

**THE U.S. GROWTH AND OPPORTUNITY ACT
(H.R.1432): IMPLICATIONS FOR TRADE
WITH EASTERN AND SOUTHERN
AFRICA**

BY

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TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION.....	1
Evolution and Background to GSP.....	3
Objectives of the Study.....	7
Scope and Limitations.....	11
II. REVIEW OF LITERATURE.....	13
III. AN OVERVIEW OF SUB-SAHARAN AFRICA ECONOMY.....	23
IV. U.S. TRADE POLICY AND TARIFF: IMPLICATIONS TO AFRICA.....	31
U.S. GSP Policy and Criteria.....	41
V. U.S. GROWTH AND ECONOMIC OPPORTUNITY ACT.....	45
Recent Changes in U.S. GSP Scheme.....	56
VI. ROLE OF REGIONAL ECONOMIC INTEGRATION IN AFRICA.....	60
Kenya and Mauritius: The Case of Textiles and Apparel.....	63
South Africa in Growth and Opportunity Act.....	73
South Africa and Trade Integration.....	78
U.S. GSP Scheme and South Africa.....	87
VII. METHODOLOGY AND THEORY.....	90
Theory.....	90
Methodology.....	97
Model for U.S. Import Demand Function.....	97
VIII. ANALYSIS OF DATA AND DISCUSSION OF RESULTS.....	103
IX. ALTERNATIVE AND COMPLEMENTARY POLICIES	
TO U.S. GENERALIZED SYSTEM OF PREFERENCES.....	120
Offshore Assembly	123
U.S. Direct Investment and Sub-Saharan Africa.....	128
Senate Version of the Trade Bill.....	132
Opportunities, Potentials and Implications to SSA.....	135

X. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	144
BIBLIOGRAPHY.....	153
APPENDIXES	
APPENDIX 1A-DATA SOURCES.....	167
APPENDIX 1B—LIST OF SUB-SAHARAN AFRICAN COUNTRIES.....	168
APPENDIX 1C—SUB-SAHARAN AFRICA COUNTRIES BY MAIN SOURCE OF EXPORT EARNINGS.....	169
APPENDIX 1D—U.S. IMPORTS AND EXPORTS FROM SSA BY LEADING ITEMS (VALUE IN \$ MILLIONS).....	170
APPENDIX 2A—INTRA-COMESA EXPORTS AND SHARES OF SELECTED COUNTRIES (1980-1994).....	171
APPENDIX 2B--INTRA-COMESA IMPORTS AND SHARES OF SELECTED COUNTRIES (1980-1994).....	172
APPENDIX 2C—INTRA-COMESA TRADE AND SHARES OF SELECTED COUNTRIES (1980-1994).....	173
APPENDIX 3A—LIST OF MAJOR AREAS OF U.S. ASSISTANCE UNDER H.R. 1432.....	174
APPENDIX 3B—LIST OF SPECIFIC POLICIES FOR ELLIGIBILITY UNDER H.R. 1432.....	175
APPENDIX 3C—KEY PARTS OF H.R. 1432 ‘GROWTH AND OPPORTUNITY ACT’.....	176
APPENDIX 4A—U.S. EXPORTS AND IMPORTS: TRADE WITH SOUTH AFRICA (SITC REVISED) 1992-1996.....	178
APPENDIX 4B—U.S. MERCHANDISE TRADE BALANCE WITH SELECTED SSA COUNTRIES (IN MILLIONS U.S.\$).....	179
APPENDIX 4C—U.S. MANUFACTURED GOODS IMPORTS (C.I.F. VALUE IN MILLIONS U.S. \$).....	179

LIST OF TABLES

	Page
Table 1. Basic Indicators for SSA and Selected Countries.....	26
Table 2. U.S. Trade with Sub-Saharan Africa (in U.S. \$millions).....	27
Table 3. Tariff Barriers (1997) for South Africa, Mauritius, Zambia and U.S.....	34
Table 4. Regional Integration: Exports within Blocks (in U.S. \$ millions).....	61
Table 5. COMESA and SADC: Percent share of world exports.....	62
Table 6. Kenya (1980-1989): Index of industrial production (1976=100).....	65
Table 7. Mauritius (1983-1987): Index of industrial production (1982=100).....	70
Table 8. Mauritius: exports of textiles and clothing to the U.S. (1993-1997).....	71
Table 9. South Africa: Key economic indicators (1995-1997).....	73
Table 10. U.S. Total trade with South Africa (in U.S. \$ millions).....	75
Table 11. South Africa: Trade with major trading partners (1989-1993).....	78
Table 12. South Africa: Indices of export and import intensity.....	80
Table 13. South Africa: Trade with SADC (percent of total).....	84
Table 14. Merchandise Trade Balance: South Africa with SADC and PTA, (in millions of domestic currency, Rand).....	84
Table 15. Percentage distribution of GSP benefits in SSA (1996).....	88
Table 16. OLS regression results for U.S. import demand.....	106
Table 17. Past estimates of income elasticity of U.S. imports.....	110

