69. U.S. Policy toward Sub-Saharan Africa

Congress should

- expand the Africa Growth and Opportunity Act by granting tariff- and quota-free access to all imports from sub-Saharan Africa,
- forgive sub-Saharan African debt on the condition of ending future official lending to governments in the region,
- oppose International Monetary Fund and World Bank lending to sub-Saharan Africa, and
- impose ''smart'' sanctions on leaders suspected of corruption and human rights abuses.

Sub-Saharan Africa (herein sometimes referred to simply as ''Africa'') consists of 48 countries, which spread over nine million square miles and include 688 million people. It is one of the poorest regions in the world. The UN Human Development Index measures quality of life around the world on a scale from 0 (low) to 1 (high). In 2003 sub-Saharan Africa's score was 0.468. The scores for the developing world and the United States were 0.655 and 0.937, respectively. Africa lags behind most of the world in practically all indicators of human well-being, including longevity, infant mortality, HIV, incidence of malaria and tuberculosis, nourishment, school enrollment, economic growth, and income per capita.

The ability of the United States to help Africa is limited, because the solutions to most of Africa's problems must be determined internally. Those problems are extensive. For most of independent Africa's history, arbitrary and authoritarian rule has been the norm. The resulting casualties have included political stability, the rule of law, the protection of individuals and private property, and growth.

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Indeed, most African governments have imposed central control over their economies, a development strategy not conducive to economic growth. Inflationary monetary policies; price, wage, and exchange rate controls; marketing boards (which keep the prices of agricultural products artificially low, thus impoverishing Africa's farmers); and state-owned enterprises and monopolies are commonplace.

Microeconomic policy in the region has also been counterproductive. For example, business regulation in Africa remains much too restrictive. It takes only 2 days for an entrepreneur to start a business in Australia but 215 days in the Republic of Congo. No minimum capital is required to start a business in Singapore, but the Ethiopian government imposes a minimum capital requirement that is 17 times higher than average annual per capita income. It takes only 7 days to enforce a contract in Tunisia, but in Ethiopia it takes 895 days.

African governments also restrict foreign and domestic investment, and Africa's tariffs are among the highest in the world. Following the Uruguay Round of trade liberalization, the average applied tariff in sub-Saharan Africa was 28 percent. The comparable figure for fast-growing economies, including Taiwan, Singapore, and Hong Kong, was 9.12 percent. Nontariff barriers in Africa were also higher (39 percent) than nontariff barriers in fast-growing economies (9.4 percent).

On the whole, African economies continue to be largely unfree. According to the *Economic Freedom of the World* report, economic freedom in Africa has stagnated. On a scale from 0 to 10, where 10 represents the highest measured level of freedom, Africa moved from 5.3 in 1970 to 5.6 in 2002. The ranking of the United States, one of the world's freest economies, was 8.2 in 2002.

Botswana is a rare exception. Botswana's economic freedom increased from 5.6 in 1980 to 7.4 in 2002, making it Africa's freest economy. Between 1980 and 2002, Botswana's gross domestic product per capita grew at an average annual rate of 4.58 percent. Over the same period, African GDP per capita contracted at an average annual rate of 0.47 percent. Today Botswana's citizens enjoy one of Africa's highest standards of living. Their 2002 GDP per capita in constant 1995 U.S. dollars was $4,102. Only oil-rich Gabon and market-friendly Mauritius had higher incomes of $4,323 and $4,538, respectively. In 2002 average GDP per capita in sub-Saharan countries was $575.

As long as its economic freedom remains low, Africa's economic performance will continue to disappoint. Similarly, African countries are

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unlikely to escape poverty as long as their governments remain unaccountable and their actions arbitrary. Unfortunately, there is little the United States can do to positively influence the evolution of Africa's governing institutions and the policies that African countries adopt.

Free Trade

The United States can help by further opening its markets to African exports. Congress has taken a step in the right direction, by adopting the Africa Growth and Opportunity Act in 2000 and later extending it to 2015. As a consequence of AGOA, two-way trade between the United States and AGOA nations increased by 36 percent in 2003 alone. Its value has now reached $33 billion per year. Between 2002 and 2003, AGOA exports to the United States increased by 43 percent to $25.6 billion. More than half of those exports were covered by AGOA and its generalized system of preferences. AGOA apparel imports grew by 50 percent, transportation equipment by 34 percent, and agricultural goods by 13 percent. American exports, especially those of aircraft, vehicles, and computer and telecommunications equipment, to AGOA countries grew by 15 percent.

The benefits of free trade are political and economic. First, free trade can be a potent weapon against terror directed against the United States. Apparel trade with the United States alone has created 250,000 jobs in the AGOA countries. Such increased economic interconnectedness between the world's trouble spots and the United States may help to dissuade potential terrorist sympathizers from harming the United States. National security considerations are clearly relevant to Africa. American lives and assets were targeted in the 1998 embassy bombings in Kenya and Tanzania. Al Qaeda activities have been reported in Somalia and Sudan.

