

Trade Liberalization and Poverty Reduction in Sub-Saharan Africa

by Marian L. Tupy

Executive Summary

Despite recent setbacks, the Doha round of negotiations on trade liberalization continues. Much of the world's media and many nongovernmental organizations continue to focus on protectionism in the developed world and the negative effect that protectionism has on the economic development of poor countries. To be sure, developed-world protectionism harms some producers in the developing world as well as consumers in the developed world. If the developed world were to adopt free trade, the world would benefit.

But trade liberalization in the developed world as a cure for world poverty is often overemphasized. Simply abandoning developed-world protectionism would not substantially change the lives of the people in the poorest parts of the developing world. That is particularly true of sub-Saharan Africa (SSA), where the main causes of impoverishment are internal. SSA is not poor because of lack of access to world markets. SSA is poor because of political instability and because of a lack of policies and institutions, such as private property rights, that are necessary for the market economy to flourish.

Moreover, SSA continues to be one of the most protectionist regions in the world. While

the rich countries reduced their average applied tariffs by 84 percent between 1983 and 2003, SSA countries reduced theirs by only 20 percent. According to the most recent data, nontariff protection in the poorest countries of SSA is four times greater than nontariff protection in rich countries. Strikingly, trade liberalization within SSA could increase intra-SSA trade by 54 percent and account for over 36 percent of all the welfare gains that SSA stands to receive as a result of global trade liberalization.

It is hypocritical for African leaders to call for greater access to global markets while rejecting trade openness at home. It is also self-defeating, because domestic protectionism contributes to perpetuating African poverty. Research shows that countries with the greatest freedom to trade tend to grow faster than countries that restrict trading. SSA governments have complete control over the reduction of their own trade barriers. If they are truly serious about the benefits of trade liberalization, they can immediately free trade relations among SSA countries and with the rest of the world. They should do so regardless of what the developed world does.

Nations more open to trade tend to be richer than nations that are less open to trade.

The Benefits of Free Trade

There is ample evidence that people have been trading with one another since the earliest times. As economists James Gwartney of Florida State University and Richard Stroup of Montana State University put it, the motivation for trade can be summed up in the phrase, “If you do something good for me, I will do something good for you.”¹ There are three important reasons why voluntary exchange is good not only for the contracting parties but for the world as a whole.

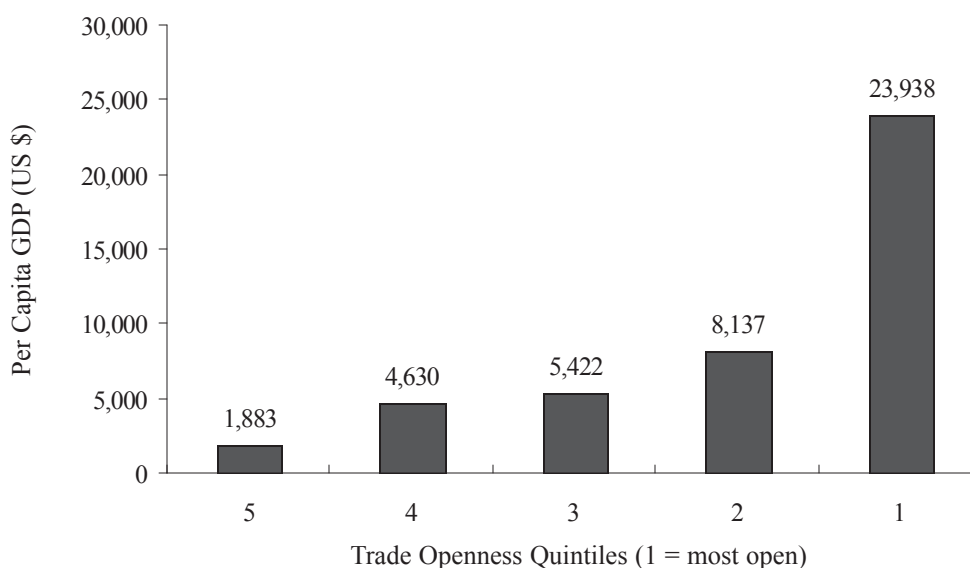
First, trade improves global efficiency in resource allocation. A glass of water may be of little value to someone living near the river, but it is priceless to a person crossing the Sahara. Trade is a way of delivering goods and services to those who value them most. Second, trade allows traders to gain from specializing in the production of those goods and services they do best. Economists call that the law of comparative advantage. When producers create goods that they are comparatively skilled at, such as Germans producing beer and the French producing wine, those goods

increase in abundance and quality. Third, trade allows consumers to benefit from more efficient methods of production. For example, without large markets for goods and services, large production runs would not be economical. Large production runs, in turn, are instrumental to reducing the cost of a product. The reduction of the cost of production leads to cheaper goods and services, which increases the real standard of living.

Evidence supports the notion that nations more open to trade tend to be richer than nations that are less open to trade. As Columbia University economist Arvind Panagariya puts it: “On the poverty front, there is overwhelming evidence that trade openness is a more trustworthy friend of the poor than protectionism. Few countries have grown rapidly without a simultaneous rapid expansion of trade. In turn, rapid growth has almost always led to reduction in poverty.”²

According to the 2004 *Economic Freedom of the World* report, which measures economic freedom in 123 countries, the per capita GDP in the quintile of countries with the most restricted trading was only US \$1,883 in 2002.

Figure 1
Trade Openness and Per Capita GDP in 2002 (constant 1995 US dollars)



Source: Calculations based on James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: Fraser Institute, 2004) and World Bank, *World Development Indicators Online*, <http://publications.worldbank.org/WDI>.

(It is notable that most SSA countries, with the exception of Botswana, Gabon, Mauritius, Namibia, and South Africa, belong to that lowest income quintile.) In contrast, the 2002 per capita GDP in the quintile of countries with the freest trading regimes was US \$23,938 (see Figure 1). The report also found that countries with more liberal trade policies grew faster than did those with more protectionist economies.³

Developed-World Protectionism

Following the Uruguay round of trade negotiations (1982–1994), the average bound global tariff⁶ on manufactured goods fell to 4 percent.⁷ Developing countries responded to global trade liberalization. Manufacturing goods as a share of total exports of developing countries (other than India and China) rose from one-tenth in 1980 to almost two-thirds in 2001.⁸ The average bound global tariff on agricultural goods, however, remains at 40 percent.⁹ Correspondingly, over the past 20 years, developing countries' share of global agricultural trade remained at 30 percent.¹⁰

Developed-world protectionism restricts the growth of exports from the developing world.¹¹ That is especially true of agricultural goods, which is regrettable, because 73 percent of people in developing countries live in rural areas and 60 percent of the labor force in those countries derives its income from agriculture. Agriculture and agro-related services generate about 40 percent of the developing world's GDP.¹²

The developed world's protection against the developing world's agricultural exports is four to seven times higher than that against the developing world's manufacturing exports.¹³ In addition, many agricultural goods face tariff escalation.¹⁴ Tariffs of up to 500 percent are sometimes applied by the United States, European Union, Japan, and Canada on products that include beef, dairy products, vegetables, fresh and dried fruit, cereals, sugar, prepared fruit and vegetables, wine, spirits, and tobacco.¹⁵

Even special trade deals between the developed and the developing world sometimes discriminate against the latter's products. For instance, the African Growth and Opportunity Act, a preferential trade agreement between the United States and 37 countries in SSA, excludes dairy products, soft drinks, cocoa, coffee, tea, tobacco, nuts, and many types of fabrics.¹⁶ Researchers at the World Bank, the International Monetary Fund, and the University of Maryland found that AGOA stands to yield only 19 to 26 percent of the benefits that it could have yielded if it were comprehensive and unconditional.¹⁷ Europe's Everything But Arms trade agreement with the least developed countries may eventually become more comprehensive.¹⁸ In the meantime, however, the initiative will retain extensive transitional periods for rice, sugar, and bananas.¹⁹

Generous government support or subsidies for agriculture also undercut competition from cheaper products originating in the developing world.²⁰ In 2004, agricultural support in the countries of the Organization for Economic Cooperation and Development came to about US \$280 billion. The European Union's agricultural support amounted to about US \$133 billion, Japan's to US \$49 billion, America's to US \$47 billion, South Korea's to US \$20 billion, Turkey's to US \$12 billion, Canada's and Switzerland's to US \$6 billion each, and Mexico's to US \$5 billion.²¹

Among the most heavily subsidized farmers in the OECD are sugar producers, with an annual support of about US \$6 billion. That amount is almost as high as the total value of all of the developing world's sugar exports. According to some estimates, free trade in sugar would generate around US \$4.7 billion in welfare gains or real income increases in developing countries.²² In 2002, the United States supported its cotton growers to the tune of US \$3.9 billion. European support for cotton production amounted to US \$1 billion. European support to its fishing industry amounts to US \$1 billion a year, while Japanese support for rice growers amounts to 700 percent of the world price.²³

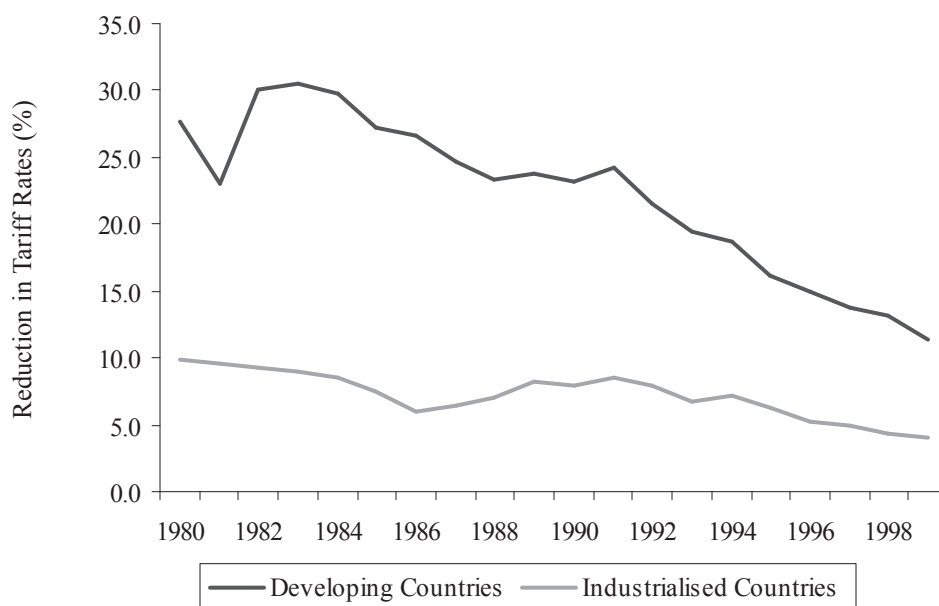
Protectionism makes the developed world's proclamations in favor of free trade sound hollow and hypocritical.