Table 18. SUR regression results for U.S. import demand (Eastern African countries).....	112
Table 19. SUR regression results for U.S. import demand (Southern African countries).....	113
Table 20. OLS and SUR regression results for U.S. import demand (From East Africa) after excluding variable per capita GDP of African countries.....	115
Table 21. OLS and SUR regression results for U.S. import demand (from Southern Africa) after excluding variable per capita GDP of Africa.....	116

LIST OF FIGURES

	Page
Figure 1. Kenya exports to U.S.A. (1980-1989).....	66
Figure 2. Kenya exports to EEC (1980-1989).....	67
Figure 3. Kenya exports to Africa (1980-1989).....	67
Figure 4. Mauritius exports to Africa (1980-1989)	69
Figure 5. Mauritius exports to EEC (1980-1989).....	69
Figure 6. Mauritius exports to U.S.A. (1980-1989).....	70
Figure 7. U.S. export-import ratio with South Africa (1992-1996).....	74
Figure 8. Map 1 of Africa: COMESA Region.....	10
Figure 9. Map 2 of Africa: SADC member nations (Shaded Region).....	10
Figure 10. Map 3 of Africa: Countries included in the study.....	105

NOMENCLATURE

ADB African Development Bank

ATC Agreement on textiles and clothing

BLS Botswana-Lesotho-Swaziland

CFA Common Franc Area

CPI Consumer Price Index

COMESA Common Market for Eastern and Southern Africa

EAC East African Community

ECA Economic Commission for Africa

ECOWAS Economic Community of West African States

EEC European Economic Community

EEP Export Enhancement Program

EMA Export Marketing Assistance

ESAF Enhanced Structural Adjustment Facility

ESI Economic Strategy Institute

EU European Union

EXIM Export Import Bank

FAO Food and Agriculture Organization

GATT General Agreement for Trade and Tariffs

GDP Gross Domestic Product

GEAR Growth, Employment and Redistribution

GEIS General Export Incentive Scheme

GNP Gross National Product

GSP Generalized System of Preferences

GSTP Global System of Tariff Preferences

IMF International Monetary Fund

IBRD International Bank for Reconstruction and Development

ITC International Trade Commission

LDC Less developed countries

LDBDC Least developed beneficiary developing country

MERCUSOR South American Common Market

MFA Multifiber Arrangement

MFN Most Favored Nation

NAFTA North American Free Trade Area

NBER National Bureau of Economic Research

NIEO New International Economic Order

OAU Organization of African Unity

OPEC Organization of Petroleum Exporting Countries

OPIC Overseas Private Investment Corporation

OECD Organization for Economic Cooperation and Development

OLS Ordinary Least Squares

PTA Preferential trade Area

SACU South African Customs Union

SADC South African Development Community

SITC Standard International Trade Classification

SSA Sub-Saharan Africa

SUR Seemingly Unrelated Regression

TMB Textiles Monitoring Body

UDI Unilateral Declaration of Independence

UN United Nations

UNCTAD United Nations Conference for Trade and Development

UNDP United Nations Development Program

U.S. United States

USAID United States Agency for international development

USTC United States Trade Commission

USTR United States Trade Representative

WAEMU Western Africa Economic and Monetary Union

WTO World Trade Organization

CHAPTER I

INTRODUCTION

Free trade and economic policy liberalization has been considered a means of promoting economic growth of nations in addition to its contribution to improved global welfare and stability. To this effect, actions towards trade liberalization and the elimination of tariffs and non-tariff barriers have been at the center of negotiations among nations for a long time. Efforts by General Agreements For Trade and Tariffs (GATT, 1948) and attempts made by the United Nations through United Nations Conference for Trade and Development (UNCTAD, 1964) in the past to liberalize international trade were based substantially on the above lines of arguments. There has also been an increasing interest to create a climate of understanding between the developed and developing nations (referred to as “North” and “South” in much of the literature) in order to allow the poor nations to participate meaningfully in international trade. [S.K.Chatterjie, 1988, p.45] The Generalized System of Preferences (GSP) has been one of the mechanisms that support the developing countries in this direction. (EEC, 1971; Japan, 1971; USA, 1976).

