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Economic Deregulation and Trade Liberalization in Kenya, Tanzania and Uganda: Growth and Poverty

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Abstract: With economic growth as a principal target, Kenya, Tanzania and Uganda have implemented deregulation and trade liberalization policies. By tracing the trends in major economic aggregates, the progress of these economies is reviewed. While acknowledging the conceptual arguments supporting the measures adopted, constraints in both the international economy and domestically have resulted in disappointing outcomes. International trade rules and practices, particularly in the agricultural sector, have worked against all three countries. Moreover, their domestic economies lack crucial resources. The results suggest that it may be a long time before the deregulation policies lead to a reduction in poverty.

Keywords: deregulation, trade liberalization, growth, poverty, East Africa

JEL Classification Codes: I32, O19, O55, P45, P46.

This paper attempts to provide an overall picture of the deregulation and liberalization measures undertaken in Kenya, Tanzania and Uganda and the consequences for growth and trade in these countries. It also considers the effects of the World Trade Organization's (WTO) rules and the trade practices of developed countries. Finally, it considers the likely impact of the policies on poverty. These three countries provide an interesting set of case studies because they have been grouped historically (prior to independence Kenya, Tanzania and Uganda were known collectively as "East Africa" under British colonial rule) and more recently formed the "East African Community" trading bloc in 2001.

Trade liberalization as a means of encouraging growth emerged after a history of restriction on trade. The overriding philosophy of the General Agreement on Tariffs

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and Trade (GATT), at its inception in 1947, was that free trade should be the target with the exception that domestic industries could be protected from international competition in their infancy. It was then believed that this would encourage economic growth and poorer countries would be able to develop value-adding industry. However, in the 1980s this infant-industry approach was considered to have failed (Hunter 2003) and almost complete economic deregulation and trade liberalization became the accepted stimulators of economic growth and development.

The "law of one price" asserts that in a free-trade world, without distorting practices, identical goods would sell for the same price throughout the world and the resulting economic efficiency would stimulate growth. It is toward this ideal that trade liberalization and economic deregulation is aimed. Market forces are allowed to set exchange rates and determine prices. Trade liberalization has meant the reduction or elimination of import and export duties, the removal of non-quantitative barriers to international trade, tariff reforms and relaxing foreign direct investment regulations (Santos-Paulino 2002).

Structural Adjustment Policies (SAPs) have been introduced in Kenya, Tanzania and Uganda on the premise that trade liberalization and economic deregulation stimulates economic growth. There has been much literature supporting the hypothesis. The World Bank (1994) has found a correlation between growth of GDP per capita and exchange rate deregulation, smaller budget deficits and lower inflation rates. Hunter (2003) suggests trade liberalization brings about growth by increasing market access, enhancing international competition, improving efficiency in domestic markets and reducing prices for domestic consumers. Additionally, Dornbusch (1992) notes that liberalization may act by better targeting of resources; being able to take advantage of economies of scale; increased competition; improved access to technologies, inputs and intermediate goods; and exposing the market to new ideas. Kanaan (2000) reports evidence that the phasing-out of trade restrictions in Tanzania has laid a foundation for sustainable growth through the revival of export trade and rationalization of imports. Further, export duties negatively impact on export growth, and export performance has been observed to have risen as trade liberalization measures have been introduced (Santos-Paulino 2002).

Adding weight to this view is the argument that trade restrictions and distortions act to reduce growth. The high average tariffs in developing countries are thought to be a constraint on trade. The World Bank has estimated that in 2002, developing countries would have been US$114 billion better off if their food and agriculture markets were more open to trade (World Bank 2003). Further, de la Dehesa (2007) believes that globalization and its inherent larger volumes of trade allows countries to specialize in an area where they have a competitive advantage, producing a more efficient allocation of resources and a faster dissemination of technology. In addition, the setting up of subsidiary companies in developing countries creates jobs and exports, raises employment levels, skills and incomes, increases migration flows and encourages the convergence of income levels between countries.

Conversely, the United Nations Conference on Trade and Development (UNCTAD 2002) could find little correlation between structural adjustment, which includes trade liberalization policies, and growth. They found that the rapid growth in nations identified as strong performers by the International Monetary Fund (IMF) was connected with special circumstances – not structural adjustment. A number of commentators are more forcefully critical of SAPs arguing, for example, that free-trade can: 1) negatively affect the economic prospects of developing countries with little technological development (Rodriguez and Rodrik 2000); 2) lead to deterioration of infrastructure due to lack of government funding (Klein 1998); and 3) increase inequality (Jonakin 1997; Tanski and French 2001). Additionally, Sachs (2005) contends that sub-Saharan Africa (SSA) is poorer as a result of World Bank and IMF policies. There is some general evidence that trade liberalization has indeed been detrimental to economic growth; before trade liberalization, in the early1980s, Africa had 5% of the world markets but by 2002 the share was less than 2% (Huwart 2002). Further, Hahnel (2007) asserts that in free market conditions democracy is undermined, empathy and respect are discouraged, while mean-spiritedness and hostility are encouraged.

