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Report to the Chairman, Subcommittee on Africa, Committee on Foreign Affairs, House of Representatives

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SUB-SAHARAN AFRICA

Factors Affecting Export Capabilities

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National Security and
International Affairs Division

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May 4, 1988

The Honorable Howard Wolpe
Chairman, Subcommittee on Africa
Committee on Foreign Affairs
House of Representatives

Dear Mr. Chairman:

As requested, we have reviewed issues associated with Sub-Saharan African trade between the United States, the European Economic Community, and Japan.

This report identifies principal exports from Sub-Saharan Africa to the United States, and certain trade practices by the United States, the European Economic Community, and Japan. It addresses factors affecting Sub-Saharan African exports and recent U.S. efforts to reduce impediments to improve Sub-Saharan African export capabilities.

We are sending copies of this report to the Agency for International Development; the U.S. Trade Representative; the Departments of Agriculture, Commerce, and State; and other responsible agencies.

Sincerely yours,

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

Sub-Saharan Africa (SSA) is one of the poorest regions of the world, beset by poverty, malnutrition, underdeveloped human resources, insufficient infrastructure, and political instability. In 1985, SSA had a per capita gross national product of $400. GAO was requested by the Subcommittee on Africa, House Foreign Affairs Committee, to examine the trade relationship between SSA countries and the United States, European Economic Community (EEC), and Japan, addressing current export/import opportunities; trade barriers affecting SSA exports; and efforts made by the United States, EEC, and Japan to reduce trade barriers.

Background

Total U.S. imports from SSA declined from about $13.8 billion in 1981 to about $6 billion in 1986. Over 95 percent of the total decline was due to a drop in the value of petroleum imports. In general, imports of other products declined at an average rate of 3.6 percent per year.

To help their economies, many SSA countries have recently made important and difficult policy changes under development efforts supported by the World Bank, the Agency for International Development (AID), and other aid organizations. These agencies have emphasized the need for African countries to restructure government policies that interfere with their ability to produce and export, and attract direct foreign investment. Expanding and diversifying exports are major components of most development strategies.

Results in Brief

Most agricultural items exported by SSA countries enter the U.S., EEC, and Japanese markets with little or no duty and receive some type of preferential treatment. All three markets offer special tariff reductions under their generalized system of preferences.

Tariff rates on manufactured goods, domestic support programs, and nontariff barriers, such as quotas, fees, and legislative prohibitions restrict potential SSA exports. Removal of these restrictions, however, is not likely to lead to an immediate increase in exports because most SSA countries lack the infrastructure, capital, technical know-how, and trained labor force to expand production capacity.

Principal Findings

SSA Countries Export Predominately Petroleum and Primary (Unprocessed/Raw) Commodities

In 1985, 94 percent of SSA exports were primary commodities, including petroleum and petroleum-based products, minerals, metals, and agricultural products such as coffee, cocoa, tea, and sugar. The only significant manufactured export is apparel, although many other manufactured items are exported in small amounts.

Most U.S. trade with SSA countries is with the oil producing nations. Petroleum and petroleum products make up about 70 percent of U.S. imports from these countries. Angola, Cameroon, Congo, Gabon, and Nigeria are the major petroleum exporting countries.

Most SSA countries are vulnerable to commodity market fluctuations because they rely on two or three commodities for their export earnings. Thus, their abilities to adjust to major swings in commodity prices caused by global demand are limited.

SSA Countries Trade Mostly With Industrial Nations

In 1985, SSA countries exported approximately 81 percent of their exports to industrialized countries—54 percent to EEC and 22 percent to the United States. SSA countries exported only 4 percent of their exports to each other and the balance went to other developing countries and centrally planned economies.

Tariffs Are Not a Major Problem

Most SSA exports consist of primary commodities that enter all three industrial markets—United States, EEC, and Japan—with little or no duty. These markets provide special preferential tariff treatment to developing countries. Currently, the United States, EEC, and Japan have import restrictions on some manufactured items that if removed, could potentially result in increased exports from SSA countries.

Nontariff Barriers Restrict SSA Exports to the United States

Many current and potential SSA nonpetroleum exports are affected by nontariff trade barriers, such as quotas, domestic support programs, and legislative restrictions. Agricultural products, such as sugar, cotton, peanuts, and some apparel items are covered by quotas and other restrictions. Higher tariffs on some light manufactures excluded from the generalized system of preferences, such as textiles and apparel, footwear, handbags, and work gloves can discourage SSA countries from developing these export industries even though a low labor and material cost make SSA countries potentially competitive in these industries.

Administrative procedures can also adversely affect SSA export ability. SSA exporters have difficulty understanding and obtaining explanation of U.S. requirements for obtaining trade preferences, U.S. health requirements, and other U.S. customs rules and regulations. For example, in 1986, 17 SSA countries had 70 percent or more of their total exports eligible for trade preferences excluded from duty-free treatment because exporters did not prepare or improperly prepared documentation.

U.S. Efforts to Increase Trade With SSA Countries

In September 1986, the U.S. government launched an initiative to end hunger in Africa. A White House task force, composed of 15 U.S. departments and agencies, was appointed to develop an implementation plan that included increasing U.S.-SSA trade as one of the components. The task force trade group developed several recommendations to address the trade issue. Some of these recommendations, such as those relating to sugar and textile quotas, will require congressional action; some agency officials are doubtful that changes will occur.

Although no new funds have been allocated to implement the initiative, AID recently received a $500 million appropriation for SSA development. AID, as lead agency, has indicated a willingness to assist in the funding of other agencies' efforts. In addition, AID has funded some training and seminars on laws and regulations affecting exports of developing countries. GAO believes AID should expand these efforts.

Recommendation

GAO recommends that the Administrator, AID, expand its efforts to provide more training and seminars to better inform SSA exporters of U.S. requirements.

Agency Comments and Our Evaluation

AID, the U.S. Trade Representative, and the Departments of State, Commerce, and Agriculture commented on GAO's report. They generally agreed with the report.

AID agreed with GAO's recommendation to provide more training and seminars to SSA exporters to overcome the lack of knowledge of U.S. requirements and regulations.

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Abbreviations

AID	Agency for International Development
EEC	European Economic Community
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
GSP	Generalized System of Preferences
LDCs	Less developed countries
MFA	Multifibre Arrangement
NTBs	Nontariff barriers
OPIC	Overseas Private Investment Corporation
SSA	Sub-Saharan Africa
USTR	U.S. Trade Representative

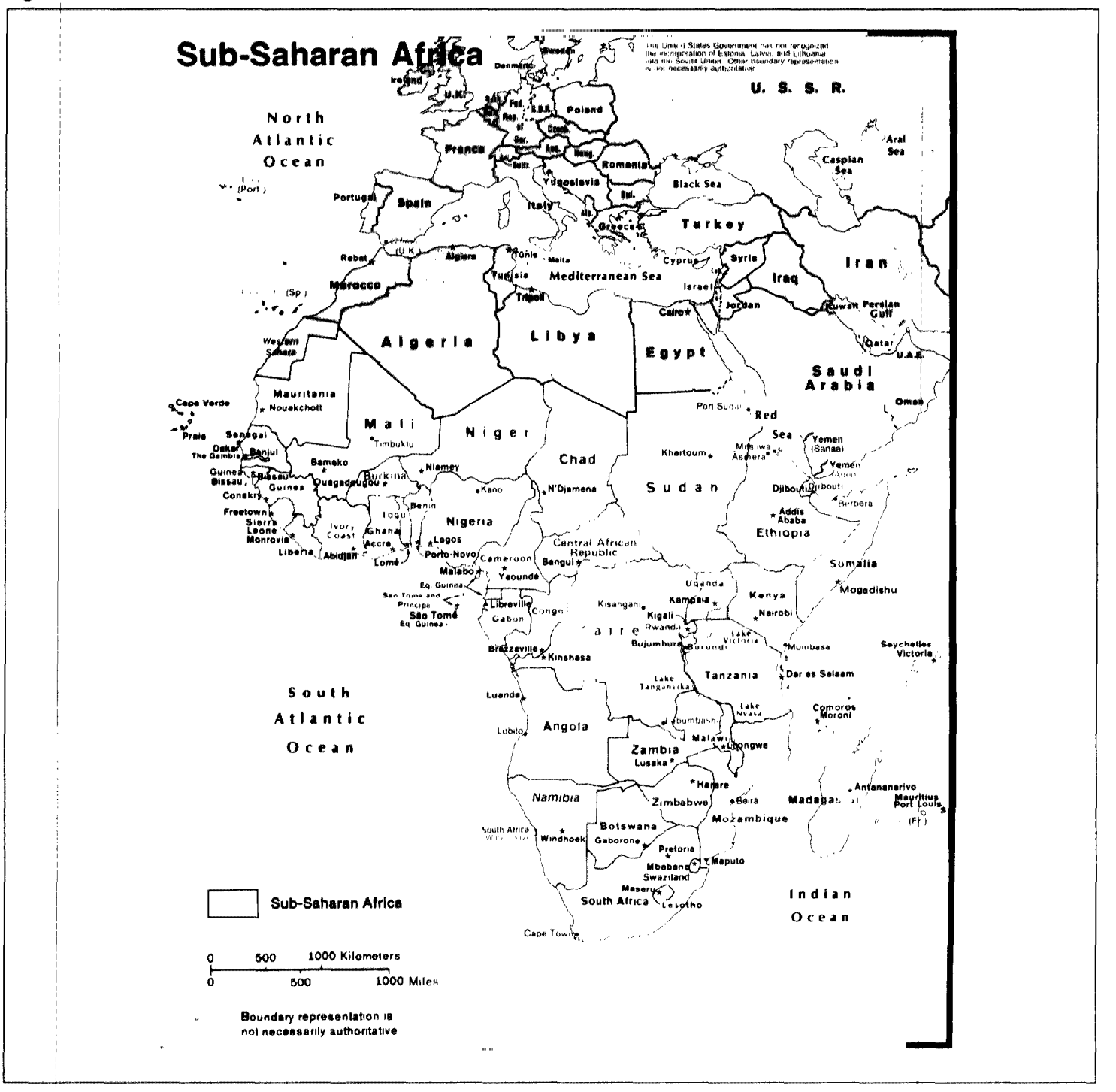
Introduction

Sub-Saharan Africa (SSA) includes all countries south of the Sahara (including offshore islands), except for South Africa and Namibia (see fig. 1.1). SSA is one of the poorest regions of the world, beset by poverty, malnutrition, underdeveloped human resources, insufficient infrastructure, low-productivity economies, and political instability. In 1985, its population of 418 million, one and three-fourths times that of the United States, had a per capita gross national product (GNP) of only $400. This is 2.4 percent of the U.S. per capita GNP of $16,690. If the largest oil-exporting countries—Nigeria, Cameroon, and the Congo—were excluded, SSA's per capita GNP would drop to less than $260. The World Bank defines a low-income country as one with a per capita GNP of $400 or less. Twenty-four of the 34 most populous SSA countries are low income.

SSA is a region of great diversity, with many small countries—10 having populations of less than 1 million. Per capita GNP varies from a high of $3,670 in Gabon to $110 in Ethiopia, the poorest nation on earth. Most SSA countries are similar in that they export basically primary commodities and depend on a few major commodities to earn the bulk of their export revenues, but they differ in specific commodities exported.

To help their economies, many SSA countries have recently made important and difficult policy changes under development efforts supported by the World Bank, the Agency for International Development (AID) and other aid organizations. Expanding and diversifying exports are major components of most development strategies. Officials of the United States, World Bank, and the International Monetary Fund development programs, as well as some economists, have stressed the need to improve exports, and have emphasized that African countries should restructure government policies that interfere with their ability to produce and export.

Figure 1.1: Sub-Saharan Africa



Although increased trade would spur SSA growth and development, trade is limited by the very problems it could help correct. The U.S. government, World Bank officials, and other experts believe that without policy reforms, SSA countries will be unable to significantly increase their exports even without trade barriers, because of many economic, social, and political problems. For example, overvalued foreign exchange rates, tariffs, quantitative restrictions on imports, nationalized industries, and price controls have contributed to the poor performance of agriculture and manufacturing in SSA. Other factors that hamper SSA exports are external debt due to balance-of-payments deficits; unfavorable terms of trade and competing import needs; underdeveloped economies with insufficient infrastructure; and underdeveloped human resources due to poverty, poor health, and lack of education.

However, U.S. government, World Bank officials, and other experts state that certain U.S., European Economic Community (EEC), and Japanese trade restrictions also may hamper some SSA exports. Some of these officials added that even if SSA countries could increase their production of certain items, specifically manufactured items, their growth in exports may be limited due to competition from other countries.

