

APPENDIX D7: CASE COUNTRY PROFILES

Table D7.1: Trade Portfolio in Case Study Countries (Bank operations, 1987–2003)

	SAL*	SIL/FIL	SECAL	ESW	TA	Grant
India	1	4	1	15		
Indonesia	2	2	2	10		
Morocco	2	4	4	6	1	
Mozambique	4	1		3	1	1
Senegal	3	1	2	1	1	
Zambia	5	3	2	1		

Source: IEG Trade Assistance Evaluation Project Database.

Notes: Structural Adjustment Loans (SALs), Sector Investment Loans (SILs), Financial Intermediary Loans (FILs), and Sector Adjustment Loans (SECALs); Economic and Sector Work (ESW); Technical Assistance Loan (TA).

India: A Gradual Reformer

The period between 1988 and 1991 was marked by an economic growth spurt of 7.6 percent in India. The growth appears to have been underpinned by a recovery in agriculture, response to industrial liberalization during the previous decade, and increased imports of critical machinery and inputs facilitated by earlier trade liberalization that helped to boost productivity. Despite this growth, underlying economic fundamentals were misaligned. In June 1991, a confluence of these factors (growing external debt, high fiscal deficits, and dwindling foreign exchange reserves) precipitated a crisis that led India to the IMF and the World Bank. The Bank's structural adjustment loan in 1991 helped initiate a process of gradual trade liberalization that continues today. In the intervening years, India's policy regime and economy have been considerably transformed, trade has responded strongly to the reforms, and the growth rate has stabilized at about 6 percent per annum.

The Bank's assistance program has consisted of a regular series of economic reports (often with extensive trade analysis), the SAL in 1991, and other supporting investment loans. With the exception of the 1991 SAL, these loans were marked by relatively low conditionality; therefore much of the Bank's influence has been through policy advice and research.

Indonesia: Home-Grown Liberalization Short-Circuited by Crisis

At least until the time of the Asian financial crisis, Indonesia had been seen as a model of successful adjustment. Among the most pressing problems facing Indonesia in the late 1970s and early 1980s was an excessive and dangerous dependence on income from oil. Indonesia did a remarkable job of facilitating adjustment to positive and negative oil shocks. A combination of prudent macroeconomic policies and trade and regulatory reform supported a rapid growth and diversification of non-oil exports in the 1980s and

early 1990s, an acceleration of FDI inflows, and substantial poverty reduction. In the early 1980s, oil and other fuel products accounted for over 70 percent of merchandise exports and manufactures for only 2.3 percent. By 1996 the share of manufactures had risen to over 50 percent. Among the greatest achievements of Indonesia's economic performance over this period was a substantial reduction in the incidence of poverty, from 40 percent in the late 1976 to 11 percent in 1995. The high rates of growth and the rapid expansion of investment and of labor-intensive manufacturing over the period were major contributing factors.

Despite two major oil crises, Indonesia sustained an average real growth rate of 7 percent between 1980 and 1996. Trade policy reforms were an integral part of successful adjustment in the 1980s, and the problems arising in 1997 were certainly not connected with trade policies. The economic problems were related to weaknesses in domestic financial regulation and contagion effects in global financial markets. These were aggravated by political and social disturbances that had serious short run impacts on the investment and business environment.

Trade and investment policy reform played a key role in helping Indonesia to come through several major external shocks relatively unscathed, transforming its economy away from dependence on oil and laying the foundations for two decades of extraordinarily rapid growth and poverty reduction. The Bank's role in Indonesia's trade reforms has been defined less by individual programs and projects than by what has been described as a long-term 'policy dialogue' with Indonesian policy makers, donors, and other stakeholders. Conditionality played almost no role in most of the Bank's work in Indonesia. Its research and reports complemented the work of the Government of Indonesia (GOI) and was appreciated. The Bank's work and its advice were generally of high quality. But it was not in a position to play a significant direct or even supervisory role in trade reform. The GOI chose to use its own resources to get external technical assistance elsewhere. The Bank was quite supportive, and did assist in making the Indonesian government's work more generally known and accepted.

