

**AN ANALYSIS OF THE NON-TRADITIONAL AGRICULTURAL EXPORT
POTENTIAL FOR RWANDA. A CASE OF FLOWERS.**

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**A mini-thesis submitted in partial fulfilment of the requirements for the Degree of
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ABSTRACT

Rwanda is constrained by an export structure that is heavily dependent on one or a few agricultural export products such as coffee, tea, pyrethrum and cinchona. The country did not manage to industrialize or to diversify its export structure significantly during the post-independence period. The situation was worsened by the civil war of 1994, which almost destroyed all sectors of the economy. Traditional export crops, such as coffee, cotton, tea, cocoa, palm oil and tobacco are all subject to large price fluctuations and declining world market prices. This paper considers the case for diversification into non-traditional agricultural exports as a strategy for improving a developing country's terms of trade. The study puts forward a case of Highland Flowers Project; a flowers project located in rural Kigali about 5 kilometres to the Kigali International airport and considers a time scope of 1990-2002, 12 years.

Trade economists have long recognised the advantage of specialisation in trading relations. Embodied in a general concept called comparative advantage, the theory argues that welfare can only be maximised if countries specialise in the production of those goods where they have comparative efficiency. Experience however, shows that many developing countries have taken this argument too far by concentrating on the production of one of few commodities for exports. This has overexposed the economies to the adverse risk of price volatilities and its consequent impact on the economy. This study uses quantitative research analysis and draws on data from official agencies. Empirically this study uses descriptive statistics (means and variances) to illustrate the benefits of developing floricultural commodities and integrating it into a list of Rwanda export crops. Findings suggest that there is a great potential for Rwanda to diversify into flower exports. Demand for the project's output far outweighs its supply capacity and development of similar projects will go a long way in boosting export revenue for Rwandan economy.

Key words

Agricultural sector

Non-traditional crops

Export Potential

Economic growth

Terms of Trade

Balance of payments

Price fluctuations

Export Diversification

Traditional export crops

Development strategy.



DECLARATION

I declare that “*An analysis of the Non-Traditional Agricultural Export Potential for Rwanda. A case of Flowers*” is my own work, that it has not been submitted before for any degree or examination in any other University, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

November 2004.

Jean Bosco MINEGA RWIGEMA

Signed.....



DEDICATION

This mini-thesis is dedicated to my Mother Mariana MUKANDIRIMA, my brothers especially GISAGARA Eugene, GAAGA Steven, SAFARI Paul, KARURANGA Emmanuel, my twin sister IMMACULATE .N.M., my relatives and friends who always encouraged me and supported me throughout my education.



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CONTENTS

	Page
Abstract.....	I
Key Words.....	II
Declaration.....	III
Dedication.....	IV
Acknowledgements.....	V
Table of contents.....	VI
Abbreviations and acronyms.....	VII

Chapter 1: Introduction

1.1 Background to the study.....	1
1.2 Statement to the problem.....	2
1.3 Research question.....	3
1.4 Purpose of the study.....	3
1.5 Hypothesis of the study.....	4
1.6 Methodology and Data sources.....	4
1.7 Definition of Key Concepts.....	5
1.8 Organisation of the Study.....	5

Chapter 2: Theoretical framework to exports

2.1 Introduction.....	6
2.2 The Heckscher-Ohlin theory.....	6
2.3 The New Trade Theories.....	7

2.4 Theoretical Arguments for Exports.....	8
2.5 Export Strategies.....	9
2.5.1 Import-Substitution Industrialisation strategy.....	9
2.5.2 Export-Oriented Industrialisation strategy.....	10
2.6 Comparative International Experiences	10
2.7 The WTO, Trade and Developing Countries.....	12
2.8 Conclusion.....	15

Chapter 3: case study: Rwanda

3.1 Introduction.....	17
3.2 Some facts about traditional exports in Rwanda.....	17
3.3 The structure of export sector in Rwanda.....	18
3.4 Non-traditional cash crops: Floriculture.....	20
3.5 Floricultural trade in Kenya.....	22
3.6 Trade Policy in the Horticultural Industry in Kenya.....	24
3.7 conclusion.....	26

Chapter 4: Conclusions and Recommendations

REFERENCES.....	29
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TABLES

Table 1: Rwanda's trade balance (in million US\$).....	16
Table 2: Monthly flower export earnings in US \$.....	19

ABBREVIATIONS AND ACCRONYMS

EPZs.....	Export Processing Zones.
EU.....	European Union.
FPEAK.....	Fresh Produce Exporters Association of Kenya
FOB.....	Free on Board
FRW.....	Rwandese Francs
GATT.....	General Agreements on Tariffs and Trade
HCDA.....	Horticulture Crops Development Authority
HIPC.....	Highly Indebted Poor Countries
IMF.....	International Monetary Fund
ISI.....	Import Substitution Industrialization
ITC.....	International Trade Centre
JITAP.....	Jointed Integrated Technical Assistance Programme
KFC.....	Kenya Flowers Council
LDCs.....	Least Developed Countries
NICs.....	Newly Industrialized Countries
OECD.....	Organisation of Economic Cooperation and Development
SSA.....	Sub-Saharan Africa
SCM.....	Subsidies and Countervailing Measures Agreement.
TRIPS.....	Trade Related Intellectual Property Rights.
US.....	United States
US\$.....	United States dollar

USAID.....United States Aid on International Development

UNCTAD.....United Nations Conference on Trade and Development

WTO.....World Trade Organization



CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Over the last two decades agricultural export diversification has been pushed as an economic development strategy for Sub-Saharan Africa. Traditional export crops such as coffee, cotton, cocoa, palm oil and tobacco are all subject to large price fluctuations and declining world market prices. Diversification into non-traditional agricultural exports is therefore being tried in some Sub-Saharan African countries in commodities such as vegetables, fruits, cut flowers, meat, fish, bee products, herbs, spices, nuts, dyes, essential oils Vanilla etc.