Objectives, Scope, and Methodology

In conjunction with draft legislation, and after discussions with representatives of the House Foreign Affairs Committee's Subcommittee on Africa, we agreed to review SSA trade, and specifically, to identify (1) principal U.S., EEC, and Japanese imports from SSA; (2) key restrictions from the United States, EEC, and Japan that affect importations from SSA; (3) EEC and Japanese trade practices aimed at reducing trade barriers to SSA exports; and (4) efforts made by the United States to reduce barriers and increase SSA exports.

We identified and compared total SSA trade with the United States, EEC, and Japan. Our examination of restrictions that the U.S., EEC, and Japan place on the exports of SSA included nontariff barriers (NTBs),[1] as well as tariffs and certain domestic policies[2] indirectly affecting SSA exports on world markets. Specifically, we analyzed U.S., EEC, and Japanese import

[1]NTBs are restrictions other than tariffs on imports such as quotas which specify maximum quantities or values that may be imported, negotiated export limitations, and variable levies.

[2]Tariffs are taxes on imports assessed as a specific duty at a fixed amount per unit imported or ad valorem, as a percentage of the value. Domestic policies include export subsidies, production subsidies, and price controls which may influence trade by affecting prices or the supply/demand balance.

policies on certain major commodities, such as sugar, cotton, and on textiles to determine their effect on SSA exports. Our analysis of Japanese trade practices on these commodities was hampered by a lack of comparable data. In addition, our review was based on United Nations data base because data collected by the Department of Commerce did not fully provide the detail required for our analysis.

We interviewed U.S. government and World Bank officials in the international trade area, including policymakers, program administrators, and trade economists, as well as EEC, Japanese, and African country officials to obtain their views on SSA trade with the United States and other developed nations.

We reviewed international commodity agreements and preferential trade arrangements, including the generalized systems of preferences (GSP) and the Lome' Agreement to determine their effect on the exports of SSA countries.

Our review was conducted from July to November 1987 at the Departments of Commerce, State, the Treasury, and Agriculture; the Agency for International Development; the International Trade Commission; the U.S. Trade Representative (USTR); the Overseas Private Investment Corporation (OPIC); the World Bank; Japanese and African embassies; and the EEC delegation in Washington, D.C.

We conducted our review in accordance with generally accepted government auditing standards.

Role of Trade in Sub-Saharan African Development

Import restrictions by the industrial countries are only one of several complex factors that hamper the growth of SSA exports, especially of manufactured goods. SSA countries lack the economic infrastructure, skilled workforce, and government established and enforced standards needed to become competitive exporters, particularly in manufacturing. The economic policies adopted by many SSA countries impede the economic and industrial development which would stimulate export growth.

According to AID officials and the World Bank, efficient industrial development requires a restructuring of SSA budgetary, economic, and trade strategy. Generally, U.S. and World Bank officials agree that current SSA policies discourage agricultural production and production for export. Further, these officials stated that budgetary and pricing policies (including foreign exchange controls) distort relative prices and affect production and investment incentives. In practice, the direct foreign investment needed to bring in capital, equipment, and modern technology is discouraged. U.S. and World Bank officials stated that private investors now have few or no incentives to invest their money in SSA countries.

According to U.S. officials and the World Bank, many SSA countries tend to favor import-substitution policies rather than outward-oriented strategies. An outward-oriented development strategy does not discriminate between production for the domestic market and export, nor between purchases of domestic goods and foreign goods. By contrast, an import-substitution strategy is one in which trade and industrial incentives are biased, favoring production for the domestic market rather than the export market. Import-substitution strategies shift demand and production to domestic rather than foreign products. Exports are discouraged by both the increased cost of imported inputs and the increased cost of domestic inputs relative to the price received by exporters. According to the World Bank, outward-oriented development strategies are the most promising for improving economic development in developing countries, including SSA.

AID and World Bank programs over the last several years have been designed to aid SSA countries in restructuring their policies to conform to an outward-oriented strategy. For example, AID has supported exchange rate reforms in Zambia, Somalia, Guinea, Gambia, and Rwanda and other reform programs in Senegal, Zaire, Togo, Niger, and Mauritius. AID

and World Bank officials believe that these reforms, especially if supplemented by further reforms, will lead to a significant increase in SSA countries' export capability.

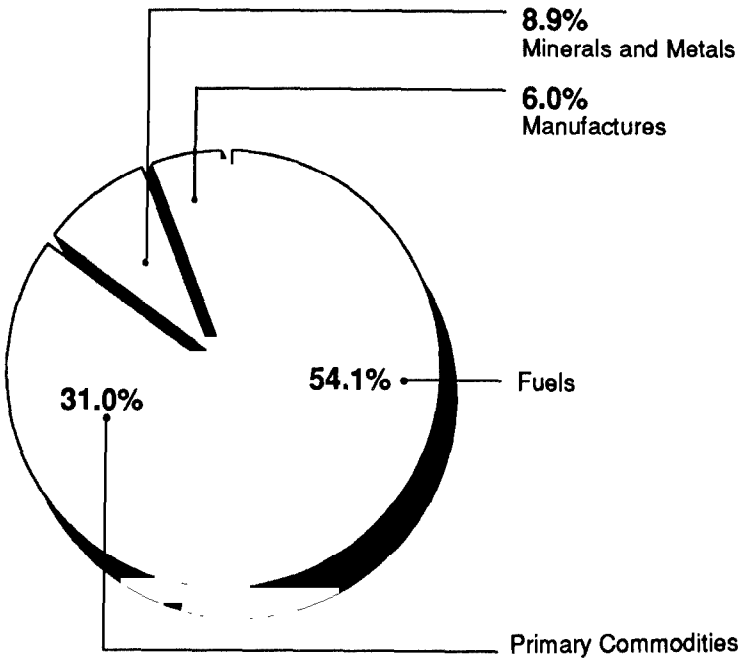
SSA's many internal export impediments lead to limited exports. However, some external barriers by developed countries such as the United States, EEC, and Japan may have, over the years, also hampered SSA's export capabilities. Because current SSA exports to the United States, other than primary commodities, are so small, with a few exception, removing existing U.S. restrictions would have little effect on SSA exports in the near future.

Major Exports and Patterns of Trade

SSA countries export predominately primary commodities such as oil, agricultural products, and minerals. The only significant manufactured export is textiles, which is subject to tariffs and quotas in the United States and other industrialized nations. About 81 percent of SSA exports go to the industrialized market economies and there is little trade among SSA nations.

As shown in figure 2.1, 94 percent of SSA's exports are petroleum and petroleum products, minerals, metals, and agricultural commodities such as coffee, cocoa, tea, and sugar. Only 6 percent are manufactured items, including machinery and transport equipment.

Figure 2.1: Composition of Sub-Saharan Africa's Exports to the World, 1985



Source: GAO calculations primarily based on World Bank and U.N. data.

Crude oil, SSA's major export, makes up 55.6 percent of all SSA exports to the United States, EEC, and Japan. In 1986, petroleum and petroleum products made up 70 percent of U.S. imports from SSA. Angola, Cameroon, Congo, Gabon, and Nigeria are the only SSA countries that include oil among their major exports. These five countries account for over 68 percent of all SSA exports to the United States.

Table 2.1 shows the leading export items of SSA countries. Oil is the major export, followed by agricultural commodities. The only leading export item that is not a primary commodity is textiles from Mauritius and Zimbabwe.

Table 2.1: Leading Exports of Sub-Saharan African Countries, 1984

Country	Principal Exports
Angola	Oil, coffee, diamonds, iron
Benin	Palm products, cotton, peanuts
Botswana	Diamonds, copper, nickel, meat
Burkina Faso	Livestock, peanuts, shea butter, cotton
Burundi	Coffee, tea, cotton, hides
Cameroon	Oil, cocoa, coffee, timber, aluminum
Cape Verde	Fish, bananas, salt
Central African Republic	Diamonds, cotton, timber, coffee
Chad	Cotton, livestock
Comoros	Essential oils, vanilla, copra, cloves
Congo	Oil, wood, sugar, tobacco, coffee
Djibouti	Hides, livestock, coffee
Equatorial Guinea	Cocoa, coffee, wood, bananas
Ethiopia	Coffee, pulse, hides, meat
Gabon	Oil, wood, manganese, uranium
Gambia	Peanuts, palm, fish
Ghana	Cocoa, minerals, wood
Guinea	Bauxite, alumina, fruit, coffee
Guinea-Bissau	Peanuts, palm products, fish
Ivory Coast	Coffee, cocoa, wood
Kenya	Coffee, tea, meat, sisal
Lesotho	Wool, mohair, diamonds, labor to South Africa
Liberia	Iron, rubber, timber, diamonds
Madagascar	Coffee, cloves, vanilla, sugar
Malawi	Tobacco, tea, peanuts, sugar
Mali	Meat, cotton, fish, peanuts
Mauritania	Iron, gypsum, fish
Mauritius	Sugar, tea, textiles, tourism
Mozambique	Cashews, cotton, tea, shrimp, labor to South Africa
Niger	Uranium, livestock, cowpeas
Nigeria	Oil, cocoa, tin, coal
Rwanda	Coffee, cassiterite, tea, pyrethrum
Sao Tome and Principe	Cocoa, copra, palm
Senegal	Peanuts, phosphate, fish
Seychelles	Tourism, copra, cinnamon
Sierra Leone	Minerals, agricultural products
Somalia	Livestock, fruit, hides
Sudan	Cotton, gum arabic, peanuts
Swaziland	Sugar, wood, tourism, iron, asbestos
Tanzania	Coffee, cotton, sisal, spices

(continued)

Country	Principal Exports
Togo	Phosphates, cocoa, coffee
Uganda	Coffee, tea, cotton,
Zaire	Copper, cobalt, diamonds, coffee
Zambia	Copper, cobalt, zinc, lead, tobacco
Zimbabwe	Tobacco, chrome, textiles, grain

Source: U.S. Department of State Sub-Saharan Africa and the United States. Washington, D.C.: Discussion Paper, December 1985.

Most SSA countries rely heavily on only two or three commodities for the bulk of their export earnings. For example, in 1976-78, the top three export items accounted for over 79 percent of the total export earnings in half of the SSA countries. Concentration on a small number of exports increases SSA vulnerability to commodity price fluctuations and limits its ability to adjust to changing world economic conditions.

Historically, economic growth and development is associated with more manufactured and more diversified exports. Development economists agree that SSA countries need to increase their exports of manufactured or processed products if their economies are to grow.

SSA nations are likely to be competitive in light manufactures that use a high proportion of labor. Apparels, footwear, sporting goods, plywood, and leather products are common labor-intensive industries. For example, textiles and clothing make up 24 percent of all manufacturing value added for low-income SSA countries; 14 percent for middle-income SSA countries; but only 7 percent for the industrialized market economies. The expansion of African exports, especially from the poorer countries, is likely to rely heavily on light industries, such as apparels. However, apparels face heavy import restrictions in some industrialized nations.

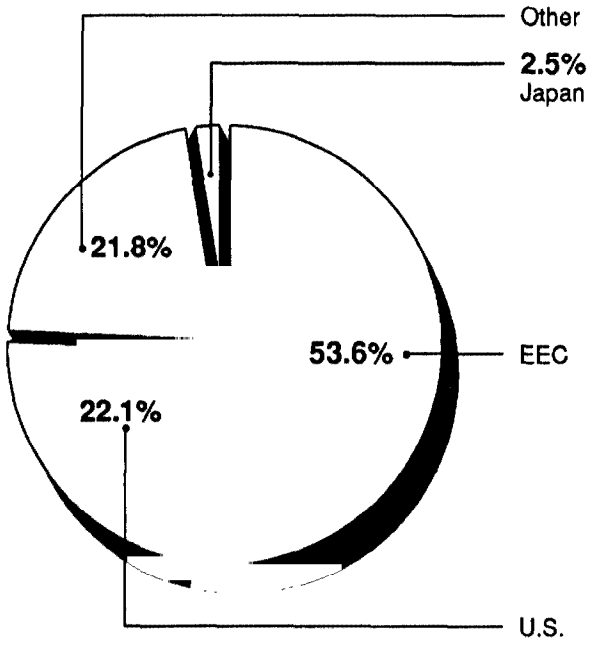
Trading Partners

SSA exports overwhelmingly to the industrialized countries, particularly to the EEC and the United States. In 1985, the industrialized countries bought 81 percent of Africa's merchandise exports. About 13 percent of SSA exports went to other less developed countries, only 4 percent among the SSA nations. Trade with the Centrally Planned Economies of Eastern Europe (including the Soviet Union) is small—roughly 2 percent of SSA exports.

As shown in figure 2.2, in 1985, the EEC purchased approximately 54 percent of all SSA merchandise exports. The United States imported 22

percent, more than any single EEC country, making it SSA's most important individual trading partner.

Figure 2.2: Major Markets for Sub-Saharan African Exports, 1985



Source: GAO calculations primarily based on World Bank and U.N. data.