Not all countries in the developing world are equally able to make use of the opportunities arising out of increased access to markets in the developed world.

Agricultural subsidies in rich countries cause overproduction of certain farm products. That agricultural surplus is often dumped on world markets, which depresses prices and undermines unprotected farmers. American support for the cotton industry, for example, drove the world prices of cotton down by 10 to 20 percent in 2002.²⁴ According to Thomas Beierle of Resources for the Future, overproduction in the developed world depresses world commodity prices by 12 percent. Developed countries are also responsible for 80 percent of the global price distortions in agricultural commodities.²⁵ Agricultural dumping is an especially serious problem for many developing countries, where agricultural production enjoys a comparative advantage over the developed world. The CAP alone is estimated to cause US \$20 billion worth of annual losses in poor countries.²⁶

In short, because agriculture is such an important economic sector in developing countries, and because it also receives extensive protection in developed countries, such protectionism undermines market forces and makes the developed world's proclamations in favor of free trade sound hollow and hypocritical. That said, it is important to note that the benefits of trade liberalization by the developed world would be unevenly distributed. At present, not all countries in the developing world are equally able to make use of the opportunities arising out of increased access to markets in the developed world. As will be shown below, while middle income and liberalizing poor countries, such as India and Brazil, are likely to reap great benefits from trade liberalization, the policy environment in SSA is not conducive to rapid expansion of

Figure 2
Reduction of Average (MFN) Applied Tariff Rates in Developing and Industrial Countries (unweighted, 1980–1999)



Source: Matthias Busse, *Tariffs, Transport Costs and the WTO Doha Round: The Case of Developing Countries* (Hamburg: Hamburg Institute of International Economics, 2002), p. 7.

Note: A simple (unweighted) average tariff is calculated by adding up all of the tariff rates and dividing them by the number of import categories. A trade-weighted average tariff “weights each tariff by the share of total imports in that import category.” Both measures are used, although each has specific advantages and disadvantages. For more, see Steven Suranovic, “International Trade Theory and Policy,” The International Economics Study Center, 2005, <http://internationalecon.com/v1.0/ch20/ch20.html>. Average MFN Applied Tariff Rates do not take into account preferential tariffs or tariff reductions under regional trade agreements.

production. Without domestic reforms in SSA, trade liberalization in developed countries will have a very limited effect on the region.

Developing-World Protectionism

Protectionism in developed countries hurts consumers in the developed world as well as some producers in developing countries. But despite substantial tariff reduction over the past 20 years (see Figure 2), applied tariffs in developing countries remain notably higher than tariffs applied by industrial countries.²⁷

As Figure 3 shows, the average applied tariff in the developing world was 12.7 percent in 2001. The richest countries in the developed world, or high-income OECD countries,²⁸ had the lowest average applied tariff rate of 3.7 percent. The poorest nations in the developing world, or low-income countries,²⁹ maintain the highest average applied tariff of 14.8 percent. The average applied tariffs on agricultural and manufacturing goods in the developing world

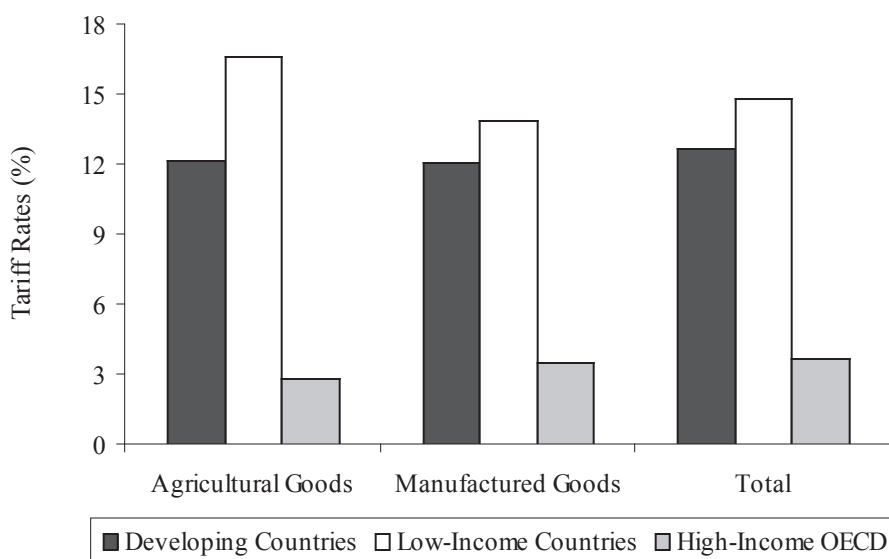
were 15.2 percent and 12.1 percent respectively. In low-income developing countries the respective tariff rates were 16.6 percent and 13.9 percent. By contrast, in high-income OECD countries the average applied tariff on agricultural goods was only 2.8 percent and 3.5 percent on manufactured goods.³⁰

As Figure 4 shows, between 1994 and 2000, the average applied agricultural tariff in the developing world escalated from 16.9 percent on first stage products to 25.4 percent on finished products. In contrast, the average applied agricultural tariff in high-income OECD countries escalated from 4.6 percent to 11 percent. The average applied manufacturing tariff in the developing world escalated from 9.9 percent on first stage products to 15.2 percent on finished products. High-income OECD countries had an average applied manufacturing tariff escalating from 2.9 percent to 4.8 percent.³¹

Despite substantial declines in applied and bound tariffs throughout the world, protectionism is still very much alive. Developing countries' average tariff rates are more than three times higher than those of developed countries, and other types of trade barriers,

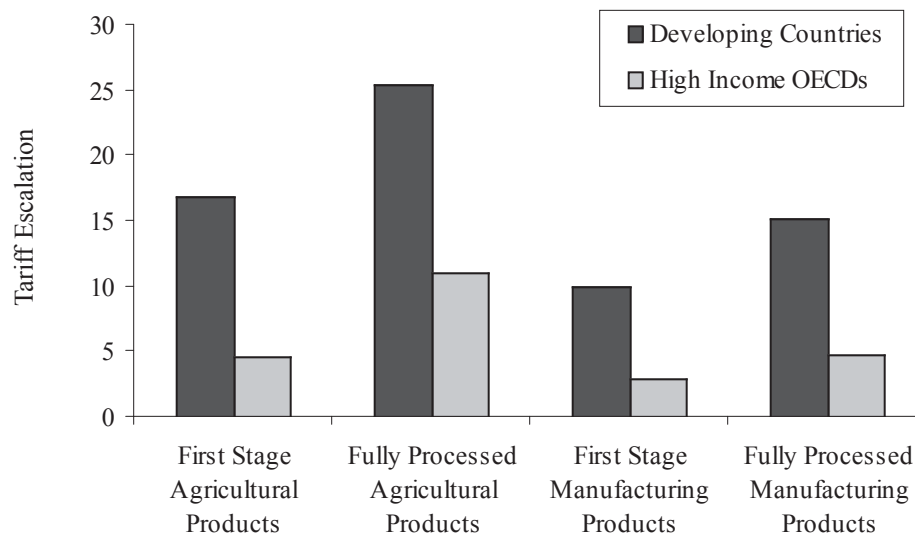
Developing countries have higher tariffs and greater tariff escalation, and initiate more antidumping actions than do developed countries.

Figure 3
Average (MFN) Applied Tariff by Sector for Developing, Low-Income, and High-Income OECD Countries in 2001 (unweighted)



Source: World Bank, "Average MFN Applied Tariff Rates by Sector in Recent Years," *Data on Trade and Import Barriers*, <http://siteresources.worldbank.org/INTRANETTRADE/Resources/tar2000a.xls>.

Figure 4
Average Applied Tariff Escalation in Developing and High-Income OECD Countries (1994–2000)



Source: World Bank, “Tariff Escalation in Developing and Industrial Countries, 1994–2000,” *Data on Trade and Import Barriers*, <http://siteresources.worldbank.org/INTRANETTRADE/Resources/tar2000b.xls>.

such as antidumping measures,³² are on the increase.³³

Estimated Benefits of Trade Liberalization in the Developing World

Developing countries have higher tariffs and greater tariff escalation, and initiate more antidumping actions than do developed countries. Developing countries, therefore, have much to gain from trade liberalization. For example, the World Bank has calculated the possible outcome of trade liberalization that would result from a maximum bound tariff on agricultural goods of 10 percent in industrial countries and 15 percent in developing countries, a maximum bound tariff on manufactured goods of 5 percent in industrial countries and 10 percent in developing countries, and the elimination of export subsidies, domestic subsidies, and antidumping measures. According to the World Bank, by 2015, annual global welfare growth would be US \$286 billion greater than it would have been had no trade liberalization taken place.³⁴

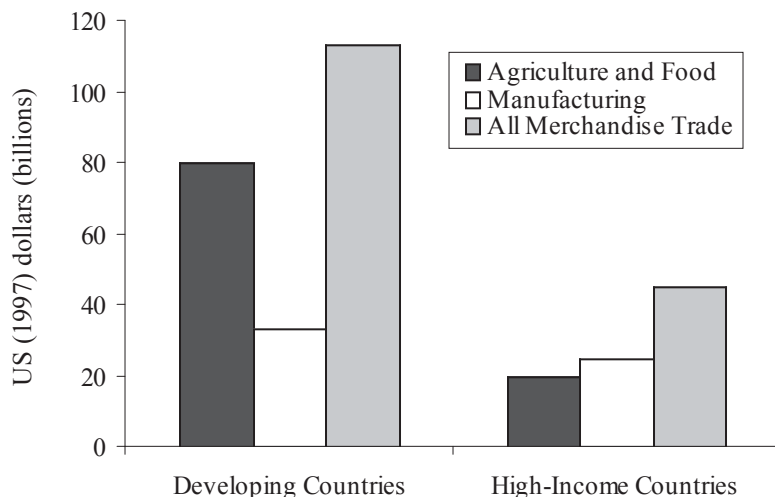
Out of those global gains of US \$286 billion, the developing world would gain approximately US \$100 billion from liberalized trade in agriculture. Approximately US \$80 billion of that gain would result from the liberalization of agricultural trade among developing countries. If high-income countries³⁵ liberalized their agricultural sectors as well, gains for the developing world would amount to an additional US \$20 billion. Similarly, liberalization of trade in manufactured goods in developing countries would gain the developing world US \$33 billion. Liberalization of trade in manufactured goods in high-income countries would result in the developing world gaining an additional US \$25 billion.³⁶

Figure 5 dispels the notion that prosperity in the developing world depends primarily on the liberalization of trade in high-income countries. Liberalization in high-income countries would benefit the developing countries less (US \$45 billion) than liberalization in developing countries (US \$113 billion).

