focus on tobacco has, while lucrative for some at times, proven to be more of a drain than anything else, both in terms of income and health. Terms of trade have deteriorated drastically, with imports out-figuring exports by substantial amounts, and the country becoming ever more dependent on aid.

4.2 Kenya Post liberalisation – The Figures

One of the key arguments for SAPs by multilateral trade and credit organisations is the promotion of an export oriented expansion of the economy. As can be seen in Figure 5, the program did not achieve this goal immediately. On the contrary, both imports and exports decreased at first, most likely due to the rather unambitious attitude towards liberalisation of the Kenyan government. Only when under pressure by donors, the schemes were fully implemented, figures began to increase significantly in 1993.

The production of the main Kenyan export – namely tea – benefited from the opening from the start however, with export values climbing from $276 million in 1990 to $372million in 1995, to $460million in 2000, and over $894 million in 2009 (FAOSTAT).

The balance of trade overall however suffered a great deal. Imports increased by a much larger margin than exports, and by 2000, imports out figured exports almost 2:1 (See Figure 5).

In the period thereafter, between 2000 and 2010, this trend has become even more of a problem. The trade balance for Kenya was negative by more than $7 billion, amounting to more than 20 per cent of GDP. Having such a vast proportion of generated value added flow out of the country quickly becomes an issue, as private and public debt levels rise.

Figure 5: Kenya's Merchandise Trade, 1992 - 2000. (World Bank DataBank)

As such, the country has become increasingly dependent on aid from the outside (See Figure 6).

4.2.1 Liberalisation's impact on economic growth

Real GDP growth in Kenya has had been positive over most of the period post-independence, the years between 1990 and 2000 being no exception[11]. Nevertheless, growth figures in the 1980s (4.2 per cent) were significantly smaller than in the 1970s (7.2 per cent), and those for the 1990s (2.04 per cent) again were smaller than those of the 1980s. The question which arises from this set of figures is now whether the reduction in growth has had to do with the opening to trade.

A number of studies have been conducted on this subject, for example as compiled by Gertz (2008:7-9). Glenday and Ryan (2003) who attempt to find the source of economic growth using regression analysis in the time span between

[11] Aside from 1992, where crippling drought, inflation issues and the suspension of foreign aid due to non-compliance culminated in causing negative economic growth of 2.2 per cent

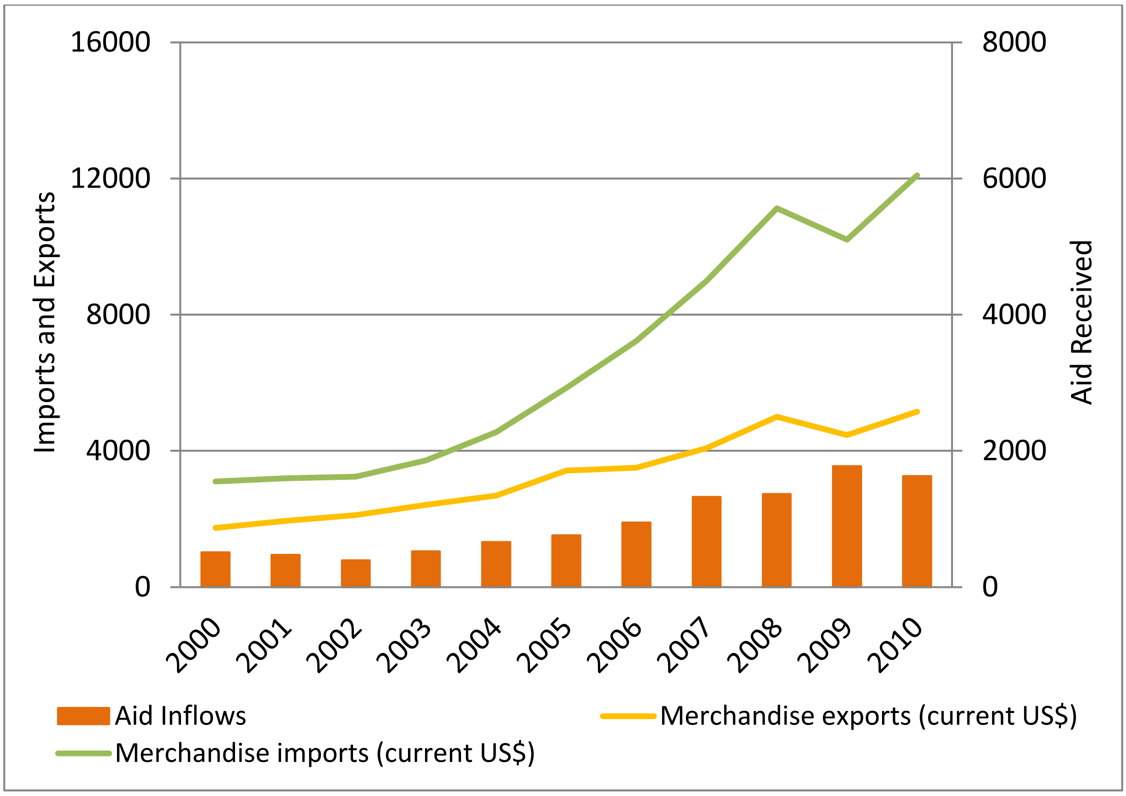

Figure 6:Kenya's Merchandise Trade, and aid inflows 2000-2010. (World Bank DataBank)

1970-1998. They find that the only value statistically significant for the determination of economic growth is the rate of private sector investment. Other variables tested for, including trade liberalisation did not seem to have had a significant impact, neither causing nor prohibiting it. They do find that increased trade with neighbours Tanzania and Uganda did cause private sector investment to increase, thereby increased trade causing GDP to go up indirectly (ibid:139).