As shown in table 2.2, SSA exports to the United States declined significantly over a 5-year period, over 95 percent of which was due to a drop in petroleum and petroleum products. However, despite some year to year variation, exports of other goods also declined at an average rate of 3.6 percent per year.

Table 2.2: U.S. Imports From Sub-Saharan Africa, 1981-1986

Dollars in millions

Commodity	1981	1982	1983	1984	1985	1986
Total all commodities	$13,795	$11,948	$8,480	$7,969	$7,376	$5,956
Petroleum and products	11,630	10,045	6,913	6,221	5,748	4,151
Coffee, tea, mate	493	623	465	511	386	499
Cocoa	351	175	227	260	410	344
Pyrite metal bearing ores	168	182	139	154	164	135
Copper, not pipes	118	50	89	126	50	96
Aluminum	144	289	67	0	29	87
Rubber	66	33	45	62	49	59
Female lace or net apparel	0	0	0	0	8	57
Sugars, syrups, molasses	180	86	73	87	51	53
Vegetable products	24	37	42	41	38	47
Other wearing apparels	0	0	0	0	8	43
U.S. products returned	15	21	30	26	17	33
Iron or steel	40	24	25	33	25	31
Leaf tobacco	15	14	31	18	19	27
Other base metals, unwrought	94	67	76	135	99	24
Fish	18	20	20	17	19	23
Gems	52	28	22	20	6	23
Fertilizers	0	0	0	0	2	21
Nickel	10	16	21	14	10	14
Camphor, other	6	16	10	12	13	12

Source: U.S. Department of Commerce Data.

Examination of detailed trade statistics show that at least 1 textile or apparel item was among the 5 largest exports to the United States in 1986 from 13 SSA countries. The United States' only major manufactured import from SSA was wearing apparel. While the United States is a major market for SSA exports, those exports accounted for only 1.6 percent of total U.S. imports in 1986. Consequently, U.S. and World Bank officials do not believe current SSA exports pose a threat to the U.S. market since most SSA countries do not have significant export capabilities, particularly of manufactured items. However, certain depressed industries, such as the textile industry, would encounter additional competition if existing U.S. import barriers protecting these industries were removed.

Trade Barriers and Preferential Trade Arrangements

Most commodities exported by SSA countries are not subject to major trade restrictions by the industrialized nations that limit market access. Many items enter the U.S., EEC, and Japanese markets with little or no duty, and tariff rates on other items are generally not high. Some items such as coffee, cocoa, and rubber are subject to international commodity agreements designed to provide a degree of market access and price stability, but these agreements are generally not considered trade barriers. However, we identified some NTBs affecting certain commodities and SSA countries which limit current exports and others which may hamper development of potentially competitive export industries.

The United States proposes to liberalize trade among all nations, including SSA, through efforts under the current Uruguay Round of multilateral trade negotiations.

Tariffs Are Not a Major Trade Impediment

Our analysis of the U.S., EEC, and Japanese tariff structures indicates that generally, tariffs are not a major impediment to SSA exports. All three industrial markets provide special preferential tariff treatment for developing countries, including SSA, which allows many SSA exports to enter their markets either duty-free or at low rates. However, higher tariff rates on manufactured items could hamper SSA's future export development.

As members of the General Agreement on Tariffs and Trade (GATT) the United States, EEC, and Japan have lowered tariffs on many items and each has established a generalized system of preferences (GSP) which allows many items from less developed countries (LDCs) to enter their markets either duty-free or at low tariff rates. On some items, tariffs might pose a barrier to SSA exports—specifically, those manufactured or processed items with higher tariffs than apply to the commodities they are made from. The EEC also provides additional access to its market from all SSA countries under the Lome' Convention Agreement.

Most Favored Nation Principle and the GATT

Since World War II, GATT and the trade negotiations under GATT auspices have shaped the world trading system through which the United States and other industrialized nations have successively lowered most tariff rates and instituted the most favored nation principle that requires reciprocity among countries. Tariff rates for GATT members are generally low. For example, the U.S. average tariff rate is only 4 percent and since most primary commodities enter duty-free, the average U.S. tariff on SSA imports drops to only 1 percent.

U.S., EEC, and Japanese GSP

The United States, EEC, and Japan provide significant tariff reductions to LDCs without demand for reciprocity under their GSP. However, product coverage and the type of preference granted vary in each of the three markets. The U.S. GSP provides duty-free entry for 3,000 partially and completely manufactured products and selected agricultural and fishery items from 141 LDCs and territories. For example, of the top 16 imports from SSA in 1985 that we were able to unambiguously classify, 10 entered duty-free without quantitative restrictions and 1 entered duty-free with quantitative restrictions. Products with quotas such as cotton and peanuts and virtually all textile items, wearing apparel, footwear, handbags, and work gloves are excluded from GSP coverage.

The EEC and Japanese preferential treatment provided to LDCs differs from the U.S. GSP in that they do not provide duty-free entry for all items covered under their GSP. Instead, some items are at reduced tariffs and others are limited by country-specific or global quotas on the amounts that can be imported at the preferential rate. However, major items such as textiles, not generally covered under the U.S. GSP, are included under the EEC and Japanese GSPs.

U.S. officials believe that the U.S. GSP provides greater benefits than the EEC and Japanese GSP because virtually all items covered under the U.S. GSP enter duty-free. In addition, these officials state that the U.S. GSP is less complicated than the EEC and Japanese GSP because its tariff reductions have less variance than the EEC and Japanese GSP.

EEC Lome' Convention Agreement

In addition to its GSP, EEC provides special and differential treatment under the Lome' Agreement. This agreement, signed in 1975 and renewed in 1979 and 1984, allows 66 African, Caribbean, and Pacific countries preferential access to the 12 EEC-member states' markets. This 5-year, $6.8 billion agreement provides duty-free, quota-free market access to all SSA countries for virtually all manufactured exports, including textiles. The Lome' Agreement differs from the GSP in that it encompasses more than tariff reductions. It includes the relaxation of some NTBs, less stringent enforcement of some trade regulations, and exemptions from certain multilateral trade agreements, such as the Multifibre Arrangement (MFA).

SSA officials believe that the Lome' Agreement is a good trade-aid arrangement for their countries, which also provides other assistance such as the STABEX and SYSMIN systems.

The STABEX system is the principal component of nonprogrammed aid. It provides funds to Lome' member states to cover shortfalls in earnings brought about by fluctuations in prices or output of agricultural products such as coffee, cocoa, and peanuts exported to the EEC countries.

The SYSMIN system or "Special Financing Facility" provides assistance to Lome' member states that are heavily dependent on mining exports to the EEC to remedy the harmful effects on their incomes of serious temporary disruptions affecting the mining sector. Products covered under this system include copper and cobalt, phosphates, manganese, bauxite and alumina, tin and iron ore, all of which are exported from SSA countries.

Potential Problem With Higher Tariffs on Manufactured Goods

Tariff structures that place higher rates on manufactured goods than on the primary commodities from which they are made can impose significant trade barriers against exports of processed or manufactured items even when tariff rates do not appear to be high. This results from effective rates of protection on the manufactured goods that are much higher than indicated by the rates in the tariff schedule. Even with low tariff rates, tariff structures biased against manufactures can impose significant trade barriers and inhibit LDCs from developing export industries using their own natural resources.

We found that although the United States, EEC, and Japan impose higher tariff rates on manufactured items than on bulk commodities, the U.S. GSP and the EEC Lome' Agreement provide duty-free entry for many manufactured items. Therefore, tariffs are not currently a problem for most SSA exports to the United States or the EEC. However, the Japanese GSP contains quantitative limits on the amount of manufactured items that may receive preferential treatment, thus higher effective tariffs may be a barrier to some SSA exports to Japan.

Some manufactured goods not covered by the U.S. GSP face higher tariffs. Import-sensitive items, such as footwear, gloves, handbags, and others defined by legislation are excluded from GSP coverage. Table 3.1 shows that U.S. tariff rates for some import-sensitive manufactured items are higher than the tariffs on the commodities they are made from. Cotton, leather, rubber, and sisal are raw commodities, exported by several SSA countries. Several SSA countries export items made from these raw commodities—wearing apparel, luggage, handbags, and footwear. Except for Mauritian apparel, current exports to the United States

are generally in small quantities. We could not determine whether tariffs are the primary reason for the low level of manufactured exports, but a Kenyan government official specifically mentioned that tariffs on sisal handbags and textiles limit Kenya's exports of these products to the United States.

Labor-intensive products using indigenous raw materials will be among the first manufactured exports of SSA countries as they develop industrial capabilities. However, these SSA exports are likely to be import-sensitive products for developed nations. In table 3.1 for instance, these items would include footwear, gloves, handbags, and others defined by legislation. Policy restructuring programs such as those recommended by AID and the World Bank are expected to speed industrialization and the ability to export manufactured goods. Higher tariffs on manufactures excluded by the GSP may pose an obstacle at this time and lessen the benefits SSA countries receive from U.S. foreign assistance.

Table 3.1: U.S. Tariffs on Selected Items

Import item	Percentage Tariff ratea
Leather Goods	
Hides and Skins	Free
Leather (Bovine)	0
Gloves	14
Flatwear	8
Luggage or Handbags	8–10
Footwear (Welt)[b]	5
Wearing Apparel	6
Rubber Goods	
Natural rubber	Free
Footwear (e.g. rainwear)	25 or 37.5
Gloves (seamless)	0
Cotton Goods	
Cotton	Quota limits
Yarns	Mixed[c]
Fabric	Mixed[c]
Female non-knit blouses	16.5
Female non-knit dresses	12
Male non-knit shirts	21
Female knit blouses	21
Female knit skirts	8
Sisal Goods	
Sisal Fibers	Free
Sisal Cordage[d]	7.0
Handbags	8.4

[a]Free indicates no tariff. A rate of 0 indicates duty free under the GSP.

[b]Valued over $6.80 per pair, other than ski boots.

[c]Yarn and thread tariffs depend on size and are a mix of specific and ad valorem duties. Bleached, mercerized, colored, combed or piled yarns are charged an additional tariff of 2.1 percent. Woven fabrics pay higher rates than the thread from which they are made. Additional charges levied if the fabrics are figured, bleached, colored or contain fibers other than cotton.

[d]Stranded construction between 3/16 and 3/4 inch. Other sizes are generally eligible for duty-free entry under the GSP.

Source: United States International Trade Commission, Tariff Schedules of the United States, Annotated (1987).

Nontariff Barriers Pose Problems for Sub-Saharan African Exports

NTBs, such as quotas, fees, domestic support programs, and legislative restrictions, present more difficult obstacles to SSA exports than tariffs. The NTBs we identified generally are commodity and/or country-specific and do not relate to all SSA countries. However, some administrative problems and legislative restrictions could affect all SSA countries.

While AID and World Bank officials believe that the policy reforms outlined in chapter 2, especially if supplemented by further reforms, will lead to significant increases in SSA countries' export capability, such exporters may be frustrated if the United States and other developed countries' import restrictions cover the potential products SSA countries can export. The President of the World Bank stated

> "Better integration into the international economy [by reforming developing countries] presupposes the willingness of trading partners to provide access to their markets....actions by industrial countries aimed at controlling access to their markets, mainly through nontariff barriers...undermine productivity and growth in the industrial countries and frustrate the efforts of developing countries to increase their exports at a time when such increases are critical to restoration of their economic growth."[1]

Most NTBs are commodity or country-specific and therefore, would not help all SSA countries if removed. The effects of each NTB on African exports and costs/benefits to the United States, if removed, cannot be measured with any precision. Other efforts discussed later in this report, including providing better information on U.S. regulations and requirements, may help SSA exporters gain greater access to the U.S. market.

Recently, under the Uruguay Round of GATT negotiations, the United States proposed phasing out all agricultural policies such as quotas, subsidies, and other import restrictions that distort trade to developing countries. This liberalization of agricultural policies would impact on SSA exports.

Quotas, Fees, and Domestic Subsidies

As a result of U.S. farm policies, restrictions have been imposed on imports of some agricultural commodities. For example, the United States subsidizes domestic sugar production and sets quotas on imports. The reduced demand for sugar lowers world prices and negatively affects the export earnings of competitive SSA sugar exporters. Similarly, cotton or peanuts, which are affected by country-specific or global

[1]World Bank, World Development Report 1987. Washington, D.C.: The World Bank, p. iii-iv.

quotas under section 22 of the Agricultural Adjustment Act of 1933, 7 U.S.C. 624, as amended, are among the leading exports for 14 SSA countries. U.S. trade barriers may affect SSA export earnings from these commodities. Additionally, U.S. textile import restrictions limit Mauritius' current clothing exports and may influence other SSA countries with production capability not to export.

Sugar Policies

Under the sugar policies of the United States, EEC, and Japan, domestic production is subsidized and imports are limited. Since these countries are large consumers of sugar, such policies reduce demand for imported sugar—which means exporters sell less and receive a lower price for what they can sell. Sugar exporters lose both export revenues and the jobs and profits created by the sugar industry.