William Cline of the Institute for International Economics estimates global welfare gains resulting from complete elimination of tariffs, export subsidies, input subsidies, and

Liberalization in high-income countries would benefit the developing countries less than liberalization in developing countries.

Figure 5
World Bank Estimates of Developing World's Welfare Gains by 2015 Resulting from Partial Trade Liberalization in Developing and High-Income Countries (billions of US [1997] dollars)



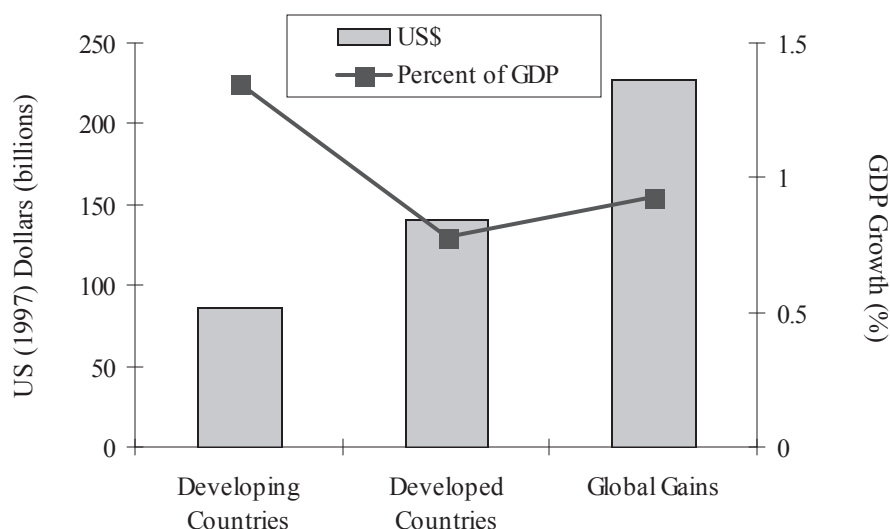
Source: World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington, D.C.: World Bank, 2003), pp. 50–51.

export taxes (see Figure 6).³⁷ Cline estimates immediate global welfare gains of US \$228 billion per year or a 0.93 percent annual increase in global GDP.³⁸ He found that the gains for the developing world would amount to US \$87 bil-

lion, or 1.35 percent of the developing world's GDP, whereas gains for the developed world would amount to US \$141 billion or 0.78 percent of the developed world's GDP.³⁹ Though Cline's scenario results in greater absolute gains

Sub-Saharan Africa is one of the world's most protectionist regions.

Figure 6
Estimates of Welfare Gains (billions of US [1997] dollars) and GDP Growth Resulting from Complete Trade Liberalization



Source: William R. Cline, *Trade Policy and Global Poverty* (Washington: Institute for International Economics, 2004), p. 180.

Although they urge an end to protectionist policies in the developed world, African leaders refuse to open their own markets to foreign competition.

by the developed world, it is important to note that the developing world would make superior relative gains. With its annual GDP growth enhanced by 1.35 percent, the developing world would grow 0.57 percentage points faster than the developed world.⁴⁰

What would be the effect of worldwide trade liberalization on poverty reduction? Under the World Bank scenario, accelerated economic growth brought about by liberalized trade would cut poverty (as measured by a per capita income of less than US \$1 per day) from 29 percent in 1990 to 12.5 percent by 2015.⁴¹

Protectionism in SSA

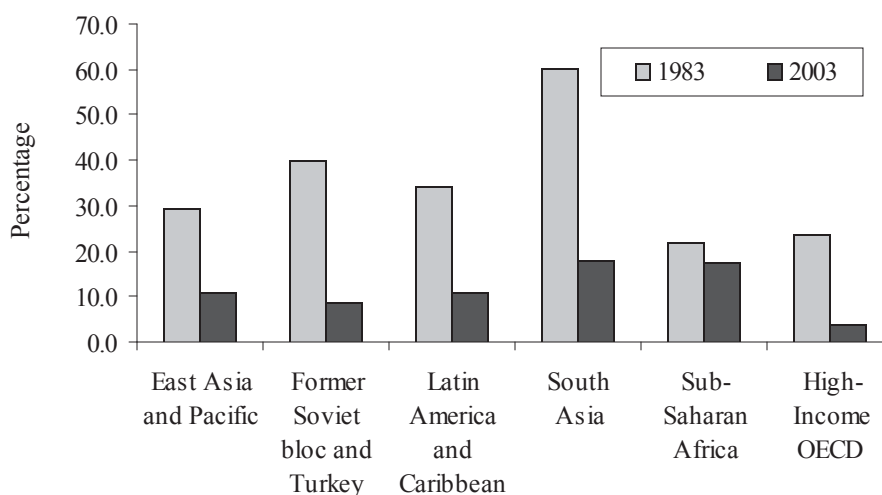
Nowhere is the need for poverty reduction greater than in sub-Saharan Africa—a major part of the African continent that consists of 48 countries, spreads over 9.4 million square miles, and includes more than 700 million people.⁴² According to the UN Human Development Index, which measures human development or basic living standards on a scale from 0 to 1, with 0 being the lowest and 1 being the highest score, SSA's score was 0.468 in 2003. It was

0.655 in the developing world as a whole and 0.929 in the high-income OECD countries.⁴³ According to the UNHDI, SSA lags behind most of the world in practically all indicators of human well-being. The people of SSA suffer from shorter life spans; higher infant mortality; a higher incidence of HIV, malaria, and tuberculosis; a higher incidence of undernourishment; and lower school enrolment.⁴⁴

The region's growth record is poor. Between 1975 and 2000, GDP per capita in high-income OECD countries and the developing world increased at an average annual rate of 2.20 percent and 1.42 percent respectively. The comparable figure for SSA was negative 0.7 percent.⁴⁵ In 2003, SSA's GDP per capita was US \$513. Comparable figures for the developing world were US \$1,289 and for the high-income OECD, US \$28,109.⁴⁶ The percentage of people in SSA living on less than US \$1 a day increased from 47.4 percent in 1990 to 49 percent in 1999.⁴⁷

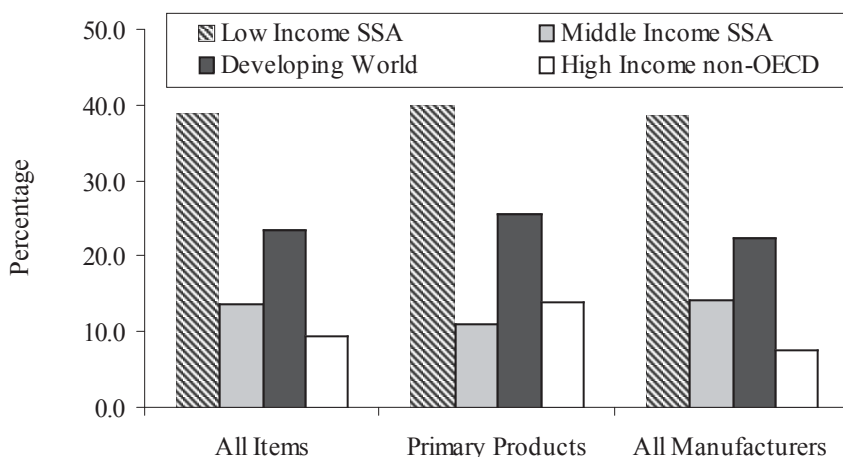
Regrettably, SSA continues to be one of the world's most protectionist regions. Under the Uruguay round, developed countries agreed to slash their bound tariffs by almost 40 percent. In part because of a misconceived policy of special treatment for the least developed countries

Figure 7
Reduction of Average Applied (MFN) Tariff Rates in SSA and Selected Regions between 1983 and 2003 (unweighted)



Source: Francis Ng, *Trends in Average Tariff Rates for Developing and Industrial Countries: 1981–2003* (Washington: World Bank, 2005), Table 1.

Figure 8
Nontariff Barrier Frequency Ratios



Source: Francis Ng and Alexander Yeats, *Good Governance and Trade Policy: Are They the Keys to Africa's Global Integration and Growth?* (Washington: World Bank, 1998), p. 56.

and their concomitant exception from some of the WTO rules, tariffs in SSA remained higher than in the rest of the world.

As Figure 7 shows, average applied tariff rates in SSA remain comparatively high. Whereas average applied tariffs in high-income OECD countries fell from 23.7 percent to 3.9 percent between 1983 and 2003 (a reduction of 84 percent), average applied tariffs in SSA fell only from 22.1 percent to 17.7 percent (a reduction of 20 percent). Though average applied tariffs in South Asia remain as high as average applied tariffs in SSA, South Asia reduced its average applied tariffs from 60.1 percent to 18.2 percent between 1983 and 2003 (a reduction of 70 percent).⁴⁸ The economic growth experienced by South Asia, India in particular, over the past decade and a half can partly be attributed to the upsurge of productivity that was a result of trade liberalization.⁴⁹

In addition to tariffs, there is a plethora of nontariff barriers to trade that SSA countries employ.⁵⁰ In 1998, Francis Ng and Alexander Yeats of the World Bank compiled a frequency ratio, which showed the percentage of tariff lines, or import items, subjected to nontariff protection. As with tariffs, low-income SSA scored higher (39 percent) than the developing world as a whole (23.5 percent). The nontariff

barrier ratio for high-income non-OECD countries was 9.4 percent and for middle-income SSA, 13.7 percent (see Figure 8).⁵¹

The World Bank found that in 1997 SSA countries levied an average applied tariff of 34 percent on agricultural exports from other SSA countries. Industrial countries, by contrast, imposed an average applied tariff of 24 percent on SSA agricultural exports. Similarly, SSA countries maintained an average applied tariff of 21 percent on nonagricultural exports from other SSA countries. Industrial countries imposed an average applied tariff of 4 percent on SSA non-agricultural exports (see Figure 9).⁵²

According to the WTO, only 10 percent of African (including sub-Saharan African) exports were intraregional (i.e.: traded to other African countries). In contrast, 68 percent of exports from countries in Western Europe were exported to other Western European countries. Similarly, 40 percent of North American exports were to other countries in North America. It is notable that Western Europe and North America have regional trade agreements that allowed for a tariff-free and quota-free intraregional movement of goods.⁵³ Though African trading blocs do exist, movement of goods is seldom free.⁵⁴ Too often, the only tangible result of regional trade agreements in Africa is the creation of bloated

The case against trade liberalization in Africa is made despite rapid economic growth experienced by relatively open African countries, such as Botswana and Mauritius.