Many developing countries have been and still are constrained by an export structure heavily dependent on one or a few agricultural exports. Among them, virtually all those in sub-Saharan Africa (SSA) did not manage to industrialize or to diversify significantly their exports structure during the post-independence period. Moreover, the performance of SSA in traditional agricultural exports began to falter in the late 1970s, and has only recently started to show some partial symptoms of recovery. Such an unsatisfactory export performance, in turn, has been a major factor contributing to the progressive deterioration of the balance of payments position and, more generally, to the overall severe economic and social crisis of the subcontinent (Gabriele et al, 1999:1).

Agriculture is the backbone of Rwanda's Economy and is largely dependent on the sector, with more than 90 per cent of the population engaged in this sector. Agricultural exports contribute more than 70 per cent of the total export earnings of the country, and coffee and tea alone contribute more than 70 per cent of these agricultural export earnings. Rwanda's major export crops are coffee, tea, pyrethrum and cinchona. Early colonialists exported these cash crops since their introduction in 1920s, but their contribution towards the export revenues of the economy and consequently to economic growth in terms of GDP growth and employment level have not been as significant as

expected. Export revenues have always been less than the values of imports and Rwanda is among the highly indebted poor countries (HIPC). Since there are no innovations in the production of these traditional cash crops, the country seems unable to benefit from them anymore than it currently does. This study therefore intends to study the structure and composition of Rwanda's export trade, along with the associated problems of commodity dependence, and therefore examines its potential for diversification into non-traditional export crops.

1.2 STATEMENT OF THE PROBLEM

One characteristic of many developing nations is that their exports are concentrated in only one or few primary products. ... A poor harvest or a decrease in market demand for that product can significantly reduce export revenues and seriously disrupt domestic income and employment levels. (Ibid₁, 1999: 236).



Rwanda relies on a few export commodities, which intuitively makes the country vulnerable to terms of trade shocks. The need to increase the export product line can therefore not be over emphasized. How then can Rwanda diversify its agricultural export sector? Are there potentials in the export of flowers in Rwanda? The study therefore intends to address the issues raised above.

No matter where one turns in the world, governments are focusing their efforts on enhancing international trade, and a liberalising world export success is more important than ever to economic performance. However, despite increased integration of economies into the global trading system, there are barriers that firms often encounter when penetrating into foreign markets. International experience suggests that problems of penetrating international markets can be overcome through government support. It is within this context that practically all countries have government export promotion organisations that try to provide promotional, information, marketing and other services to help exporters overcome such barriers and in particular, to expand exports. This is in

recognition of the relative role of exports in growth and development and partly, also, the current emphasis on exports is a reaction to the neglect with which exports were treated under policies of import substitution (Rodrick, 1995; Wangwe, 1995).

Psychological studies show that the will to export is a crucial ingredient of success. Particularly in the start-up phase to exporting, the will to operate internationally and to take on overseas competition is an absolute must. Reese, (1993) notes that, what is equally interesting is the fact that many people who could export, judged by objective criteria of cost advantages, choose not to do so because they suffer from psychological distancing from potential export markets.

1.3 RESEARCH QUESTION

There are two research questions:

1. What has been the impact of a monolithic export profile to Rwanda's terms of trade "between" 1990 to 2002?
2. What are the potential contributions of Flowers to improving Rwanda's terms of trade?



1.4 PURPOSE

1. Against the background to the study, the purpose is to find out the extent to which the excessive dependence on the export of a few traditional crops i.e. coffee, tea, pyrethrum and cinchona, has affected the economic performance of Rwanda?
2. To advise on the desirability or otherwise of diversifying the export base by promoting Flower exports.

1.5 HYPOTHESIS

The monolithic export profile has not contributed negatively to the economic performance of Rwanda.

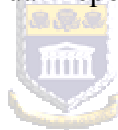
1.6 METHODOLOGY

Data Sources

This study uses quantitative research analysis and draws on data from official agencies.

These data are obtained from:

1. Rwanda Development Indicators (Various Issues)
2. Rwandan Highland Flowers Project Report (unpublished)
3. National Bank of Rwanda's Annual Report.
4. Rwandan Ministry of Commerce Annual Report



Data Analysis Technique

Descriptive statistics is used to analyse data obtained from the above sources. Simple averages of export indicators were computed to make statistical inferences. Comparative analysis with data from other countries was also done to test robustness of judgement made.

This approach can be justified on the ground that it has been extensively employed in analysis of this sort and as such will enable us derive results that are comparable with available evidence.

Limitation

Due to the fact that data used relies entirely on secondary form, findings will have to be cautiously interpreted. The strength of result will also be constrained by the fact that, the research focused on a limited period of time (1990-2002). Finally, being a case study of a country, it will be difficult to generalise findings, as such further research with respect to other countries would be necessary to confirm claims made in this paper.

1.7 DEFINITION OF KEY CONCEPTS

Exportation: This is the act of selling goods and services to another country. Exports are usually defined as sales abroad of a country's goods and services (Encyclopedia, 1768:994).

These are other cash crops that are being grown for exports other than coffee and tea, which were introduced by early colonialists.

Crops that are not part of the customary diet of the local population and growth primarily for their high cash values and export potentials are categorized as non-traditional. Recently, several African countries have gone into the production of nontraditional fruits and vegetables of temperate origin in order to diversify their agricultural exports and increase hard currency earning (Singh.B.P, 2002.)

Non-traditional cash crops according to Rwanda commodity export identification and logistics study by Carlos F. De Castro may include fruits, flowers, vegetables and mushrooms.



1.8 ORGANISATION OF THE STUDY

This research paper is comprised of four main chapters. The first part includes the introduction, background, the main purpose and hypothesis of the study, the second part includes the theoretical framework or literature review and reviews the comparative international experiences on export performances and export policies, the third part reviews the export structure of Rwanda, Flowers growing in Rwanda some statistical tables, and takes the case study of Rwanda and the last chapter includes the conclusions and recommendations of the study.