U.S. Sugar Programs

The current U.S. sugar program is carried out under the Agriculture and Food Act of 1981, as amended, which authorizes a nonrecourse loan program. The Department of Agriculture sets a market stabilization price, about 22 cents per pound in 1988.

On December 15, 1987, the Secretary of Agriculture announced that the overall 1988 sugar import quota would be reduced 25 percent from 1987. In addition, the recently enacted continuing resolution (H.J. Res. 395) making appropriations for fiscal year 1988, allows the Caribbean nations and the Philippines to ship an extra 400,000 short tons of sugar to the United States in 1988. Since this sugar would then be re-exported at world prices with U.S. subsidies, this measure may lower the world sugar price and adversely affect SSA sugar exporters.

Table 3.2 compares U.S. sugar quotas for SSA in 1982-83 and in 1987 for the nine SSA countries that have sugar quota allocations from the United States. SSA countries have suffered reductions of 52 to roughly 67 percent in the dollar value of their sugar exports to the United States since quotas were imposed.

Table 3.2: U.S. Sugar Quota Allocations for Sub-Saharan Africa, 1982-83 and 1987

Dollars in millions

Country	Quota Quantity[a] (1,000 short tons) 1982-83	1987	Net dollar value[b] 1982-83	1987	Percent Change
Congo[c]	0	7.5	0.0	2.9	NA
Gabon[c]	0	7.5	0.0	2.9	NA
Ivory Coast	16.5	7.5	6.3	2.9	−54.0
Madagascar	16.5	7.5	6.3	2.9	−54.0
Malawi[d]	19.6	9.1	7.5	3.6	−52.0
Mauritius[e]	30.8	10.9	11.8	4.3	−63.6
Mozambique	36.4	11.8	13.9	4.6	−66.7
Swaziland	44.8	14.6	17.1	5.7	−66.7
Zimbabwe	33.6	10.9	12.8	4.3	−66.7

[a]Minimum allotments of 16,500 short tons in 1982-83 and 7,500 short tons in 1987 were assigned to countries whose quotas, computed by the standard formula, fell below these amounts.

[b]Valued at New York Spot prices less 1.5 cents per pound for transport charges. No SSA countries were subject to tariffs.

[c]Congo was given initial quotas in 1983-84 and Gabon in 1984-85.

[d]Malawi's base allocation was raised in 1984-85.

[e]Mauritius was given a one-time quota increase in 1987, but its base allocation was not changed.

Source: Department of Agriculture and Maskus, Keith E. The International Political Economy of U.S. Sugar Policy in the 1980s, August 1987. Washington, D.C.: Department of State.

In March 1987, the Administration proposed a bill to lower the minimum price support loan level to 12 cents a pound and give U.S. producers transition payments of approximately $1.1 billion over a 4-year period. This proposal would allow a decrease in U.S. sugar import restrictions. The proposal has been introduced in the Senate as bill S. 1000, and in the House as H.R. 2017, but as of April 1988, no action had been taken.

EEC and Japanese Sugar Programs

The EEC purchases excess domestic production of sugar at prices above the world price and provides export subsidies to sell the surplus on world markets. In general, sugar imports are prevented by variable import levies, except that under the Lome' Agreement the EEC has agreed to purchase guaranteed quantities of sugar from the Congo, Kenya, Madagascar, Malawi, Mauritius, Swaziland, Tanzania, and Uganda at the domestic EEC price.

Japan maintains a high domestic sugar price through import duties, an excise tax, and a system of variable charges, surcharges, levies, and rebates.

Impacts of U.S., EEC, and Japanese Sugar Policies

Comparison of sugar import levels before and after current U.S., EEC, and Japanese policies show large drops in imports after restrictions were imposed. U.S. sugar imports for U.S. domestic use fell from 6.1 million short tons, raw value in 1977, to 1.8 million in 1986. The Department of Agriculture forecasts a further drop in 1987 imports to 1.0 million tons. Observers predict that under current policies, the United States will be self-sufficient in sugar in the early 1990s and may soon thereafter have exportable surpluses.

The EEC has already moved from a sugar importer to the world's second largest exporter. In 1970 EEC imported 1.0 million metric tons but by 1982, it exported a net 4.2, a swing of 5.2, which is enormous in a world averaging 21 million metric tons in total trade. Japan reduced its imports by 34.5 percent between 1974 and 1983.

U.S., EEC, and Japanese sugar policies are important factors behind these large declines. The large drop in demand for imported sugar by the developed market countries has contributed to lost sales and lower prices for all sugar exporters, including SSA countries. Since 1982, the world market price has generally been below 9 cents per pound, less than the cost of production for even the lowest cost sugar producers.

U.S. and EEC sugar policies affect SSA in two opposing ways. Quota sales are at the higher subsidized price so that on the quota quantity the exporter earns more because of the restrictions. Any amount sold on the world market, however, earns less than if the United States and other countries did not restrict their sugar imports. For example, one comment from the Department of State on a draft of this report, stated that a recent study estimated that policies distorting world sugar markets raised the price sugar exporters received for their quota exports to the United States by 6 cents per pound, but cost them 7 cents per pound on sales to the free market. The high prices paid for quota imports only partially compensate for the loss of sugar export earnings on the free market. Thus, as World Bank officials point out, competitive SSA producers do not benefit overall from U.S. and EEC quotas and guaranteed high prices because they lose more export earnings due to the quota limitations than they gain from the guaranteed higher price.

It is not possible to specifically determine which SSA countries have been adversely affected by developed countries' sugar policies primarily because complete production cost data are not available. Some limited information from U.S. Department of Agriculture publications shows that the five lowest cost producers over the 6-year period, 1979-80 to

1984-85, were Malawi, Zimbabwe, Swaziland, South Africa, and Zambia. These countries would benefit from expanded sales and higher world prices in the absence of restrictive sugar policies by the major Western powers. Also, the lowest average regional cost producers were in Africa and South America so that it is likely that restrictions on sugar, in general, hurt rather than help Africa.

However, some specific SSA countries might be adversely affected by more reliance on free trade in sugar by the United States, EEC, and Japan. Some SSA countries are net sugar importers and their costs would rise. Furthermore, not all SSA countries are low-cost producers. The Congo has import quotas granted by both the United States and EEC, and is one of the world's highest cost producers. Free trade in sugar would adversely affect the Congo because it would not receive high domestic prices on exports to the United States and EEC and its exports would probably fall, given its high production costs.

Domestically, the artificial high price accompanying the U.S. sugar quotas imposes a hidden tax on consumers that various studies estimate to be between $660 million and $3 billion. One such study estimates that (1) 15,300 refinery jobs have been saved at an average cost to consumers of $60,000 each and (2) the net cost to the U.S. economy around 1983 was about $960 million to $975 million.[2] Lower domestic U.S. prices could increase demand, increase imports, and increase SSA earnings.

Textile Import Quotas and the Multifibre Arrangement

The United States imposes quotas on imports of yarn, fabric, and made-up textile products and apparels made of cotton, wool, man-made fabrics, silk blends and vegetable fibers other than cotton, in accordance with the MFA. The MFA was first negotiated in late 1973 under the direction of the Director General of GATT and renewed, with extensions, in 1977, 1982, and 1986. Restrictions on textile imports by the developed countries, including the United States, limit current exports of some textile and apparel products from Mauritius and are believed by some experts to discourage other SSA countries from developing export industries. In addition to quota restrictions, the effect of higher tariffs on clothing than on fabric or yarns has been discussed earlier in this chapter.

[2]For details and references see Hufbauer, G.C.; Berliner, D.T. and Elliott, K.A. (1986) Trade Protection in the United States: 31 Case Studies. Washington, DC: Institute for International Economics, p. 286-301.

Under the MFA, the United States has the right to establish restraints on imports from any country whose exports rise to a point where U.S. market disruption is present or threatened. In addition, section 204 of the Agriculture Act of 1956, 7 U.S.C. 1854, as amended, authorizes the President to negotiate with representatives of foreign governments to obtain agreements to limit textile imports as he deems appropriate. As of February 1, 1988, the United States had entered into bilateral agreements with 43 countries, including Mauritius, imposing import constraints on specific textile products.

Other Textile and Apparel Trade Restrictions

In addition to quotas, the United States has high effective tariff rates on textiles and apparel, most of which are excluded from its GSP. Tariffs on textiles and apparel are a mix of fixed and ad valorem duties levied on specific items. It is estimated that 1987 tariffs on thread and yarn are 9 percent, 11.5 percent on fabrics, and 22.5 percent on clothing. These tariffs are high compared to the average U.S. tariff of 4 percent.

Under 1987 proposed legislation, total textile imports to the United States would be limited to 1986 import levels, plus a 1-percent growth rate each year. U.S. officials stated that this legislation, if passed by the Congress, would almost certainly prevent SSA from expanding textile and apparel exports to the United States.

Textile Imports From SSA

Based on available data, textile non-knit clothing items appear to be the primary category of exports for SSA countries. Table 3.3 shows that from 1981 to 1986, total imports of non-knit clothing from SSA to the United States increased from $0.9 million to $84.0 million—$75.9 million of the $84.0 million, was imported from Mauritius.

Table 3.3: Sub-Saharan Africa's Textile and Apparel Exports to the United States, 1981-1986

Dollars in millions

Commodity	1981	1982	1983	1984	1985	1986
Textile clothes, non-knit	0.9	2.0	3.1	18.1	45.8	84.0
Clothing, accessories knit	10.3	12.3	8.7	9.3	13.8	23.5
Other textile products	0.2	0.2	0.5	0.3	1.5	0.9

Source: United Nations Trade Data Base.

In commenting on a draft of this report, the State Department provided updated data which showed that in 1987, the United States had a large increase in cotton printcloth and sheeting imports from SSA countries,

including Nigeria, Zimbabwe, the Ivory Coast, Swaziland, Cameroon, Malawi, and Madagascar. This increase in imports from these countries, not previously large exporters to the United States, is apparently because of high demand, quotas on traditional exporters, and U.S. manufacturers operating at full capacity.

Effects of U.S. Restrictions

Mauritius is the only SSA country on which the United States has imposed quotas. Since October 1981, a bilateral import restraint agreement has limited Mauritian exports of several textile items, including knit shirts and sweaters of cotton, wool, and man-made fibers.

Table 3.4 shows that Mauritius increased its exports of non-knit garments at a phenomenal rate between 1981 and 1986. Contrarily, shirts, sweaters, and other knit items had quotas imposed and Mauritian exports of knit clothing to the United States showed no discernable growth until 1986. It is likely that the U.S. quotas were responsible, at least in part, for the lack of growth in knit clothing exports from Mauritius.

Table 3.4: Mauritian Textile Clothing Exports to the United States, 1981-86

Dollars in millions

Commodity	1981	1982	1983	1984	1985	1986
Textile clothes, non-knit	0.8	1.8	3.1	17.0	39.4	75.9
Textile clothes, knit	10.2	12.1	8.6	9.0	11.5	20.2
Total[a]	**11.0**	**14.0**	**11.7**	**26.0**	**50.8**	**96.1**

[a]Columns may not add due to rounding.
Source: United Nations Trade Data Base.

Our work on textile and apparel restrictions disclosed two opposing views on the impact of U.S. MFA quotas on SSA. The officials we talked with at the Departments of State and Commerce and USTR believe that U.S. quota limits on the major exporters provide a market opening for SSA countries, such as Mauritius, to exploit. If the traditional exporters were not limited, new countries would probably find it difficult to begin exporting textiles and garments competitively.

Contrarily, some AID, World Bank, and African officials present the counter-argument that SSA countries have the level of development needed to invest in textile industries, but choose not to for fear that the United States might impose quotas. The quotas applicable to Mauritius, for example, may discourage investors and entrepreneurs from developing textile industries in other SSA countries.

The Mauritian situation seems to conform with the view of some U.S. officials that it began exporting because of quotas imposed against traditional exporters. Mauritius' textiles are produced largely by Asian-financed firms, producing fabric to sell in U.S. and EEC markets which limit imports from Hong Kong. However, it is evident that Mauritius has now become an efficient producer in its own right. For example, Commerce estimates of the import values of different countries' exports to the United States show that Mauritius' playsuits were 9.7 percent cheaper than Sri Lanka's, 11.0 percent below China's, and more than 40 percent cheaper than the United States'. While these values are not totally comparable, they are general indicators of comparative costs. Underpricing China, generally a low-cost producer, is a strong indication that the Mauritian apparel industry may be able to compete successfully in an unregulated market.

Since Mauritius now appears able to maintain and perhaps expand its exports, other SSA countries could follow. State, Commerce, and World Bank officials mentioned Zimbabwe, the Ivory Coast, Togo, Malawi, Zambia, Kenya, Senegal, and Nigeria as SSA countries with growing textile industries. The threat of U.S. quota restrictions may discourage some of these countries from investing in textile export factories.