Others argue that the growth-inducing capabilities of liberalization programs have been overstated and other factors that retard growth need to be addressed (Dornbusch 1992; Gibson and Tsakalotos 1994; World Bank 1994; Friis-Hansen 2000; UNCTAD 2002; Hunter 2003). The structural weakness of poor countries can limit their capacity to exploit their resources and translate them into export earnings (UNCTAD 2002). The reform and development of institutions is seen as vital as they provide essential services that allow the market to function (Gibson and Tsakalotos 1994; Friis-Hansen 2000; Rodriguez and Rodrik 2000). Economic development appears to be associated with increased quality-of-life (Greenwood and Holt 2008) but the theory that liberalization reduces poverty assumes the existence of functioning capital markets, strong financial and banking systems, appropriate institutional and technical capacity, efficient distribution networks, existence of property rights and the ability to implement and enforce regulatory frameworks. However these are absent in many developing countries (Hunter 2003), and as discussed below, rudimentary in most of Kenya, Tanzania and Uganda.

The fundamental issue to be considered in this article is whether the institutional framework has developed far enough in the three countries to enable liberalization to generate growth. The next section considers the liberalization measures undertaken. Relative to this, the third section then examines the growth performance of the three economies. This leads in the subsequent sections to a consideration of international trade liberalization, and internal constraints to growth in the three economies and the consequent poverty.

Liberalization Measures in Kenya, Tanzania and Uganda

The WTO has enthusiastically praised Tanzania and Uganda for their progress toward trade liberalization (WTO 2000a; 2001). It has been more reserved in its comments about Kenya (WTO 2000b). The satisfaction with Kenya's economic management has been low for some time. Uganda and Tanzania were rated as having a fair macroeconomic policy stance in 1991-92 whereas Kenya's stance was rated as very poor (World Bank 1995).

Kenya, Tanzania and Uganda have all made significant progress toward liberalizing their exchange rate systems (Dhonte et al. 1994). Deregulation was undertaken in the late 1980s/early 1990s by all three counties resulting in considerable depreciation of their currencies. As this occurred the amount earned by producers, in domestic terms, from export cash crops increased. Rising income was expected to create the incentive to increase production (Friis-Hansen 2000).

In Kenya, a comprehensive policy framework for structural reform was first drawn up in 1986 but implementation did not start until the 1990s and the pace of reform has been slow (Karingi and Siriwardana 2001). The WTO considers that Kenya has made some progress toward trade liberalization but there are many reforms still needed. Nevertheless there has been a large number of legislative changes to improve transparency and accountability, the tariff structure has been rationalized, the average tariff rate lowered and quantitative trade restrictions lifted (WTO 2000b). Karingi and Siriwardana (2001) found that further trade liberalization would have allowed better trade performance. Kenya's exports in both the agricultural and manufacturing sectors rely heavily on imported inputs. Therefore greater tariff reductions should result in more competitive exports.

In Tanzania, macroeconomic reform has been substantial (Friis-Hansen 2000). The agricultural sector has undergone extensive liberalization; the Government no longer intervenes in production, processing or marketing (WTO 2000a). The cotton, coffee and food-crop markets have been liberalized, while subsidies for inputs were eliminated by 1994 (Friis-Hansen 2000). By the end of 1999 virtually all export restrictions had been eliminated and relaxation of foreign exchange constraints facilitated the liberalization of imports (Kanaan 2000). Tanzania has simplified its tariff regime. However, there is pressure to keep tariffs high because they are an important source of revenue (WTO 2000a). Additionally, further improvements are considered necessary to make the tariff system more efficient and transparent (Kanaan 2000).

Following the installation of President Museveni in 1986, Uganda experienced a relatively stable political period. Subsequently, Uganda has also undergone considerable economic reform including trade liberalization especially of the manufacturing sector (Friis-Hansen 2000; WTO 2001). However, even before structural adjustment, food-crop and input markets were already fairly liberal and there were few subsidies for inputs (Friis-Hansen 2000). Some liberalization has still occurred in the agricultural sector. For example, by 1996 the coffee marketing board's role was greatly reduced (Friss-Hansen 2000). The tariff structure has been simplified and the average tariff rate has been lowered. Additionally, all quantitative import restrictions have been eliminated and non-tariff restrictions are imposed only for moral, health, security or environmental reasons (WTO 2001).

The agricultural sector is particularly important for Kenya, Tanzania and Uganda. In Tanzania about 50% of GDP and the majority of its export earnings are derived from agriculture (WTO 2000a). Agriculture provides about 90% of

Uganda's export earnings, 42% of GDP and 80% of the employment (WTO 2001). In economic terms the agricultural sector is not as important in Kenya as it is in Tanzania and Uganda, contributing some 27% of GDP while 54% comes from tourism, financial and communication services. However, 80% of the population depends on agriculture for its livelihood (WTO 2000c).

Because of the importance of agriculture to their economies, Kenya, Tanzania and Uganda should stand to gain more than developed countries from liberalizing agricultural trade (Hunter 2003). Generally, liberalization of the agricultural sector has followed a similar path in the whole of SSA. The international market was liberalized first with exchange rate deregulation and then taxation of agricultural products was reduced. Later attention was turned to the domestic market and subsidies were also reduced. Over the longer term there have been moves to eliminate remaining trade distortions such as input subsidies and trade restrictions. Government intervention has been restricted to the management of food security stocks and, in some countries including Tanzania, the control of the import and export of food crops (Friis-Hansen 2000).