Viewed as a sympathetic monitor of the Indonesian trade-related reforms, the Bank's overall performance can be rated as satisfactory to highly satisfactory. The GOI made good use of the Bank's assistance in this regard, and most of the senior Bank personnel who worked in Indonesia recognized and accepted this important but nevertheless limited role in the area of trade and other related regulatory policies. This helped to support a long and mutually trusting relationship between the GOI and the Bank's Indonesia mission. As an independent monitor of the process, the Bank performed a valuable role in certifying the value of the reforms for other members of the donor and international lending communities. The lending support provided by several trade-related loans was useful in itself and as an encouraging signal to other donors. Technical support in export promotion (Export Development Loan initiated in 1986) and in the design of export incentive programs was not particularly useful. Serious questions will however remain about the value of the Bank's role on the one occasion, during the financial crisis, that it allowed itself to be drawn into detailed trade-related policy prescriptions at a time when many other issues were of more pressing importance.

The Indonesian experience provides confirmation of a number of general lessons about trade reform:

- Trade and regulatory reform appears to be an important contributor to growth and poverty reduction.
- Trade reform is certainly not sufficient for promoting development.
- Trade facilitation is important. Indonesia's bold moves in port and especially Customs reform resulted in large reductions in the cost of trade. Failure to lock in the reforms has led to a resurgence of old problems.
- The institutions for the design, implementation, and monitoring of trade policies are important. This was recognized and acted on in a number of innovative ways by the GOI, sometimes very successfully and other times less so.
- Import and export licensing schemes and other NTBs are far more costly than tariffs.

- Reforming tariffs according to some simple formula is easier and more effective than negotiated rate changes.
- Freeing exporters from the burdens of import substitution regimes can be an effective short-term measure, politically and economically, but needs to be followed up with the more fundamental reform for which it is a temporary substitute.
- Trade reform is easier and more effective when the exchange rate is right.
- Fiscal incentives for investment can be costly and they are not necessary.
- Recent developments suggest that the battle for trade reform is never truly and completely won.

Morocco: Crisis Precipitates Reform, Fiscal Concerns Dampen the Pace

Morocco's economy is heavily dependent upon agriculture, with that sector's share in gross domestic product fluctuating between 14 and 24 percent in the period 1982–2002. This dependence has led to pronounced swings in growth of gross domestic product over the period. Droughts and the consequent negative effects on agricultural output are correlated strongly with this economic growth record. The public sector has historically played a dominant role in the economy as producer and employer as well as regulator. This has resulted in persistent central government budget deficits over the years. The budget challenge is related to another: the need to induce more rapid labor absorption. Urban unemployment was estimated in 1995 to be roughly 15 percent and rising, and the public sector has played the role of employer of last resort.

The Government of Morocco (GOM) has been consistent in its economic-development goals over the last 30 years. Its priority is to accelerate the economic growth of the economy, both to increase incomes and to create jobs for unemployed citizens. Beginning with the economic crisis in 1982 and continuing through to the present, the GOM concluded that one strategy to address these problems is export-led growth. Morocco chose to change its trade policy from import substitution to export promotion in 1983. The World Bank was a close partner with government policy makers in the beginning of this

period, and provided both financing and technical support to assist the government in introducing this strategy. In recent years it has focused on trade-facilitation and private sector–development projects. The government has moved forward slowly, and with little World Bank assistance, in negotiating and implementing free-trade agreements with the European Union (EU), the U.S., Turkey, and its Maghreb neighbors.

The World Bank has made a positive contribution to trade policy reform in Morocco over the last 25 years. It was an irreplaceable contributor to the initial architecture of trade liberalization in the early 1980s, through its lending, its technical support, and its high-level advice. In more recent years the Bank's focus has turned to trade facilitation and infrastructure development, and its contributions here also have been well-appreciated. The World Bank played a critical role in 1983 in assisting in the formulation of the export-promotion strategy of structural adjustment. While the stabilization policy supported by the IMF would have gone forward, the initial steps toward trade liberalization would have been less sure. From that time on, however, there has not really been World Bank support for trade liberalization.

Morocco's implementation of trade liberalization has been less profound since 1988 than in the period prior to that. This slowing of reform is at its heart a product of the negative consequence of tariff reform for achieving fiscal balance: the policy of macroeconomic balance has in the past taken precedence over the trade liberalization agenda. It also coincides with the Bank's decision to place more emphasis on trade facilitation issues in this area, and on poverty, and social expenditure more generally.