CHAPTER TWO

THEORETICAL FRAMEWORK

2.1 INTRODUCTION

This chapter reviews the underlying theories of international trade. In section 2.2 early contributions to the literature as represented by Heckscher-Ohlin theory is considered. Latter works that emerged in the context of New Trade Theories are taken up in section 2.3. Specific arguments for exports are examined in 2.4, while 2.5 comments on exports strategies. Countrywide experiences are the focus of section 2.6, 2.7 comments on the WTO, trade and developing countries while 2.8 concludes the chapter.

2.2 The Heckscher-Ohlin theory



The theory of comparative advantage has been one of the most powerful influences on economic policy-making and international relations in recent history. The Swedish economists Eli Heckscher and Bertil Ohlin developed a systematic explanation of the source of comparative advantage, known as comparative advantage theory based on factor endowments. The two economists argued that countries would tend to specialize in the production of the goods that utilize the abundant resources most intensively. According to this theory, countries with relatively plentiful capital will specialize in industries producing capital-intensive goods, and will export those goods to countries with relatively plentiful labor in exchange for their speciality goods produced in labor-intensive industries (Heffernan and Sinclair, 1990). Engaging in international trade therefore is of mutual benefit for all countries. This theory depicts that countries export because of the difference in resource endowments. Another economist contends “A country will gain most by exporting commodities that it produces using its abundant factors of production most intensively, while importing those goods whose production

would require relatively more of the scarcer factors of production”. (Malcom-Gillis et-al, 1983: 407)

The criticisms of static comparative advantage

The comparative advantage theory has had a strong criticism of inherently static nature. I.e. it can unambiguously define conditions for specialization only for given factor endowments, not withstanding several attempts at “dynamizing” the traditional model. There is now an increasing realization that comparative advantage may be created and must respond to the changing world environment. There has been growing sentiment that comparative advantage based on factors of production is not sufficient to explain patterns of trade. Most important, however is that there has been a growing awareness that the assumptions underlying factor comparative advantage theories of trade are unrealistic in many industries. More and more industries overtime do not resemble those that the theory of comparative advantage was built on. Economies of scale are widespread, most products are differentiated, and buyer needs vary among countries (Porter, 1990).

2.3 THE NEW TRADE THEORIES

Trade economists have long recognized the advantage of specialization in trading relations. Embodied in a general concept called comparative advantage, the theory argues that welfare can only be maximized if countries specialize in the production of those goods where they have a comparative efficiency. Experience however, has shown that many developing countries have taken this argument too far by concentrating on the production of one of few commodities for exports. This has overexposed the economies to the adverse risk of price volatilities and its consequent impact on the economy.

From the early nineteenth century until the late 1970s, international trade theory was dominated almost entirely by the concept of comparative advantage, which we can define loosely as the view that countries take advantage of their differences in factor endowments. Other formulations of trade theory have made progress in moving towards

an understanding of inter-country differences in technological capabilities and providing a case to support government policy toward international competitiveness. Increased tensions in the international environment and rapid technological progress, which is reflected in new products, new processes, and increased productivity, have led to a reassessment of the relevance and applicability of the static models. Exports are a source of learning technological externalities for the home economy and allow domestic producers to learn from sophisticated markets abroad.

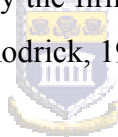
Empirical evidences: Under this study, a review is made on some of the performances of the agricultural exports in some African countries in the past years. World Bank, 1986, asserts that during the last 15 years, the volume of exports in Tanzania has declined dramatically. In 1980, the total exports of the countries' major commodities (cotton, coffee, cloves, sisal, cashews, tobacco, and tea, which account for two thirds of the nations' export earnings) were 28 percent lower than in 1966 and 34 percent lower than in 1973. The story is the same in Ghana. UNCTAD, 2003:2, also discusses the structure and performance of Africa's trade in the past two decades as ...*“The structure of developing-country exports, taken as a whole, has changed significantly over the past two decades. Currently, about 70 per cent of these exports are manufactures. This is in sharp contrast to the situation two decades ago, when primary commodities accounted for three-quarters of developing-country exports. These figures, however, hide significant variations among developing regions. Africa hardly benefited from the boom in manufactured exports.”* These simply shows how insignificant African economies have benefited from the industrial sector and are largely dependent on agricultural export commodities that have not performed well in the last decades.

2.4 THEORETICAL ARGUMENTS FOR EXPORTS

“Exports have more value to people than is commonly appreciated...Exports enhance workers' pay, benefits, skills, productivity and future prospects. Exports enhance corporate innovation, stability and endurance. Exports benefit workers and owners in small businesses, as well as large”. (Richardson and Rindal 1995). It is widely accepted

in development economics that exports can be a driving engine of an economy (Lall, 1999 and 2001; Wangwe, 1995). Exports influence and contribute to higher growth and economic development through a variety of channels. Exports remain directly relevant as the main means of earning foreign exchange, reaping economies of scale and specialization and accessing new technology. They are also of great indirect significance. (Lall, 2001).

Exports are a source of learning and technological externalities for the home economy and allow domestic producers to learn from sophisticated markets abroad. The role of dynamic learning processes and the competitive pressures in export markets are relevant to the extent that such dynamic economies are industry-specific (Wangwe, 1995). In addition, in many economies the production of exports is highly dependent on imports. In the absence of such spillovers, there is no economic argument for government policies that favor exports activities, the reason being that the productivity benefits from exporting would be fully internalized by the firms in question and automatically provide the needed inducement for exporting (Rodrick, 1995).



Modern trade theory is the product of an evolution of ideas in economic thought. In particular, the writings of the mercantilists, and later those of Adam Smith and David Ricardo, have been instrumental in providing the framework of modern trade theory.

2.5 EXPORT STRATEGIES

2.5.1 Import-substituting strategy

The focus here is on the performance of the import-substitution strategy and therefore examines its shortcomings in economic growth of less developed countries. An import-substituting strategy is characterized by controls, high and variable tariff protection and quantitative restrictions. This argues that a country must first protect its domestic industries from international competition and encourage industrialization and domestic production of the previously imported goods. International circumstances prevailing in

the period 1914 to 1945 are the most frequently cited explanation for the emergence of ISI in LDCs. Two world wars and an interim depression made continued importation of industrial goods difficult, or even impossible, because earnings from exporting primary commodities fell, and/ or because the nations at war were unable to supply industrial goods.