Our interest in this study is to analyze the implications of the U.S. Growth and Opportunity Act (H.R.1432) with emphasis on the United States-Generalized System of Preferences. The U.S.-GSP was implemented in 1976. According to this system the United States of America granted generalized tariff preferences to certain imports from qualifying Less Developed Countries (LDCs) in order to help

them expand and diversify their exports. The idea for GSP was rooted under the basic premise of trade and not aid and the basic desire was to reduce the dependence of the developing countries on primary goods exports and promote their manufacturing sector so that they can actively participate and gain from world trade. The GSP arrangement was to act as a vehicle to relax the constraints the developing countries were facing as regards to market access of their exports to the developed countries.

GSP was proposed as a compromise to provide the developing countries preferential treatment because they were not able to compete on an equal basis with other producers from the more advanced nations. Thus, US GSP was implemented and countries were designated eligible in accordance with the criteria outlined in section 502 of the Trade Act of 1974. "In 1982, 143 developing countries and territories were eligible for GSP treatment. GSP duty-free treatment was at that time granted by the United States on approximately 2800 tariff lines, largely manufactures and semi manufactures. The 1974 Trade act excludes certain import sensitive articles from GSP duty-free treatment, such as footwear, most textile articles, watches, some electronic products and certain glass and steel products.

[S.K. Chatterjie, 1988, p.86] Since that time, U.S. GSP has been undergoing changes both in terms of the list of countries and the goods covered. Recently important changes in the program have been considered as part of the U.S. Growth and Economic Opportunity Act to support economic growth, and in particular exports in Sub-Saharan Africa (SSA). [See Appendix 1B.]

EVOLUTION AND BACKGROUND TO GSP

Historically, tariff negotiations in trade are closely connected to the General Agreements on Trade and Tariffs (GATT). GATT was a system created, as a means of international trade liberalization and its foundation was the traditional concept of Most Favored Nation (MFN) trade arrangements. Under MFN any tariff reduction granted by country A on its imports from country B would unconditionally apply to the imports from any other country.

“In 1948 the industrial countries drew up the Havana Charter for an international trade organization to supervise the code of fair conduct that would take into account not only tariffs but quantitative restrictions, trade subsidies (dumping), state trading and similar practices. However, the Havana Charter was never ratified. Instead, governments began to meet periodically for multilateral negotiations. A number of countries would assemble and three-way, four-way and even wider bargains could be struck. In each case, MFN would be extended to all contracting parties. These arrangements became known as the general Agreements on Tariffs and Trade (GATT)” [Loehr and Powelson, 1983, p.38]

The MFN and GSP are different arrangements in many respects and at times they have been seen as conflicting with each other in terms of their objectives.

“Under the old economic order, the counterpart to the Generalized System of Preferences (GSP) is the most-favored nation (MFN) policy” [Loehr and Powelson, 1983, p.37] The MFN standard was considered one of the effective means of eliminating discriminatory treatment in international trade between the advanced nations or GATT member states as opposed to GSP program. The later was applicable in trade of the developed countries with the developing nations.

Technically the MFN calls for equal treatment for all countries while GSP provides

preferences to the third world. In this sense the two policies are alternatives. GATT does not outlaw GSP and it allows exceptions to MFN for regional arrangements.

The GSP preference granted and its scope under the MFN mechanism was determined by the granting nation and can take different forms as regards to its conditionality. But the system of GSP preference in many respects is narrower than the preferential regime that is common under customs union or free trade area. The GSP system is offered on a product by product basis or service by service basis depending on the granting country's decision and its economic structure. This system in many instances does not provide similar benefit to each trading partner. It was argued or maintained that the scope of MFN treatment based on the principle of reciprocity was in accordance to the needs and policies of the developed nations rather than that of developing nations. In the early periods the US pointed out the limitations of the MFN preference and indicated its shortcomings. [US Department of State, 1941]. Despite all its limitations the system under MFN remained a very popular means of trade liberalization until international action for multilateral tariff negotiations were started. MFN was the basis of reciprocal trade agreements in the past while multilateral tariff negotiations involve many nations and they are mostly associated with the emergence of GATT.