A different approach is used by Karingi and Siriwandana (2001) who use a Computable General Equilibrium (CGE)[12] Model. As a starting point the year 1986 and the push towards liberalisation started, albeit slowly. Three shocks are simulated to represent government policies: the first is an across the board tariff reduction to ten per cent (from 16.37 per cent for agricultural products, and 25.24 per cent for manufactured imports). The second shock is represented by the same cut in tariffs and a subsequent increase of indirect taxes to compensate for loss in

[12] CGE Models are normally used to predetermine the outcome of a suggested policy decision ex-ante, rather than compile the data and draw conclusions about effectiveness and the suchlike afterwards.

government revenue. The third shock simulates the consequences of the tariff cut accompanied by an increase of foreign capital inflows of 52.77 per cent, to simulate for the common occurrence of increased FDI, and also loans and grants for the fulfilment of conditionalities in case of a reduction in trade obstacles.

Even simulating these fairly extreme measures - values to which the actual tariff reduction did not even come close to - did not show to have had a major impact on economic growth. As such, the authors find it unlikely that the tentative measures off liberalisation the Kenyan government actually implemented did have a major impact on economic growth.

A third way of attempting to link the effect of trade openness to economic growth was done by Onjala (2002), who linked the opening to trade to the growth in factor productivity over the period of 1960 and 1995. The timeframe is divided into periods of liberalisation: “(i) the late 1960s with low protection; (ii) the early 1970s where import licenses and BoP (Balance of Payments) controls became a major feature of control and protection for the manufacturing industry; (iii) the late 1970s when the coffee and teas prices boom permitted a rapid expansion of imported intermediate goods and tariffs; (iv) the early 1980s, encompassed by a major balance of payments crisis followed by the beginning of stabilization and adjustment programs by 1984; and (v) the 1990s, which saw a major breakthrough in the implementation of liberalization policies”

The results paint an interesting picture, namely that trade policy affected factor productivity especially in the late 1970s, when trade protection levels were amongst the highest, and Kenyan authorities, encouraged by huge foreign exchange earnings due to high coffee prices, did not see the necessity to open up to the outside world any more than they were. However, when analysing the factor productivity *growth* during spells of liberalisation in the early and late 1980s, the author finds that “liberalizing (as opposed to tightening) had a negative influence on total factor productivity growth in Kenya” (ibid:32). Aggregate *overall* productivity however was found to be lowest during periods of tightening, and highest in one of liberalization, namely 1986-1995. As such, this study cannot paint a clear picture as to whether or not the policies of liberalisation in the period concerned have had a significant impact on productivity growth.

Overall, the empirical analysis of a relation between liberalisation efforts cannot be said to establish a firm connection between growth and either liberalisation or lack thereof.

4.2.2 Other factors relating to development

As established in the theoretical section, development and economic growth cannot in the author's view be deemed synonymous. On the contrary, growth alone cannot be seen as a means to an end, if other factors, such as the social framework in terms of equity or employment conditions or the environment (and thereby future growth and wellbeing) suffer. Therefore I will provide here an overview over some studies which contribute to the debate concerning these issues.

4.2.2.1 Equity: Poverty and Inequality

There are different estimates concerning the level of poverty in Kenya in the 1990s, depending on measurement[13]. While the World Bank suggests levels of 38 per cent of the population living in poverty in 1992, 28 per cent in 1994 and 19.6 per cent in 1997, the UNDP found levels of over 40 per cent for the same time period. (World Bank DataBank, UNDP, 1999:16). The Ministry of Finance and Planning again found other values, with total poverty of over 52 per cent, and as high as 63.73 per cent for the Kisumu area (See Table 3). When equity is concerned, the period post liberalisation first saw a substantial decrease in inequality, as measured by the gini-coefficient in the years between 1992 and 1994, from a value of 57.5 to just over 42. After this period however, inequality soared again, and in 1999 the top decile earned almost 43 per cent of available income (the top 3 deciles earning a combined 71 per cent), with the poorest earning less than one per cent (SID 1999). The last available measurement for inequality in Kenya was done in 2005, where the index was established to be at 47.7, so overall in the time, inequality in Kenya seems to have lowered since the period of liberalisation.

One study which establishes a linkage between poverty and trade in the period

[13] The World Bank uses an income of less than $1.25 a day as a baseline, whereas the UNDP defines poverty more in terms of access to nutrition.

concerned was conducted in 2006 by Odhiambo and Otenio, who investigated the link between the trade reforms in Kenya in the early 1990s and the employment situation across a number of sectors in the economy.

They find that the main constraints for the poor making a living from agriculture at the time were aside from dropping prices for tea and coffee, were "stringent sanitary and phyto-sanitary standards and tariff escalation in developed countries" while at the local level the main factors identified were "poor road infrastructure; high cost of farm inputs; high incidence of pests and diseases; lack of good quality planning materials; inaccessibility to affordable credit; and high power and water tariffs" among others (ibid:18).

They analyse four sectors pertaining to the agricultural sector: the sugar sub-sector; the horticultural sector; cotton farming; and the fishing industry. Sugar production is found to be in sharp decline as a result of liberalisation, as a consequence of international competition, especially from Sudan. Competition with neighbouring Sudan is found to be of special importance, as Kenya is a comparatively high cost producer, while Kenyan consumers have access to tariff free Sudanese sugar as part of the COMESA agreement. As a result, poverty levels in the sugar producing provinces have "sharply increased" (ibid:19).

The horticultural sector seems to have benefited from the opening to trade. As it employs both members of the population from rural areas (for production) and from urban areas (for processing and packaging), it has a significant impact on employment and poverty reduction, despite fluctuations in income due to seasonal changes in demand for labour (McCulloch and Ota 2002). Risks displayed by an increasing focus on the EU, to which most horticultural produce is exported. The EU does increasingly apply demanding standards for agricultural imports, such as traceability, Maximum Residue Levels, quarantine, packaging recycling requirements, human welfare and safety, etc.). However, as Kenyan producers are able to supply throughout the year, and by forming cooperatives to share increased costs, they have become very competitive. (Odhiambo and Otenio 2006:21).