SSA countries continue to find it difficult to keep up with the rest of the world, even when they are protected from competition.

and ineffectual bureaucracies. African protectionism is among the highest in the world, which partly explains why trade among African countries remains relatively low (see Table 1).⁵⁵

The Hypocrisy of African Leaders

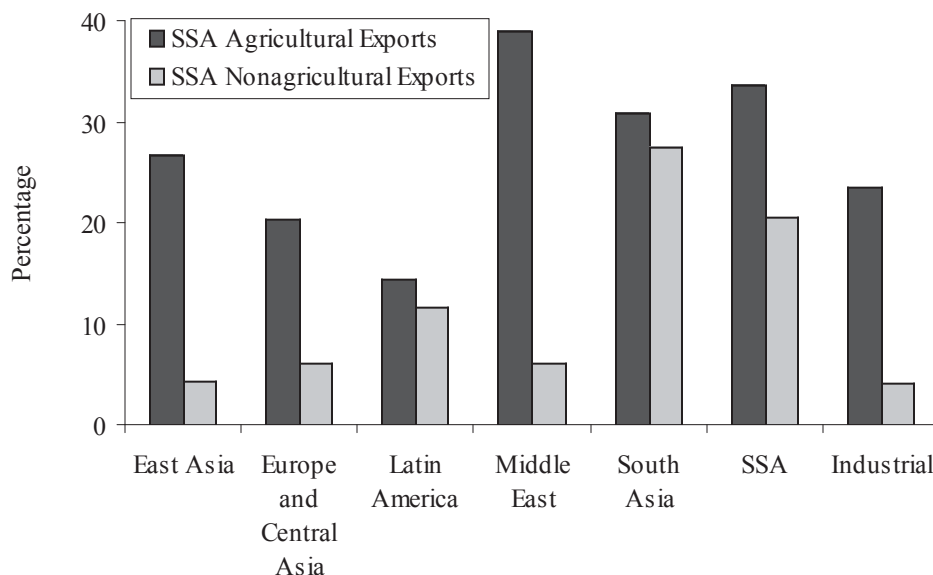
Many African leaders have called for further trade liberalization. But, although they urge an end to protectionist policies in the developed world, African leaders refuse to open their own markets to foreign competition. For example, the African Union meeting in Libya in June 2005 called for “the abolition of [the developed world’s] subsidies that stand as an obstacle to trade,” but produced no concrete results on intra-African trade liberalization.⁵⁶ Speaking at the AU meeting, Uganda’s trade ambassador, Nathan Irumba, urged African leaders to “reject the straightjacket of radical tariff reductions, which would pose terrible risks for our domestic industries and jobs.”⁵⁷

Similarly, South African president Thabo Mbeki called for an end to the U.S. and EU farm subsidies. Referring to the September

2005 summit of leaders at the United Nations, Mbeki complained that the meeting had not achieved the necessary breakthrough on trade. “How serious is the developed world about this partnership to address this matter of poverty?” he asked.⁵⁸ Yet, as a member of the Group of 21 developing nations (G-21), South Africa derailed the Doha round of trade negotiations by walking out of the 2003 ministerial meeting in Cancun.

As Alan Oxley, the former head of the General Agreement on Tariffs and Trade, explains, South Africa has moved away from trade liberalization in recent years. South Africa’s negotiating position now more closely resembles ideas espoused by the British development and relief organization Oxfam, the Southern and Eastern African Trade Negotiations Institute, and a nonprofit organization called the Third World Network. Those organizations favor developed-world trade liberalization, while rejecting similar policies in the developing world. In September 2005, for example, while the G-20 group (formerly G-21) was meeting in Pakistan, Oxfam issued a press release urging the group “to make sure [that] developing countries are not forced to cut their tariffs too quickly but retain sufficient flex-

Figure 9
Average Applied (MFN) Tariffs on SSA Exports (import-weighted)



Source: World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington: World Bank, 2003), p. 82.

Table 1
Percentage Share of Interregional Trade Flows in Each Region's Total Merchandise Exports in 2003

Exporting Region	Importing Region						
	North America	Latin America	Western Europe	CEE/CIS/Baltics	Africa	Middle East	Asia
North America	40.5	15.4	18.1	0.8	1.2	2.1	22
Latin America	57.8	15.6	13.6	1.2	1.4	1.2	7.6
Western Europe	9.5	1.8	67.7	6.8	2.5	2.6	7.9
CEE/Baltics/CIS	4.6	1.7	56.8	24.5	1.1	2.3	7.6
Africa	18.9	2.5	48.4	0.6	10.2	1.5	17.7
Middle East	15.5	0.9	16.0	0.8	3.5	7.3	48.6
Asia	22.5	2.2	16.8	1.7	1.7	3	49.9
World	19.8	4.4	41.7	4.9	2.2	2.7	22.6

Source: World Trade Organization, *Intra- and Inter-regional Merchandise Trade: 2003* (Geneva: World Trade Organization, 2004), Table III.3.

ibility to protect sensitive sectors.”⁵⁹

Organizations such as Oxfam have been very influential, Oxley believes, in convincing the African bloc in the WTO in general and South Africa in particular of the need for domestic protectionism. An African return to protectionism would be bad news not only for African countries, but also for the future of the WTO. African countries aside from South Africa account for a mere 0.6 percent of global trade, but constitute the largest voting bloc in the WTO. If they succeed in derailing future trade negotiations, global trade could suffer.⁶⁰

Unfortunately, free trade continues to be misunderstood by many leaders in SSA and beyond. Perhaps the most important misunderstanding concerns the positive impact of foreign competition on stimulating domestic production. Imports are often seen as a threat, which is why SSA leaders emphasize exports and access to developed world markets as opposed to opening their own countries to foreign goods.

That view is mistaken. Imports increase specialization, and increased specialization leads to increased productivity. Reduction of the cost of production then leads to cheaper goods and services, which, in turn, increases

the real standard of living. That is why people living in more open economies tend to be richer. As Mary O’Grady of the *Wall Street Journal* recently opined, “The beauty of free trade is that it increases competition. Preferential trade agreements may make a small segment of elite exporters better off. But it is importing—not exporting—that is the critical step in the process of wealth creation in the developing world. Access to low-priced inputs allows for productivity gains at home. Outside competition spurs innovation. Producers become more export competitive, as unilateral opening in both Chile and New Zealand have demonstrated.”⁶¹

Preferences Do Not Help Economic Growth in SSA

Critics of trade liberalization argue that the world’s poorest countries ought to be sheltered from competition and subjected to special rules. The case against trade liberalization in Africa is made despite rapid economic growth experienced by relatively open African countries, such as Botswana and Mauritius. In fact, the WTO agreements already contain special rules for many developing countries, called

Trade liberalization in SSA needs to be followed by domestic reforms.

**SSA and India
are among the
world's poorest
regions, but India
grew faster.**

“special and differential treatment.” Besides providing developing countries with trade preferences and technical assistance, special and differential treatment allows developing countries to defer implementation of WTO agreements on trade liberalization.⁶²

But preferential treatment for exports from the developing world does not mean that the developing world will automatically benefit. For example, the World Bank has found that “only 39 percent of potentially preferred imports under the Generalized System of Preferences into . . . Canada, the EU, Japan, and the United States actually took advantage of preferential access—and usage rates are declining.”⁶³ The reasons for disappointing export performance by many countries in the developing world are often more complex than the critics admit.

It is true that preferential treatment agreements are sometimes laden with restrictions, such as excessive health and safety regulations and administrative costs, which raise the costs of production for developing world producers.⁶⁴ But domestic conditions in the exporting countries matter greatly. Political instability and regulatory restrictions, for example, prevent businesses from expanding and becoming more efficient. Lack of domestic economic expansion prevents developing countries from fulfilling their export quotas. Moreover, inefficient production can often price the developing world's exports out of the developed world's markets.

Here, SSA may serve as a case in point. In a 1996 study, Francis Ng and Alexander Yeats of the World Bank found that average applied EU tariffs on goods from SSA ranged from zero to 0.5 percent. The average preference margins SSA countries enjoyed were in the 2- to 4-percentage-point range. To put it differently, SSA countries faced average applied tariffs that were 2 to 4 percentage points below those paid by other exporters of similar products to the EU. South Korea's exports, for example, faced an average applied tariff rate that was 4.2 percentage points higher than those from SSA countries.⁶⁵ Yet SSA's tariff advantage over its competitors did not seem

to have a significant positive effect on growth. Between 1990 and 1999, South Korea grew at an average annual rate of 5.1 percent, while SSA contracted at an average annual rate of 0.64 percent.⁶⁶

SSA exports to the United States and Japan enjoyed lower margins of preference. Yet even in the United States and Japan, exports from SSA countries were treated better than exports from other regions. Overall, SSA received more favorable treatment than other exporters of the same products. Preferential access of SSA goods to some of the world's largest markets, including Europe, Japan, and the United States made the negative impact of developed-world protectionism on SSA minimal. As Ng and Yeats noted, “foreign protectionism is not responsible” for poor trade and economic performance in SSA.⁶⁷

Even though “thanks to tariff preferences, exporters in sub-Saharan Africa face slightly lower tariffs than do exporters elsewhere,”⁶⁸ as Kym Anderson, Will Martin, and Dominique van der Mensbrugghe observe, SSA's share of the world's exports has declined from 2.5 percent in 1980 to 0.9 percent in 1999. SSA's share of world imports also fell from 2.1 to 1.0 percent between 1980 and 1999.⁶⁹ SSA countries continue to find it difficult to keep up with the rest of the world, even when they are protected from competition.

Estimated Benefits of Trade Liberalization in SSA

In a recent paper, Kym Anderson, Will Martin, and Dominique van der Mensbrugghe of the World Bank estimated the dollar value of SSA welfare gains resulting from full liberalization of global merchandise trade.⁷⁰ Taking 2001 as the base year, the authors estimated that by 2015 annual welfare growth in SSA would be US \$4.8 billion⁷¹ greater than it would have been had no trade liberalization taken place.⁷² However, it is notable that SSA welfare gains from global trade liberalization would be smaller than those of many other developing regions, including Latin America

and the Caribbean, which would gain almost US \$29 billion (see Figure 10).⁷³

Moreover, World Bank research shows that SSA stands to gain from internal trade liberalization. Denis Medvedev of the World Bank's Development Prospects Group has estimated the welfare gains that SSA would receive from simple tariff liberalization among countries in SSA.⁷⁴ He estimated that by 2015 annual welfare growth in SSA would be US \$1.746 billion greater than it would have been had no intra-SSA trade liberalization taken place.⁷⁵ That would amount to 36.4 percent of welfare gains that SSA stands to receive from full liberalization of global merchandise trade (US \$4.8 billion). Intra-SSA trade would increase by 54 percent—an increase of US \$12.6 billion.