Growth in Kenya, Tanzania and Uganda

In Kenya, growth in GDP per capita slowed and stagnated in the early 1990s. Negative growth followed in the second half of the 1990s with some signs of recovery between 2003 and 2005. In Tanzania, GDP per capita has remained fairly constant while Uganda's GDP per capita has grown overall at a greater rate despite negative growth in some years (Figure 1). Over the last two decades, growth rates have been disappointing in all three countries.

The African Development Bank (AFDB) estimated Kenya's average annual growth rate of total (as opposed to per capita) GDP to have been 2.1% between 1995 and 2001. Tanzania's growth rate was 4.3% and Uganda's 7.0% for the same period. The AFDB also presents growth rates by sector. Between 1995 and 2001 the secondary industry sector had the greatest increase in growth in Tanzania and Uganda, for Kenya it was the service sector. The growth rates for the agricultural sector in Kenya, Tanzania and Uganda were 1.8%, 3.9% and 4.1% respectively (African Development Bank Group 2006).

In all three countries the balance of trade deteriorated overall between 1980 and 2007 with an accelerating deficit in recent years. Uganda was the only country to record a positive trade balance at any time over the period and that was between 1983 and 1986 before liberalization measures had been implemented. Uganda's trade deficit increased from US$300 million in 1990 to US$1300 million in 2007 and the situation for Tanzania and Kenya is even worse. In value terms, Kenya's exports increased in the first half of the 1990s but declined to US$4300 million in 2007. A similar pattern can be seen for Tanzania with their deficit standing at US$2600 in 2007 (International Monetary Fund, n.d.).

Figure 1. GDP Per Capita (PPP US$), 1987-2005

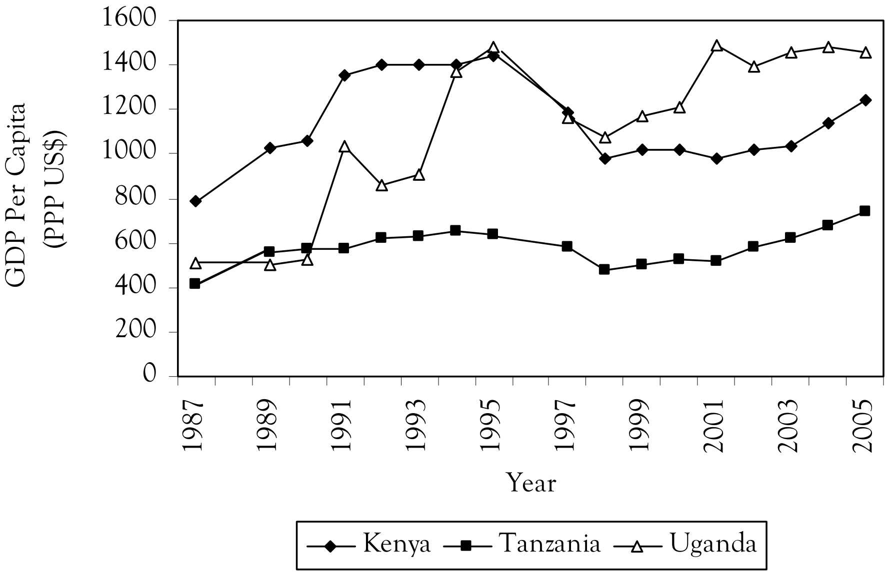


Table 1 presents a summary of Kenya's, Tanzania's and Uganda's liberalization and growth. Data from 1990 are compared with data from the most recent year with accessible data. The pictures produced are complex. Kenya has been slowest to implement reforms and has the poorest growth figures, experiencing overall negative growth. Tanzania appears to have moved further on reforms than Kenya but not as far as Uganda and has had modest growth from 1990. The best performer in terms of policy reform and growth has been Uganda. This comparison across three countries appears to suggest that liberalization does result in growth. However, in all three countries the overall balance of trade is moving further into "the red" and therefore any growth seen may not be sustainable. The value of imports has increased (compared to 1990) over twice as much as the value of exports for each of the countries. In addition, Uganda's labor participation rate fell during the 1990s (suggesting an increase in poverty) while Tanzania's and Kenya's rose slightly. This suggests that any economic improvements have not been widely distributed within the three countries and that poverty is likely to rise, a negative indicator for future trends.