Second, trade increases specialization. Increased specialization leads to increasing productivity. Reductions in the cost of production lead to cheaper goods and services, which, in turn, increase the standard of living for Americans and Africans alike. Unfortunately, Washington limits the economic benefits of AGOA by excluding a variety of products, including those in which Africa has a comparative trade advantage, from tariff- and quota-free treatment. The United States restricts imports of dairy goods, soft drinks, cocoa, coffee, tea, tobacco, nuts, and many types of fabrics. Researchers at the World Bank, the IMF, and the University of Maryland found that AGOA yields only 19 to 26 percent of the benefits that it could if it were comprehensive and unconditional. Concerns that further trade opening would negatively affect the number of American jobs are mis-

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placed, especially since AGOA's share of American imports remains very small. For example, AGOA apparel imports constitute just 2.1 percent of the American market. AGOA should be extended to offer tariff- and quota-free access to all imports from Africa.

Foreign Aid

Between 1961 and 2000, U.S. official development assistance to sub-Saharan Africa increased from $358 million to $1.14 billion in constant 2000 dollars, an inflation-adjusted increase of 218 percent. U.S. aid to Africa as a percentage of the entire U.S. aid budget rose more than fourfold, from 2.5 percent in 1961 to 11.4 percent in 2000. But that aid has had poor results.

British economist Peter Bauer once described foreign aid as ''an excellent method for transferring money from poor people in rich countries to rich people in poor countries.'' That is an especially accurate description of aid to Africa. Aid there has increased the size of government to the detriment of the private sector. It has enabled government officials to embezzle large amounts of money and misspend much on loss-making projects. Citizens have been left with large debt. Africa receives one of the largest amounts of aid per capita. But, as the accompanying figures show, African economic performance has been very poor. Today, most researchers agree that economic growth depends on market-oriented domestic policies.

Countries that follow sound economic policies grow regardless of aid. A comparison of two similarly poor regions, sub-Saharan Africa and South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka), may be instructive. As Figure 69.1 shows, between 1975 and 2000, aid to Africa averaged $24 per capita per year. The comparable figure for South Asia was $5. Over those 25 years, South Asian GDP per capita grew at an average annual rate of 2.94 percent. In contrast, African GDP per capita declined at an average annual rate of 0.59 percent.

As Figure 69.2 shows, South Asian GDP per capita adjusted for purchasing power parity (PPP) grew from $1,010 in constant 1995 international dollars to $2,056. By the same measure, African GDP per capita declined from $1,770 to $1,479.

The percentage of people in Africa living on less than $1 a day increased from 47.4 percent in 1990 to 49 percent in 1999. During the same period, absolute poverty in South Asia declined from 45 percent to 36.6 percent. In 1970 the National Bureau of Economic Research estimated that 1 in

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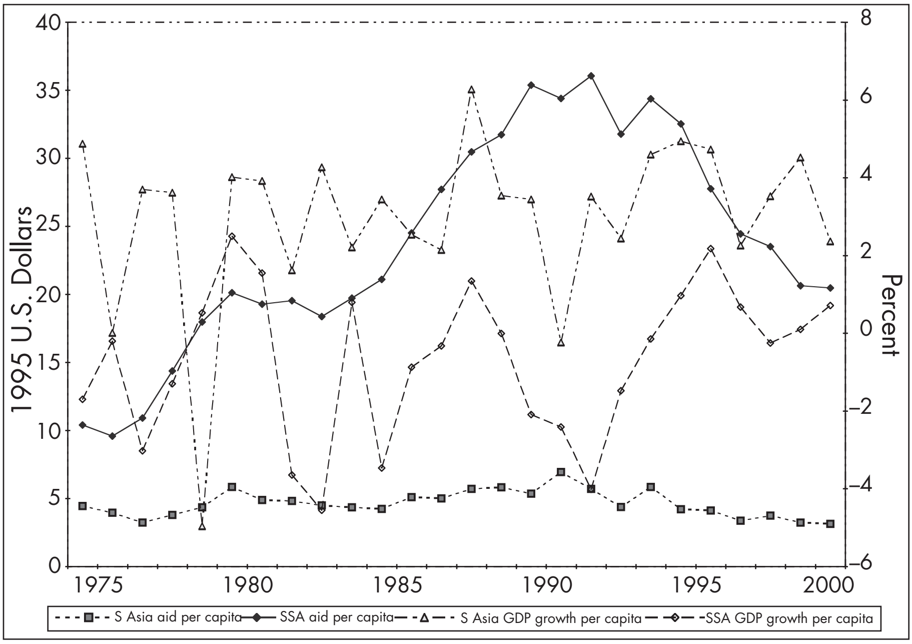
Figure 69.1
Foreign Aid and Economic Growth in Sub-Saharan Africa and South Asia



SOURCE: World Bank, *World Development Indicators Online*, http://devdata.worldbank.org/dataonline/.