Although we did not find any studies on the estimated economic effects of U.S. textile restraints on SSA countries, we found several which analyzed the domestic impact of current textile policies. Table 3.5 compares major results of these studies.

Table 3.5: Estimates of Economic Effects of U.S. Textile and Apparel Trade Restrictions

Dollars in billions

Authors	Import price increase (percent)	Consumer cost	Net welfare cost	Jobs created	Consumer cost per job created
Apparel					
Cline	53	$17.6	$7.3	381,200[a]	$46,052
Hufbauer, Berliner and Elliott	39	$18.0	$6.0	460,000	$39,000
Hickok	17–25	$8.5–12.0	N/A	N/A	N/A
Tarr and Morkre[b]	23[c]	$0.4–$0.5	$0.3–$0.5	9,000	N/A
Textiles					
Cline	28	$2.8	$0.8	53,000[a]	$52,204
Hufbauer, Berliner and Elliott	21	$9.0	$0.6	180,000	$50,000

[a]Includes indirect jobs.

[b]For quotas on 13 cotton apparel categories against Hong Kong only.

[c]Weighted average.

Source: Cline, William R., The Future of World Trade in Textiles and Apparel. Washington, D.C.: Institute for International Economics, 1987, p. 187-206.

Among the more recent studies were two published by the nonpartisan nonprofit Institute for International Economics. The first study examined 31 major U.S. trade restrictions and their economic impacts.[3] Though the study used standard economic modeling techniques, simplifying assumptions, poor data, and other methodological problems caused the numerical results to be "orders of magnitude, not...definitive quantitative analyses."[4] The study indicated that the restrictions on exports to the United States were the most costly of the 31 examined. For example, in 1984 U.S. import restrictions raised U.S. consumers' costs by $27 billion, with 640,000 jobs in the textiles and apparel industries being saved at a cost to consumers of $42,000 per job. Although U.S. textile producers benefited, the United States had a net welfare loss of $6.6 billion.

Another study by William R. Cline[5] estimated that U.S. trade restrictions cost U.S. consumers $17.6 billion in apparel and $2.8 billion in textiles.

[3]Hufbauer, G.C., D.T. Berliner, and K.A. Elliott (1986) Trade Protection in the United States: 31 Case Studies. Washington, D.C.: Institute for International Economics.

[4]Hufbauer, Berliner and Elliott (1986) p. 37.

[5]Cline, William R. (1987) The Future of World Trade in Textiles and Apparel. Washington, D.C.: Institute for International Economics.

However, 214,200 direct jobs in apparel and 20,700 in textiles were retained, with the cost to consumers for each job saved in these industries of approximately $82,000 and $135,000, respectively. Cline stated that employment is supported in the textile and apparel industries, but that probably no jobs are saved economywide since after a period of unemployment many of the displaced workers would find other employment.

Multilateral Trade Negotiations

The United States supports multilateral efforts to liberalize trade among all nations, including SSA. Under the recent round of trade negotiations, the United States submitted a proposal calling for a total phase-out over a 10-year period of all policies that distort trade in agriculture. The proposal includes

- a complete phase-out of all agricultural subsidies which directly or indirectly affect trade;
- a freeze and phase-out of the quantities exported with the aid of export subsidies;
- a phase-out of all import barriers, including import quotas, variable levies, minimum import prices, and some trading activities; and
- harmonization of health and sanitary regulations based on internationally agreed standards.

The U.S. proposal, submitted in Geneva at the GATT agricultural trade round on July 6, 1987, is meant to rationalize agricultural trade. The U.S. proposal requires developing countries, including SSA, to adopt policies to conform to the above restrictions. If adopted, this proposal would significantly affect world trade in agricultural products, benefiting many SSA countries that export products that compete with U.S. and EEC agricultural exports.

Recent Legislative Prohibitions

Restrictions on AID's fiscal year 1987 and 1988 appropriations that prevent the United States from assisting SSA development of certain agricultural and industrial products with export potential conflict with U.S. development objectives in SSA. The United States ability to aid SSA development is limited because many important industries have export potential in commodities that the United States also produces, such as cotton, peanuts, tobacco, textiles, footwear, and handbags. Further, AID and other U.S. officials believe these prohibitions prevent SSA and other developing countries from taking greater advantage of the GSP because

AID is unable to assist these countries in developing certain exports that may potentially qualify for GSP coverage.

Section 558 of the general provisions that apply to AID's fiscal year 1987 appropriations (generally referred to as the Bumpers Amendment) restricts AID from funding certain activities

"in connection with the growth or production in a foreign country of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States."

A second amendment, section 559 of the general provisions on AID's fiscal year 1987 appropriation (generally referred to as the Lautenberg Amendment) prohibits AID from providing funds

"(1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture for export to the United States or to third country markets in direct competition with the United States exports of [two categories of import sensitive articles that include certain textile and apparel goods, and certain leather goods and wearing apparel]; or (2) to assist directly in the establishment of facilities designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of [such] import sensitive articles."

The Bumpers and Lautenberg provisions were recently renewed in the continuing resolution enacted in December 1987, making appropriations for fiscal year 1988 (H.J. Res. 395).

AID officials believe that these prohibitions should not be applied to developing countries or, if applied, special exception should be made for SSA countries so as not to interfere with growth in these countries or hamper U.S. development strategy for Africa (see ch. 4). One AID official stated that such legislation will effectively terminate aid in such areas as sugar production in Kenya, Uganda, Tanzania, and palm oil production in Cameroon and Togo.

AID has adopted Policy Determination-15 Assistance to Support Agricultural Export Development to provide guidance to AID missions in implementing the Bumpers Amendment. Policy Determination-15 states that

"It is AID policy to avoid supporting the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities to third countries and have a significant impact on U.S. exporters."

Policy Determination-15 also provides guidance to missions on the factors that they need to consider and the analysis they need to undertake when developing agricultural export development projects. In addition, Policy Determination-71 AID Financing of Palm Oil, Citrus and Sugar Projects and Related Products requires the mission to obtain AID/Washington approval before providing assistance for projects involving the production, processing, or marketing of sugar, palm oil, or citrus products for export.

As of April 1988, separate policy guidance on implementing the Lautenberg Amendment has not been completed. However, an AID official told us that AID is operating under interim guidance decided upon last spring by the then, AID Acting Administrator. This policy states that:

"In order to comply with the Lautenberg Amendment, AID will (a) rely upon the guidelines delineated in the General Counsel (CG) legal opinion, which defines the scope of our policy to direct assistance for the activities identified in the Lautenberg Amendment funded with FY 1987 funds; (b) utilize the policy guidance contained in the Trade Development Policy Paper (section VI.C.4); and (c) expand the GC's guidelines to include deobligated and reobligated funds, and any prior-year funds newly obligated in FY 1987."

Administrative Issues

SSA officials from Senegal, Kenya, Sierra Leone, Madagascar, Guinea, and Cameroon told us that complex U.S. customs, health, and other rules and regulations, together with the difficulty in obtaining explanations of them constitute a significant barrier to SSA exports. U.S. officials agree that some customs rules and regulations and U.S. health standards are difficult to understand, but they believe that SSA exporters have access to technical assistance, including U.S. government help, to assist them in understanding and meeting administrative requirements. However, our own experiences in tracking down certain specific regulations and interpretations, as well as the experiences described to us by SSA officials, lead us to believe that for other than general background questions, finding the appropriate U.S. official can be time-consuming and frustrating.

SSA officials cited unsuccessful attempts by their exporters to obtain information from the U.S. embassy, and by SSA embassy staff in the United States trying to deal directly with U.S. agencies. The consensus was that in many cases, finding the appropriate U.S. official to answer specific questions was a difficult task.

Contrarily, U.S. officials told us that U.S. agencies, such as the Departments of Commerce and Agriculture, provide information about their particular areas and refer inquiries to State and other appropriate agencies as necessary. Many U.S. officials added that the GATT's International Trade Center provides technical assistance to all LDCs, including SSA. It provides market development services aimed at identifying new export opportunities, adapting products for sale abroad, and promoting these goods on the international market. Such work is undertaken for both nontraditional exports of LDCs and selected primary commodities. The Center's special services supporting its export marketing efforts include providing advice on institutional requirements for trade promotion, assistance in packaging exports, quality control, export financing, cost and price, trade information, and commercial representation abroad.

However, in dealing with U.S. officials involved in health and sanitary requirements, we found that it took many hours on the telephone, being transferred from person to person and from agency to agency to obtain information. The large number of U.S. agencies involved in the trade area also complicated our efforts to identify appropriate personnel. To a foreign exporter, the bureaucratic labyrinth we encountered might indeed seem to be a trade barrier.

In addition, our analysis of selected GSP exports for 1982 through 1986 shows that significant portions of shipments, and in some cases entire shipments, from many SSA countries were excluded from GSP coverage for administrative reasons, such as the

- failure to claim GSP (the exporter claims GSP eligible shipments as dutiable in part because of not being aware of GSP benefits, and in part because of the time and effort required),
- lack of proper documentation (the exporter or importer fails to submit the required GSP form to U.S. Customs or the form contains insufficient or incorrect data), and
- failure to meet the 35-percent value added (the 35-percent value added criterion requires that the sum of the cost or value of materials produced in the beneficiary country plus the direct cost of processing must equal at least 35 percent of the appraised value of the article at the time of entry into the United States).

Table 3.6 shows the level of SSA use of GSP duty-free eligibility from 1982-86. Although the aggregated utilization rate was over 75 percent from 1983-86, further analysis indicates that many SSA exporters did not

receive GSP coverage. Our analysis of the 1986 GSP eligibility usage indicates that many SSA shipments were excluded from GSP. In 1986, 17 SSA countries had 70 percent or more of their shipments excluded from GSP coverage for administrative reasons. For example, in 1986 the Central African Republic was eligible to ship over $133,000 worth of goods to the United States duty-free under GSP. However, it received duty-free coverage for only $5,900 worth of goods, 4.4 percent of the potential benefit.

Table 3.6: SSA Shipments Excluded From GSP Coverage, 1982-86

Dollars in millions

Year	Total eligible	Total free	Total excluded	Percent utilization
1982	$266	$135	$131	51
1983	199	180	19	90
1984	263	244	19	93
1985	171	135	36	79
1986	194	147	47	76

Source: U.S. Census data and GAO calculations.

U.S. officials were unable to identify a single cause for such low rates of GSP usage, and some did not view the exclusions as particularly alarming. They stated that overall in 1984, Africa was still above average and better than most regions in using GSP. While the aggregate data may not appear unfavorable for SSA countries, viewing the data on a country-by-country basis shows that the exclusions have significant impacts on a country's overall exports.

U.S. Customs officials stated that under GSP, Customs generally requires the exporters to submit GSP Form A (certificate of origin) prior to the arrival of the shipment, as proof that it meets GSP eligibility requirements. If Form A is not received, the shipment is rejected from entering the United States duty-free; however, Customs allows for some exceptions. For example, if a country has established a history of specific shipments, and the Customs specialist controlling the shipments is familiar with the items being shipped by the country in terms of origin, Customs can waive the Form A requirement. If a waiver is granted, the shipment is tentatively accepted by Customs as duty-free under the GSP, allowing the importer to claim GSP coverage at the time of entry (when the importer receives all paperwork such as the invoice and the bill of lading from the exporter). The importer is allowed 30 to 60 days to provide Customs with the GSP Form A. Shipments would normally be subjected to duty unless a claim is made at the time of entry. According to

one Customs official, SSA countries have never established a history of items exported to the United States at any specific U.S. port, primarily because they do not ship in volume or with regularity.

We could not assess the magnitude of shipments excluded for each reason cited because the data was unavailable. Further, we were unable to assess the effect that exclusions have on SSA countries because shipments not qualified for GSP may enter the United States with low tariff rates under the most-favored-nation principle.

Many U.S. officials state that SSA countries fail to claim GSP and/or to satisfy GSP requirements because they do not fully understand the benefits and use of the GSP. State Department noted that based on experiences with SSA exporters, some exporters fail to utilize GSP because of the time and effort required. However, SSA officials we spoke with agree that they do not fully understand the GSP program, and that annual changes to the complicated GSP schedule make it even more difficult for them to satisfy all requirements.

Conclusions

Our analysis indicates that tariffs are not generally barriers to SSA exports. Most SSA exports are primary commodities that enter duty-free and other products are given preferential treatment under the U.S., EEC, and Japanese GSP. In addition, EEC, under the Lome' Agreement, offers duty-free entry to virtually all SSA products, including textiles, with no quantitative restrictions. Also, even for commodities not covered by GSP, most developed nations' tariffs are low as a result of GATT negotiations.

Some items, however, have high tariffs or NTB limitations. Under the U.S., EEC, and Japanese tariff structures, higher tariff rates for many SSA exports are applied to the processed forms than to the raw or unprocessed forms, including some that are covered under the GSP. This may discourage LDCs from becoming skilled and stable exporters of manufactured products.