International Trade Liberalization

The importance of agriculture to Kenya, Tanzania and Uganda means that the international laws governing trade in this area are very important. Prior to 1994 there had been little attempt to liberalize agricultural trade under the GATT because it was too politically and economically difficult for developed countries to accept. The

Table 1: Summary of Kenya's, Tanzania's and Uganda's Liberalization and Growth

		Kenya		*Tanzania*		*Uganda*	
Trade policy summary		• Some rationalization of the tariff system • Quantitative restrictions lifted • WTO believes they still have a long way to go.		• Extensive liberalization of markets • Subsidies on inputs eliminated • Virtually all restrictions on exports lifted • Simplified tariff system • WTO consider they have gone a long way to liberalizing but would like to see further tariff reductions		• Liberalized markets • Tariff system simplified • Average tariff rate lowered • All quantitative restrictions lifted	
Exchange rate deregulation		Late 1980s/early 1990s		Late 1980s/early 1990s		Late 1980s/early 1990s	
Trend in GDP/capita		A peak in the mid-1990s was followed by negative growth. Some growth since 2001.		Overall very slow growth with a negative downturn at the end of the 1990s		Periods of positive and negative growth in the 1990s. Appears that growth may be slowing since 2003.	
Annual growth rate 1990-2005[1]		-0.1%	Trend ↓	1.7%	Trend ↑	3.2%	Trend ↑
Trade balance (Millions US$)[2]	1990	-915		-779		-313	
	2007	-4258	Trend ↓	-1296	Trend ↓	-2634	Trend ↓
Exports[3]	1990	1090		408		178	
	2006	3450	Trend ↑	1687	Trend ↑	991	Trend ↑
Imports[3]	1990	-2005		-1186		-491	
	2006	-7320	Trend ↑	-3970	Trend ↑	-2600	Trend ↑
Labor participation rate[4]	1990	48%		51%		52%	
	2000	51%	Trend ↑	52%	Trend ↑	49%	Trend ↓

Data sources: [1]Human Development Report 2007/08. New York: United Nations Development Program, 2003.
[2]International Monetary Fund, n.d.
[3] World Bank, 2007b.
[4]World Bank, 2007a.

Agreement on Agriculture (AoA) of the Uruguay Round introduced some reforms, but measures so far have been modest and many developing countries consider that there has been little meaningful liberalization of the sector (Hunter 2003). The prospects for significant agricultural trade reform under the WTO's on-going Doha Round are looking increasingly doubtful with the collapse of talks in July 2008 (WTO 2008).

The AoA's main features are the conversion of non-tariff barriers to tariffs; reduction of tariffs; reduction of domestic support measures; maintenance of market access; and reduction of export subsidies. Under the proposal, developing countries were given longer than developed countries to implement measures. Furthermore tariffs, export subsidies and domestic support measures were subject to lower percentage reductions (Hunter 2003).

Over time non-tariff barriers are being converted into equivalent bound tariffs. Tariffs are thought to be less trade distorting, do not impose quantitative limits, allow domestic prices to reflect changes in global prices, are more transparent and non-discriminatory, and do not exclude the import of low cost goods (Wainio 2001). However, the removal of tariffs needs to be considered judiciously, taking into account the institutional situation of the countries concerned. It has been argued that tariffs may be necessary to allow the development of a manufacturing sector (Schneider 2000), protect fair working conditions threatened by unfair foreign competition (Ramstaad 1987) or resist the increased concentration of power and wealth into a few multinational corporations (Tanski and French 2001).

Hunter (2003) claims that despite special provisions being made for developing countries the AoA is biased toward the interests of developed countries. This is because the provisions fail to address the problem of institutional and financial inadequacy and because non-tariff barriers were used most by developed countries. A consequence is that in the conversion of non-tariff barriers to tariffs, developed countries' tariffs are much higher even after the tariff levels are reduced. The problem has been exacerbated by the practice of "dirty tariffication," where the domestic price is overestimated and/or the international price is underestimated in order to increase the difference between the two prices (Francois, van Meiji and van Tongeren 2005). Tariffs can then be set at a higher level when converting non-tariff barriers.

Wainio (2001) argues that while the AoA may not have achieved an overall reduction in the level of protection it did achieve greater transparency and eliminated the most trade-distorting policies. Further the visibility of tariffs should make it easier to argue for reductions in future negotiations. Non-ad valorem tariffs, however, can make it difficult to compare the protection for different commodities and countries and therefore negotiate reductions (Bouët et al. 2005). Further, the agreement does not address tariff escalation in which higher tariffs are applied when the product undergoes processing (Hunter 2003). This reduces the incentive of developing countries to develop their value-adding industries (Hunter 2003; World Bank 2003). The World Bank (2003) considers that tariff escalation can be seen as a "tax on development."

Industrialized nations have tended to apply trade barriers in the two sectors that cause the most disadvantage to developing countries, agriculture and labor-intensive manufacturing (Oxfam 2002; UNCTAD 2002). The policies of OECD (Organization for Economic Co-Operation and Development) countries, by protecting and subsidizing agriculture, restrict trade opportunities where developing countries would have a comparative advantage and therefore cause serious damage to the agricultural sector of poor countries (World Bank 2003). In order to measure the difference between the free-trade principles professed by the rich countries and their protection practices, Oxfam (2002) have created a "Double Standards Index." The European Union closely followed by the United States are the worst offenders. Exports from developing countries to developed countries attract tariffs that are four times greater than those charged on exports from other developed countries, estimated to have cost developing countries US$100 billion – twice the amount received as aid (Oxfam 2002).

Domestic production subsidies in developed countries can add further damage. For example, cotton is an important product for Uganda. In 2001/2002 cotton producers in the United States received US$4 billion in subsidies (World Bank 2003) equivalent to 70% of Uganda's GDP (US$5.7 billion) (World Bank 2007a) in 2001. In order to increase the market access of developing countries Oxfam (2002) suggested removing duties and quotas for imports from low-income countries; capping tariffs applied against developing countries at 5%; banning export subsidies and restructuring farm subsidies to fulfill environmental and social aims.