2.5.2 Export-Oriented Industrialization strategy

The focus is on the export-led growth strategy and its possible advantages. In this approach, primary attention is given to the advantages of foreign trade, in general and exports in particular (Bruton, 1998). The verdict of the failure of ISI gained force when an alternative emerged, which showed all the signs of success. Countries that had switched emphasis during the 1960s to export oriented industrialization, achieved the most remarkable rates of economic growth. They soon became the Newly Industrialized Countries (NICs) and their record has become the main theme of the industrialized debate. Over the last 20 or so years, the out-word oriented approach. Other countries are trying to do so by aid donors and advice givers (Bruton, 1998).

2.6 COMPARATIVE INTERNATIONAL EXPERIENCES

Perhaps the most critical feature of the fast growing economies has been the rapid growth of exports supported mainly by trade policies that allowed manufacturing exporters access to capital and intermediate goods at close world prices and incentives to export. Their successes have changed the prevailing sentiment in development policy from export pessimism to export optimism. Throughout the 1980s and 1990s, international development agencies such as the World Bank and the US Agency for International Development (USAID) have argued for all less developed countries (LDCs) to follow the East Asian NIC model by adopting a development strategy based on export promotion although not with the policies used by the NICs.

In this study, some NICs (Korea, Taiwan and Malaysia) have been chosen for analysis partly because they represent sub-families of NICs, as indicated by their export performance. Kenya is also included among other African countries under this section, because of her fundamental and significant amounts of export earnings realized from exporting flowers in the East and central African region. We begin by reviewing some of the facts about the newly Industrialized Countries' economic export performance over the past decades. Because of this, and because export promotion has played such an important role in the NICs' tremendous export growth, we survey how the policies were executed in each of the NICs focused on. The final section sums up the broad conclusions that could be drawn from the discussions. First, however, we have to make the case that the NICs and some other African countries reviewed can be a useful model for Rwanda.

The issue of dynamism is of paramount importance in the East Asia' export policies. Of the policies pursued in East Asia, "export promotion" is the most often referred to and holds the greatest promise for other developing economies. Much has been written on the nature of their policies, particularly those targeting the export sector since they made their debut as international traders/ producers of sophisticated manufactured export products.

Although, there remains substantial controversy on the role of governments and free markets, much of it revolving around the experience of the NICs, evidence demonstrates that governments (of the NICs) have been instrumental in assisting firms acquire international competitiveness (Lall, 1993; 1996; and 2001; Amsden, 1989; World Bank, 1994; Rodrick, 1999; and Das, 1999). All the evidence about the East Asian NICs supports the view that most of them deliberately altered the market incentives through trade and industrial policies which favored manufacturing activities of increasing technological content and which placed long-run development goals over short-run comparative advantage. This is not to say of course that any kind of government intervention, however inefficient, can be justified by appeal to long-run development objectives.

Some Stylized facts about NICs' export growth

The facts about NICs' export performance are by now well established. Alongside the hypothesis that outward-oriented countries grow more rapidly, there is another hypothesis, that the pattern of economic development is associated with structural change in exports and increased export diversification. The NICs realized the need for export diversification in order to maximize the potential benefits from exporting activity. For sure these countries are at a different stage of economic transformation relative to the third world.

Secondly, the NICs have passed through an import-substitution phase with high and variable protection of domestic substitutes. In all cases, policies that strongly favoured the production of import substitutes to the detriment of exports were then abandoned. This approach provided a mechanism by which industry moved rapidly toward international best practice, despite highly imperfect world markets for technology. They set up public service institutions to help industry in such areas as productivity, technology, standards, and overall development, which all contributed to export expansion by helping exporters with their supply tasks (Keesing et al. 1991).

2.7 THE WTO, TRADE AND DEVELOPING COUNTRIES

The past decade of multilateral trade negotiations has witnessed an increasing divide between the developed and the developing countries on a range of issues, including market access, domestic support, competition policy, labour standards and the movement of 'natural persons'. Although tariff barriers on average have declined under both the GATT and the WTO, there is considerable scepticism in the developing countries about whether the rules-based, reciprocity-driven organisation is capable of fulfilling the special needs of developing countries.

The least developed countries (LDCs) are marginalized in the world trade system, and their products continue to face tariff escalations.

Rules uniformly applied to WTO members have brought about inequalities because each member has different economic circumstances. The agenda of the WTO, the implementation of its agreements, and the much-praised dispute settlement system all serve to advance the interests of developed countries, sidelining those of the developing countries.

Ensuring that multilateral negotiations under its auspices shape world trade flows in ways that enable the developing countries to generate enough resources to meet growth and development objectives, is what the WTO needs to achieve if the scepticism regarding its development relevance is to be dispelled (Basudeb Guha-Khasnobis, 2004:5).

The Doha development Agenda places development concerns at the core of WTO deliberations. The challenges are to achieve an outcome that supports poverty reduction and economic growth. Developing countries have historically played a minor role in the multilateral trading system. This however changed with the entry into force of the WTO in 1995. Developing countries became subject to most of the disciplines of the many Agreements contained in the WTO because of the so-called single undertaking.

At the same time, a number of agreements increasingly came to be seen as having little benefit. Indeed, in the case of some agreements (TRIPS) the perception rapidly emerged that benefits were highly skewed towards rich countries (Finger, 2002).

As far as market-access is concerned, a great deal of research has documented that there is still a large market-access related agenda (Anderson et al., 2001; World Bank, 2001). The extent to which developing and Industrialized country trade barriers are lowered, tariff peaks and escalation removed, export subsidies eliminated and production subsidies replaced with less trade distorting measures will define to an important extent the development relevance of WTO talks.

A supporting legal and regulatory environment is vital for sustained growth. While this goes far beyond trade-related policy, elements of the associated behind the border trade agenda include policies and institutions that support the ability of national firms to compete internationally.