NTBs, such as quotas, domestic subsidies, and certain legislative prohibitions, have affected, or could potentially affect, SSA exports. Of these, NTBs, quotas on some agricultural products and certain manufactured items, such as textiles and apparel, have been singled out by virtually all U.S. officials as the primary U.S. trade barriers adversely affecting SSA countries.

Administrative procedures can also be perceived as hampering SSA exports. We believe that many SSA exporters are not using GSP eligibility benefits because they lack experience and/or knowledge about U.S. GSP requirements. In many instances, SSA shipments are excluded from GSP coverage because African exporters either fail to claim GSP and/or satisfy GSP requirements which suggests a need for more training to improve SSA awareness.

U.S. Initiative to Increase Sub-Saharan African Trade

The United States' trade practices with SSA are the same as those for most other developing countries (with the exception of the Caribbean Basin Initiative countries), providing neither special preferential treatment nor unusual trade restrictions. However, as part of an overall plan to improve economic conditions in SSA, in September 1986 the White House launched a multiagency task force initiative to end hunger in Africa through economic growth and private enterprise. The task force, composed of 15 U.S. departments, agencies, and White House offices, identified eight components of this initiative, one of which focused on trade and investment. A trade group under the task force examined the trade component and made recommendations on institutional changes, policy reforms, training programs, and export opportunities.

Some agencies noted several statutory restrictions, such as sugar and textile quotas, that require legislative changes and are doubtful that these changes will occur. In addition, while most agencies appear to be supportive of the new initiative, some agencies indicated that they had no additional resources for carrying out designated programs. However, AID stated that it is willing to provide funds to assist those agencies with approved programs.

White House Task Force Initiative

According to U.S. officials and documents we reviewed, the White House Task Force initiative grew out of the determination by the President that the United States should act more forcefully to help end hunger in Africa. A task force, composed of 15 departments or agencies of the U.S. government which operate in Africa and relevant White House offices, was formed to make recommendations on how to implement the President's initiative. The task force, jointly chaired by the National Security Council and the White House Office of Policy Development, established seven working groups to address issues on economic assistance which included debt, food aid, private sector trade and investment, multilateral diplomacy to mobilize other donors, budget issues, and administration.

The task force completed an implementation plan for the initiative in early spring which was announced by the White House in March 1987. According to U.S. officials, this is not the first U.S. effort to assist Africa with its economic situation; however, it is the first comprehensive, systematic, and multiagency SSA program. The initiative is designed to focus on donor, recipient, and multilateral economic activities on ending hunger through economic growth, policy reform, and private sector development. The plan calls for a comprehensive interagency program to

implement the policy goal of ending hunger in Africa and to incorporate all U.S. economic programs and policies to capitalize on the opportunities to assist African countries, including SSA. The program addresses the main barriers to African development, through economic growth, policy reform, and private sector development. Major elements of the plan include

- donor coordination,
- development fund for Africa,
- debt on a multilateral basis,
- debt on a bilateral basis,
- food aid,
- private trade and investment,
- administration of the plan, and
- private sector involvement.

Development and Status of the Initiative

On June 23, 1987, the President signed an executive order, "Coordination of Economic Policies for Sub-Saharan Africa," establishing a coordinating committee, chaired by the Administrator, AID, to oversee and monitor implementation of the initiative. Co-chaired by the Assistant Secretary of the Treasury for International Affairs, the committee is to meet three times a year, with additional meetings as necessary. To support the Interagency Coordinating Committee, AID maintains a Secretariat in the Africa Bureau, composed of AID representatives on the action groups, plus additional members as designated by the committee.

The Coordinating Committee tasked the Interagency Working Group on Private Sector Development in Africa to study the private sector segments of the End Hunger Initiative and to prepare a written report by August 14, 1987, on new or enhanced activities that may be undertaken. The Interagency Working Group formed four action groups which covered trade issues, chaired by Commerce; foreign investment, chaired by OPIC; African investment, chaired by USAID; and agriculture, chaired by Department of Agriculture. Each action group included several individuals from various agencies who were knowledgeable with the issue under study.

Prior to developing recommendations on specific issues, the trade group met on two occasions to identify key barriers to African trade and ways to reduce these barriers and increase African exports. At an August 5, 1987, meeting, agency representatives submitted written proposals on what their agency had done or could do to increase U.S.-Africa and

little or no export taxes, and (5) removing state-controlled monopolistic trading companies. Task force representatives agree that policy reform is by far the primary focus of the SSA export strategy. Giving SSA more food and money without policy changes would over the long term cause more harm and human suffering. These officials further believe that foreign assistance can and must be made more effective in stimulating economic growth and income generation among the regions' poor. To be effective, any policy focused on growth will require substantial policy reform. Thus, countries undertaking difficult reforms will be able to generate additional resources and use those resources more effectively to speed up the development.

In addition to AID's reform programs, AID has sponsored, and continues to sponsor training and seminars on GSP and other laws and regulations affecting exports of developing countries. USTR and Commerce also participate in this training.

On August 14, 1987, the trade group's recommendations were submitted to the chairman of the Interagency Working Group on Private Sector Development in Africa and according to State officials, consultations began shortly afterwards. As of November 23, 1987, the State Department was incorporating the trade and other groups' recommendations into a final report for submission to the chairman of the Coordinating Committee for review and final decisions on implementing the initiative.

No new funding has been authorized to carry out the trade group's recommendations under the initiative. According to the White House task force implementation plan, U.S. agencies are expected to use existing budgets to carry out specific areas of responsibility. Consequently, the new initiative is competing with existing programs. Some agencies involved indicated that they have limited resources to support the initiative; however, AID is willing to assist those agencies' efforts. Some of these officials believe that if the initiative is effectively implemented, there is potential for increasing SSA countries' exports.

Sub-Saharan Africa Development Assistance

The continuing resolution (H.J. Res. 395), passed in December 1987, appropriating funds to AID for fiscal year 1988 included $500 million for assistance to SSA for carrying out economic development activities. The stated congressional intention is to help SSA through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant. This assistance is to be used in such functional program areas as health, education, agriculture,

AID told us that while agencies are concerned about the lack of funding to support the new initiative, it has funds for SSA export programs and is willing to work out cooperative arrangements with other agencies, such as State, Commerce, and USTR, to carry out approved initiatives.

Conclusions

The United States is considering reducing trade barriers and promoting African trade through a recently launched multiagency task force effort to end hunger in Africa. The expansion of African exports through increased trade and investment opportunities is included as part of this consideration. A group under the task force examined the trade component that resulted in various recommendations which focused on institutional changes, training programs, policy reforms, and export opportunities. Although these recommendations have not fully been implemented, we believe they offer potential for improving SSA export capabilities.

As discussed in chapter 3, there is a need to improve SSA awareness of U.S. GSP requirements and other regulations. We support the trade groups' recommendation to develop various training programs geared toward providing explanation and clarification on GSP usage, customs requirements and procedures, and U.S. health regulations for both U.S. commercial officers and SSA exporters. AID's efforts to provide information on U.S. trade regulations and requirements can help alleviate potential administrative trade barriers to SSA exporters. We believe the recently approved funding for SSA offers a greater opportunity for AID to provide more training and seminars to SSA exporters to overcome the lack of knowledge of U.S. GSP requirements and other regulations.

Recommendation

We recommend that the Administrator, AID, expand the Agency's training activities to better inform SSA exporters of U.S. GSP requirements and other regulations.

Agency Comments and Our Evaluation

AID, USTR, the Departments of State, Commerce, and Agriculture provided written or oral comments on a draft of this report. Overall, these agencies stated that the report was generally accurate and informative, but offered some suggestions for technical clarifications/corrections and updated information, which we incorporated in the report as appropriate.

-2-

The report also indicates that "bad" economic policy is an impediment to trade expansion, a stance that we endorse strongly. Clearly, those countries that have an open, private sector-oriented economic policy environment fare better in expanding exports.

Although the report is highly informative, there are some areas that require clarification and elaboration.

See pp. 4 and 45.

We feel that the report is somewhat "long" on analysis and "short" on recommendations. The report's primary recommendation that A.I.D. provide more training and seminars to SSA exporters to overcome the lack of knowledge of U.S. GSP requirements and other regulations is certainly valid. However, are there not any other recommendations to be made?

See comment 1.

While the report does state in considerable detail most of the regulatory constraints facing an SSA exporter in the U.S., it could have elaborated on the nature of health and safety regulations. Consensus is growing that these regulations are designed to protect the U.S. producer rather than the U.S. populace. Making this point to Congress, the recipient of the report and responsible for the regulations, might induce some liberalization of the requirements.

See comment 2.

The report lists the recommendations developed by the trade group for the "Hunger Initiative for Sub-Saharan Africa." We recognize that the report's mandate was not to assess each of the recommendations. Nonetheless, it would have been helpful if the report had prioritized the recommendations. For instance, how important is the provision by the EXIMBANK of training to SSA governments in establishing export credit agencies? Would OPIC trade and investment missions to and from Africa held expand trade appreciably?

The report notes that even if all tariff and non-tariff barriers were eliminated, most SSA countries lack the infrastructure to expand productive capacity. As we have noted above, we do not disagree with the statement. However, to the uninformed, it would have been helpful to specify in greater detail the nature of these infrastructural constraints. Is it a lack of human capital? Deficiencies in transportation or utility infrastructure? Any others? A discussion of these infrastructural constraints would have been useful.

Except for the matters noted below, we generally agreed with AID's suggested changes and incorporated them in the report where appropriate.

GAO Comments

1. We agree that health and safety regulations may play a role in hampering SSA export capability to some extent, however, we did not focus on this issue in our review.

2. We did not perform the analysis that would be required to prioritize the efforts the United States had undertaken to increase trade with SSA.

-2-

a result, Sub-Sahara African GSP eligible exports are excluded from duty-free treatment".

Page 26 - Delete two sentences at top of page -- typing error.

Now on p. 19.

Page 27 - Paragraph 2 - delete "....the recent round of trade..." and replace with "....the current Uruguay Round of multilateral trade negotiations."

Now on p. 28.

Page 43 - Textile Section - Paragraph 1 - Line 1 - Delete "and tariffs";

Now on p. 28.

Paragraph 1 - Line 2 - in place of "...and textiles." insert "....and made-up textile products and apparel made of cotton, wool, man-made fibers, silk-blends and vegetable fibers other than cotton."

Now on pp. 28 and 29.

Paragraph 1 - Delete last sentence and replace with "Restrictions on textile imports by the developed countries, including the United States, limit exports of some textile and apparel products from Mauritius. Within the past year, the U.S. has begun to receive significant quantities of cotton fabric from such SSA countries as Nigeria, Ivory Coast, and Zimbabwe. As of February 1, 1988, the U.S. has not sought quotas with these countries."

Now on p. 29.

Page 44 - Paragraph 1 - Last sentence - Replace "May 20, 1987" with "February 1, 1888" also replace "38" with "43".

See comment 1.

- Paragraph 2 - Delete entire paragraph starting with "In December 1983," ending with "total U.S. production."

Now on p. 29.

Page 45 - First full paragraph - Second sentence - Delete "may further restrict SSA textile exports" replace with "would almost certainly prevent SSA from expanding textile and apparel exports to the United States. The Administration is opposed to this legislation."

See comment 1.

- First full paragraph - Delete last sentence.

Now on pp. 29 and 30.
See comment 3.

Pages 45, 46, & 47 - Textile imports from SSA section - Please refer to attached tables and suggested text for this section of the report. We strongly recommend that GAO delete the last paragraph on page 45, the entire page 46, and the table at the top of page 47. We note that the attached tables and text reflect the data more commonly used in reporting U.S. textile trade.

Now on p. 30.

Page 47 - Paragraph 2 - Delete last sentence. This sentence is not correct.

Now on p. 31.

Page 48 - Paragraph 1 - Last sentence - Typing error - Replace

Except for the matters noted below, we generally agreed with the U.S. Trade Representative's suggested changes and incorporated them in the report where appropriate.

GAO Comments

1. The statement referred to is no longer in the report.

2. The trade restriction referred to for textiles, footwear, handbags, and work gloves is the impact of higher tariffs on manufactured items made from indigenous raw materials than on the raw materials themselves. The report has been changed to state that higher tariffs on some light manufactures included from the GSP, such as textiles and apparel, footwear, handbags, and work gloves, can discourage SSA countries from developing these export industries even though a low labor and material cost make SSA countries potentially competitive in such industries.

3. The data supplied by the U.S. Trade Representative and the United Nations data are both based on the same U.S. Customs records, but are aggregated into different classification systems and levels of detail. The United Nations data provided more detailed information that was not apparent in the data provided by the U.S. Trade Representative.