According to the World Bank, "Even if Sub-Saharan Africa could turn falling per capita incomes into annual increases of 1.6 percent—an assumed baseline scenario—its rate of growth would be less than one-third the rate of growth that is expected in East Asia. The relatively poor performance of Sub-

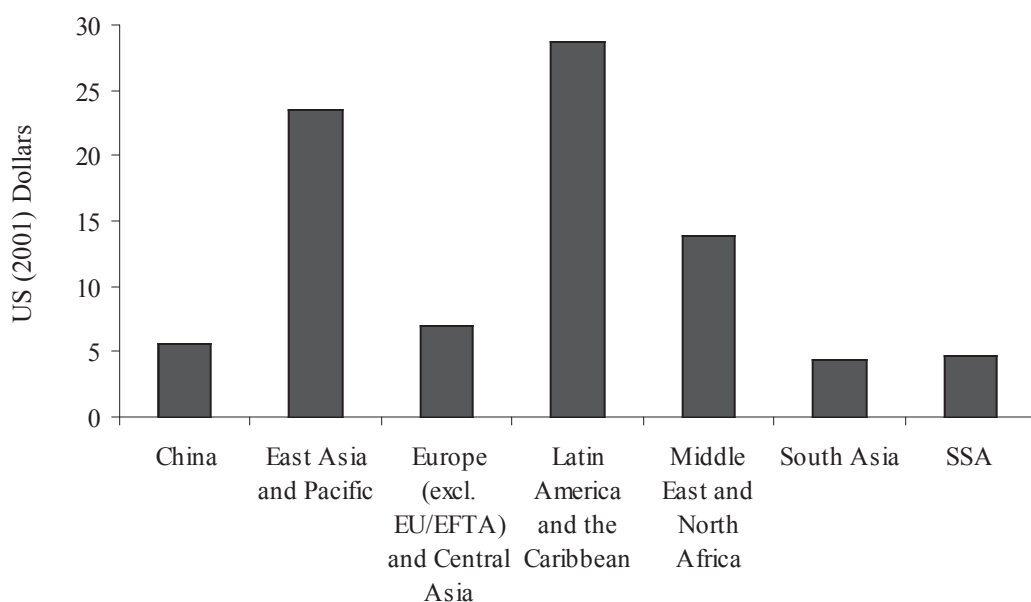
Saharan Africa makes the MDGs [millennium development goals] for that region especially challenging. For example, under the baseline scenario the percentage of people living on US \$1 per day or less will be only 42.3 percent in 2015 instead of 24 percent as targeted by the MDGs."⁷⁶

William Cline estimates that full trade liberalization would result in 20 percent poverty reduction across the world. According to Cline, out of approximately 2.75 billion people living on less than US \$2 per day, 540 million could be brought out of poverty by 2015. However, he warns, "a greater share of poverty reduction . . . [would be] found in Asia, and lesser shares in sub-Saharan Africa." Asia and SSA are the two poorest regions in the world, yet according to Cline's study, Asia would reduce its poor population by 23 percent, whereas SSA would reduce its poor by only by 12 percent.⁷⁷

Trade liberalization in SSA, therefore, needs to be followed by domestic reforms, which are necessary to ensure that capital remains in SSA and is put to productive use

The Commission for Africa reported, "A major problem Africa faces is its weak capacity to trade—driven by its low productivity and poor competitiveness."

Figure 10
Welfare Gains in SSA and the Rest of the Developing World from Full Liberalization of Global Merchandise Trade, 2015 (billions of 2001 U.S. dollars)



Source: Kym Anderson and Will Martin, *Agricultural Trade Reform and the Doha Development Agenda* (Washington: World Bank, July 2005), p. 32.

Economic freedom in SSA has trailed that of the rest of the world throughout the years of African independence.

there. As Arvind Panagariya observes: “While trade openness is empirically more or less necessary for rapid growth, it is not sufficient by itself. There are complementary conditions, such as macroeconomic stability, credibility of policy, and enforcement of contracts, without which the benefits of openness may fail to materialize.”⁷⁸

Need for Domestic Reforms in SSA

The divergence of economic performance between SSA and India in recent decades illustrates the importance of economic reforms in addition to trade liberalization. SSA and India are among the world’s poorest regions, but India grew faster despite being more protectionist than SSA (see Table 2). Between 1980 and 2000, Indian GDP per capita grew at an average annual rate of 3.6 percent. Over the same period, SSA GDP per capita contracted at an average annual rate of 0.6 percent.⁷⁹ The percentage of people in SSA living on less than US \$1 a day increased from 41.6 percent in 1981 to 46.9 percent in 2001. Over the same time period, the percentage of people in India living on less than US \$1 a day declined from 54.4 percent to 34.7 percent.⁸⁰

Given that there were similar levels of trade protectionism in India and SSA between 1980 and 2000, what explains their differing rates of growth? The reason is that India has other attributes that make economic growth possi-

ble. India’s overall economic freedom, for example, has been consistently higher than that of SSA between 1980 and 2000 (see Table 2). Also, India is politically stable, while many SSA countries continue to be mired in internal conflict.⁸¹

In a recent report, the IMF acknowledged the link between the quality of domestic institutions as measured by the *Economic Freedom of the World* report and economic growth:

It is widely accepted that sustained high rates of economic growth are the key to further progress . . . With considerable progress having been made toward a stable macroeconomic environment—an essential precondition for sustained growth—the challenge has increasingly become how to improve the quality of domestic institutional frameworks (such as stronger property rights, lower corruption, and better governance). . . . If institutions in Africa could be improved to the level of developing Asia, African per capita GDP might be expected to almost double over the long term.⁸²

In 1997, Jeffrey Sachs of Columbia University also argued that the lack of economic growth in SSA countries was greatly influenced by poor domestic economic policies. Writing with Andrew Warner of Harvard University, Sachs opined: “Our findings do not mean that Africa’s colonial legacy, ethnic divisions, or particular geographical difficulties are unimportant. . . . At the same time, however, our estimates

Table 2
Economic Freedom and Freedom to Trade in SSA and India (1980–2000)

	1980	1985	1990	1995	2000	Average
Economic freedom in SSA	4.8	4.7	4.8	5.0	5.6	4.98
Economic freedom in India	5.2	4.9	4.9	5.6	6.2	5.36
Freedom to trade in India	4.2	3.6	3.9	4.7	5.5	4.38
Freedom to trade in SSA	4.8	5.0	5.2	5.8	6.1	5.38

Source: Calculations based on James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: Fraser Institute, 2004).

support a more optimistic view about Africa's future than is sometimes expressed, because the quantitative results suggest that poor policies and institutions explain a large share of the slow growth, and that better policies would contribute to stronger economic performance."⁸³

Ng and Yeats corroborated those findings in a study that found that more than 60 percent of the variation in economic performance in SSA could be ascribed to domestic policies of SSA countries. According to the authors, SSA "countries have generally adopted the most inappropriate fiscal, monetary, property and wage policies, and their own trade barriers are among the highest of any regional group."⁸⁴

Also, British prime minister Tony Blair's Commission for Africa, established in 2004 to look at the challenges of economic development in SSA, reported, "A major problem Africa faces is its weak capacity to trade—driven by its low productivity and poor competitiveness."⁸⁵ In addition to the relative lack of trade openness among African countries, the commission identified a number of important domestic impediments to economic growth. According to the commission, in order to reap the benefits of increased market access in the developed world, African governments will need to address the following:

- Stability and integrity of their legal systems. Without a functioning court system investors cannot be sure their contracts will be enforced. SSA, for example, has few lawyers, many of whom are subject to bribes and intimidation by the political elite. For instance, Sierra Leone, with 6 million people, has only 125 lawyers, and cases take three to four years to get to court.⁸⁶
- Poor governance, inefficient bureaucracies, and corruption. African governments tend to be unaccountable to the people over whom they rule. Instead, they function to further the objectives of the political elites. The constitutional structures, legal system, and civil society are not strong enough to insist on the transparency of the budgetary process, which leads to corruption and embezzlement by government officials.⁸⁷

Stolen African assets held in overseas bank accounts, the Commission reported, may account for as much as half of the continent's external debt.⁸⁸

- Overregulation that stifles private sector growth. As the examples of Uganda and Mozambique show, improvement in the regulatory environment, including cutting of red tape, can result in dramatically increasing the amount of private sector investment in the economy and impressive economic growth.⁸⁹
- Lack of good infrastructure, including dilapidated roads, railways, ports, and airports that increase transport costs and reduce economic activity. For example, shipping a car from Japan to Abidjan, Côte D'Ivoire, costs \$1,500, but shipping the same car from Abidjan to Addis Ababa, Ethiopia, costs US \$5,000.⁹⁰
- Lack of regional integration. Many regional free-trade initiatives in Africa, including the pan-African Economic Community that is to be created by 2025, remain little more than ambitious commitments.⁹¹
- Nontariff barriers such as customs delays. SSA suffers from the highest average custom delays in the world. While many of the formerly closed economies of Central and Eastern Europe, Estonia and Lithuania in particular, require only one day for customs clearance, Ethiopia requires 30 days. The average customs delay in SSA is 11.4 days, while average customs delay in Western Europe is 3.9 days.⁹²

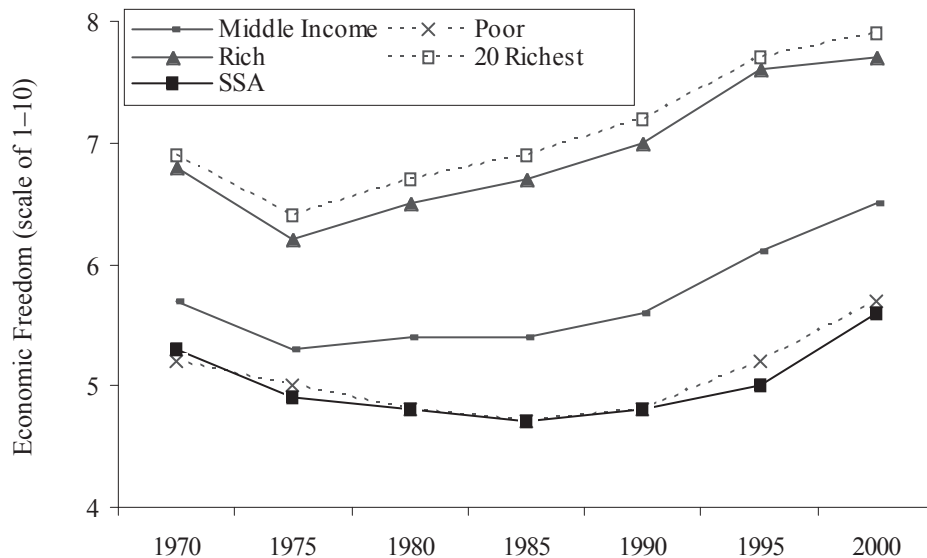
Regrettably, economic freedom in SSA has trailed that of the rest of the world throughout the years of African independence (see Figure 11). It will take a major effort on the part of the SSA governments to bring those institutions up to the level necessary to produce sustained high rates of growth.

