NATIONAL CENTER FOR POLICY ANALYSIS
No. 593 | September 24, 2007
BRIEF ANALYSIS

Trade Is the Best Aid for Africa

by Christa Bieker

The 48 countries south of the Sahara desert in Africa make up the most impoverished and diseased region of the world. Although wealthy countries have poured more than $450 billion of development assistance (in 2003 dollars) into the region since 1980, nearly half the population lives on less than $1 per day, the average life expectancy is only 46 years and nearly one-third of children are underweight and malnourished. Despite its noble intent, aid has not rescued Sub-Saharan Africa from poverty. In many cases, it has undermined development, propped up dictators and fueled corruption.

On the other hand, trade has long been a powerful engine of economic growth. Unfortunately, U.S. agricultural policies undermine Africa's economic growth. U.S. farm subsidies encourage over-production, and exports of surplus crops artificially depress world prices. In addition, because tariffs on imports of some African agricultural products are as high as 150 percent, African farmers are often unable to compete in the American market, even if their production costs are lower.

Reducing U.S. trade barriers and farm subsidies would spur growth in Africa. Unfortunately, the 2007 Farm Bill under consideration by Congress would increase subsidies to $286 billion over 8 years.

The Failure of Foreign Aid. Since 1980, the United States has given more than $40 billion in development assistance to Sub-Saharan Africa. In recent years, public figures ranging from former President Bill Clinton to the rock group U2's Bono have called for even more aid. In 2004, President Bush doubled development assistance to Sub-Saharan Africa to $19 billion over 5 years and recently requested an additional $30 billion over 5 years beginning in 2009.

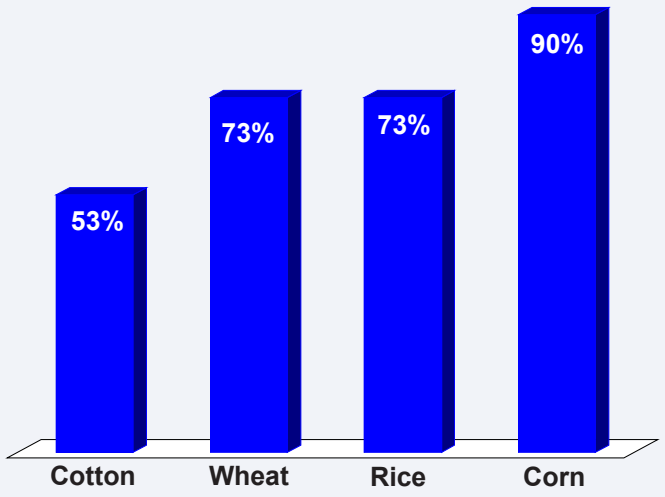
Historically, development aid has not lifted Africa out of poverty, nor is it likely to do so in the future. The average growth in per capita gross domestic product (GDP) in Sub-Saharan Africa from 1980 to 2004 was less than one percent (0.33 percent)! Thus, many of these countries are economically worse off than they were at the end of the colonial era in the 1960s. In fact, foreign aid has often been an obstacle to development.

Aid Creates Dependence. Foreign aid undermines internal reforms. If a country receives a steady income from the outside, it has little motivation to improve from within. Government officials have less incentive to institute macro-economic reforms when the amount of money available for the government to spend doesn't depend on the performance of the economy.

Aid Fuels Corruption. Foreign aid often fails to reach its intended recipients and instead props up corrupt dictators. Transparency International, an organization that fights corruption on a global scale, consistently ranks Sub-Saharan African countries among the governments with the highest levels of corruption worldwide. For example, in Ghana, where corruption is particularly rampant, 80 percent of donor funds are diverted from their intended purpose, often ending up in bank accounts in the West!

Aid Undermines Markets. Government-to-government aid often consists of surplus commodities and money that is earmarked to purchase goods from the donor country. This is particularly true of the United States. Due to price supports and production subsidies, U. S. farmers produce much more than Americans can

U.S. Export Prices as a Percent of Production Costs, 2003



Source: Institute for Agriculture and Trade Policy.