On the other side international trade policies continued to be the subject of conflict between the advanced countries and the developing nations that were not members of GATT. In particular, there is a belief that the African countries have not benefited from GATT negotiations that have reduced tariffs in international trade. In fact, there are viewpoints that the GSP benefits provided to them have

been eroded due to GATT tariff reductions.

UNCTAD (1964) emerged as a forum for negotiations in tariff reductions and preferential trading arrangements for the developing countries. The forum was set up as an organ of the UN General Assembly with its general functions of promoting trade and accelerating economic development. There were many purposes and functions of UNCTAD that were considered to overlap with those of GATT while organizationally they were separate from each other. At that time particular emphasis was given to economic growth and development and the reduction of poverty in the poorest nations of the world through various United Nations programs.

Some groups of economists look at UNCTAD and GATT as bodies with conflicting interests with the former as an institution of the developing nations and the latter of the developed nations. The Group of 77 (The Developing Nations) and UNCTAD as their negotiating institution showed very little success in the past in many matters of international trade and development. [R. Krishmatru, 1981]. Above all, the emphasis of UNCTAD on the New International Economic Order [UNCTAD, 1974] as an issue was not considered favorably by many of the advanced countries (GATT members) because they looked at the UNCTAD resolutions as very radical and not in the interest of foreign investors. It was argued that they denied guarantees to foreign investors from expropriation by governments in the developing countries. Many governments in the developing countries, including many in Africa, were during those periods guided by socialistic tendencies or highly nationalistic governments so the fear of nationalization was common. The efforts of

the developing nations to expand trade among themselves under the Global System of Tariff Preferences (GSTP) and the slogan of South-South trade were also not successful.

On the other front, the developed countries did not reject all UNCTAD resolutions. The principle that allowed and even urged the developed countries to extend, improve and enlarge their systems of GSP non-discriminatory tariff preference to the developing countries was positively considered and found to be reasonable. [S.K. Chaterjee, 1988] The Generalized System of Preferences then started initially in Europe in 1971, to be followed by Japan in the same year and then the United States in 1976. " The European Economic Community (EEC) of six member states was the first among preference-giving countries to implement a GSP scheme, with effect from July 1971. The other industrial countries implemented their preferential tariff schemes soon afterwards" [A. Sapir, 1981]. The U.S. GSP is a ten-year program and has undergone significant legislative changes that include the competitive need limitations and the graduation process of Trade Act of 1984. It expired in 1994 and since then it has been operating on the basis of interim approval annually until 1997. Its renewal is under consideration by the U.S. Senate for another ten years for the period 1998-2008.

OBJECTIVES OF THE STUDY

The objective of the study is to analyze the role of GSP in Sub-Saharan Africa. Along this line we provide an analysis of the prospects of U.S. GSP to increase U.S. imports from African countries. The recent economic reform programs underway in Sub-Saharan Africa and U.S.-Africa Growth and Opportunity Act are expected to create the necessary conditions for the effective implementation of GSP policy. The study attempts to identify the likely gainers from such an arrangement in Sub-Saharan Africa and test for the significance of the extended program in African economic development. The type of investments that are likely to follow the GSP arrangements and the new US trade and development policy towards Africa will also be discussed.

The specific objectives of the study include:

a) To explain the factors that are likely to influence the distribution of GSP benefits both from static and dynamic points of view with particular reference to countries in the Eastern and Southern Africa regions.

b) To test the hypothesis whether US GSP is likely to be effective in promoting exports from countries in Southern African region as opposed to the Eastern African region since the distribution of US GSP benefits are expected to be unequal across African nations, for reasons to be developed later.

c) To analyze economic integration moves and expansion of intra-African trade and GSP arrangements, to determine complementary or substitute relationships among them.