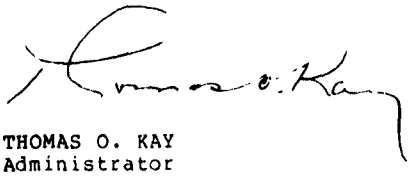
Mr. Dexter Peach 2

Now on p. 2.

While domestic support programs often have a negative impact on trade, they usually are not considered non-tariff barriers. (Normally NTBs include quotas, safety and health regulations, surcharges, etc.) Thus on Line 2 of page 4, we suggest deleting "domestic support programs" from the sentence.

We hope that our comments are useful and look forward to receiving a final copy of your report on Sub-Saharan Africa.

Sincerely,



THOMAS O. KAY
Administrator

- 1 -

Comments on GAO draft report, Sub-Saharan Africa:
Trade Barriers Affecting Export Capabilities
dated January 29, 1988

Now on p. 2.

Page 4, para 1: add at end of paragraph, "and because their economic policies do not foster, and often impede, export growth."

Now on pp. 4, 36 and 38.

Page 4, middle para: Suggest that the penultimate word should be administrative, vice administration. We would question the prominence given to non-use of GSP in this sentence and later in the draft report. Firstly, we assume only U.S. GSP is under discussion and not all GSP. Secondly, there has been no real analysis of non-use of GSP in SSA countries. Finally, we would suggest from some experience discussing GSP with foreign government and business officials that if there were 17 countries not using 70% or more of their potential GSP benefits it was as likely that the country had so few exports to the U.S. that some one administrative problem or good trade reason to ignore GSP loomed large enough to skew statistics, as it is that traders neglected GSP. In countries with more red tape than ours and some corruption involved in securing documentation, there is frequently good, economic reason to forego GSP on small shipments or specialty items with little competition in our market. A simple note that GSP appears to be under utilized in many GSP countries would serve the purpose.

See comment 2.

Page 5, para 2: Replace second sentence and following with, "Some of these recommendations have yet to be implemented. However, reform is a key focus of AID efforts in numerous SSA countries. GAO believes that one of these recommendations, training and seminars to increase the awareness of SSA exporters of U.S. GSP requirements and regulations, has particular merit. Efforts in this regard should be enhanced."

Now on p. 4.

Page 8, second para: The conclusion covers only one aspect of the discussion above and therefore does not follow. Suggest following for all but first sentence:

> SSA exporters perceive difficulty securing full and comprehensible explanation of the many U.S. border requirements, such as GSP documentation, health and safety inspections and customs rules. As a result, they forego GSP benefits or decline to open new trade lines.

Now on p. 8.

Page 12, opening definition: SSA is generally defined within the USG to include South Africa and when SA is excluded, so is Namibia. Also stating south of the Saharan is indefinite. Suggest the following: SSA includes all of Africa, including nearby islands, except the five countries bordering the Mediterranean Sea. However, this reports excludes South Africa and Namibia from its SSA area.

- 3 -

Now on p. 20.

Page 29: May wish to note that GSP duty free benefits will be enhanced to SSA and others now that the U.S. has decided to remove or graduate certain NIC countries from GSP. Other developed countries may follow our graduation.

Now on p. 24.

Page 36, middle paragraph: Believe this paragraph should be clarified and strengthened. The proposals should be identified as the U.S. proposals under the Uruguay Round of GATT negotiations -- that all trade-distorting agricultural policies, such as quotas, subsidies and unnecessary standards, be removed by all GATT members on an established schedule and that any remaining subsidies or adjustments must be paid directly to the producer outside trade channels. In the final sentence few would debate a change from "could" to "will favorably".

Now on p. 24.

Now on pp. 24 and 25.
See comment 3.

Page 36, last para carrying onto page 37: Might consider inclusion of sentence similar to the following in order to completely cover this type of barrier: "Complex safety, health and esthetic standards for entry into the U.S. may bar SSA exports in some categories and deter small SSA traders from entering the U.S. market in a larger number of categories." For example, Madagascar recently inquired into controls on import of lychees. Our reponse outlined extensive preliminary requirements with the comment that approval was unlikely as another country had been unsuccessful despite trying for several years. Not MFA, see explanation under Page 43 below.

Now on p. 27.

Page 41, last para: As explanatory material the following may be useful: Recent expert analysis, when the U.S. was supporting a domestic price of $0.19/lb and the world price was holding at about $0.06/lb, estimated world prices in a completely free market at about $0.13/lb.

Now on p. 27.

Page 42, last para: In third to last line, suggest use of word "subsidized" in place of "domestic".

Now on p. 28.

Page 43, first para: Add to end of the paragraph, "While health concerns have been a major factor in the dramatic reduction in U.S. demand for sugar and the switch to corn derived sugars, high prices have also been a factor. Lower domestic U.S. prices could increase demand, increase imports and increase SSA earnings."

Now on p. 28.

Page 43: Since there are no SSA countries which have joined MFA, the U.S. would not use MFA provisions to impose quotas on textile and apparel items; instead, we would only use the authority in the Agricultural Act. It is true that the U.S. generally treats non-MFA countries on the same basis as MFA members once negotiations begin to establish export limitations. MFA does not refer to tariffs, only quantitative restrictions. The latest renewal came in 1986, not 1987. Qualify "...believed by experts to discourage..." by inserting "some experts". See notation for page 47 for explanation.

- 5 -

"Our work on textile and apparel restrictions disclosed two opposing views on the impact of U.S. quotas on SSA. Most trade experts question that these quotas act as a restraint on SSA trade and some suggest that the restraints on more advanced producers have opened opportunities to SSA countries, such as Mauritius, to exploit. They note that U.S. restraints are not considered until a country has obtained a significant share of the U.S. market which, for most SSA countries, would represent a very substantial level of production in their small economies. Further, these countries can continue to move into new categories to keep expanding their export potentials, exactly as Mauritius has. They view as even more convincing the fact that SSA countries are oriented toward trade with Europe not the U.S., and the EC pledge not to adopt textile quotas against Lome Convention LDC countries has not resulted in notable new textile and apparel investment. This group attibutes the lack of textile and apparel exports from SSA to the U.S. to market factors, including the inability to compete with highly efficient Asians, absence of a trained labor force, cost and length of transportation, and inexperienced entrepreneurs.

On the other hand, development experts do perceive a constraint in SSA resulting from U.S. textile import restrictions. The protective barriers reduce incentives for the movement of capital, technology and management in apparel and textiles from quota countries to SSA. The quota system, by forcing more advanced developing countries to maintain production under ceilings in multiple categories, has effectively prevented those economies from specializing and passing off entry-level production to less developed economies. Further, the forced diversification has kept the developing Asian entrepreneur, his capital and his management occupied at home or in neighboring countries until the past two or three years. In an environment where massive, inept and often corrupt bureaucracy have effectively prevented private sector development until the evolving changes of the 1980s, the few indigenous African entrepreneurs have certainly avoided investment in a sector which will invariably involve government to government negotiations on the limits to his or her production. Therefore, while general business environment and lack of basic development are major investment and trade constraints in SSA the past distortions caused by the quota system and the shadow it casts into the future of an investment have added additional, constraining factors to investment decisions in SSA."

Page 51: Change the title of the section (and of Table of Contents listing) to "Multilateral Trade Talks Could Improve Access for Agricultural Products."

Except for those matters noted below, we generally agreed with the Department of State's suggested changes and incorporated them in the report where appropriate.

GAO Comments

1. We recognize the problems regarding sugar and textile quotas and have reported on these problems extensively in previous reports. Quotas on sugar and textiles, as well as other agricultural products, is a worldwide problem requiring coordinated solutions which most nations have not shown the will to implement. The impact on the U.S. economy of the removal or restructuring of textile and sugar quotas would require analysis beyond the primary focus of our review. On the other hand, the GSP problem can be dealt with unilaterally by the United States, and any changes in the use of GSP by SSA countries would not have a significant impact on the U.S. economy.

2. The statement referred to is no longer in the report.

3. We agree that health and safety regulations may play a role in hampering SSA export capability to some extent, however, we did not specifically review this issue during our review.

4. The data supplied by the Department of Commerce and the United Nations data are both based on the same U.S. Customs records, but are aggregated with different classification systems and levels of detail. The United Nations data provided the level of detail required for our analysis.

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intra-Africa trade. The proposals included issues ranging from enacting policy reform programs to establishing export credit programs in developing countries.

From the individual agency proposals, the trade group developed a report containing recommendations, with designated U.S. lead agencies responsible for carrying them out. The trade group recommended that

- AID and the Department of State continue to work with international institutions and multilateral and bilateral aid donors to steer the African countries toward more rational economic policy reform programs, particularly in the area of producer incentives;
- AID and the Departments of Commerce and State expand efforts to seek out and exploit export opportunities for developing countries through resources, such as the Trade Development Program, commercial officers, and the International Executive Service Corps;
- AID, USTR, and the Department of Labor develop various training programs geared toward encouraging and training small businesses, and providing explanation and clarification on GSP usage, customs requirements and procedures, and U.S. health regulations for both U.S. commercial officers and SSA exporters;
- the Department of State and USTR work to eliminate and encourage other nations to eliminate politically charged barriers against commodities such as sugar and textiles;
- AID examine the Commodity Import Program, with an eye toward making it more useful and less expensive for African importers and review its impact on African private sector development;
- AID look at reducing the cost of transportation and expanding transportation links for land-locked countries to stimulate intra-Africa trade;
- the Export-Import Bank of the United States expand efforts in training developing countries' governments in establishing export credit agencies and make commercial credit available to African importers; and
- OPIC and Commerce stand ready to assist in trade and investment missions to and from Africa to expand the knowledge of the international markets to African businesses.

Not all of these recommendations are new, nor do they focus exclusively on trade. For example, AID has been assisting and will continue to assist many SSA countries, such as Senegal, Rwanda, Zaire, Niger, and Togo, with policy reform programs, involving such changes as (1) eliminating duties and excessive controls, (2) establishing realistic exchange rates, (3) reducing tariffs in order to reduce effective rates of protection on manufactures, (4) liberalizing trade with other African nations having

employment, transportation, and communication network, private sector enterprise, and policy reforms. No specific portion of the $500 million was set aside strictly for trade.

In addition, AID may also use some of the $50 million included in the continuing resolution that was targeted to assist AID's Southern African Region in promoting intra-regional African economic development for SSA purposes. At least 50 percent of this $50 million is to be used for industrial development and trade, including private sector initiatives, manpower development, agriculture and natural resources, and energy.

The conferees on the continuing resolution expect AID to consult, on a quarterly basis, with the appropriate congressional committees on the economic situation in SSA and the efforts being made to enhance the ability of those countries to achieve self-sustaining and equitable economic growth. The conferees also directed AID to consult with the Committees on Appropriations on proposed country and regional allocations of funds prior to the submission of the report required by section 653(a) of the Foreign Assistance Act.[1] AID was directed to submit a report, either accompanying the section 653(a) report or as part of the annual congressional presentation, which explains the proposed functional allocation of funds in SSA for each recipient, the objectives to be achieved from such assistance, and the interrelationship among the various components of the AID portfolio for a country as they relate to the achievement of overall program objectives.

According to OPIC's Director of Development Assistance, to assist the investment component of the initiative, OPIC has redirected $20 million of its current funds into an African Growth Fund and plans to raise $10 million more from the private sector. However, while there appears to be interest in the private sector, no firm funding commitments have been made. The Director further stated that the fund is designed to supply two missing elements identified as decreasing investment in Africa—the lack of equity capital available in Africa, and the lack of management to identify investment opportunities and produce packages ready for financing by investors. The fund will support projects with U.S. equity ownership.

[1]Section 653(a) of the Foreign Assistance Act, as amended, (22 U.S.C. 2413), requires the President, not less than 30 days after the enactment of any law appropriating funds to carry out any provision of this section, to notify the Congress on how the funds are to be spent by country and by category of assistance.

AID agreed with our recommendation to provide more training and seminars to SSA exporters to help them overcome the lack of knowledge of U.S. GSP requirements and other regulations.

Detailed comments from the agencies have been incorporated in the report where appropriate, and are presented in their entirety as appendixes I through IV.

Comments From the Agency for International Development

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

FEB 25 1988

Mr. Jess T. Ford
Group Director
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ford:

The Development Planning Office in A.I.D.'s Africa Bureau is in receipt of the General Accounting Office's draft report Sub-Saharan Africa: Trade Barriers Affecting Export Capabilities. We have been requested by the Administrator for A.I.D. -- Mr. Alan Woods -- to review the draft report. Your name was cited in the transmittal letter from your Assistant Comptroller General to Mr. Woods as our contact point within your Office.

We find the report generally to be excellent. It is well written, defining clearly the major issues. The report appears responsive to the mandate of the Sub-Committee on Africa, House Foreign Affairs Committee. That mandate consists of four elements, including (a) an examination of the trade relationship between Sub-Saharan Africa (SSA) countries and the United States (U.S.), EEC, and Japan, (b) an assessment of current export/import opportunities, (c) description of trade barriers affecting SSA exports, and (d) an analysis of efforts made by the U.S., EEC, and Japan to reduce trade barriers. We were interested to discover that the U.S. is SSA's most important trade partner.