	Percentage of poor			Percentage of extreme poor		
Rural Areas	1992	1994	1997	1992	1994	1997
Central	35.89	31.93	31.39	67.83	32.95	29.73
Coast	43.50	55.63	62.10	63.00	50.95	59.46
Eastern	42.16	57.75	58.56	62.31	59.50	56.82
Nyanza	47.41	42.21	63.05	70.72	41.31	58.16
Rift Valley	51.51	42.87	50.10	81.02	45.75	48.02
Western	54.81	53.83	58.75	78.41	52.25	58.58
North Eastern	-	58.00	-	-	56.55	-
Total Rural	**47.89**	**46.75**	**52.93**	**71.78**	**47.19**	**50.65**
Urban Areas						
Nairobi	26.45	25.90	50.24	41.92	27.26	38.38
Mombasa	39.17	33.14	38.32	44.84	33.12	38.57
Kisumu	-	47.75	63.73	-	44.09	53.39
Nakuru	-	30.01	40.58	-	37.18	26.81
Other towns	-	28.73	43.53	-	27.07	37.91
Total Urban	**29.29**	**28.95**	**49.20**	**42.58**	**29.23**	**38.29**
Total Kenya	**44.78**	**40.25**	**52.32**			

Table 3: Poverty Figures in Kenya, 1992-1997. Source: Ministry of Finance and Planning (2000a). (Welfare Monitoring Surveys – 1992, 1994 and 1997)

The cotton subsector is found to be a loser from the liberalisation process. While access to credit became harder and quality of inputs decreased as a result of the inactivation of the Cotton Board after liberalisation, and production levels fell to 1976 level "causing substantial unemployment". Competition from abroad has proven Kenyan textile products to be of lower quality and more expensive than those of abroad competitors. (ibid:22) While hit equally hard by the increasing imports of used clothing, the textiles industry however has recovered somewhat through the African Growth and Opportunity Act (AGOA) of 2000. This act allows many Sub-Saharan countries duty-free and quota-free access to the American market for some apparel product lines. Total output however remains under the pre-liberalisation level, and now with increased competition from China because of the expiration of the Multi-Fibre Arrangement[14], gains from the exporting of

[14] The multi-fibre Arrangement was the result initially of a series of import restraints on Japanese textile exports in the US in the mid-1950s, and in the UK on imports from Hong Kong, India and Pakistan, and later of others as a response to the growing textile industries in Asia. It was

clothing have stopped growing (Gertz 2008:11). In addition, the Kenyan garment industry, similarly to textile production in countries all over the world is subject to at time horrendous working standards when run by foreign companies, and that “economic upgrading” has not occurred (Opondo 2009). As such, it would be hard to argue, that the opening to trade in the production of textiles has contributed to *development.*

The fishing industry is provided with income to a large extent from Lake Victoria, on which 93 per cent of all Kenyan fishing is done. The industry identifies similar obstacles as the horticultural industry does, namely problems with EU import restrictions and bans from the late 1990s, which led to many small scale fishers going out of business. As such, only large scale fishers can hope to make a living from fishing, now that prices are controlled by international market forces and high quality standards have to be fulfilled. (Odhiambo and Otenio 2006:25) These in turn may be more efficient in terms of production; however a distinct problem arises of this situation. In an area where food security is a persistent issue, encouraging fisheries not only to export the food the region generates, but also to (at least indirectly) promote overfishing for profit maximisation via the removal of trade barriers, will inevitably lead to food shortages (Béné, Lawton and Allison 2010:947).

4.2.2.2 The Environment

The environmental impact of increased trade in Kenya is especially evident in fishing communities. Both on the mainland concerning Lake Victoria (see chapter 4.2.2.1), and in coastal areas, price pressures due to increased external competition has led to fishers going out of business at least temporarily (Hoorweg, et al., 2009); overfishing the water sources; or using illegal fishing methods in order to save costs and increase output (Cinner 2010). It looks as if while trade then has led to realising economies of scale for a number of comparatively large scale fishers who supply the export market, the sustainability of increased figures for fishing has to be questioned, especially in a country where food security is frequently an issue.

implemented in 1974, at first as temporary, but in the end lasted 30 years, and was abolished din 2004.

When agriculture is concerned, the problems arising from Kenya's focus on the export of tea, which still provides thee large majority of foreign exchange earnings in the country, are similar to those observed in Malawi. While tea may not be as intensive to farm as tobacco (FAO 2006:22) intensive fertilization and land clearage still depletes slowly replenishing resources. In addition, farmers are extremely dependent on world prices, if they choose to plant cash- instead of subsistence crops. This however may also lead to the opposite effect of less land being intensely cultivated, as the risk involved in planting cash crops becomes too high to rely on it, and farmers attempt to find other ways of gaining an income (Lang 1995).

4.2.3 Theoretical Interpretation

The predictions of the dependency theory has made seem to have become a reality in Kenya, as well as Malawi. A substantial reduction in the terms of trade is to be noted, and industrialisation has not taken place. Yes there has been substantial economic growth, most of which however has left the country immediately, due to increased cost of imports. As a result, the country becomes ever more indebted and reliant on foreign aid, as rising levels demonstrate.

4.3 Côte d'Ivoire Post Liberalisation – The Figures

In terms of composition, the Ivorian economy has changed in the period (see Figure 7). The industrial sector now plays a bigger role than agriculture, which has decreased in importance since the opening period. This is the only occurrence off this circumstance among the three countries studied. Nevertheless, the agricultural sector still employs the majority of Ivorians (68 per cent, CIA World Factbook), and agricultural produce makes up 27 per cent of GDP and 60 per cent of export earnings (AfDB/OECD 2004:107).