The World Bank's policy goals have been largely in line with those of the government. Its focus has been upon structural adjustment rather than macroeconomic stabilization. Over the last 15 years, however, the World Bank has shifted its focus more tightly to the alleviation of poverty and social concerns in Morocco. This has led to some criticism among Moroccan policy makers: they claim (rightly or wrongly) that the Bank rejected the value of social spending in Morocco in its support for the stabilization program of the

1980s. As a result of that stabilization program, in their view, social spending was cut and poverty rose. Now, the World Bank calls on the GOM to reverse the consequences of that earlier austerity through social spending. The evolution of Bank ESW on the impact of trade liberalization in Morocco illustrates this shift. A major contribution of Bank ESW throughout the trade policy–reform process in Morocco has been the quantification of the benefits and costs of freer trade. While the basic channels of benefits and costs remain the same, current ESW focuses exclusively on the impact on poverty while earlier ESW focused upon the potential aggregate gains from trade.

There is a paradox in World Bank activities in Morocco. Individual projects when considered in isolation are almost always considered successful by the Moroccan counterparts. However, the overarching goal of accelerated economic growth has not been achieved, and so Bank interventions in aggregate are not viewed so positively by Moroccan officials and private observers. Tariffs on industrial goods remain rather high. Tariffs and quantitative restrictions on agricultural products remain in force. The share of exports in GDP in the Moroccan economy has climbed only slightly since 1983. While the government has negotiated a system of free trade agreements (with the EU, the U.S., its Arab neighbors, and Turkey), the commitments under those agreements are backloaded, and have yet to cause large efficiency gains within the economy.

The most important lesson for the World Bank from the Moroccan experience with trade policy reform is the immense value of creating the preconditions of policy reform among GOM officials. Another important lesson is the need to balance structural adjustment with fiscal reform. The Ministry of Commerce and Industry may be solidly in favor of tariff reduction. If the Ministry of Finance is reliant upon trade taxation for budget balance, however, the reforms will not go through. The trade policy compromises associated with budget shortfalls in the late 1980s, continuing up to the present, are a reminder that these reforms can not be considered in isolation of macroeconomic balances. Further progress in trade liberalization in Morocco will

be contingent on the identification and exploitation of sources of fiscal revenue separate from that of tariffs and trade taxes.

Mozambique: Cashew Controversy Overshadows Post-Conflict Gains

As is to be expected in an economy devastated by war and then by extensive structural change, GDP values and growth rates have fluctuated sharply over the last two decades. Gross national income per capita is now just above \$200 per annum, compared to more than \$300 in 1986. Before 1993, peaks of more than 10 percent growth and troughs of -8 percent were experienced, though more recently greater stability has been observed, except in 2000 when GDP growth faltered because of widespread flooding. In the mid-1980s Mozambique's economy was virtually closed and the metical was grossly overvalued. Along with the elimination of import licensing and the reduction of import tariffs and export barriers, real devaluations have allowed the export sector to begin its recovery. They have helped attract new investment into the tradables sector, enhancing the country's prospects for sustained growth and external viability.

With the emphasis on macroeconomic stabilization, trade policy per se did not become a priority until the 1990s. In the late 1980s exchange rate rationalization was a more pressing priority and took the form of progressive devaluations. By 1992 a free currency market was in place. This reform had the deepest impact on Mozambique's trading environment, as it set the stage for the tariff reforms and the elimination of export and import licenses and quantity restrictions that followed. Market liberalization became a high priority, particularly the liberalization of the cashew export. Here the Bank took the initiative in the trade reform process in Mozambique, but was preceded in this by equally important government reforms that had received Bank support and advice, particularly in the area of tariff reform. It was the predominance of cashews in national exports that gave such significance to the reforms, which have been largely beneficial to the cashew sector, though much remains to be done in field production and processing. Given the far-reaching overall impact

on the economy, the long-term support that the Bank Group has provided to trade liberalization constitutes the most significant trade-related Bank activity in Mozambique. The Bank and other donors also supported customs reform and institutional strengthening. Here the government was proactive in adopting an aggressive and highly successful modernization process that has allowed the country to welcome major new investments such as the Mozal aluminum smelter, which currently contributes 10 percent of GDP. Trade volume has also grown because of the Bank's technical and financial assistance supporting the development of transport infrastructure to South Africa, Zimbabwe, and Malawi, regional integration through trade agreements, and private sector capacity building.