We generally concur with the report's relatively bleak assessment of SSA trade prospects in the U.S. and other developed countries. We agree that the difficulties, in part, can be attributed to a lack of SSA infrastructure. We also do not disagree with the assertion that while certain tariff and other regulatory constraints are not unimportant, they are in magnitude of a lower order. For example, U.S. removal of all trade restrictions and regulatory impediments probably would have only a modest impact on SSA exports in the near term. On balance, U.S. tariffs already are fairly low and import quotas and other regulatory impediments are not excessive, although there are a few exceptions -- i.e. textiles, sugar. The report does an especially good job in describing those tariff and other regulatory constraints to trade that do exist in the U.S., serving as a valuable reference document.

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In closing, we again want to commend the General Accounting Office for the report. A.I.D. is finding the report an exceedingly useful primer on tariff and other regulatory constraints facing the potential SSA exporter in penetrating the U.S. and other developed countries' markets.

Sincerely,

Jerome M. Wolgin
Senior Economist
Bureau for Africa

Comments From the U.S. Trade Representative

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

February 26,1988

Mr. Frank C. Conahan
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

We appreciate receiving GAO's draft report "Sub-Saharan Africa: Trade Barriers Affecting Export Capabilities" for review and comment. This report offers an overview of trade issues and measures currently facing Sub-Saharan Africa. We found this report to be well-researched; however, we note that certain information merits clarification and/or correction.

The following are our comments:

See p. 2.

Page 2 - Background Section - First sentence should read "...$13.8 billion in 1981 to about $6 billion in 1986."

Now on p. 2.

Page 4 - Paragraph 1 - Last sentence states that "... most SSA countries lack the infrastructure..." We think that this sentence should be expanded to state that not only do SSA countries lack the infrastructure to expand production capacity but that it is also a question of capital, technical know-how, trained labor force, etc.

Now on p. 4.

Paragraph 2 - The word "administration" should be "administrative."

See comment 1.

Page 5 - Paragraph 1 - Last sentence - Please insert the phrase "which have been stepped-up in recent years" after "....seminars."

See comment 1.

Page 7 - Paragraph 2 - Line 3 - Typing error - replace "resttictions" with "restriction";

Paragraph 2 - Line 7 - Spelling error - replace "competively" with "competitively."

Now on p. 3.
See comment 2.

Page 8 - Sentence at top of page - Needs clarification since our quota is on textiles from Mauritius. There are no quantitative restrictions on footwear, handbags, and work gloves.

Now on p. 4.

Page 8 - Paragraph 1 - Delete last sentence and replace with "As

-3-

"stong" with "strong".

Now on p. 38.

Page 59 - Last paragraph - Second sentence - Change the word "concept" to "program", place a period after "program", and delete the remainder of this sentence. This sentence is factually incorrect because frequent changes are not made in the GSP schedule. Changes are made only once a year.

We hope that you find the above changes and the attachment useful and we look forward to receiving the final report.

Sincerely,

Paula P. Robinson
Advisor to the Assistant U.S.
Trade Representative for Africa

Comments From the Department of Agriculuture

United States Department of Agriculture | Foreign Agricultural Service | Washington, D.C. 20250

MAR 8 1988

Mr. J. Dexter Peach
Assistant Comptroller General
General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

We have studied the General Accounting Office's draft report on Sub-Saharan Africa and want to express our appreciation to the authors of that comprehensive, well-written report. It undoubtedly will serve as good background material for interested Department of Agriculture analysts.

Overall the GAO report was informative, and in most respects accurate. In the interest of providing the best possible information on U.S. agriculture, we make several recommendations to help improve the report's accuracy. It is important to note that the quotas imposed on imported sugar are not a direct result of the price support program initiated in the Agriculture and Food Act of 1981. This headnote authority was in effect prior to the implementation of the 1981 Act. Thus, on page 36 of the draft GAO report, under the heading "Quotas, Fees, and Domestic Subsidies", we recommend that the first two sentences in paragraph one read as follows:

Now on p. 24.

> As a result of U.S. farm policies, restrictions have been imposed on imports of some agricultural commodities. The headnotes of Schedule 1, Part 10 Subpart A of the Tariff Schedules of the United States authorize the President to proclaim duties and quotas on sugar simultaneously. The quotas proclaimed under this authority must consider the interests of domestic producers and materially affected contracting parties to the GATT.

Now on p. 25.

In contrast to what is stated on page 37 in the first paragraph under "U.S. Sugar Programs", the market stabilization price for sugar is not maintained through import quotas. The stabilization price is merely a reference price. If domestic sugar prices should fall below that price, it indicates that sugar could be forfeited to the government. When Section 22 fees were in effect the market stabilization price was used as a basis for determining the fees to be imposed on imported sugar.

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of State

Washington, D.C. 20520

DEPARTMENT OF STATE COMMENTS

GAO DRAFT REPORT: SUB-SAHARAN AFRICA: TRADE BARRIERS AFFECTING EXPORT CAPABILITIES (GAO CODE 472132)

The Department of State appreciates the opportunity to submit the attached comments on this timely report. We found the report comprehensive, well-done and useful. In particular, the analysis of the sugar and textile quotas was thorough and enlightening. It clarified the debate over the real effects of these restrictions on SSA trade and the supporting investment. The Department of State concurs in the general conclusion that there is little new that the U.S. Government can do to significantly increase trade with Africa other than to continue and improve the economic reform dialogue and other programs already underway. We have suggested that the report may over emphasize the non-use of GSP as an important factor inhibiting African exports. Efforts have been made to improve GSP usage in specific countries and these efforts will continue, but we expect the impact to be marginal. Given the prominence in the report of the discussion of sugar and textile/apparel quotas, the lack of any substantive conclusion relating to these issues is notable. It appears that some study is needed of the real impact on SSA of these restrictions and, if constraining, a look at any possible relief measures for the poorest countries.

See comment 1.

We look forward to receiving the final report.

Chester A. Crocker
Assistant Secretary
Bureau of African Affairs

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Now on p. 10.

Page 14, second para: Most of SSA must emphasize agriculture and early stages of processing. To make this explicit, suggest third sentence should read "...to the poor performance of production, harvesting, processing and manufacturing...." Add " an investment climate which tends to discourage both foreign and domestic investment" to the factors in the final sentence that hamper export growth. What is the reasoning behind the statement that balance of payments deficits due to debt hamper SSA export growth? If the idea is that debt service payments drain away funds that could be used for investment or for inputs, this should be clarified.

Now on p. 10.

Page 15, first para: In penultimate line, why manufactured items? Sugar might be only minimally processed, and developed country safety, health and labelling requirements can irrationally bar or limit SSA raw material exports. In final line, why U.S. barriers only when opening sentence discusses also EEC and Japan?

Now on p. 12.

Page 18, first para: In fourth and fifth line notation on lack of government monitoring and regulation brought immediate pain until a second reading made clear the meaning. Suggest you use "established and enforced standards". As massive bureaucracy and government interference in economic activity is undoubtedly the major cause of most SSA problems, the additional clarity is needed. In the final two sentences a great leap is taken and then questioned later in the report. Is trade small because they always lacked ability, or because they perceived barriers of quotas, labelling, and protectively drafted health and safety requirements in those trades of natural early entry such as food, tobacco, seafood and textiles. An added qualifying statement would make the paragraph more acceptable.

Now on p. 13.

Now on p. 12.

Page 19, first para: In first line suggest "is officially encouraged but barred by rule and practice." This reflects appeals by top political levels for more foreign investment which is severely hindered by laws and bureaucratic obstruction. As there are a number of very profitable foreign investments in SSA countries and undoubtedly would be many more if foreign firms were more ambitious and venturesome, suggest final sentence be completed with " except in special niches and after careful negotiation of conditions."

Now on p. 13.

Page 20, middle para: Remove "U.S." before word "tariffs".

Now on p. 16.

Page 23, middle para: suggest use "manufactured or processed products" in last line.

Now on p. 16.

Page 23, para 3: The three references to textiles should read "apparel": textile production is now actually a capital intensive industry where African countries would, in general, not have a natural comparative advantage.

- 4 -

Now on p. 29.

Page 44: As of May 20, 1987, the U.S. had bilateral agreements with 42 (not 38) countries. The criteria identified in December 1983 were only factors to be considered in the decision as to whether market disruption existed. Even in cases where these minimum standards are met, there is still a formal review process by the interagency Committee for the Implementation of Textile Agreements, which looks further into the specifics of each case. Are tariff rates "escalating" on textile and apparel items? While their level is high, it appears they are remaining fairly constant over time.

Now on p. 30.

Page 45: Large growth occurred for exports of cotton textiles, mostly printcloth and sheeting, from SSA in 1987. U.S. imports from SSA in 1987 were $142.4 million, of which Mauritius provided $113.1 million, mostly cotton and man-made fiber apparel. Other exports were as follows:

Nigeria	$8.0 million	almost all cotton printcloth or sheeting
Zimbabwe	$7.5 million	almost all cotton printcloth or sheeting
Ivory Coast	$5.8 million	all cotton printcloth or sheeting
Swaziland	$2.7 million	almost all cotton printcloth or sheeting
Cameroon	$2.4 million	all cotton printcloth or sheeting
Malawi	$1.6 million	almost all cotton printcloth or sheeting
Madagascar	$1.0 million	all cotton printcloth
Kenya	$0.2 million	all cotton gloves

Now on pp. 29 and 30.
See comment 4.

Page 46/7: Comprehensive and up-to-date trade data on U.S. imports from Africa, both in values and quantities, is available from Department of Commerce statistics, which we can make available to replace the UN Trade Data Base. Since the UN Base is presumably sourced from U.S. Government reports, it is more logical to use the original.

Now on p. 31.

Page 47, first para: Line 4 term "Hong Kong-financed firms" is not totally correct. First two firms in full operation were subsidiaries of Hong Kong firms but serviced from Singapore subsidiaries. There is now a large number of firms from Pakistan and India where there are strong family or national ties. Suggest use of Asian firms.

Now on p. 30.

Page 47: The opposing arguments in the last two paragraphs covering the effect of textile and apparel quotas on SSA development need to be presented but some expansion and clarification is needed. The opposing views on this long-debated issue do not always fall as clearly within the Departmental or agencies lines as depicted. A better short-hand description of the groups would be "trade experts" and "development experts". The following might be useful replacements for the final two paragraphs on this page.

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Now on pp. 36 and 38.

Page 56, first indent: Please see comments above for Page 4 which questions the presumption that non-use of GSP results from neglect or lack of knowledge of GSP. LDC exporters knowledgeable on GSP have logically explained non-use due to high cost in time and bribes to secure documentation in their home governments and in lack of cost effectiveness when large numbers of small shipments are sent into a relatively secure market. For example, if airshipping fifty separately-addressed orders of unique national handicrafts per week to a buyer willing to pay the price plus tariff, why bother to secure stamps from several government offices with a small gratuity paid in each? It should also be noted that a major cause of administrative denial of GSP is the fact that the U.S. uses unique terminology and tariff classifications, resulting in Form A entries utilizing more universal customs classification terminology and categories being denied GSP benefits in the U.S.

See p. 37.

Page 57, last para: We have earlier questioned the importance of non-use of GSP as a trade factor. In addition, although we do not have immediately available the extensive printout of GSP usage, the figures given in the Niger example appear questionable from the trade figures we have. The major Niger export item to the U.S. is "U.S. Goods Returned". Other items in the top categories appear to be of questionable GSP eligibility. Thus if the figure in the draft report is correct, it would serve to make our point that non-use of GSP is frequently due to inconvenience for small isolated shipments rather than neglect or lack of knowledge.

Now on pp. 41 and 42.

Page 64, last para. continuing onto Page 65: The organizational structure in these paragraphs is slightly miscast. Suggest the sentence beginning, "To support...." be attached to the previous paragraph on page 64, and this para be changed and attached to its following paragraph. The following description would be correct.

> The Coordinating Committee tasked the Interagency Working Group on Private Sector Development in Africa with studying private sector segments of the End Hunger Initiative and reporting back to the committee on new or enhanced activities which might be undertaken. The IG formed 4 working parties to report back in August 1987 -- covering; trade issues (chaired by Commerce), foreign investment (OPIC chairing), African investment (USAID chairing) and agriculture (USDA). Each working party included several individuals from agencies directly seized with the issue under study. Prior to ....

Page 72, second para: Needs major clarification. It could be read to state that some involved agencies have limited resources to support the statutory changes mentioned in the preceeding sentence. Also, the AID willingness to assist could be taken to refer to the statutory changes.

United States
General Accounting Office
Washington, D.C. 20548

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