The process of liberalisation in terms of trade balance seems to have benefited Côte d'Ivoire. Having been an overall net exporter even before liberalisation, the trend continued and even substantiated during the 1990s and especially in the years of the last decade (see Figure 8). Exports out figured imports by $2.5 billion in 2010. This suggests that contrary to Malawi and Kenya, the policy of export promotion implied by the SAPs did indeed serve as a motor for expansion of the sector. However, it has to be noted that Côte d'Ivoire today as opposed to the period before liberalisation is a net oil[15] exporter, thus, export earnings are likely to

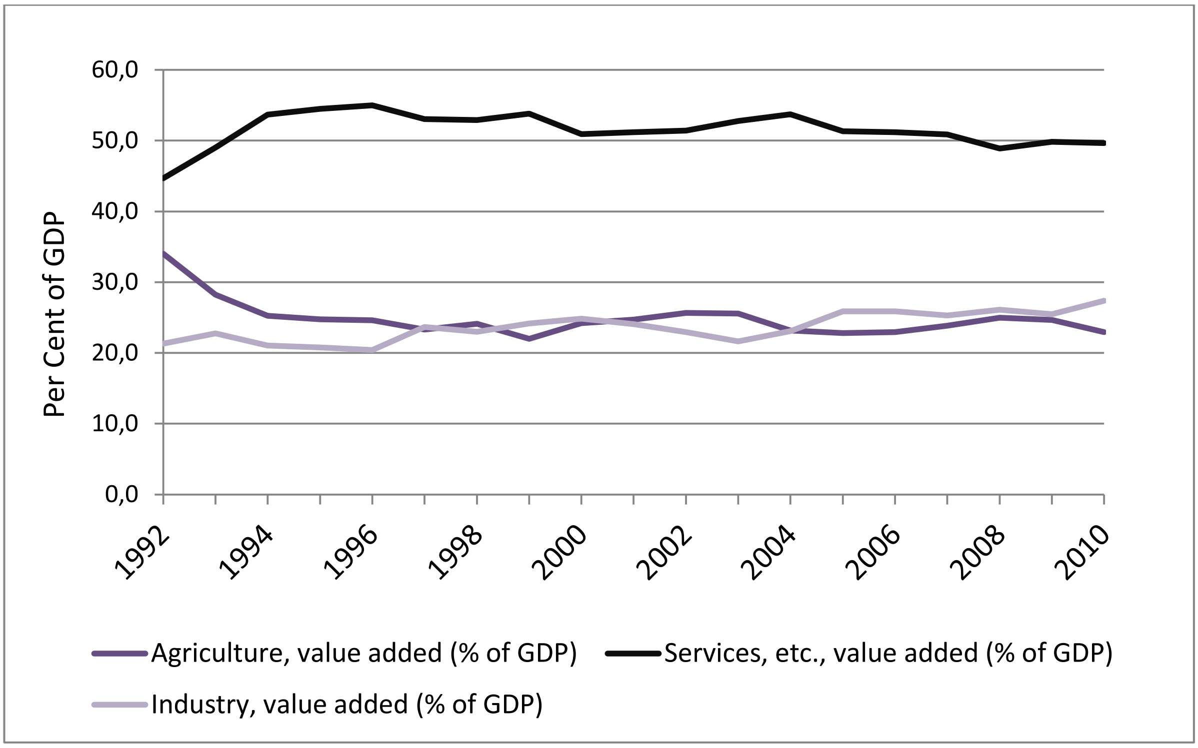

Figure 7: Composition of the Ivorian Economy, 1992 - 2010 (Source: World Bank DataBank)

be high. Especially after the coup of 1999, in which Robert Guéï assumed power from Henri Konan Bédié and during the period of civil war which followed, trade picked up by large margins.

The ratio of combined imports and exports to GDP has risen substantially, given extensively increasing trade figures compared to varying GDP growth figures. Amounting to 47 of GDP in 1992, total Merchandise trade as percentage of GDP rose until the late 2000s, peaking in 2008 at 83 per cent, and then experiencing a slight reduction towards its 2010 level of 80%.

[15] Oil field exploitation in Côte d'Ivoire began in the early 1980s, with two oil fields Esoir and Bélier, which in cooperation with IOCs Exxon and Phillips, were developed to almost cover domestic oil consumption However "due to rising production costs and unprofitable profit-sharing agreements"(Avery, 2010:2) the IOCs withdrew and oil production all but ceased in 1989. Only after technical innovation and the liberalisation of access through privatising parts of the hitherto state owned PETROCI production began again, and since 2004 production levels have exceeded local consumption (see Figure 10)

The composition of goods traded has changed somewhat. Imports in 1995 were made up to a large extent by manufactured goods at 30 per cent and petroleum related product amounting to 28 per cent. In 2010, manufactured goods played an even larger role at 45 per cent, and chemical products such as pharmaceuticals, but also pesticides and fertilizer have become more important, comprising roughly 15 per cent of imports.

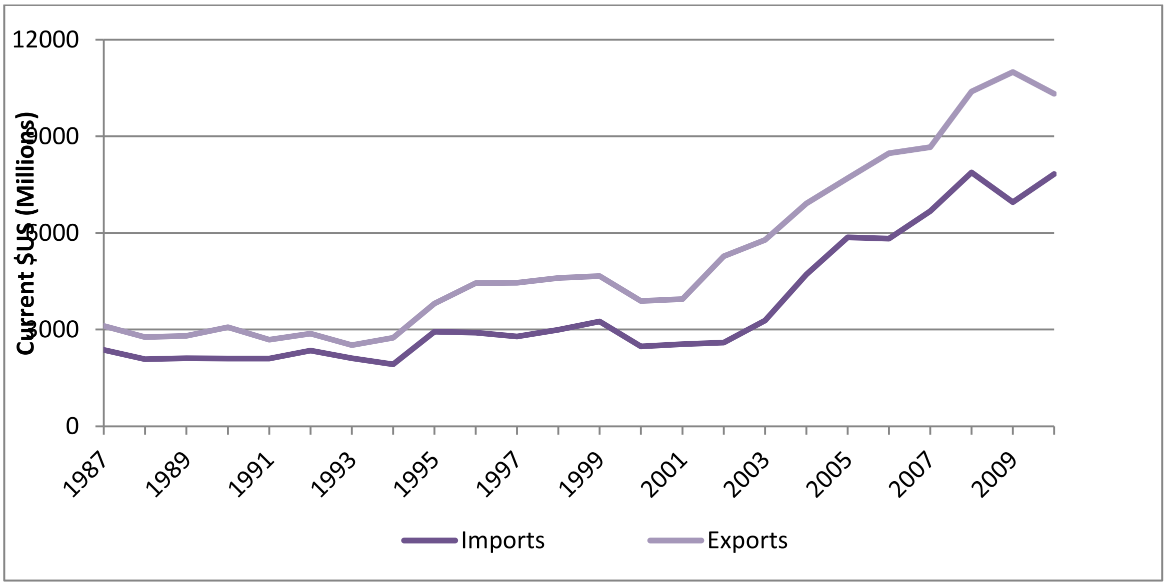

Figure 8: Côte d'Ivoire's Merchandise Trade, 1992 - 2009. (World Bank DataBank)