Despite some improvements in the regime of import tariffs and export subsidies, the practice of dumping still continues. This not only distorts trade, but it is also one of the major causes of damage to the agricultural sectors of developing countries (Institute for Agriculture and Trade Policy, n.d.). It is expected that developing countries would have a strong comparative advantage in agriculture if trade were fair. Developed countries, however, have flooded markets with artificially cheap agricultural products, depressing world prices and diminishing the growth and viability of producers in developing countries (Hunter 2003). The United States is one of the main perpetrators of dumping. The Institute for Agriculture and Trade Policy (n.d.) has estimated that in 2001, wheat was exported at 44% less than production costs and cotton at 57%. They also report that maize, soybeans and rice are also regularly dumped.

Although the WTO has a number of mechanisms designed to guard domestic industries against "unfair competition," Ruffer and Vergano (2002) argue that these provisions do not provide the desired protection for the agricultural industries of developing countries and propose a "Special Agricultural Safeguard Mechanism (SASM)" for countries with low GNP per capita. The SASM would impose duties on a short-term basis that could be re-invoked and would be limited to defined food security products. The mechanism would free low-income countries from the detailed investigations needed to provide proof of injury, but on the other hand no compensation would be payable.

The stated long-term objective of the AoA to "establish a fair and market oriented trading system" (WTO 2004, 7) was reconfirmed in "Doha Ministerial Declaration" by WTO members of 2001. The declaration called for further reforms through a substantial reduction in tariffs, domestic support and export subsidies – the "three pillars of agricultural trade reform." However, achieving these goals is proving to be very difficult (Elliot 2004; Wade Hunter 2004; WTO 2004). It remains to be seen if there is any substance to the developed countries' promises to reduce domestic support. Additionally, what the WTO means by "fair" needs to be questioned. The free market is only about the free movement of goods implying nothing about how those goods are produced (Atkinson 1998). The notion of a "fair trading system" must encompass standards that ensure that producers and the environment are not exploited in the process (Nicholls and Opal 2005).

Overall there is still a long way to travel before the international trade regime facing agriculture in Kenya, Tanzania and Uganda could be considered "fair." The AoA has been useful in setting the agenda, revealing areas for improvement and indeed increasing the probability of future progress. Nevertheless, multilateral trade negotiations can take many years to achieve useful outcomes, particularly for countries like these, which are in a weak bargaining position. It needs to be recognized that trade is a social phenomenon, facilitated by shared understanding of rules and cultures and that even free trade occurs under regulation and supervision (Adams 1987; Atkinson 1998). Understanding and cooperation are needed for trade relations to develop, and external market rules must be compatible with all the societies involved, their cultures and institutions (Adams 1987). Furthermore, Schneider (2003) argues that the global market has been to the detriment of African people; it has not helped to create the auto-centered economy that appears to be important in the development process.

Constraints on Growth

There appears to be a growing consensus that liberalization has failed to produce sustainable growth (Friis-Hansen 2000). The analysis presented in this paper tends to support this summation. There are two subsequent questions: What are the reasons for this failure? What needs to be done to stimulate growth?

The potential for growth in Africa may have been overestimated because it has not taken into account the constraints that may prevent market forces from stimulating growth (UNCTAD 1998). The one-size-fits-all SAPs have failed to take into account institutional and cultural conditions (Atkinson 1998; Schneider 1999; Elliot and Harvey 2000). Moreover, Sachs (2005) considers that it is vital that the full complexity of each country's situation is taken into account. He calls for a complete appraisal of those countries where extreme poverty occurs. This would include poverty mapping with future threats, consideration of patterns of governance, cultural barriers to development, physical geography, human ecology, the country's security and economic relationships as well as economic and fiscal structure. While the World Bank has come some way in recognizing that there is a problem with failing to consider context, it is still criticized for not adopting a holistic approach (Schneider 1999; Jameson 2006). Giving consideration to individual circumstances, preferably with the inclusion of indigenous or local input (Nafziger 1993; Natarajan 2005), would entail tailoring policies to local conditions rather than using a generic formula such as the financial institutions have imposed (Friis-Hansen 2000). Accordingly, the practice of making the market central to the design of all policies should be reconsidered as it can mean that important nation-building objectives are compromised. Furthermore, flexibility and the ability to adapt and change as global markets change are also identifiable as characteristics of successful market institutions (Griffith 2002).

Growth may be more effectively generated by policies that increase workforce skills and levels of employment (OECD 2003) and public investment in education and roads (Friis-Hansen 2000). Education that fosters entrepreneurial spirit may be particularly effective (Griffith 2002). Additionally, state-led investment may be essential in underdeveloped countries like Kenya, Tanzania and Uganda in order to build industrial and market capacity (Costello 1994). In this respect other infrastructure is also important. For example information technology is important for an efficient financial sector (Adams and Brunner 2003). Schneider (2000) argues for the use of protectionism in the development of a manufacturing sector, using the example of South Africa. In addition, the privatization and lack of sufficient tariff protection have reportedly been responsible for the financial difficulties of the Indian electricity industry (Trebing and Voll 2006).