Under structural adjustment, from 1985–95, the World Bank Group provided ample financial resources to aid Mozambique in the adoption of rational and sustainable economic policies. However, it is not uncommon to find precise and detailed policy analysis and recommendations in Bank Economic and Sector Work publications from the early 1990s that were not fully discussed with government, but were reflected in World Bank country strategies. But, beginning in 1997, the Bank addressed this problem adequately through much fuller consultation. Consequently, the country assistance strategies in the late 1990 and 2000 are joint products of the Bank and the government. The PARPA, or poverty reduction strategy, provides a neutral and highly relevant focus for these consultations that was lacking in the early stages of Bank work in Mozambique.

While the process of providing trade assistance to Mozambique has encountered difficulties, the assessment concludes that the impact, relevance, efficiency, and sustainability of the reforms advocated by the Bank are generally satisfactory. Given the overall success of Bank activities in the areas referred to it can be concluded that both quality at entry and quality of supervision were adequate. With the exception of some minor aspects of the cashew study, and the predominance of the highly prescriptive advice of the early 1990s that presaged the export tariff reforms, the Bank's advice was in the main

forward-looking and helped Mozambique establish itself as democracy with good prospects of sustainable economic development in a multilateral trading environment. Without it, there is no question that the national economy would have suffered major difficulties when COMECON (the Eastern bloc's free market) closed its doors to Mozambique in 1984. However, Mozambique's continued development at high rates of growth will require a more concerted effort to overcome some major constraints, including the further removal obstacles to private sector development, including in the financial sector. Improving financial sector performance, which is hampered by limited supervisory capacity, poor accounting practices, and a weak judicial system, would improve the lending environment and facilitate access to bank credit, the greatest constraint to private sector growth.

In addition, there is a continued need to reduce the cost of doing business, notably by improving infrastructure, especially transport, and reducing labor rigidities, which hinder external competitiveness.

Major lessons learned from the Bank's work in Mozambique include:

- Borrower ownership and commitment to the reform program is a key factor of success. The fact that the Economic Management Reform Operation supported reforms that were clearly defined, previously agreed upon, and fully owned by the authorities facilitated implementation and contributed to program sustainability.
- Appropriate sequencing and complementarities between macroeconomic policies and structural reforms reinforce program outcomes. The simultaneous implementation of indirect tax reform, gradual trade liberalization, and rationalization and simplification of import procedures, shielded the budget from a potential decline in revenue that could have endangered fiscal adjustment, at the same time as it reduced distortions in the allocation of resources and supported a strong supply response. When combined with prudent fiscal and monetary policies, a favorable external environment and the high level of foreign as-

sistance, this resulted in strong GDP growth, low inflation, and high private investment.

- Political economy considerations can derail technical analysis, especially where the poor do not have a voice.
- Faced with capacity constraints, a smaller number of selective reforms results in greater impact. The focused nature of the operation, which concentrated on a limited number of areas, enabled the government to concentrate on actions considered critical for the success of the overall reform process, and helped implementation in the face of acute capacity constraints.

Senegal: The Limits of Advice and the Importance of Domestic Constituencies for Reform

The economy of the Republic of Senegal—a semi-arid West African country with a fragile natural resource base and just over 10 million people—is more open to trade than on average in Sub-Saharan Africa or among least developed countries. Along with some of its neighbors, Senegal joined in a special monetary agreement with France that established a currency (CFA franc) that was both fixed and convertible against the French franc (and against the euro after 1999). While Senegal benefited from monetary stability and low inflation for an extended period of time, the sustained deterioration of the CFA zone’s terms of trade and the increasing overvaluation led to a stagnation of exports, a deterioration of public finances, capital flight, and a deep recession in 1993. By mutual agreement, the CFA franc was devalued by 50 percent against the French currency. Concurrently, a program of macroeconomic and structural reforms was announced. In Senegal, the devaluation and accompanying reforms produced robust results in terms of growth and poverty reduction, particularly in the years immediately following the devaluation.

The World Bank has not pursued a trade assistance program per se in Senegal. Rather, it has pursued an economic liberalization program, of which increased openness to trade has been one expected intermediate outcome. The Bank’s message to Senegal’s economic policy makers

has consistently emphasized decreased intervention by the state in markets and increased trade integration in order to achieve the goal of increased competitiveness, increased economic growth, and improved welfare for all Senegalese. Along the way, mixed messages have sometimes been given by the World Bank with respect to trade. When quick-disbursing adjustment lending was at its peak, trade liberalization was seen as part of a broader structural adjustment policy reform package and trade was folded into the Ministry of Finance’s portfolio. As adjustment lending has yielded to the return of more traditional investment projects, trade flows and trade capacity building are once again seen as important topics in their own right and trade is again managed by a separate ministry. Yet the Bank’s tepid embrace of trade as a unique area of operation, perhaps out of respect for the primary authority of Joint Integrated Technical Assistance Program to Selected Least Developed and Other African Countries (JITAP) organizations in this area, means that trade capacity support from the Bank in terms of financial and human resources has been somewhat limited.