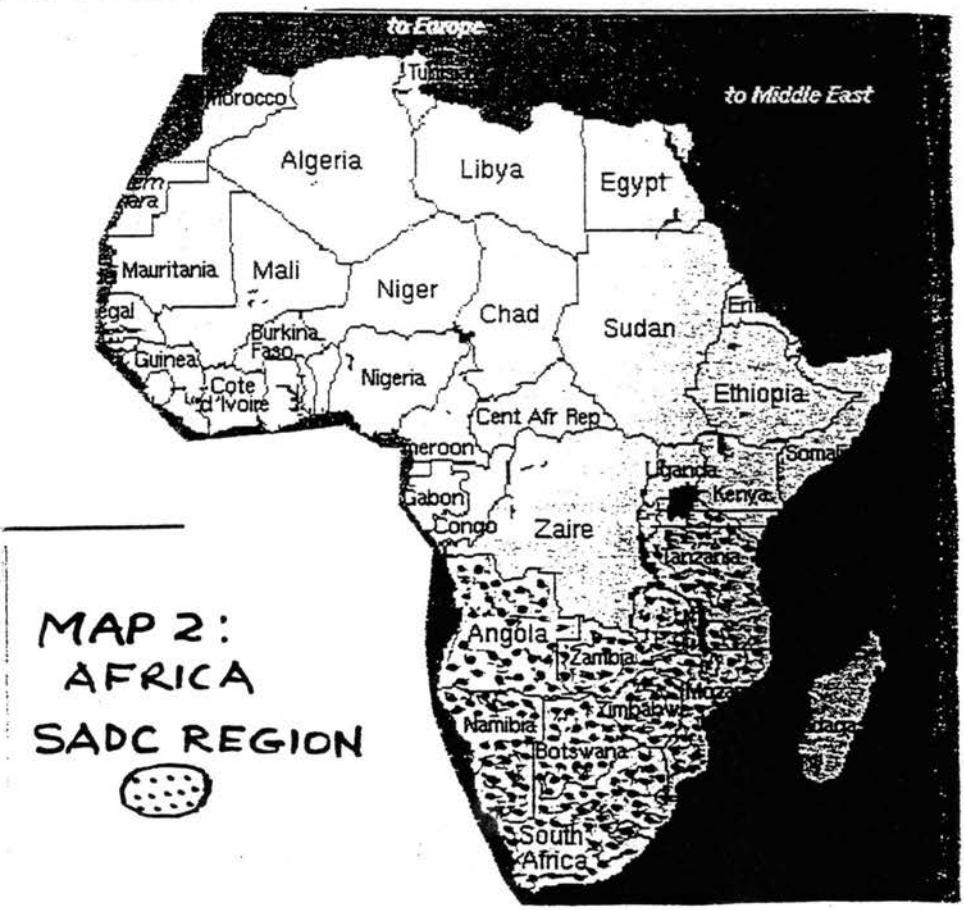
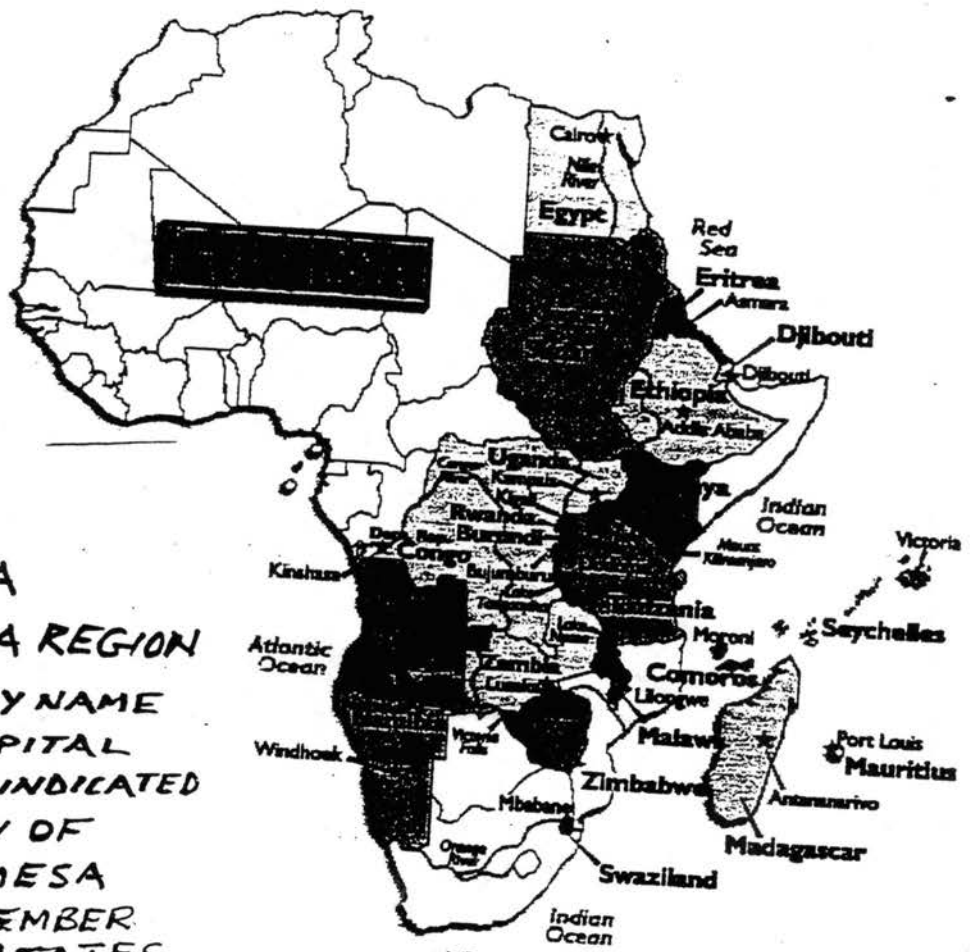
d) To analyze the unique and special role of South Africa in the process of