The possible potential gains from the WTO's Doha Development agenda are such that tariffs facing poor-country exports to other markets are high. At the end of Uruguay Round of negotiations, the tariff equivalent of import market access barriers to goods trade were low for minerals and energy raw materials and for most manufactures entering developed country markets with the exception of clothing and textiles.

One of the commonly used yardsticks to measure the success of the WTO is the volume of world trade. The results seem excellent in this respect, with world trade up 25% in the last four years. But the benefits of increased trade are not widely shared. For example, the LDCs represent 20% of the world's population, but they generate a mere 0.03% of the trade flows.

Although purportedly a democratic institution, the WTO is dominated by the leading industrialized countries and by the corporations of these countries. The logic of commercial trade pervades the WTO. The development goals articulated when GATT was first formed have been put aside or are wrongly assumed to be the natural consequence of increased trade. Developing countries have little power within the WTO framework for the following reasons:

Although developing countries make up three-fourths of WTO membership and by their vote can in theory influence the agenda and outcome of trade negotiations, they have never used this to their advantage. Most developing country economies are in one way or another dependent on the U.S., the EU, or Japan in terms of imports, exports, aid, security, etc. Any obstruction of a consensus at the WTO might threaten the overall well-being and security of dissenting developing nations.

Trade negotiations are based on the principle of reciprocity or "trade-offs." That is, one country gives a concession in an area, such as the lowering of tariffs for a certain product, in return for another country acceding to a certain agreement. This type of bartering benefits the large and diversified economies, because they can get more by giving more. For the most part, negotiations and trade-offs take place among the developed countries and some of the richer or larger developing countries.

Developing countries have fewer human and technical resources. Many cannot cope with the 40-50 meetings held in Geneva each week. Hence they often enter negotiations less prepared than their developed country counterparts.

Developing countries have discovered that seeking recourse in the dispute settlement system is costly and requires a level of legal expertise that they may not have. Furthermore, the basis on which the system is run, whether a country is violating free trade rules, is not the most appropriate for their development needs.

In conclusion, even though trade theory argues against providing export incentives and favours removing distortions *per se* rather than mitigating their effect through subsidies, the structural weakness of developing countries does provide grounds for permitting them to subsidize exports. Many developing countries have sought improvements and clarifications in the SCM Agreement. Now that it is on the agenda of the Doha Round, developing countries can collectively make a case for changes in mutual interest or can buy that option by making concessions elsewhere.



2.8 CONCLUSION

What we can learn from the above discussion is the following, the review redefines conditions for competitiveness and for dynamic comparative advantage setting the observation that the NICs realized there was need for export diversification in order to maximize the potential benefits from exporting activity. At the minimum, the ability to export allowed manufacturers to specialize in a range of products and increase their output levels far beyond what the size of their domestic market could support.

The evidence in this discussion show that South Korea, Taiwan, and Malaysia fall into active government intervention and programs in the world, following and expanding on the example of Japan. These economies now offer essential clues to the ingredients of successful development policies, since their growth performance has been generally outstanding. The dramatic growth of trade within Asia makes it clear that export-oriented

economies create markets for imports-initially for capital goods from advanced countries, and eventually an increased volume of imports required in an economy.

Three facilities have been particularly important in supporting exporters: EPZs, bonded warehouses, and duty exemption programs. Korea and Taiwan both relied heavily on duty exemption and drawback systems. Malaysia has relied heavily on EPZs, but also has an extensive network of bonded warehouses and a duty exemption system. The relatively successful industrial policies have had a few common characteristics. Firstly, they have aimed to promote exports, rather than protect the domestic market and secondly, provided subsidies on the basis of successful performance (for example, the growth of exports) rather than to cover losses. Lastly, subsidies offered have been temporary than permanent (for example, a five-year tax holiday for new firms).

The NICs of Asia represent a famous example of successful trade reform. Mainly they owed their success to a gradual process of liberalization, spread over several decades, during which time they were able to build capabilities among their own people and institutions, realizing sustained economic growth in the process. On a contrary note, Nsanzabaganwa and Black (2002) argue that many of today's liberalizing African countries cannot follow the Asian example simply because they have little choice, either because it is a condition of IMF financial assistance or it is viewed as a non-negotiable issue (Nsanzabaganwa and Black, 2002).

It is therefore imperative to conclude that, while many African countries have a potential comparative advantage in the production of fresh and processed horticultural products, few such countries have been able to develop competitive and profitable horticultural trades to the markets of Europe and the Middle East. For the majority of African countries, nascent horticultural export sub sectors have exhibited little or no growth over the past decade, despite favorable international market conditions for many commodities. Weak technical support systems, international support and other infrastructural bottlenecks, inappropriate marketing institutions, and poor international trade linkages have been among the common constraints.

CHAPTER 3

CASE STUDY: RWANDA

3.1 INTRODUCTION

This chapter presents the analysis of potentials for export diversification into non-traditional crops in Rwanda. It begins by highlighting some basic facts about traditional export crops in section 3.2. Structure of the export sector in Rwanda is considered next in 3.3. Non-traditional cash crop with special emphasis on floriculture is analyzed in section 3.5. The case of Kenya is the focus of 3.4 while 3.6 finally concludes the chapter.

3.2 SOME FACTS ABOUT TRADITIONAL EXPORT CROPS IN RWANDA

Since the 1994 genocide, Rwanda has made substantial strides towards recapturing lost economic ground, achieving growth of nearly 6 percent in 2000 and average growth of nearly 10 percent since 1995. In support of this effort, Rwanda, a small, low-income country, of 8 million inhabitants residing on just 26 thousand square kilometers of land has been the beneficiary of substantial international donor assistance, amounting to over \$ billion since 1995. This international aid has been predominantly devoted to reconstruction of the country's infrastructure, and restoration and improvement of government institutions and services, especially those serving rural areas where most Rwandans reside as small-scale farmers. Economic policy reforms have also been important, led in part by adoption of one of the most liberal trade regimes in Africa. In 1994, important tariff rates in Rwanda were nearly 40 percent on average, with tariff peaks as high as 100 percent or more. Today, they stand at only 11.3 percent on average, with tariff peaks no higher than 25 percent. (World Bank, 2002(a)).