10 people surviving on less than $1 a day lived in Africa. Today that number is close to 1 in 2.

In addition to giving bilateral aid, Washington also participates in multilateral aid schemes overseen by a variety of international institutions, including the World Bank, the African Development Bank, and the IMF. Those multilateral institutions have also backed African regimes that have engaged in gross macroeconomic mismanagement. And although the World Bank's structural adjustment programs and IMF lending were designed to provide credit in exchange for economic reforms in the region, African compliance with lending conditions has been poor or nonexistent. For example, Daniel arap Moi of Kenya ''sold'' the same package of reforms to the World Bank and the IMF several times. Similarly, Robert Mugabe broke a number of promises to liberalize the Zimbabwean economy. When policy mistakes resulted in Zimbabwe's economic decline, Mugabe blamed the World Bank and IMF and their main sponsor, the United States.

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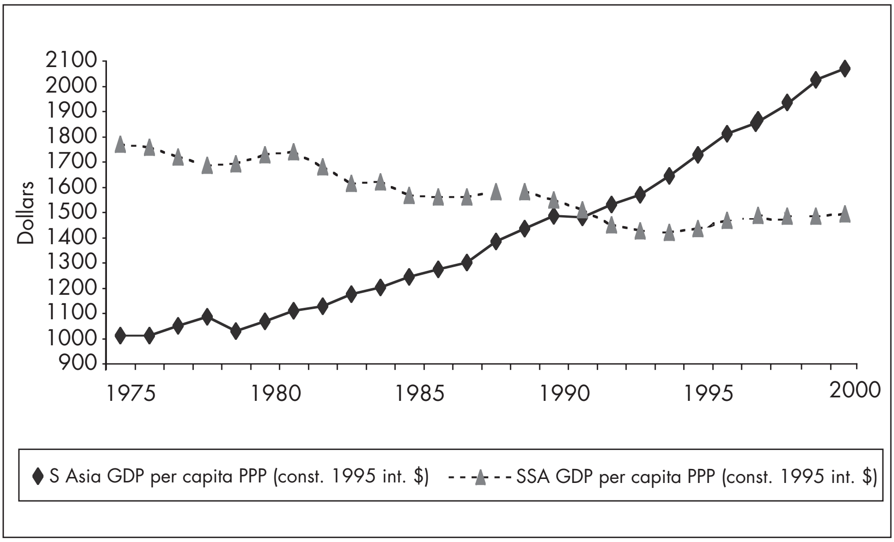
Figure 69.2
Purchasing Power Parity–Adjusted GDP per Capita in Sub-Saharan Africa and South Asia



Source: World Bank, *World Development Indicators Online*, http://devdata.worldbank.org/dataonline/.

The World Bank and IMF do not have the ability to enforce compliance with their loan conditions. Yet both agencies keep lending, and Africa's debt continues to accumulate. Of the 42 Heavily Indebted Poor Countries (HIPCs), which the World Bank and IMF deem too poor to pay back debt, 34 are in sub-Saharan Africa. The total long-term debt of HIPCs was approximately $158 billion in 2000. Africa's share of that debt was $122 billion, or 77 percent. Approximately 85 percent of HIPCs' long-term debt was owed to public lenders (i.e., governments and international organizations). That is a dramatic testament to the failure of foreign aid in Africa.

Much of the debt incurred by African governments was caused by misallocation by incompetent government officials or theft. The African people received few or no benefits. The United States could forgive its share (3.7 percent) of the HIPCs' debt, but debt cancellation will work only if the United States and other official creditors refuse to lend to African governments in the future. Indeed, despite receiving $33 billion in debt relief between 1989 and 1997, HIPCs keep borrowing and falling further into debt. To break this vicious cycle, HIPCs should rely only

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on private lenders. Private lenders should be made aware that Western governments will not bail them out in case of sovereign default. That will make lenders more circumspect when lending money to African countries. Greater scarcity of capital and higher interest rates may encourage African governments to liberalize.

Smart Sanctions

In the past, few international sanctions have met with success. Global agreement on imposition of sanctions is difficult to reach. Moreover, sanctions tend to harm the poor much more than the ruling elite. The United States could help Africa, however, by targeting those leaders in the region who are suspected of corruption and abuses of human rights. ''Smart sanctions'' are unlikely to bring about change in government, but they do make the lives of the ruling elite more difficult. Measures that should be considered against African dictators and their collaborators include international arrest warrants, freezing of personal assets abroad, prohibitions on travel, and arms embargos.

Suggested Readings

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