The majority of exports in 1995 were made up by agricultural produce, with cocoa at 38 per cent, coffee and related products at 17 per cent, and wood which made up roughly 14 per cent. Oil related products composed about 10 per cent at the same time. Nowadays cocoa makes up over 40 per cent of export earnings, and oil now is the second biggest contributor with a 20 per cent share[16]. The third largest contributor is rubber, another land intensive crop and the fourth biggest are Oil drilling platforms at roughly 8 per cent of export earnings, signifying the shift towards industrialisation in Côte d'Ivoire.

In a report by the IMF (1998) concerning the structural adjustment phase of 1994 to 1996, the institution found that "prudent demand-management policy and wage restraint in the private and public sectors, Côte d'Ivoire was able to maintain the

[16] These represent the official figures of 50,000 barrels per day published by the Ivorian government, which however are contested. There are media reports which claim that output per day is twice the amount (24 Heures, 2008, in Guesnet, Müller, and Schure 2008) ,while the EIA claims that figures are at least 20 per cent higher.

substantial competitiveness gains brought about by the devaluation."[17] This provides one explanation for the surge in exports, with foreign buyers benefiting from the relative decrease in price. These included not only traditional export goods, i.e. coffee and cocoa, but also non-traditional ones, such as manufactures. However the most important contributor to exports in recent years was the discovery and exploitation of new petroleum fields, production of which had stagnated up to that point. The subsequent inflow of foreign exchange, albeit for a comparatively smaller amount of goods, could then be used to procure capital goods and intermediate products (IMF 1998).

GDP per capita in the country has varied largely in the years since the implementation of SAPs and the democratisation. Boasting an income per person of $618[18] in 1992, the figure fell in the immediate aftermath of liberalisation to $584 in 1994, only to rise to $671 in 1998, the highest figure in the last 20 years. In the wake of the political unrest following the 1999 elections and the subsequent civil war, the figure declined until 2007, after which it picked up again to its current level of $591. The decline in the early nineties can be attributed to the high population growth coupled with a stagnation of GDP (US Department of State 2012).

The level of economic assistance necessary has been reduced substantially. While during the first few years of structural adjustment the figures still rose, towards the end of the nineties and during the 2000s, the country became less dependent on foreign aid. The two major exceptions here are the years 2002 and 2009, where the majority of armed clashes occurred (See Figure 9).

4.3.1 Côte d'Ivoire Post Liberalisation – The Social Perspective

In terms of equality, overall the country has seen shifts as well. While in 1993, the richest 10 per cent of Ivorians held 29 per cent of the national income, the poorest decile held 7.1 per cent. This figure peaked in 2002, with figures of 40 per cent and 5 per cent respectively, and has since reverted to roughly liberalisation levels, at 32 per cent and 5.6 per cent respectively. Overall poverty however has been on

[17] The Ivorian Franc was devalued by a margin of 50 per cent in January 1994 (Boogaerde and Tsangarides 2005)"
[18] *(in constant 2000 US$)*

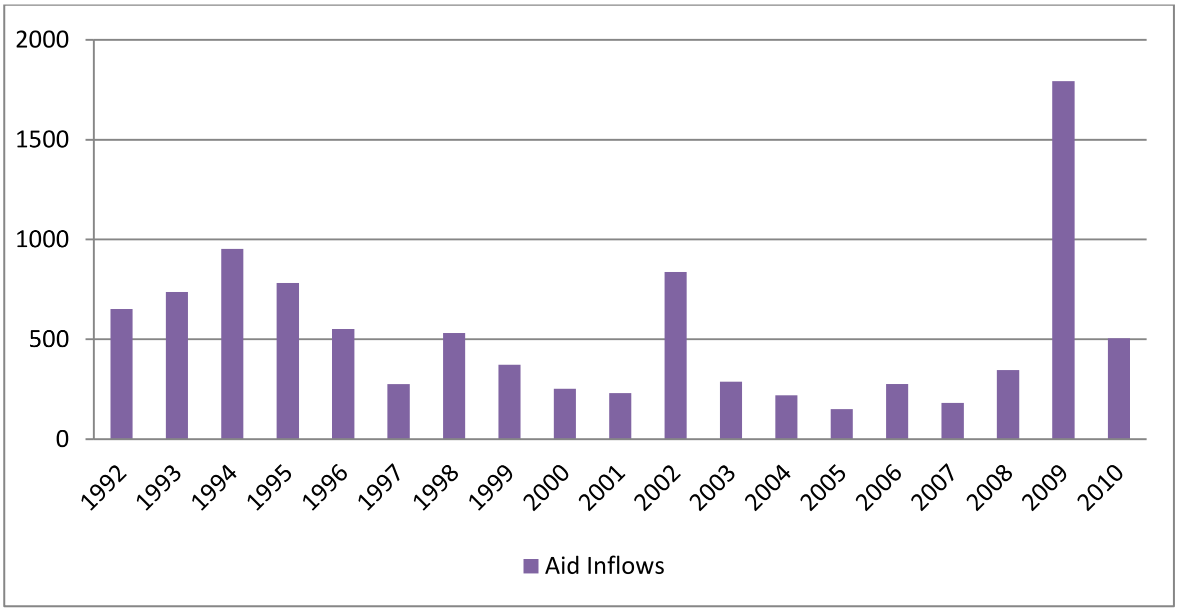

Figure 9: Aid Inflows into Côte d'Ivoire, 1992 - 2010, (World Bank Databank)

the rise, with 18 per cent of the population living at $1.25 or less a day in 1993, while in 2008, there were 24 per cent (World Bank DataBank).