This study investigates the potentiality of Rwanda embarking on non-traditional crops, following her economic situation revealed in her current structure of merchandise trade

(table1), which is highly concentrated in traditional agricultural commodities, chiefly coffee, tea and pyrethrum.

More than for any other developing region, Africa's heavy dependence on primary commodities as a source of export earnings has meant that the continent remains vulnerable to market vagaries and weather conditions. Price fluctuations, arising mainly from supply shocks and the secular decline in real commodity prices, and the attendant terms-of-trade losses have exacted heavy costs in terms of incomes, indebtedness, investment, poverty and development. Past UNCTAD reports on economic development in Africa have extensively discussed some aspects of these issues, including capital flows and debt, the region's overall economic performance and prospects, and adjustment and poverty reductions (see, for example, UNCTAD, 2000a, 2001 and 2002a).

The trends of trade performance of Sub-Saharan Africa indicate that most African countries have been losing market shares in commodity exports to other developing countries, while at the same time most have been unable to diversify into manufactured exports.



3.3 THE STRUCTURE OF THE EXPORT SECTOR IN RWANDA

The structure of Export sector of Rwanda is no exception as one of the Sub-Saharan African Economies located in the East and Central region: Here the discussion intends to review the structure of the export sector for Rwanda, composition of the total exports that the country exports and the environment of Rwandan foreign trade. The growing of flowers is also discussed under this section.

The structure of the export sector of Rwanda's economy can be analyzed by studying the composition of the total exports of the country. It is also imperative to throw light on the environment of Rwandan foreign trade. Statistical tables will be used to help explain and analyze the above issues under study. Rwanda is a landlocked country with a strong agricultural tradition and with a trading hinterland, which encompasses Eastern Congo, Burundi, Southern Uganda, and certain areas of Kenya and Tanzania. Agricultural exports account for the largest share of exports. Rwanda's landlocked situation burdens

its foreign trade with expensive land transport i.e. about 20 percent of the final landed cost of imported products on the average (Carlos F. de Castro; 1998:2).

The following is a table showing Rwanda's trade balance between 1990 and 2002.

TABLE 1: RWANDA'S TRADE BALANCE (in million US\$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports (fob)	103.0	95.8	69.0	67.7	32.2	51.2	61.7	93.0	64.9	62.0	69	93.6	67.3
Coffee	65.7	57.6	35.1	37.6	17.4	38.2	43.0	45.3	28.1	26.5	22.5	19.4	14.6
Tea	21.0	22.4	20.8	18.6	5.8	3.8	9.3	20.6	22.9	17.5	24.3	22.7	22.0
Imports fob	227.7	228.3	241.	267.	367.	198.	218.	277.	232.	202.	226.	225	233.
			1	7	4	1	7	4	6	0	9		7
Trade balance	-	-	-	-	-	-	-	-	-	-	-	-	-
	124.7	132.5	172.	200.	335.	146.	156.	184.	168.	140.	157.	131.	166.
			1	0	2	9	9	4	5	0	9	4	4

SOURCE: 2003 Rwanda development indicators.

The table above shows the economy's total exports of which coffee and tea are indicated in terms of what they contribute to the total export (fob). It also shows the total number of Rwanda's imputations in figures and therefore shows the trade balance of the economy, which is definitely in deficits because Rwanda imports more than it exports. The table above typically depicts an export structure heavily dependent on coffee and tea, a few agricultural crops for export.

The most likely impact of commodity dependence on Rwanda's economy and any other African Economies of the similar characteristics is that, volatility in commodity prices aggravates difficulties in macroeconomic management. It frustrates investment efforts, as it increases uncertainty about overall economic conditions, including exchange rates,

return on investments, and import capacity, particularly of critical imports such as oil. Secular decline in commodity prices exercises a permanent pressure on foreign exchange earnings for African countries, in particular because of their high commodity dependence.

Between 1997 and 2001, the UNCTAD combined price index of all commodities in US dollars fell by 53 per cent in real terms (deflated by the unit value index of manufactured goods exported by the developed market economy countries). That is, commodities lost more than half of their purchasing power in terms of manufactured goods: African commodity exporters would have had to double their export volumes in 2001 to maintain their foreign exchange income at 1997 levels. Tropical beverages and vegetable oil seeds and oils, which comprise about one-fifth of Africa's non-fuel commodity exports, registered the highest rates of decline in real terms (United Nations, 2002: 4-5).

It is therefore evident that the need for the country to diversify her export structure and break away from such a monolithic export structure cannot be overemphasized.



3.4 NON-TRADITIONAL CASH CROPS: FLORICULTURE

Non-traditional cash crops present in Rwanda include flowers of different categories e.g. Rose flowers and sunflowers that are grown in Umutara, the north eastern province of Rwanda on small scale. Fruits like avocados are common though not ultimately exploited. Vegetables and artisans are present. Bananas with all the products from bananas are also an important plant in the country.

In the world floricultural trade study undertaken by international trade center UNCTAD/GATT, it showed that developing countries supplied a rising share in total exports of cut flowers to developed countries during the period under review in 1981-85. The Federal Republic of Germany was by far the largest import market although its share in total imports declined from 50.5% in 1981 to 36% in 1985. The United States was the second biggest import market and the most dynamic... (ITC, 1987:3). According to the same study, among the world exporters, Netherlands, Colombia, Israel, Italy, Spain,

Thailand, France and Kenya are mentioned. Other world exporters of flowers include Netherlands, South Africa, Singapore, United Kingdom and Ethiopia among others. The species or varieties studied included: Carnations, Mums (spray chrysanthemums), Roses, Chrysanthemums, mimi-carnations, Alstroemenias, statice, Gypsophilas, Gerberas, Daisies and orchids. Kenya is the eighth world leading export and the third largest among the developing country suppliers. Rwanda, as part of the East African highlands, is an exceptional agro-climatic zone and well watered with better soils than most of the countries in Africa.