Given the economic context in which Senegal found itself in the 1980s, the World Bank clearly pushed the right reform priorities at that time. Senegal’s biggest constraints to economic growth stemmed from the pervasive involvement of the state in most aspects of economic activity. Disengagement of state-owned enterprises and reform of state-run market functions at all points in the value chain, from input distribution to price-setting, collection, storage, processing, trade, and distribution, were crucial if the Senegalese economy was to become more competitive. Unfortunately, given the institutional context in which the World Bank found itself, it was unable to address the single-most critical constraint to trade development in Senegal by the late 1980s, which was overvaluation of the CFA franc. The design of structural adjustment in Senegal up until 1994 was inappropriate because its second-best nature forced it to follow a path of fiscal compression that ultimately caused more harm than benefit.

Since 1994, the Bank has provided assistance in areas that address key constraints to trade

development. Immediately after the devaluation, the Bank supported more comprehensive structural adjustment in both industry and agriculture, including tariff reform, elimination of import reference prices, and withdrawal of the state from many production and marketing activities. Since the late 1990s, trade infrastructure (e.g., sea and airports, rail, airlines), trade promotion (for horticulture), trade institutions (exporters' associations in horticulture), further tariff reform, trade institutions (e.g., Customs Service), and investment promotion have been the focus of privatization, reform, and/or modernization with support from the World Bank.

The World Bank's advisory, analytic, and lending services have provided a consistent message in support of the big picture of trade openness and global integration as the key to economic growth. Since the "big push" on structural adjustment following the 1994 devaluation, the Bank's efforts have focused on trade policy reform and privatization and modernization of trade-related infrastructure. Other forms of trade capacity building, such as the development of trade institutions, have received more limited attention from the Bank. At times the Bank has sharply disagreed with the government (or other donors) on policy or institutions, as with the longstanding stalemate over the National Oilseed Marketing Company's (SONACOS) privatization and more recent dispute regarding the future institutional home of export promotion assistance. Topics such as trade finance, trade negotiations, or the development of trade-related skills at the microeconomic level, have received far less attention in Senegal. Where Bank assistance has been targeted at the private sector, as with the Agricultural Export Promotion Project (AEPP), the effects on export supply response and institutional capacity have been quite positive, albeit limited in scope to specific product categories.

In Senegal the experience of the World Bank over the last 17 years with trade-related assistance suggests a number of lessons, recommendations from which may have wider applicability to Bank operations in other countries:

- The effect of exchange rates on export competitiveness cannot be overlooked in a debate

over conflicting international institutional mandates.

- Trade and enabling environment reforms are necessary but insufficient conditions for inducing export diversification and global market penetration.
- Although the West African financial crisis of the late 1980s was addressed through a financial sector adjustment program, Senegal's commercial banking sector remains cautious and overly liquid.
- Future diagnostics of trade prospects and delivery of trade advice must also consider the factors shaping trade from a global demand perspective.
- Given that the private sector is often weak in developing countries, appropriately structured public-private partnerships are needed in a wide range of trade-related areas, including trade negotiations, trade-related investigations and legal actions, trade-related research and extension, compliance with norms and standards, local market regulation, export-oriented investment promotion, and export market linkages.

Zambia: Political Change Opens Window of Opportunity Leading to Economic Change

Following the declaration of unilateral independence by Rhodesia in 1965, new trade routes had to be found for Zambia. Energy supplies were most affected and the upshot was that Zambia adopted a policy of self reliance. The copper mines and a large proportion of industrial and commercial concerns were nationalized and placed under holding companies which were controlled and operated by the ruling party. Economic policies were inward-looking. Countering a persistently overvalued exchange rate, industry was heavily protected by a combination of quantitative restrictions, high tariffs, and administered allocation of foreign currency. In the aftermath of the 1973 global oil crisis, the price of copper collapsed, but the government assumed that low copper prices would be a temporary phenomenon and did not therefore seek to fundamentally change the patterns of consumption and production in the economy. Zambia began to accumulate the significant levels of

external debt which soon became a major restraining factor in macroeconomic policy making. To resolve the tension between the necessity to service the debt while at the same pursuing development objectives, Zambia became heavily dependent on external assistance, particularly from the International Monetary Fund and the World Bank. Throughout the 1980s and 1990s, Zambia has had a series of significant loans from the Fund and the Bank, as well as a mix of substantial grants and loans from bilateral donors. However, the period from the downturn in copper prices to the present has been characterized by poor economic performance, and income and social indicators have deteriorated dramatically.