Human Development for the country in the period post Liberalisation depicts a similar picture. Data collected by the Human Nations Development Program indicates that the HDI for the country has fallen below the critical value for low human development during the 1990s (UNDP, 2012).

4.3.2 Liberalisation of the Cocoa Market

As mentioned previously, in terms of export earnings, cocoa is the most profitable crop in Côte d'Ivoire. The government resisted deregulation in favour of export promotion until the late 1990s, as revenues from the Centralised Board of Sales (CSSPPA, or *Caisse)* were making up almost 20% of total government revenue. Under mounting pressure by international donors who criticised the fact that producers were getting too small a share of the actual sales price, and faced with domestic instability, the Ivorian government did eventually succumb and rapidly let go of market controls over the cocoa market in 1999 (Losch 2002:220). The sudden lack of a buyer who guaranteed prices and quantities caused a panic amongst producers, who sold most of their produce at once, thereby flooding the world market, causing a global price collapse[19], which rippled through neighbouring countries, as well as South American ones (Make Trade Fair 2002:20). This drop in prices, largely borne by the producers (Losch 2002:223) and the subsequent uncertainty amongst all members of the supply chain faced with the sudden lack of credit availability from the *Caisse* opened up a window for an oligopoly of multinational corporations (Nestlé, Philip Morris, Mars, ADM, Cargill, Barry-Callebaut) to establish control over the production and grinding facilities in the country. Now 95 per cent of processing capacities are firmly in foreign hands (Sharma, 2005:11) In addition, the process has led to a deterioration in quality of produce, with the proportion of high grade beans dropping from 70 to 50 per cent in the period of liberalisation.

4.3.3 Food Security in Côte d'Ivoire

The impact of liberalisation on food security, due to a focus on cash crops by farmers, who usually plant subsistence crops has been an issue for Côte d'Ivoire as well as the other two countries concerned. During the pre-liberalisation period, self-sufficiency in rice production was the proclaimed goal of the Ivorian government. To this end, the SODERIZ (Société de Développement de la Rizculture) was established, a state governing board which controlled and guaranteed prices, and during the 1970s Côte d'Ivoire was effectively independent of imports of foreign rice (Moseley et al. 2010:5776). However, in order to promote the export of cash crops, rice production, or rather its subsidisation was abandoned. Subsidies for fertilisers; price fixes; as well as import controls were stricken. (ibid:5777). Lacking encouragement, and in addition being faced with increasing fertilizer prices due to the 1994 Franc devaluation, Ivorian rice farmers largely abandoned the production of rice, and subsistence had to be guaranteed via imports (Becker and Yoboué 2009). These proved to be cheaper than locally produced rice, albeit of lower quality. This however was at first accepted as "the cheapest calories in Ivorian cities" (Moseley et al. 2010: 5777) and thus at times even replaced the more nutritious alternatives maize, cassava, yam or plantain. Climbing food prices in the last few years however have illustrated the problems

[19] According to BNETD (2000), the price for Cocoa dropped from 570 CFA francs/kg to 275 CFA francs/kg in early 2000, and stabilising at 400 CFA francs/kg by the end of the year.

which can arise from such a reliance on foreign imports, when in 2008 following food riots in the streets of Abidjan, President Gbagbo promised reforms of import substitution policies (ibid).

4.3.4 The Liberalisation's Impact on the Ivorian Conflict

The origins of the Ivorian conflict lie foremost in "the contested claims for citizenship" (Bah 2010:597), and are deeply rooted in Ivorian history. As such, it would be preposterous to claim that the liberalisation process and structural adjustment *caused* this conflict. Nevertheless there are some compelling arguments for it at least fostering the clashes which have plagued the country in recent years.

4.3.4.1 Brown Gold: Cocoa

During the Houphouet-Boigny years and until the mid-nineties, when the *Caisse* controlled prices and gave guarantees for buying up the production, farming of cocoa provided a perhaps limited, but nonetheless stable income[20]. The main factor in this context is especially the non-discrimination towards small holders from different countries and cultures, who under Houphouteism came to work in the industry in large numbers (see chapter 1.3.3.1). So as long as prices for coca remained stable and high, peaceful co-existence between the different ethnic groups working in the sector predominated.

During the time of civil unrest and restructuring predating the 1990 elections however, Houphouet-Boigny was accused of causing the surge in unemployment amongst young Ivorians by encouraging too many foreigners to come to the country and who claimed the land (Banégas and Marshall-Fratani 2007). During the campaign for the 1995 elections, newly enthroned president Bédié, successor of Houphouet-Boigny after his death, played the race card himself, and barred foreign descending citizens from running for president (Crook, 1997:227). This sort of rhetoric, albeit plump and one-dimensional, served as one of the catalysts to

[20] Some writers have referred to the prices paid to farmers as state exploitation, which is not without merit, given the discrepancy between world price and what the CSSPPA assumed to be a decent price. Nevertheless, in addition to the money received, there were also non-monetary benefits involved for farmers, such as the provision of infrastructure, as well as access to fairly easily obtainable credit.

escalate the tension between ethnic groups, which ultimately culminated in civil war. This tension had been smouldering for some time, but had also been largely suppressed as long as all groups had access to the same resources as others. However, with the removal of price guarantees for coffee to encourage exports, the calming factor was removed, and economic peril amongst coffee farmers contributed to the escalation.