The deprivation of resources in countries in SSA, such as Kenya, Tanzania and Uganda, is likely to have impeded growth. Growth stimulating measures such as research and extension services are under-funded (Friis-Hansen 2000), even though it is generally acknowledged that there is a strong link between the amount of research and development being carried out by the business sector and the rate of growth (OECD 2003). It is likely that SSA does not have sufficient income to stimulate rapid growth (Burnside and Dollar 2000; UNCTAD 2002). UNCTAD (2002) calls for this shortfall to be made up by official financing, and estimates that US$10 billion will be needed per year for at least a decade to provide the boost required. To support this measure they also want policies that increase investment and savings so that the resource gap and dependence on aid will be reduced.

The lack of transport and markets particularly retards growth in the agricultural sector (Friis-Hansen 2000). In general, before liberalization farmers were not allowed to trade crops outside their local district so there was little need for extensive transport infrastructure. This has left a legacy where access to markets can be a major constraint to increased production. Investment in transport infrastructure must address more than the road system, as it does not guarantee access to motor vehicles. The availability of trucks has increased in regional towns but they are often run inefficiently and are very costly. In rural areas the access to trucks is still poor, therefore transport between villages is still a problem and so the integration of rural markets is made more difficult. Further, most transport takes place on the farm or between villages and is undertaken by foot, bicycle, carts or donkey and therefore investment in intermediate transport and path maintenance is needed. This kind of infrastructure investment is only likely to come from public sources (Friis-Hansen 2000).

Aid may have been able to compensate for the deteriorating conditions in the international market. However, Official Development Assistance (ODA) and official lending have failed to make up for the declining export prices and deteriorating external financial conditions that have hampered the growth of export earnings in Africa. Economic growth and structural change have therefore been impeded (UNCTAD 1998). Liberalized trade policies along with significant amounts of aid (3 to 7% of GDP) may provide the best conditions for growth (Burnside and Dollar 2000). Conversely, granting of aid increases debt. Tanzania, for example, is one of the world's most indebted nations; the nation's large debt burden is considered an obstacle to its trade and economic development (WTO 2000a).

As yet another explanation, Fasno-Filho (1995) blames the lack of economic growth in SSA from the mid-1970s to 1993 on poor economic management. Evidence from Mexico suggests that even when implemented successfully liberalization strategies failed to overcome economic structural weaknesses (Peters 1998). In SSA, the alleged poor economic management has manifested itself in a high fiscal deficit, high dependence on a few export products, poor performance in the agricultural sector, low productivity and an inefficient financial sector hindering domestic savings and investment. The informal sector in Tanzania, for example, has grown since liberalization, accompanied by a reduction in the tax-to-GDP ratio, particularly in the areas of income and sales tax. Reform of the domestic tax system may be warranted to redistribute the benefits from increased growth (Kanaan 2000).

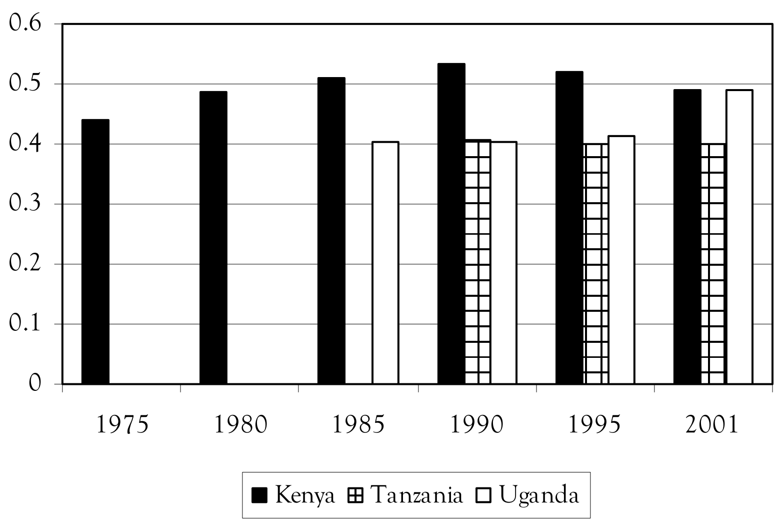
Growth and Poverty

Central to the aim of development policies of a country should be to improve the well-being of its citizens (Doryan 1993; Jameson 2006), but liberalization seems not to have produced such improvement (Rodriguez and Rodrik 2000). The low-income majority of developing countries may not experience the welfare benefits of market driven economies (James 2000). The lack of "credible institutions" (political, legal and economic) and a skilled labor force have been posited as reasons that some countries have not benefited from the liberalization of trade and the globalization process (de la Dehesa 2006). It is also argued that free markets are unlikely to achieve a fair allocation of resources because of externalities, slow reaction of the market to price indicators and non-competitive practices (Hahnel 2007).

The reduction in trade barriers of developing countries can increase their vulnerability to external market instability. Temporary shocks and market fluctuations can have severe adverse and long-lasting effects on small farmers and the poor (Ruffer and Vergano 2002). However, policies that help to eliminate trade distortions may help to create an environment in which growth can occur as long as aid is provided to overcome the constraints (Burnside and Dollar 2000). Indeed, Sachs (2005) considers that economic development can and does increase human welfare but that very poor countries are likely to need help to get them on the "first rung of the ladder of development."