Between 1987 and 2002 there was only one project which was exclusively devoted to trade. This was the seven-country Regional Trade Facilitation Project, which was approved in 2001 and involves establishing a trade insurance facility. Zambia's direct share of the Bank's contribution to this project is small (\$15 million). The Bank's main trade assistance to Zambia over the period was incorporated in a series of structural adjustment lending operations. However, given the primary trade objective of assisting the country to diversify its export base, other Bank projects in agriculture, private sector development and the like also have to be considered when evaluating the Bank's trade assistance.

As expressed in successive adjustment operations, the main trade objectives were to remove biases against exports, major aspects of this being liberalizing imports and the foreign exchange market. The operational objectives were initially to remove NTBs and administrative control of imports and foreign exchange and thereafter to reduce tariffs and narrow spreads, strengthen export promotion institutions, and improve the duty drawback system. These predominantly trade regime issues were to be complemented by a favorable macroeconomic regime, including a competitive exchange rate and access to finance for exporters. These changes were intended to encourage nontraditional export growth so as to reduce the country's dependence on copper. This would then contribute to the overall country assistance strategy goals of sustainable economic growth and poverty reduction.

The relevance of these objectives in the Bank's adjustment operations and the complementary projects is not in doubt. In 1991, Zambia's economy was in a deep economic crisis which the new government recognized could not be effectively addressed except via a clean break with the past. What is, however, controversial is whether the approach to meet the basic trade objectives, particularly the objective of export diversification, was relevant. Two related concerns are raised in this connection: firstly, that the liberalization of imports was too rapid and secondly that insufficient attention was paid to supply side constraints. Zambia was therefore left overly exposed to import competition (particularly from regional trading partners, such as Zimbabwe and South Africa), while not being in a position to respond adequately to the improved export incentives.

The reforms undertaken in Zambia since the Movement for Multi-Party Democracy (MMD) came to power in October 1991, including rapid trade liberalization, have not produced anything like the results which had been hoped for. At the same time, they have not been completely ineffective, not least in respect of the growth of non-traditional exports. Nonetheless, it remains the case that without much higher levels of growth of both GDP and exports, Zambia will remain highly indebted and will not disentangle itself from its extraordinarily high level of donor dependence, nor make any sustainable reductions in poverty. The country needs to have much greater commitment to developing a viable and competitive economy capable of enhancing incomes and generating jobs and wealth. Trade policies need to be integral to any growth strategy, but it will only be through a conscious effort to develop linkages and maximize employment growth that the result will be sufficiently inclusive for it to reduce, rather than exacerbate, inequalities and poverty.

More specific recommendations on the design of the trade components of economic reform and development strategies are as follows:

- Sequence enhancement of trade with increased employment.

- Buttress the sequencing of liberalization with an explicit strategy to maintain commitment and support.
- Cushion the impact on the losers.
- Take account of the regional and international trade environment.
- Provide the lead on good governance.
- Create a macroeconomic environment conducive to private sector growth.
- Maintain a real exchange rate that provides a strong incentive for nontraditional export growth.
- Ensure effective institutions.
- Invest in infrastructure.
- Develop human resources and technological capabilities.

Lessons from ESW in Case Study Countries

The main lesson for the examination of economic and sector work and its impact in the case studies is that high-quality analytical work (or its absence) matters for project design and the overall country relationship.

In Morocco, a 1993 study (Alavi 1993) reported the results of a private sector survey and highlighted the role of customs administration and the issue of corruption (previously taboo). Private sector associations used the study as backing to urge intervention by the king (which happened), and customs officials have been complimentary of Bank (and Fund) technical assistance provided in the early stages of customs reform.