4.3.4.2 Black Gold: Oil

Oil exploitation has increasingly become the “second foot of the Ivorian economy to stand on besides the cocoa sector” (Guesnet, Müller, and Schure 2008:65). Since the mid-nineties consumption in 2004 (see Figure 10), importantly

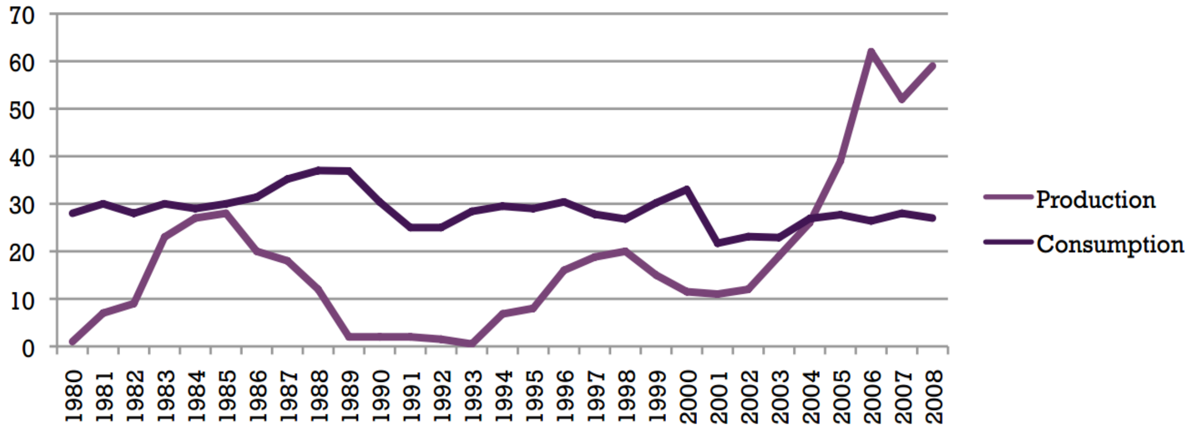

Figure 10: Oil Production and Consumption in Côte d'Ivoire 1980-2008 (in thousands of barrels, Source: EIA)

contributing to the growth in exports the country from cocoa exports since 2005 as claimed by the BCEAO which the administration however denies (2007, in in Guesnet et al. 2008:66). This discrepancy between what the government claims as revenue and what independent findings procured (see also p. 65 in footnote) leads to speculation and suspicion as to what happens boasted in the new millennium. Government revenues collected through the parastatal national Oil company PETROCI[21] are deemed to have surpassed those with oil revenues. As claimed by the Africa Energy Intelligence in 2007 (in ibid), “President Gbagbo

[21] Founded in 1975, PETROCI was responsible for the exploration and exploitation of Côte d'Ivoire's oil fields. In 1998, as part of SAP it was restructured and divided into four parts, PETROCI Holdings, Petroci Exploration-Production, PETROCI Gaz and PETROCI Industries-Services (Avery 2010) .

awards oil blocks to strengthen his political and diplomatic positions", against the insurgents and revenues from the oil exports are thought to be used to fund troops and military equipment. As such, in this case the *lack* of liberalisation can be thought of as contributing to the armed conflict in Côte d'Ivoire, as substantial retention of control by the government over one of the most valued resources in the country made available a large amount of money in order to pursue their military interests.

4.3.5 Theoretical Interpretation

Côte d'Ivoire has not gone the same route which Malawi and Kenya have gone in terms of dependence to the outside world, especially as the government kept a level of control over what is predictably the most valued asset of the country, its oil reserves. To some extent control has been shared, nevertheless, the country can be seen as less dependent, and seems to be on the move towards industrialisation.

5 Conclusion

In order to answer the problem formulation, various sub points pertaining to trade related development aside from growth have been established, and how increased trade as a result of the opening in the early 1990s has influenced these. Not all countries could be tested for each, as relevant data was missing at points; however, an overall trend became apparent for each country, which overall tends to indicate that the opening and increased exposure to market forces has been a negative one.

5.1 Summary of findings

5.1.1 Malawi

For Malawi, it was found that while exports did largely increase as a result, exports however did to a greater extent, and as such, the opening to trade has led to a growing amount of money flowing out of the country. In terms of GDP, Malawi has grown over the period, and there has been a slight improvement in terms of equality; nevertheless, poverty levels remain very high.

In terms of progress towards being a developed nation with a firm base of manufacturing, trade was found not to have contributed anything in Malawi. On the contrary, industry’s share in the economy was found to have decreased, while services have gone up. Agriculture’s share in the economy has remained roughly the same in terms of output, and it employs the majority of Malawians. Tobacco farming has been liberalised for access to smallholder farms, as have price controls, which has led to a shift in terms of production from large estates to small-scale farming, some of which form cooperatives. These generally tend to do well, while the farmers which are not organised in such a way face uncertain prices in either the official auction house or from international tobacco companies.

External shocks, especially drought place a much heavier burden on the country, now that the agricultural sector is largely geared towards exporting produce instead of farming for subsistence. Especially during times of crisis, people increasingly have to rely on food imports from foreign countries.

The problem of child labour in Malawi has become more predominant in the country since the opening to trade, especially on tobacco farms. While a direct relationship between the mere opening to trade and this issue cannot necessarily be established, nevertheless the trend seems to be a new one.

The environment was found to be suffering, due to the increased farming of tobacco. Nutrient depletion from the very intensive crop makes the excessive use of fertilizer necessary, as well as swift change of location for fields and thus deforestation, one of the main environmental problems Malawi is facing today.

5.1.2 Kenya

The route Malawi and Kenya have gone through since opening to trade is quite similar to one another. Immediately after opening and export liberalisation of key export goods, imports and exports began to diverge, steadily at first, then more rapidly, until in the last year of measurement, exports out figured imports 2.5:1. The implementation of policy was sluggish at first, however picked up pace in the mid-1990s as a result of increasing donor pressure. As a result, the impact in absolute terms was even larger than Malawi's, as billions of dollars have flowed out of the country as a result of opening to the outside world, and public debt levels rose hugely as a result.

Studies concerning the relation between liberalisation and economic growth could not establish a connection between the two. Public sector investment, which actually decreased as a result of liberalisation was the only factor which was found to have a connection, while other findings indicated that liberalisation did not contribute to productivity growth, which was as high in periods of low integration into the world market as it was in those with high integration.