De la Dehesa (2007) asserts that globalization and free markets tend to reduce poverty and inequality. However, poverty has often increased due to dislocation related to the too rapid import of liberalization (Oxfam 2002) with inequity increasing under market deregulation (Jonakin 1997; Hahnel 2007). Further, Bazaara (2001) finds that the inequalities of Ugandan society have increased, as large companies and those with strong commercial sector linkages benefit from growth in the export market. Karingi and Siriwardana (2001) also suggest that falling employment and therefore declining household income are the result of liberalization. Kenya's labor participation rates grew over the decade to 2001, Tanzania's remained roughly the same as previously and Uganda's fell from 52% in 1980 to 48% in 2001 (African Development Bank Group 2006). The United Nations Development Programme's (UNDP) Human Development Index (HDI) incorporates average life expectancy, adult literacy, school enrolments, and GDP per capita. The index trends demonstrate the lack of improvement in these important measures of development. Indeed, conditions appear to be entrenched with some deterioration apparent in Kenya and only slight improvements identifiable for Tanzania and Uganda (Figure 2). However, 96% of Ugandans survive on less than \$2 per day and 82% on less than \$1 per day (UNDP 2003). The divide in Uganda between the rich and the poor continues to grow with fewer members of the population participating in the workforce. Arjona,

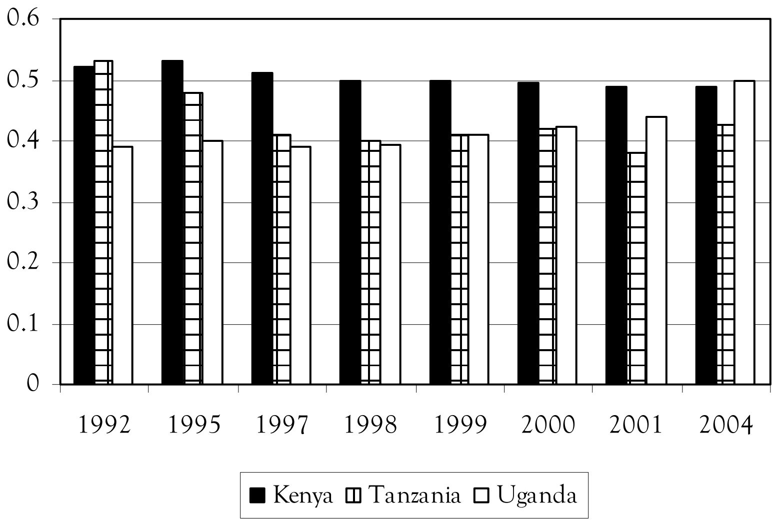
Figure 2. Human Development Index (HDI) 1975-2005



Ladaique and Pearson (2002) indicate that social protection enables more people to participate in the workforce and therefore be economically productive. However, they also warn that social welfare policies may retard growth by diverting money from investment and innovation, and discourage people from working and saving.

The Gender-Related Development Index (GDI) considers the same measures of quality of life as the HDI, but adjusts for gender inequality. Kenya's GDI values experienced a period of slight decline in the first part of this decade but now maybe showing some signs of recovery (Figure 3). In 2006, Kenya ranked 127 in the world with a GDI of 0.521 (UNDP 2007). Uganda was ranked 132, with a GDI of 0.501 (UNDP 2007), but with a trend toward greater equality in recent years. Tanzania's inequality has increased since the early 1990s. In 2006 it was ranked at 138, with a GDI of 0.464 (UNDP 2007). Thus the overall picture on the GDI is one of little change, with only Uganda showing any real improvement.

Figure 3. Gender-Related Development Index (GDI) 1998-2005



The agricultural sector has a large role to play in alleviating poverty and enabling food security (Hunter 2003). Therefore, how trade liberalization affects this sector is of vital importance. Food security has become an increasingly urgent problem that needs to be addressed, with the prices of all major food commodities rising dramatically in the early part of 2008 (Food and Agriculture Organization (FAO) 2008). The seriousness of the issue was highlighted by the High-Level Conference on World Food Security in June 2008, attended by Heads of State and Government, Ministers and Representatives of 180 countries. Production shortfalls caused by weather events, reduced stocking levels of important crops such as wheat, rising fuel prices, and the emerging biofuels market have been identified among the underlying factors that are combining to exacerbate the food security crisis (FAO 2008). Bazaara (2001) asserts that food security has been compromised as more lucrative exports or cash crops have replaced food crops. Most of the increased productivity appears to have been restricted to export crops (although not all export crops) while food-crop production has responded poorly; especially in areas remote from major markets (Friis-Hansen 2000). Importantly, production of food crops has failed to keep pace with population growth with negative average annual growth per capita in total food production being recorded in all three countries from 1990-2004 (minus 0.6% in Kenya and Uganda and minus 1.2% in Tanzania) (World Bank 2007b). The shortfall is made up by an increase in imports (Friis-Hansen 2000). This is especially worrisome in light of escalating global prices as already in the last decade in SSA the percentage and the number of undernourished children has been increasing with countries in Eastern Africa being most severely affected (Chopra and Darnton-Hill 2006). Clearly, market forces cannot ensure food security (Schneider 1999).