The growing of flowers in Rwanda is one of the new activities in the economy, some farmers grow flowers on a small scale; however the Highland Flowers project, a four hectare project located at Nyaconga, about 4km from Kigali city, employs about 100 employees both skilled and unskilled; the unskilled workers first undergo some training before they join the project, and grow flowers on relatively large scale and export them to foreign markets, according to unpublished project's reports.

The Highland Flowers project has raised standards of production and has gained reputation for flowers of consistently high quality. It has joined membership of East African Flowers, an organization that is based in Holland which helps selling flowers by taking them to auction centers for sale. The project also sends its cut flowers to Tele flower auction that is as well based in Holland, which avails them to auction centers. Highland Flowers project also deals with some individuals in marketing its flowers, E.g Hans Lammers, that export the commodity to market centers for sale. The project however, performs a number of activities at the site that include quality grading, packing and labeling as most flower producing countries do in preparation to provide better quality products. Hans Lammers arranges and exports the project's flowers to Belgium and Germany. The project also sells to local markets though on a small scale. Highland Flowers exports 30,000 stems every trip and this takes place on Tuesdays and Saturdays since it relies on SN BRUSSELS Airplane, which is the only carrier flying to Brussels on the mentioned days. There are normally two consignments every week, which amounts to 120,000 stems. The project normally is meant to last for 7 seasons which are 7 years and each season begins from August of a particular year to May of another year, and operates 10 months a season.

The types of flowers grown at Highland Flowers project are Rose flowers with different varieties that include: First Red, Orange Unique, Yellow Unique, Frisco and Renee. The export revenues realized from flowers are quiet substantial. It was found out that the price per stem is 0.16\$ and falls to 0.50\$ during summer since the consumers of the product can manage to grow their own. However, 0.16US\$ is the most stable price.

Below is a table showing monthly export earnings from Highland flowers project quoted in US dollars.

TABLE 2: SHOWING MONTHLY EXPORT EARNINGS IN US DOLLARS

	1 ST week		2 nd week		3 rd week		4 th week	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Tue	60,000 stems	9600 US\$	100,000 stems	16,000 US\$	60,000 stems	9600 US\$	60,000 stems	9600 US\$
Sat	60,000 stems	9600 US\$	20,000 stems	3200 US\$	60,000 stems	9600 US\$	60,000 stems	9600 US\$

SOURCE: Own data collected from the Highland Flowers project’s unpublished reports.

As it can be seen from the table, Highland Flowers project exports flowers to Europe by air on two days in a week and the thousands of dollars realized as export revenues are quite significant considering a country that relies heavily on Coffee and Tea for its exports, which are exported in bulk and of less value. It is evident that the monthly total of US\$ 76,800 thousands equivalent to around 27,648,000 FRW (Oct, 2001 rates) is such a high value of export revenue from flowers and worth noticeable.

3.5 FLORICULTURAL TRADE IN KENYA

The cut flower industry in Kenya has witnessed an exponential expansion within the last two decades. With an estimated annual growth rate of 20 per cent, it has increased its

export volume from 19,807 to 41,396 tons between 1992 and 2001, which was an increase of 108 per cent (HCDA, 2000).

Within a relatively short period of time, Kenya has surpassed both Israel and Columbia to become the largest cut flower exporter to the European Union commanding a 25 per cent market share. Although there are numerous flower farms in Kenya, three-quarters of the exports are supplied by about 40 large and/or medium scale operations. This industry has grown from being nascent to one of the leading sectors of the Kenyan economy. Many regard it as “an island of success in a sea of failure”, particularly as traditional exports such as tea and coffee have been dogged by dismal performance over the last decade. The cut flower industry is currently the third most important foreign exchange earner after tea exports and tourism. This industry, which is labour intensive with predominantly youthful female workers, employs approximately 40,000-50,000 employees. In this regard, the cut flower industry was, and continues to be a significant source of employment for women. Given its labour intensive nature and the growth rates so far witnessed, this sector has the potential to absorb an even greater number of women workers. However, the poor employment environment in a number of the cut flower farms and pack houses has increasingly brought into question the extent to which this industry can bring about effective participation of the poor in the labour market.

The women workers often face difficult working conditions due to their predominance in the most labour intensive and precarious aspects of production. To a large extent, the industry is characterised by seasonal and/or casual female labour that face increased risks of sexual harassment by the male supervisors. The overtime hours tend to be excessive and compulsory and not fully compensated as required by legislation. The workers are exposed to high levels of chemicals and sometimes without adequate personal protective equipment. Though the wages paid in the cut flower sector are better than the mandatory national minimum wage, they are nevertheless low. The vibrant growth and earnings experienced in this sector is yet to trickle down to the majority of the workers.

Horticultural trade policy in Kenya is mainly driven by private sector (growers and exporters) interests and the government’s pursuit to earn foreign exchange. Policy measures aimed at the horticultural sector are geared towards enhancing the marketing

infrastructure, establishing an improved network of price information and strengthening the Horticultural Crops Development Authority (HCDA).

Unlike the coffee and tea sectors, which are also major exports, the government's intervention policy on the horticultural sector has been and continues to be limited. For example, the government through the HCDA issues export licences, but it does not impose substantial export taxes nor attempt to control the marketing or distribution of the crop. However, the government is now attempting through the Horticultural Bill 2001, to gain more control in the horticultural industry, which it perceives as a lucrative sector and therefore a source of ready revenue.

3.6 TRADE POLICY IN THE HORTICULTURAL INDUSTRY IN KENYA

Creating or influencing any trade policy in Kenya is usually influenced by internal demands that may be initiated by individuals or institutions. Some of these could include the Fresh Produce Exporters Association of Kenya (FPEAK), the Kenya Flower Council (KFC), civil society organisations and the mass media. It could also originate from concerned government ministry as part of its obligation to formulate policy.