Capital Flight from SSA

Capital outflow continues to be one of the most damaging consequences of bad govern-

Unless economic and political conditions become conducive to investment, domestic capital will continue to flow overseas and foreign capital will continue to avoid SSA.

Figure 11
Economic Freedom in SSA and the Rest of the World (1970–2000)



Source: Calculations based on James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: Fraser Institute, 2004).

The membership of the “rich nations’ club” changes all the time, depending on the quality of domestic policies and institutions among the member states.

ment on the African continent. Much of the money that leaves Africa and is held in foreign accounts has been embezzled by corrupt rulers and government officials. For example, Felix Houphouët-Boigny, the late president of Côte d’Ivoire, was reputed to have amassed a personal fortune of US \$12 billion. In 1983 he declared: “I do have assets abroad. But they are not assets belonging to Côte d’Ivoire. What sensible man does not keep his assets in Switzerland, the whole world’s bank? I would be crazy to sacrifice my children’s future in this crazy country without thinking of their future.”⁹³

Many Africans who make their money in legitimate ways share Houphouët-Boigny’s aversion to keeping their assets in Africa. According to Paul Collier of the World Bank, Anke Hoeffler of Oxford University, and Catherine Pattillo of the IMF, wealthy Africans hold 39 percent of their assets abroad, while East Asians hold only 6 percent of their assets abroad.⁹⁴ A study by James K. Boyce and Leonce Ndikumana of the University of Massachusetts estimated capital flight of US \$285 billion from 25 out of 48 SSA countries between 1970 and 1996.⁹⁵ According to Boyce and Ndikumana, the combined external debt of those countries stood at US \$178 billion in 1996,

suggesting that SSA may be a net creditor vis-à-vis the rest of the world. Percy S. Mistry of the Oxford International Group estimated that the value of the capital held by Africans abroad amounted to between US \$700 billion and US \$800 billion in 2005.⁹⁶ According to George Ayittey of American University, capital flight from SSA equals US \$20 billion per year. That figure implies that for every dollar lent to SSA in recent decades, 80 cents has returned to developed countries because of capital flight.⁹⁷

Unless economic and political conditions become conducive to investment, domestic capital will continue to flow overseas and foreign capital will continue to avoid SSA. In turn, lack of capital investment will continue to retard private-sector growth, job creation, and improvement of the real standard of living for millions of Africans.

The Road to Development: Free Trade and Good Domestic Policies

Research by James Gwartney and Robert Lawson suggests that developing countries

that combine free trade with the right set of domestic policies tend to grow faster than other countries do. *The Economic Freedom of the World* report, coauthored annually by Gwartney and Lawson, ranks more than 120 countries around the world according to the degree of economic freedom that their citizens enjoy. The economic freedom index is a composite score of 38 variables measuring size of government; legal structures and security of property rights; sound money; regulation of credit, labor, and business; and freedom to trade with foreigners.

Economic freedom (including freedom to trade) is measured on a scale from 0 to 10, where 10 represents the highest measured level of freedom and 0 represents the lowest measured level of freedom. According to the data, between 1980 and 2000, Indonesia's economic freedom and freedom to trade tended to be greater than those of Côte d'Ivoire (see Table 3). Between 1980 and 2000, Côte d'Ivoire's GDP per capita contracted at an average annual rate of 2.4 percent. Over the same time period, the

Indonesian GDP per capita grew at an average annual rate of 3.7 percent.⁹⁸ Measured in constant 2000 U.S. dollars, the 1980 GDP per capita in Indonesia was US \$397. In Côte d'Ivoire it was US \$946. In 2000, Indonesia's GDP per capita was US \$800. In Côte d'Ivoire it had fallen to US \$670.⁹⁹

Most African countries shared Côte d'Ivoire's experience of decline. Botswana is a rare exception. Between 1980 and 2000, Botswana's economic freedom and freedom to trade have been the highest in Africa (see Table 4). Between 1980 and 2000, Botswana's GDP per capita grew at an average annual rate of 4.9 percent. Over the same period, SSA GDP per capita contracted at an average annual rate of 0.6 percent.¹⁰⁰ Today Botswana's citizens enjoy one of Africa's highest standards of living. Their 2000 GDP per capita in constant US (2000) dollars was \$3,135. Only oil-rich Gabon and market-friendly Mauritius had higher incomes. In 2000, average GDP per capita in SSA was US \$504.¹⁰¹

The positive relationship between higher degrees of economic freedom and faster eco-

Blaming African poverty on outside forces takes the spotlight away from decades of failed economic policies, wholesale looting, and loss of countless lives to political repression and ethnic conflicts.

Table 3
Economic Freedom and Freedom to Trade in Côte d'Ivoire and Indonesia (1980–2000)

	1980	1985	1990	1995	2000	Average
Economic freedom in Côte d'Ivoire	5.4	5.5	5.2	5.4	5.7	5.44
Economic freedom in Indonesia	5.1	6.1	6.4	6.4	5.9	5.98
Freedom to trade in Côte d'Ivoire	5.7	5.9	5.2	5.8	5.9	5.7
Freedom to trade in Indonesia	6.7	6.3	6.4	6.3	7.7	6.68

Source: Calculations based on James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: Fraser Institute, 2004).

Table 4
Economic Freedom and Freedom to Trade in Botswana and SSA (1980–2000)

	1980	1985	1990	1995	2000	Average
Economic freedom in Botswana	5.6	5.8	5.8	6.4	7.2	6.16
Economic freedom in SSA	4.8	4.7	4.8	5.0	5.6	4.98
Freedom to trade in Botswana	7.2	7.2	7.4	6.8	7.8	7.28
Freedom to trade in SSA	4.8	5.0	5.2	5.8	6.1	5.38

Source: Calculations based on James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: Fraser Institute, 2004).

The benefits of trade liberalization will be severely restricted unless trade opening is accompanied by far-reaching economic and political changes on the African continent.

economic growth that could be observed in the African context can also be seen internationally. The membership of the “rich nations’ club” changes all the time, depending on the quality of domestic policies and institutions among the member states (see Figure 12). As the British economist Angus Maddison observes, the per capita income in Argentina in 1900 was US \$2,756 or 67 percent that of the United States (US \$4,091).¹⁰² A series of policy mistakes over the course of the 20th century on the part of the Argentinean decisionmakers reduced Argentina’s economic freedom and led to her relative decline. In 1999, before the crash of 2001, GDP per capita in Argentina (US \$8,711) was 32 percent that of the United States (US \$27,395).¹⁰³

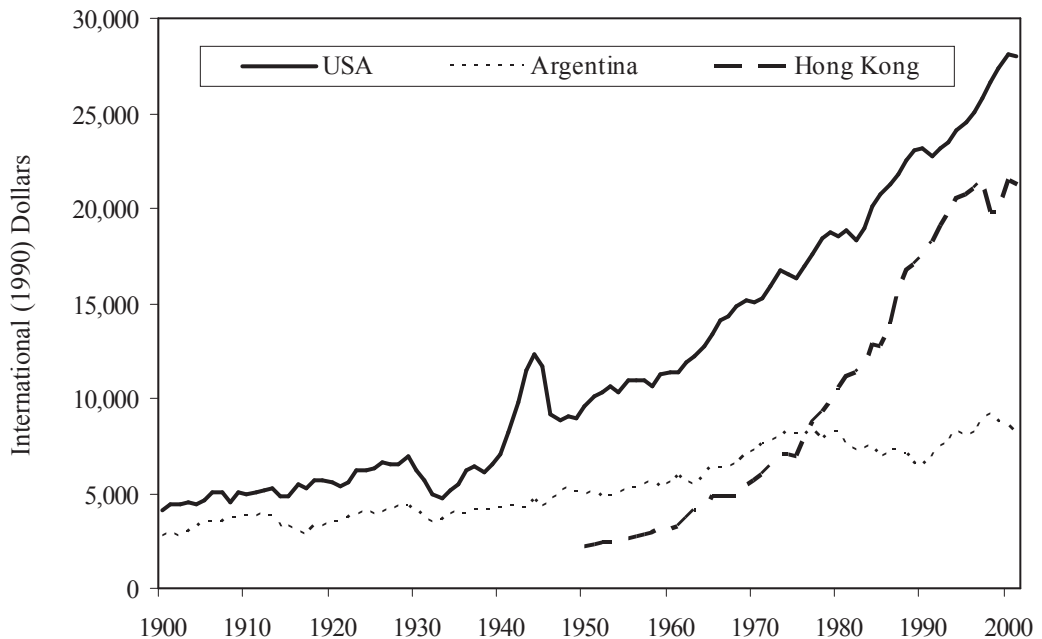
While Argentina grew poorer relative to the United States, Hong Kong was busy catching up. In 1950, Hong Kong’s per capita GDP was US \$2,218, or 23 percent that of the United States (US \$9,561). In 1999, its residents enjoyed a per capita income of US \$19,819, or 72 percent that of the United States (US \$27,395).

Economic growth in Argentina, the United States, and Hong Kong mirrored the changing character of those countries’ domestic policies. As Table 5 shows, between 1980 and 2000, Argentina’s economic freedom and freedom to trade lagged behind those of the United States and Hong Kong. During that period, Argentina’s average annual GDP growth rate was 0.2 percent. Comparable figures for the United States and Hong Kong were 2 percent and 4.2 percent respectively.¹⁰⁴

Conclusion

Much of the debate about poverty in SSA continues to portray Africans as passive observers of the global trading system, not active participants. SSA is destined to remain poor, the conventional wisdom holds, unless the rich countries change their economic policies.¹⁰⁵ African leaders are only too happy to play their part in that charade. Blaming African poverty on forces beyond the control of Africa’s

Figure 12
Growth in Per Capita Incomes in Argentina, Hong Kong, and the United States (international [1990] dollars)



Source: Angus Maddison, *The World Economy: Historical Statistics* (Paris, France: OECD, 2003), <http://www.eco.rug.nl/~Maddison/>.