Conclusions

Under pressure from the financial institutions, Kenya, Tanzania and Uganda have implemented a range of liberalization measures. Kenya has been the country that has been most reluctant to follow this path and of the three countries has achieved the lowest growth rates. However, it is Kenya, and to a lesser extent Tanzania, that has been able to achieve growing labor participation rates that may translate to better living conditions for the general population. Tanzania has undertaken many initiatives toward liberalization, although tariffs are still seen as being too high, and has achieved modest growth. Uganda has been the country to most enthusiastically embrace liberalization. This appears to have been accompanied by the highest rate of growth. However, the labor participation rate in Uganda has fallen at an increasing rate since 1990 and in most recent years Uganda's growth rates have declined. In all three countries the growth in GDP has been outpaced by the growth in the trade deficit. The value of imports has shown consistent growth while the value of exports has not been able to keep pace. This is especially true for the most eager liberalizer, Uganda. Additionally, the growth of the agricultural sector has barely kept pace with population growth in all three countries. This situation looks even worse when food production alone is considered. Clearly the growth achieved in the context of the underlying economic performance is unsustainable and food production must better match population growth to prevent poverty from becoming an even greater problem in these countries.

It is perhaps unsurprising that this pattern of rising imports and falling exports has occurred when the international trade conditions in which Kenya, Tanzania and Uganda must operate are considered. Trade by definition is done in partnership. The way in which trading partners, especially those in the developed world, conduct business has a profound effect on economic growth in Kenya, Tanzania and Uganda. Developed countries have been especially slow to liberalize their agricultural sector policies, the area in which the three SSA countries are likely to be most competitive. Recently, some progress toward liberalization of the agricultural market has been made under the AoA, and the Doha Round may produce further progress. However, recent years have seen tariff escalation, dumping and other trade distortions, and may not have achieved an overall reduction in protection for agricultural commodities. Additionally, developed countries add to the difficulties of developing countries by applying tariffs on imports from developing countries at significantly higher rates than would be applied on goods from another developed country. According to Oxfam, the European Union and the United States have the highest double standards in terms of the amount of protection they afford their own markets and the trade liberalization they expect from others.

Moreover, liberalization has taken place without considering the constraints and conditions that exist in these three countries. The predicted increase in agricultural production, generally, has not occurred. This may be due to placing too much faith in market forces without considering the supporting conditions that are necessary. Additionally, the income of many primary producers may have actually fallen in Kenya, Tanzania and Uganda because of falling prices, poorer quality of produce, increased costs of imported inputs and decreased value of the national currency. The stimulus that was expected to increase production was, therefore, not actually present.

Further the lack of infrastructure, especially transport and markets, and insufficient income for increased spending are major constraints to growth. Transport infrastructure is vital to allow producers access to markets. The building of roads alone is not enough. Haulage by motor vehicles needs to be efficient and affordable and transport around farms and between villages also needs to be addressed. Additionally, the now privatized state marketing institutions previously provided a number of important services such as: quality control and coordinating sales agreements that the private sector has largely failed to fulfill.

In addition, lack of economic growth has been blamed on poor economic management. There is some evidence to support this view – Kenya has been seen by western institutions as being the poorest economic manager and they have had the lowest growth. However, Uganda has been held up by the WTO as an exemplary model for complying with structural adjustment, but even so there now appears to be a downturn in the country's rate of growth. The argument also ignores the impact of external factors. To blame poor economic management alone therefore appears to be an oversimplification of the problem.

Liberalization has made the populations of Kenya, Tanzania and Uganda more vulnerable for a number of reasons. Perhaps most worryingly, food security appears to have been put at risk as agricultural production has concentrated more intensively on cash crops for export. With recent soaring prices this is becoming an increasing concern. Additionally, making trade more open in these countries has made them more vulnerable to external market instability.

Increased aid has been suggested as a means to stimulate growth. This approach must be examined judiciously because entrenched problems already exist in these countries because of their levels of indebtedness. Rich nations may best be able to help these countries by applying to themselves the same standards of liberalization that they require of the developing countries.

It is perhaps too early to tell whether the liberalization of the markets in Kenya, Tanzania and Uganda has resulted in sustainable growth. However, the current situation appears to be facilitating the developing countries to import from developed countries. It does not appear to be working in the opposite direction. This suggests the liberalization they have undertaken has been of more benefit to rich nations rather than themselves.

It may be time to reassess the dogma that insists on trade liberalization and the sanctity of the market for the sake of millions of Kenyans, Tanzanians and Ugandans living in poverty. After all, the WTO has recognized that distorting trade practices may be acceptable in vulnerable countries to ensure food security. At the same time trade efforts need to be made to allow trade liberalization to achieve increased growth in Kenya, Tanzania and Uganda. In order to make this happen there needs to be capable financial institutions and infrastructure to support the market, and loopholes such as tariff escalation must be eliminated. Finally, the individual circumstances of each country need to be taken into consideration so that an equitable set of trade rules can be applied to allow significant positive economic development that will enable their citizens to build lives free of extreme poverty.

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