The Ministry of Agriculture is the key ministry involved in the formulation and implementation of all policies affecting the horticultural sector. The Ministry of Trade and Industry, on the other hand, is mandated to initiate and propel trade policy matters. Thus, these two ministries work closely together in formulating horticultural trade policies in Kenya. They also consult with other ministries, and private and public institutions to ensure greater stakeholder participation.

External influences that are increasingly shaping and determining trade policy in Kenya are for example, the World Trade Organisation (WTO). The need to have an integrated trade policy document, for instance, has partly arisen out of Kenya's attempt to fully comply with her obligations in the WTO. Through the technical co-operation and capacity building facility of the WTO, Kenya has since 1998 received assistance under the Jointed Integrated Technical Assistance Programme for Selected Least Developed and Other African Countries (JITAP). This programme is sponsored by the International

Trade Centre (ITC), United Nations Conference on Trade and Development (UNCTAD) and the WTO.

It has been instrumental in creating awareness of the multilateral trade system in both the public and the private sector in Kenya through various forums such as training workshops, conferences and stakeholder meetings.

Over the past two decades, international trade in horticultural products, such as fresh and processed fruit and vegetables, cut flowers and other ornamental foliage, has been one of the most dynamic components of international agricultural trade, featuring a 10 per cent average annual increase in value. With this growth in horticultural trade and the stagnation or decline in world trade for many other agricultural commodities during the 1980s, the value of fruit and vegetable products imported by the OECD and developing countries now exceeds those for any other category of agricultural products, including cereals, oilseeds, fish products, meats and tropical beverages (Steven. J, 1995: 319).

Kenya is one of the very few Sub-Saharan countries that have emerged as major participants in international horticultural markets. Compared with other successful exporters (which include South Africa, Cote d'Ivoire and Zimbabwe), Kenya's horticultural trade has been far more diverse in terms of the range of products traded, the participants and the institutional arrangements, which have emerged to govern the trade. During the 1960s, commercial cut flower production in Kenya expanded. Most of the increased production, which came primarily from small European-owned companies, was directed to the domestic market. Growing numbers of African smallholders, particularly in the Limuru and Tigoni areas west of Nairobi, began to experiment with flower production. Kenya's earlier flower trade was diversified to include Chrysanthemums, Alstromeria, Molecella, and other flowers.

Kenya was sighted among many other Sub-Saharan countries because of its many similarities with Rwanda, including high population density and a dedication to tea and Arabica coffee production. Exports had increased to US\$ 434,000 million in 1986, while its total horticultural exports had increased to US\$ 54.7 million by 1987, about a half the value of Rwanda's aggregate exports during the same year. This was possible because investors, local and foreign, worked closely with government. This is also because of her

agro-ecological conditions, location and relatively low labor costs. Kenya's agricultural research organizations provide support in recommending proven varieties.

The private sector has however been the main source of finance. Uganda is another neighbour state that traditionally grows and exports coffee and tea as her major export crops. A number of non-traditional cash crops were introduced in 1988; among these, vanilla, which is used to provide good flavor into perfumes, in alcoholic and soft drinks.

3.7 CONCLUSION

Evidence in this chapter shows that non-traditional exports especially Floriculture has great potential in the Rwandese economy. This claim is further re-enforced by Kenya's experience. Kenya is a country that has a similar economic structure and her diversification into Floricultural exports has improved her economic performance in terms of foreign exchange revenue and employment generation. This is therefore a case for Rwanda to diversify into Floricultural exports.



CHAPTER 4

CONCLUSION AND RECOMMENDATIONS

Encouraged by the remarkable success of countries like South Africa, Kenya, Chile, and Peru, Rwanda, a country with a favourable climate has to adopt a program for non-traditional export crop development. Many African countries view this as a means of improving the livelihood of small farmers and creating new employment opportunities. They hope to repeat the success of smallholder farms in Guatemala in exporting non-traditional crops. Von Braun (1994) reported that production of export vegetables created new employment opportunities, reduced the need to rely on uncertain off-farm employment, and increased household income of the smallest Guatemalan farmers. Countries like Tanzania, Zambia, and Zimbabwe have entered aggressively into the European market within the last few years with reasonable success

A need to break the excessive dependency on a monolithic export product line for Rwanda and therefore diversify the sector cannot be overemphasized.

For Rwanda and other African countries and Entrepreneurs seeking to replicate aspects of Kenya's horticultural development experience, several lessons can be drawn, e.g. while many African countries in the East and Central Region share with Kenya some ecological locations and labour cost advantage. Flowers are grown in Kenya and exported and this is a non-traditional crop since Kenya normally exports coffee and tea. These are grown on Kenyan highlands. It is cited among other countries as an example since it has got many similarities to Rwanda including high population density and a dedication to tea and Arabica coffee production.

The study therefore concludes that although agriculture is the mainstay of Rwanda's economy, yet in absolute terms the impact of these cash crops in contributing to export revenues hence enhancing growth has not been noticeable, the growing of flowers cannot be overemphasized.

There are numerous reasons including the constraints of high costs of transport, lack of knowledge of how the overseas markets work, lack of capital, fluctuations in prices and the long gestation period of these traditional cash crops. In addition, since there are no innovations in the production of these traditional cash crops, the country seems unable to benefit from them anymore than it currently does. Government intervention in the sector by encouraging private firms similar to Highland Flowers project in Kigali rural is therefore necessary.

Both general macroeconomic measures and specific sector measures to stimulate trade and investment and to increase Rwanda's competitive advantages should be emphasized.

As mentioned earlier in the introductory chapter, Descriptive statistics was used to analyse data obtained from the aforementioned sources. Simple averages of export indicators were computed to make statistical inferences. Comparative analysis with data from other countries was also done to test robustness of the judgement made.

This approach was justified on the ground that it has been extensively employed in analysis of this sort and as such enabled us derive results that were comparable with available evidence.

The Limitation

Due to the fact that data used relied entirely on secondary form, findings were cautiously interpreted. The strength of results was also constrained by the fact that, the research focused on a limited period of time (1990-2002). Finally, being a case study of a country, it was difficult to generalise findings, as such further research with respect to other countries would be necessary to confirm claims made in this paper.

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