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NCPA Brief Analysis
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consume. The government ends up with the surplus and donates it to poor countries. In donee countries, this has caused markets for locally grown farm products to collapse.

For subsistence farmers who depend on sales of their crops to purchase all their other needs, markets flooded with free donated food can be devastating. For example, foreign food aid in Tanzania caused many local farmers to abandon their fields.

Trade Not Aid. Throughout history trade has led to greater productivity and economic growth. Open markets allow countries, companies and regions to specialize in the production of what they do best and import products that can be made more efficiently elsewhere. Economists Jeffery Sachs and Andrew Warner examined trade policies of 117 countries over 20 years and found a strong, positive correlation between free trade and growth. In fact, growth was three to six times higher in open economies than in closed ones.

Unfortunately, the United States discourages freer international trade through its policy of agricultural protection. U.S. subsidies to farmers have reached staggering levels:

- In 2006 alone, farm subsidies amounted to $19 billion.
- Attempts to limit subsidies — beginning with the Freedom to Farm Act of 1996 — have not been successful; over the past 10 years taxpayers have spent more than $150 billion on farm subsidies.
- From 1999 to 2005, U.S. cotton farmers received 86 cents in subsidies for every dollar they received from sales.

Protectionist policies are especially devastating to Sub-Saharan Africa because farming accounts for nearly 70 percent of total employment and is the main source of income for the majority of Africans living in poverty. For example, more than 10 million Africans depend directly on cotton production. Since the 1990s, world cotton prices have fallen by half, much of which is due to U.S. farm subsidies, according to the International Cotton Advisory Committee. Their estimates suggest that world cotton prices would rise by 26 percent if the United States repealed cotton subsidies. This amounts to an increase of over $300 million per year in income for African cotton farmers.

In many cases the negative economic impact of agricultural subsidies is greater on African countries than the development aid they receive. For example, in 2002:

- Burkina Faso received $10 million in U.S. aid, yet lost $13.7 million in export earnings due to depressed cotton prices.
- Chad received $5.7 million in U.S. aid but lost nearly the same amount in export earnings.
- Togo received $4 million in U.S. aid but lost $7.4 million in export earnings.

In addition to farm subsidies, the United States imposes high tariffs on agricultural products from developing countries. The average tariff on agricultural imports is 18 percent, much higher than the 5 percent average tariff on other imports. In addition, the United States imposes much higher tariffs on the importation of large quantities of certain goods. For example, tariffs on groundnuts, an import that provides income to more than 1 million farmers in Senegal, are as high as 150 percent.

Even the African Growth and Opportunity Act, a trade deal between the United States and 37 countries in Sub-Saharan Africa, discriminates against Africa by excluding dairy products, soft drinks, cocoa, coffee, tea, tobacco, groundnuts and many types of fabrics. Researchers at the World Bank, the International Monetary Fund and the University of Maryland found that Africa will realize less than one-third of the economic benefit the Act would have provided if it were comprehensive and unconditional.

Subsidies Do Not Benefit the United States. U.S. agricultural subsidies not only undermine African development, they do not benefit the United States. Farm subsidies cost taxpayers up to $35 billion annually. Instead of benefiting small family farmers during difficult seasons, most of the subsidies go to the largest farms — nearly three-fourths (72 percent) to the largest 10 percent.

Additionally, tariffs hurt U.S. consumers by raising food prices. For example, due to tariffs, Americans pay about twice as much for sugar as people in other countries, costing American consumers about $1.9 billion annually, according to the Government Accountability Office.

Conclusion. The 2002 Farm Bill expires in September 2007. Congress will spend the next few months deciding what programs to extend, revise, eliminate or add. To enhance economic growth in Africa and save the United States and its taxpayers money, Congress should reduce agricultural subsidies in the 2007 Farm Bill.

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