In relation to the different sectors of the economy, a number of studies have been collected and their findings analysed. Many farmers, who make up the majority of the Kenyan workforce find themselves faced not only with fluctuations in harvests due to weather conditions, but also to fluctuations in world prices, making their income less reliable than under marketing boards and fixed prices. Other sectors, such as the horticultural industry however have gained from trading and interrelation, as access to foreign markets, especially the EU has become possible. Due to their comparative advantage of being able to supply year round, obstacles such as tough import regulations in the EU are manageable, and overall, the opening seems to have benefited the horticultural industry.

In terms of environment, the study has found a serious impact, due to increased and specialised export focused fishing especially. Illegal methods are used to obtain large quantities of fish, which however are not used for purposes of supplying the population already living in want during frequent times of food crisis, but for export to developed nations' freezers.

5.1.3 Côte d'Ivoire

The third country in the study can perhaps be called an outlier; in the sense that developments post liberalisation in some areas at least have gone in a very different direction. Far from becoming burdened with imports draining resources by exchanging low priced agricultural goods with technological ones, Côte d'Ivoire's exports have risen substantially. This is especially due to oil exports, which now are the second most important export after cocoa, and the balance of payments has become increasingly positive. Reflecting the move towards industrialisation the composition of the economy suggests, the third most important export now is a manufactured good.

Trade composition has changed overall. While the main imports are still manufactures, chemicals such as fertilisers are now the second most important one.

In the micro terms, the GDP per capita shifted somewhat over the period analysed, as did inequality. First with a decrease of per person income combined with a rise in inequality, during the 1990s, which was caused by a large growth in population in combination with stagnating GDP. After the trade reforms took up pace however, GDP/c and inequality relaxed somewhat, until the period of conflict beginning in the early 2000s, which naturally caused problems in terms of income. Related to this, the Human Development Index for the country, which depicted Côte d'Ivoire as an above average poor country pre liberalisation, now indicates the country to be below that threshold.

In terms of food security, the liberalisation of the rice market especially has caused problems in Côte d'Ivoire. This is a distinct similarity between the other two nations, who suffered a similar fate in terms of food production. Having been essentially self-sufficient in terms of rice production under state regulations, Côte d'Ivoire now is a net importer of rice.

Closely related to this is of course the cocoa market, which still serves as the main export crop for Côte d'Ivoire. Output has risen over the past two decades, nevertheless, it cannot be said that the farmers are better off for it. Both extracting and milling capacities are now in the control of foreign MNCs, who claim profits, and to a large extent dictate prices to farmers.

When the conflict in Côte d'Ivoire is concerned, it is difficult to attribute the outbreak directly to the liberalisation, however the large scale uncertainty and loss of land which followed the rather sudden implementation of the policies have had an effect. City dwellers who found no income in the cities anymore and went back to the countryside blamed foreign-born farmers to have stolen the land, and releasing hitherto dormant resentments amongst Ivoirians and étrangères.

5.1.4 Similarities which have become apparent

Studying the course of time in these three countries has laid open some interesting similarities, which seem to be happening across the board.

Firstly sudden opening to trade in underdeveloped economies leads to a focus on agricultural products. Secondly, a focus on cash crops instead of subsistence ones occurs – a worrying state of affairs in countries in an area where food shortages predominate. And thirdly Abolishing public marketing boards and credit facilities, replacing them with either auction houses or MNCs own boards of sale, farmers become increasingly exposed to fluctuations in price, leading to increased poverty amongst the rural population.

There are similarities especially between Kenya and Malawi, which however are not shared by Côte d'Ivoire. The move towards being a developed nation in terms of composition of the economy, i.e. with a strong industrial base has not happened in these two in the slightest. On the contrary, the share of industry in the economy has either remained the same (Kenya) or even deteriorated (Malawi). In Côte d'Ivoire, a shift away from agriculture has occurred, and industry now plays a bigger role. This is however mostly attributable to the fact that the country has fairly substantial oil reserves, which accounts for most of the growth in industrial output as well as exports.

5.2 Concluding Remarks

Overall it was found that there are a multitude of areas which have directly or indirectly suffered from the opening, while hardly any benefit could be seen concerning the areas which were established as contributing to development.

While the impacts overall differ to some extent in their magnitude, the picture this study portraits must lead to the conclusion that the opening to trade has been a bad decision, and did not lead to development. Can this be said to be applicable generally? That trade openness must necessarily hinder development? I do not think so. Access to foreign goods is still important, and countries both developed and underdeveloped can benefit from it. What is important that the opening happens gradually, and that industries are established which provide a base of income with which to purchase the goods necessary.

The lesson learned however seems to be, in the words of Friedrich List:

> *Industry entirely left to itself, would soon fall to ruin, and a nation letting everything alone would commit suicide.*

The opening to trade and the integration into the world system for developing nations must happen at a time when it is ready to do so. Beforehand, deterioration or at least stagnation seems bound to occur. Some may argue that the insecurity and economic peril resulting from liberalisation are nothing more than the result of a *clearing of markets* and that the resulting environmental damage is the cost of progress, since *there is no free lunch.* Nevertheless, the question of how sudden the access to markets has to happen has to be asked, given the apparent predictability of the outcomes of the policies pursued by international donor organisations.

To open up to trade with the outside world is important, countries such as Birma and North Korea demonstrate the fact that reclusiveness cannot be a means to and end either. Especially in light of these two examples, and also when considering how industrialisation has happened (and still does) in Europe, the US and Asia the question has to be asked if development in Africa would have occurred sustainably and whether there would have been progress more favourable than what has happened in these past twenty years. But that is a question for another study.

Overall, the findings demonstrate that the basis for poverty alleviation cannot lie in indebting oneself to others, and to focus on supplying the world with goods almost universally reproducible and therefore unprofitable. The timing for opening has to be right.

The answer to the problem formulation posed in section 1.1,

Has [the opening to trade] been beneficial in terms of economic growth and development for Côte d'Ivoire, Malawi, and Kenya?"

must therefore be answered with: no, not in the way or the point in time it happened.

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