In India, ten sector studies carried out from 1985 to 1991 laid the foundation for dialogue. A 1987 country report offered a detailed set of policy reforms in various areas, including trade. A substantial part of the trade reform in the 1990s and the remaining agenda can be found in this early report. However, key Bank staff members from that period are modest in drawing causal links between the study and the reforms, instead drawing attention to Indian policy makers from that time who shared similar views. Given that this comprehensive report was discussed with the authorities, however, it is likely that it contributed to changing some minds within the bureaucracy and also influenced Bank

staff involved in negotiations on a trade loan three years later. The 1990 economic report took a more pragmatic approach, allowing more scope for state intervention and formed the basis for the SAL the following year. In agricultural trade, Pursell and Gulati (1993) systematically documented the anti-agricultural bias of the policy regime and offered recommendations and this report significantly influenced agricultural policy changes in India.

In Mozambique, the controversy over the liberalization of the cashew nut industry that was based on analytical work commissioned by the Bank subsequently spanned eight years. It generated ex-post several assessments by Bank staff, the Bank president, the Mozambicans, and academic researchers. Assumptions in the original ESW fueled the cashew debate. The study was too willing to assume that traders would pay more for the nuts and that farmers would hasten to improve the state of their trees. Critics said that the study underestimated the free on board price of exported kernels and overlooked the complexity of the marketing structure where the Indian industry and its representatives played a decisive role. Excessive faith was placed in market structures and processes to ensure the transmission of price incentives to highly dispersed producers in remote rural areas. These criticisms, political economy dynamics (resistance by those who gained from the prevailing system), and the subsequent debate led by NGOs kept the issue alive. Thus, even though three ex-post assessments as well as McMillan, Rodrik, and Horn (2002) concluded that the reforms recommended yielded many of the benefits they were intended to, McMillan et al. note that “even under the most favorable assumptions, the magnitude of the benefits generated by these effects were quite small [\$12 million]—both in economic terms and in relation to the amount of time and energy ... spent on this question over the years.”

In Zambia, an intense and relatively rapid trade liberalization starting in 1991 and stretching out to the end of the decade was heavily biased toward lending with little detailed ESW on trade. A narrowly focused tariff study was done in 1992. The country economic memorandum in early 1990 stated that further (trade) reforms

should be made only after careful revenue and protection analysis. A better idea is needed of the effective protection structure, given the linkages between production and imports, before designing further changes in structure. The last effective protection study done in Zambia by the Bank was in the mid-1980s. The Bank was undoubtedly preoccupied in the early 1990s with macroeconomic stabilization and privatization; it was also attempting to take advantage of a “window of opportunity” for reforms. Regardless of the reasons why the Bank failed to conduct analytical work, the absence of trade ESW gave some Zambian observers the impression that the Bank’s commitment to liberalization was based not on analysis but on a doctrinal “belief that resources were misallocated as a result of price distortions” (IEG, 1996c, p. 60). It may also have failed to prepare the authorities adequately for the potential risks and costs associated with trade liberalization.

Trade has always been an important component of the Bank’s policy dialogue with Indonesia and since the early 1980s the Bank’s Jakarta office has always had a resident trade economist. Starting in the early 1980s up to the mid-1990s, the Bank consistently produced a series of economic reports that included a focus on trade for donor meetings. The contribution of Bank analytical work has been influenced by Indonesian political sensitivities, government ability to carry out its own research, and the existence of alter-

native sources of advice. By the mid-1980s, the Indonesian government was clearly in charge of its reform program.

The IEG case study on Indonesia concludes that the Bank’s annual reports, which were widely read, were useful in providing support and recognition for the government’s trade-related reforms in the investment and donor communities. Their impact on policy was not as great as might have been expected given their quality and frequency for at least three reasons. First, to be seen to be bowing to the wishes of the Bank was perceived as reducing policy makers’ credibility with the president. There was a precedent for this—the 1983 tariff reform was aborted after claims it was being forced on the country by the Bank. Second, the government had built up its capacity to conduct its own analysis on trade and industrial policy. Third, up until the late 1990s, the authorities could also draw on the advice of outside consultants, the most prominent of which were the economists from the Harvard Institute for International Development. The Bank was highly supportive of the reform process in Indonesia and conducted a large amount of analytical work and a relationship of considerable mutual respect existed between the two parties. But the greatest contribution of the Bank’s analytical work may have been its value as a signaling device to other development partners on the state of Indonesian reform, rather than actual policy changes.