Table 5
Economic Freedom and Freedom to Trade in Argentina, Hong Kong, and the United States (1980–2000)

	1980	1985	1990	1995	2000	Average
Economic freedom in Hong Kong	8.6	8.4	8.2	9.1	8.7	8.6
Economic freedom in USA	7.5	7.7	7.9	8.3	8.6	8.0
Economic freedom in Argentina	4.3	3.9	4.8	6.7	7.2	5.38
Freedom to trade in Hong Kong	9.6	9.6	9.6	9.7	9.8	9.66
Freedom to trade in USA	8.1	7.8	7.8	7.9	8.1	7.94
Freedom to trade in Argentina	4.4	2.9	4.3	7.0	6.4	5.0

Source: Calculations based on James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: Fraser Institute, 2004).

political elites takes the spotlight away from decades of failed economic policies, wholesale looting of Africa's wealth, and loss of countless lives to political repression and ethnic conflicts. What is more, that blame game seems to be succeeding. An "advanced" Google search on "African protectionism" yields 13 hits, while searches on "U.S. protectionism" and "EU protectionism" yield 29,800 hits and 689 hits respectively.

But blaming others will do little to improve the lives of millions of poor Africans. In order to escape poverty, SSA countries must begin by liberalizing their trade with one another and with the rest of the world. They should do so regardless of what the developed world does. SSA should not fear unilateral liberalization. India, China, Hong Kong, Singapore, South Korea, Taiwan, Chile and many other developing countries have done so in the past and reaped the benefits.

Trade opening will result in welfare gains for SSA. But those welfare gains will not be on a scale that will drastically reduce African poverty. Indeed, the benefits of trade liberalization will be severely restricted unless trade opening is accompanied by far-reaching economic and political changes on the African continent. If there is no improvement in governance, including the rule of law and corruption, domestic and foreign investors will continue to avoid SSA. Economic growth will remain low, as will employment and real incomes.

But trade can play a role in promoting

prosperity by increasing competition and changing the dynamic of a political economy that keeps privileged groups protected. Many reforms are necessary, but a good place to start is with freeing trade at home. Thus, most of the steps that are necessary for SSA to prosper rest in the hands of African governments. If African political elites are serious about improving the lot of the African people, they must first look to their own actions and stop blaming others for the poverty on the African continent.

Notes

I would like to thank Zuzana Jalcova, Gabriela Calderon, Lauri Tahtinen, Louis Zemborain, and Simon Njoroge for their assistance in producing this paper.

1. James Gwartney and Richard Stroup, *What Everyone Should Know about Economics and Prosperity* (Vancouver: Fraser Institute, 1993), p. 8.

2. Arvind Panagariya, "Miracles and Debacles: Do Free-Trade Skeptics Have a Case?" p. 2, http://www.columbia.edu/~ap2231/Policy%20Papers/miracles%20and%20debacles-panagariya-rev-March_04.pdf. See also Jeffrey Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity*, no. 1, 1995.

3. James Gwartney and Robert Lawson, *Economic Freedom of the World: 2004 Annual Report* (Vancouver: The Fraser Institute); and World Bank, *World Development Indicators Online*, <http://publications.worldbank.org/WDI>.

4. Figures are in U.S. (1995) dollars.
5. Ibid.
6. A tariff is a tax on goods produced abroad imposed by the government of the country to which they are exported. The tariff makes imported goods more expensive, thus favoring domestic producers. An applied tariff is a tariff that is actually levied on an imported item. It is often lower than the bound tariff, which is the maximum tariff rate that parties to GATT/WTO negotiations agreed to apply. Bound rates are enforceable under GATT/WTO rules. If a GATT/WTO contracting party raises a tariff above the bound rate, the affected countries have the right either to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs on the other products they export to the offending country.
7. Organization for Economic Cooperation and Development, "OECD Calls for Further Reforms in World Agricultural Trade," May 4, 2001, http://www.oecd.org/document/48/0,2340,en_2649_33785_1918640_119690_1_1_1,00.html.
8. World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington: World Bank, 2003), p. 63, <http://www.worldbank.org/prospects/gep2004/full.pdf>. Hereinafter *Global Economic Prospects 2004*.
9. Organization for Economic Cooperation and Development, "OECD Calls for Further Reforms in World Agricultural Trade."
10. *Global Economic Prospects 2004*, p. 104.
11. This paper frequently refers to World Bank data. When so, the following definitions should be kept in mind. According to the World Bank, the developing world consists of 61 low-income, 56 lower middle-income, and 37 upper middle-income countries. The world's economies are divided according to 2002 GNI per capita, calculated using the World Bank Atlas Method. The groups are: low-income, US\$735 or less; lower middle-income, US\$736–\$2,935; and upper middle-income, US\$2,936–\$9,075. High-income countries with an annual per capita income of US\$9,076 or more constitute the developed world. High-income countries are divided into 24 high-income OECD countries and 33 high-income non-OECD countries. For complete list, see *Global Economic Prospects 2004*, pp. 296–97.
12. Ibid., p. 103.
13. Ibid., pp. xvi–vii.
14. Tariff escalation implies higher import duties on semiprocessed products than on raw materials and even higher tariffs on finished goods. Tariff escalation protects domestic processing industries and discourages the development of processing industries in the countries where raw materials originate.
15. Christopher Stevens, "Food Trade and Food Policy in Sub-Saharan Africa: Old Myths and New Challenges," *Development Policy Review* 21, no. 5 (2003): 669–81. See also "Global Economic Prospects 2004," p. 104.
16. For a complete list of African countries eligible for AGOA, see African Growth and Opportunity Act, AGOA Country Eligibility, http://agoa.info/index.php?view=about&story=country_eligibility.
17. Aaditya Mattoo, Devesh Roy, and Arvind Subramanian, *The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined?* (Washington: International Monetary Fund, 2002), p. 1.
18. For a complete list of least developed countries eligible for EBA, see <http://europa.eu.int/comm/trade/issues/global/gsp/eba/ug.htm>.
19. Johan Norberg, *In Defense of Global Capitalism* (Washington: Cato Institute, 2003), p. 161.
20. Subsidies may take the form of production subsidies aimed at increasing output or export subsidies aimed at making exports more competitive in the global market. In addition, countries may choose to employ taxes known as countervailing duties to counteract subsidies provided to foreign producers. Subsidies are ultimately harmful, because they require financial transfers from more productive to less productive sectors of the economy in the form of taxes and because they keep the prices of domestically produced goods artificially high.
21. Organization for Economic Cooperation and Development, *Agricultural Policies in OECD Countries* (Paris: OECD, 2005), pp. 38–39. For a list of OECD members, see http://www.oecd.org/document/58/0,2340,en_2649_201185_1889402_1_1_1,00.html.
22. The terms "welfare gains" and "real income increases" are used interchangeably throughout this paper.
23. *Global Economic Prospects 2004*, p. xvii; see also, Commission for Africa, *Our Common Interest: Report of the Commission for Africa* (London: Commission for Africa, March 2005), pp. 282–83.
24. Ibid., p. 282.
25. Thomas C. Beierle, *From Uruguay to Doha:*

Agricultural Trade Negotiations at the World Trade Organization (Washington: Resources for the Future, March 2002), p. 9, <http://www.rff.org/Documents/RFF-DP-02-13.pdf>.

26. Norberg, p. 159.

27. Matthias Busse, *Tariffs, Transport Costs and the WTO Doha Round: The Case of Developing Countries* (Hamburg: Hamburg Institute of International Economics, 2002), p. 7.

28. For the World Bank's definition of high-income OECD countries, see <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~menuPK:64133156~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html#hioecd>.

29. For the World Bank's definition of low-income countries, see <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~menuPK:64133156~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html#lincome>.

30. World Bank, "Average MFN Applied Tariff Rates by Sector in Recent Years," Data on Trade and Import Barriers, <http://siteresources.worldbank.org/INTRANETTRADE/Resources/tar2000a.xls>.

31. World Bank, "Tariff Escalation in Developing and Industrial Countries, 1994–2000," *Data on Trade and Import Barriers*, <http://siteresources.worldbank.org/INTRANETTRADE/Resources/tar2000b.xls>.

32. Antidumping measures are taxes on goods from countries that are perceived to be selling goods abroad for lower price than cost of production at home. Importing countries often use complicated and impenetrable rules to ensure that exporting countries are found to be in noncompliance with antidumping regulations. It is sometimes asserted that dumping may enable a single producer to undercut all competition and dominate the world market. Under normal market conditions, however, global market domination is extremely rare.

33. To illustrate, respective antidumping actions by the governments of South Africa, India, Argentina, and Brazil increased from 17, 13, 19, and 20 in 1995 to 105, 98, 43, and 41 in 2000. Between 1995 and June 2002, developing countries initiated 357 antidumping actions against industrial countries and 649 actions against other developing countries. Industrial economies initiated 198 antidumping actions against other industrial nations and 494 actions against the developing world. In the world as a whole, the highest number of antidumping actions was initiated by developing

nations against one another. See Brink Lindsey and Daniel J. Ikenson, *Antidumping Exposed* (Washington: Cato Institute, 2003), p. 105.

34. The World Bank's results referred to in the text were based on static analysis, where productivity growth was assumed to have been constant. Studies based on dynamic analyses allow for estimated productivity growth. For more information, see *Global Economic Prospects 2004*, p. 51.

35. According to the World Bank, 55 countries with 2004 GNI per capita of at least \$10,066 qualified as high-income countries, <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~menuPK:64133156~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html#hiincome>.

36. *Global Economic Prospects 2004*, pp. 50–51.

37. Export taxes and other "voluntary" export restraints are self-imposed by an exporting country. In reality, they are almost never truly voluntary. Rather, they are a likely response to a threat that if such constraints are not imposed, the importing country will impose import tariffs or quotas.

38. Cline's estimates referred to here are based on static rather than dynamic analysis.

39. In his study, Cline uses the Harrison-Rutherford-Tarr methodology to classify developing and developed countries. See Glenn Harrison, David Tarr, and Thomas Rutherford, "Quantifying the Uruguay Round," *Economic Journal* 107, no. 444 (September 1997): 1405–30.

40. Cline, *Trade Policy and Global Poverty*, pp. 179–82.

41. *Global Economic Prospects 2004*, p. 4.

42. For details, see World Bank, http://www.worldbank.org/data/countryclass/classgroups.htm#Sub-Saharan_Africa.

43. United Nations, *Human Development Report 2003* (New York: United Nations, 2003), p. 240.

44. See Ibid.

45. World Development Indicators Online.

46. Ibid. Figures are in constant international 2000 dollars.

47. United Nations, p. 41.

48. Francis Ng, *Trends in Average Tariff Rates for Developing and Industrial Countries: 1981–2003* (Washington: World Bank, 2005).

49. Panagariya, "Miracles and Debacles," p. 22.
50. Nontariff barriers include administrative pricing and minimum import prices, variable levies or charges, antidumping measures, countervailing measures, advance payment requirements, multiple exchange rates, restrictive foreign exchange allocation, regulations for terms of payment, nonautomatic licensing, bilateral and seasonal quotas, various prohibitions, "voluntary" export restraints, orderly marketing arrangements, enterprise-specific restrictions, state trading, technical regulations, preshipment inspection, special customs formalities and so on.
51. Francis Ng and Alexander Yeats, "Good Governance and Trade Policy: Are They the Keys to Africa's Global Integration and Growth?" World Bank Policy Research Working Paper Series, no. 2038, 1998, p. 56, <http://econ.worldbank.org/docs/827.pdf>.
52. *Global Economic Prospects 2004*, p. 82.
53. Quotas are quantitative limits that a country imposes on the number of goods that can be imported from another country. Quotas serve as a protectionist measure, because once the import quota is reached, domestic consumers have to revert to buying domestically produced, but more expensive, goods.
54. African trade blocks include the Arab Maghreb Union (AMU), Economic and Monetary Community of Central Africa (CEMAC), Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (ECCAS), Economic Community of Western African States (ECOWAS), Southern African Development Community (SADC), and West African Economic and Monetary Union (WAEMU).
55. World Trade Organization, *Intra- and Inter-Regional Merchandise Trade: 2003* (Geneva: Switzerland: World Trade Organization, 2004), Table III.3, http://www.wto.org/english/res_e/statis_e/its2004_e/section3_e/iii03.xls.
56. British Broadcasting Corporation, "Africa Calls on G8 to Scrap Debt," July 5, 2005, <http://news.bbc.co.uk/1/hi/world/africa/4651337.stm>.
57. Oxfam, "African Leaders in Cairo Must Stand Firm ahead of WTO Meeting," news release, June 8, 2005, http://www.oxfam.org.uk/press/releases/africa_wto080605.htm.
58. Thabo Mbeki, "Mbeki Calls for End to Farm Subsidies," *Financial Times*, September 16, 2005.
59. Oxfam, "Oxfam Urges Developing Countries Not to Dilute Ambition on Trade," news release, September 9, 2005, http://www.oxfam.org.uk/press/releases/g20_090905.htm.
60. Personal communication with Alan Oxley, August 17, 2005.
61. Mary Anastasia O'Grady, "Costa Rica's Tough Unions Make It a CAFTA Holdout," *Wall Street Journal*, July 15, 2005.
62. World Trade Organization, "Work on Special and Differential Provisions," http://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm.
63. *Global Economic Prospects 2004*, p. xxvi.
64. Health, sanitation, and technical regulations are often used to keep competitors out of the domestic market. High sanitation standards, for example, keep out foreign producers, who are too poor to upgrade their production facilities to the levels found in rich countries. Low-income consumers in the importing countries suffer disproportionately by being deprived of the option to buy cheaper foreign produce.
65. Francis Ng and Alexander Yeats, "Open Economies Work Better!" World Bank Policy Research Working Paper Series, no. 1636, August 1996, p. 19, http://econ.worldbank.org/files/661_wps1636.pdf.
66. World Development Indicators Online.
67. Ng and Yeats, "Open Economies Work Better!" p. 27.
68. Kym Anderson, Will Martin, and Dominique van der Mensbrugghe, "Would Multilateral Trade Reform Benefit Sub-Saharan Africans?" CEPR Discussion Papers, no. 5049, May 2005, p. 6.
69. United Nations Conference on Trade and Development, "Economic Development in Africa: Performance, Prospects and Policy Issues," pp. 27–28, <http://www.unctad.org/en/docs/pogdsafricad1.en.pdf>.
70. Arvind Panagariya has argued that Africans would actually suffer modest losses from trade liberalization, because, as food importers, they would face higher prices for imported food and lose some of their export earnings because of the end of their preferential treatment in the developed world markets. See Arvind Panagariya, "Subsidies and Trade Barriers: Alternative Perspective," in *Global Crises, Global Solutions*, ed. Bjorn Lomborg, (New York: Cambridge University Press, 2004), pp. 593–601. William Cline has countered Panagariya's analysis, by pointing out that many of the world's poorest countries "have a comparative advantage in food

production and trade.” For those poor countries, Cline argued, “exports relative to imports are higher for food than for manufactures and other non-food goods. Where they nonetheless have food trade deficits, they have even larger non-food deficits, financed by aid. Improved terms of trade for food are still in their interest.” See William R. Cline, “Global Agricultural Free Trade Would Benefit, Not Harm, LDCs,” letter to the editor, *Financial Times*, August 9, 2004.

71. Figures are in 2001 dollars.

72. Kym Anderson, Will Martin and Dominique van der Mensbrugghe, “Would Multilateral Trade Reform Benefit Sub-Saharan Africans?” CEPR Discussion Papers, no. 5049, May 2005, p. 6.

73. Kym Anderson and Will Martin, *Agricultural Trade Reform and the Doha Development Agenda* (Washington: World Bank, July 2005), p. 32.

74. Personal communication with author, August 18, 2005.

75. Figures are in 2001 U.S. dollars.

76. *Global Economic Prospects 2004*, p. 4.

77. Cline, “Trade Policy and Global Poverty,” p. 283.

78. Panagariya, “Miracles and Debacles,” p. 2.

79. World Development Indicators Online.

80. Shaohua Chen and Martin Ravallion, “How Have the World’s Poorest Fared since the Early 1980s?” World Bank, Policy Research Working Paper Series, no. 3341, June 2004, Table 2.

81. See Beatrice Weder, “Africa’s Trade Gap: What Should Africa Do to Promote Exports?” Paper presented at the Workshop on Asia and Africa in the Global Economy, August 3–4, 1998, United University Headquarters, Tokyo, Japan, http://www.unu.edu/hq/academic/Pg_area4/Weder.html.

82. International Monetary Fund, *World Economic Outlook: Building Institutions* (Washington: International Monetary Fund, 2005), p. 125.

83. Jeffrey Sachs and Andrew Warner, “Sources of Slow Growth in African Economies,” *Journal of African Economics* 6, no. 3 (1997): 2.

84. “Good Governance and Trade Policy: Are They the Keys to Africa’s Global Integration and Growth?” p. 2.

85. Commission for Africa, p. 259.

86. *Ibid.*, p. 144.

87. *Ibid.*, pp. 143–45.

88. *Ibid.*, p. 151.

89. *Ibid.*, p. 260.

90. *Ibid.*

91. *Ibid.*, p. 261.

92. *Ibid.*, pp. 265–66.

93. Quoted in George Ayittey, *Africa Betrayed* (Washington: Cato Institute, 1992), p. 242.

94. Paul Collier, Anke Hoeffler, and Catherine Pattillo, “Flight Capital as a Portfolio Choice,” World Bank Policy Research Working Paper Series, no. 2066, <http://www.worldbank.org/html/dec/Publications/Workpapers/wps2000series/wps2066/wps2066.pdf>.

95. Figures in US (1996) dollars. James K. Boyce and Leonce Ndikumana, “Is Africa a Net Creditor? New Estimates of Capital Flight from Severely Indebted Sub-Saharan African Countries, 1970–1996,” *Journal of Development Studies* 38, no. 2 (2001): 27–56.

96. Figures in 2005 dollars. Percy S. Mistry, “Aiding Africa,” Letter to *The Economist*, July 14, 2005.

97. George Ayittey, *Africa Unchained* (New York: Palgrave Macmillan, 2005), p. 324.

98. World Development Indicators Online.

99. *Ibid.*

100. *Ibid.*

101. *Ibid.*

102. Figures are in 1990 International Geary-Khamis dollars. For definition, see <http://www.eco.rug.nl/~Maddison/>.

103. Agnus Maddison, *The World Economy: Historical Statistics* (Paris, France: OECD, 2003), <http://www.eco.rug.nl/~Maddison/>.

104. World Development Indicators Online.

105. “A New Deal for the World’s Poor,” *The Guardian*, February 16, 2004, <http://www.guardian.co.uk/comment/story/0,3604,1149063,00.html>.

OTHER STUDIES IN THE POLICY ANALYSIS SERIES

- 556. **Avoiding Medicare's Pharmaceutical Trap** by Doug Bandow
(November 30, 2005)
- 555. **The Case against the Strategic Petroleum Reserve** by Jerry Taylor and
Peter Van Doren (November 21, 2005)
- 554. **The Triumph of India's Market Reforms: The Record of the 1980s and
1990s** by Arvind Panagariya (November 7, 2005)
- 553. **U.S.-China Relations in the Wake of CNOOC** by James A. Dorn
(November 2, 2005)
- 552. **Don't Resurrect the Law of the Sea Treaty** by Doug Bandow (October 13, 2005)
- 551. **Saving Money and Improving Education: How School Choice Can Help
States Reduce Education Costs** by David Salisbury (October 4, 2005)
- 550. **The Personal Lockbox: A First Step on the Road to Social Security
Reform** by Michael Tanner (September 13, 2005)
- 549. **Aging America's Achilles' Heel: Medicaid Long-Term Care** by Stephen A.
Moses (September 1, 2005)
- 548. **Medicaid's Unseen Costs** by Michael F. Cannon (August 18, 2005)
- 547. **Uncompetitive Elections and the American Political System** by Patrick
Basham and Dennis Polhill (June 30, 2005)
- 546. **Controlling Unconstitutional Class Actions: A Blueprint for Future
Lawsuit Reform** by Mark Moller (June 30, 2005)
- 545. **Treating Doctors as Drug Dealers: The DEA's War on Prescription
Painkillers** by Ronald T. Libby (June 6, 2005)
- 544. **No Child Left Behind: The Dangers of Centralized Education Policy** by
Lawrence A. Uzzell (May 31, 2005)
- 543. **The Grand Old Spending Party: How Republicans Became Big Spenders**
by Stephen Slivinski (May 3, 2005)
- 542. **Corruption in the Public Schools: The Market Is the Answer** by Neal
McCluskey (April 14, 2005)
- 541. **Flying the Unfriendly Skies: Defending against the Threat of Shoulder-
Fired Missiles** by Chalres V. Peña (April 19, 2005)
- 540. **The Affirmative Action Myth** by Marie Gryphon (April 6, 2005)