trade expansion and integration in Sub-Saharan Africa in the context of U.S.-Africa Growth and Opportunity Act.

The demand side is stressed in this study. The focus of this paper is thus to estimate US import demand functions for African products. The paper is organized into ten major parts or chapters. In chapter one we provide an introduction and background to the Generalized System of Preferences, then discuss objectives and the limitations of the study. In chapter two a review of literature is presented. This is followed by a general overview of Sub-Saharan Africa and its economic structure in chapter three. In chapter four a brief review of the history of U.S. trade and tariff policy is discussed. The U.S. GSP criteria and its aims are emphasized in this part. Then chapter five describes H.R. 1432 the proposed U.S. Growth and Opportunity Act as the U.S. trade and development strategy towards Sub-Saharan Africa. A major component in this Act is an expanded U.S. GSP program for goods originating from Sub-Saharan Africa. Chapter six concentrates on the role of regional integration with particular reference to COMESA [See. Map 1] and SADC [See. Map 2]. A discussion of the experiences of Kenya and Mauritius (in particular, in the exports of textiles and clothing to the United States) and a separate treatment on South Africa's role in the U.S. Growth and Opportunity Act is included in this chapter. We briefly discuss theory and methodology of import demand function in the context of estimation of U.S. demand for African goods in chapter seven. The analysis and discussion of the results follows in chapter eight. In chapter nine alternative and complementary policies to U.S. Growth and Opportunity Act (H.R. 1432) and their implications are then presented in light of the Senate version of the

trade bill. In this part, the opportunities for offshore assembly and foreign investment in Sub-Saharan Africa are briefly reviewed in the countries under study. Finally summary, conclusions and recommendations are given.

MAP 1:
AFRICA
COMESA REGION
COUNTRY NAME
AND CAPITAL
CITY INDICATED
ONLY OF
COMESA
MEMBER
STATES.



MAP 2:
AFRICA
SADC REGION



SCOPE AND LIMITATIONS OF THE STUDY

Studies that use cross section and time series data primarily face problems related to quality of data and our study is no exception in this respect. Trade data are available from the importing nation (the U.S.) and the exporting nations (Sub-Saharan Africa countries). Trade statistics from the later sources are in some cases incomplete and at times not available. Even when data is available, there are problems of access and, above all, they are subject to a large margin of errors. Thus, we rely on data from two major sources; namely, from IMF statistics and U.S. trade statistics.

Another caveat is the aggregate nature of the data used in our study. Due to this, the analysis and results that follow may not reflect many country specific issues. The study well recognizes that there are specific internal economic factors and other non-economic factors (political instability, drought, famine etc.) that pose major problems in the economic development of Sub-Saharan Africa nations. But, such issues will not be addressed in detail and it is beyond the scope of the study to identify all factors affecting economic performance of each individual country under study. However, by considering few variables and using aggregate trade data the paper will indicate broad policy directions and explain the role of U.S. GSP in Sub-Saharan Africa. Another limitation of the study is the inclusion of countries only from Eastern and Southern African regions. It is also important to note the methodological limitations of estimating import demand and the related problems in getting appropriate price data. In this study we use consumer price index and export price index as determinant variables in the import demand function.

Finally the dummy variable for U.S. GSP has to be interpreted with caution as it captures mainly the time effect when GSP was in operation while the changes in the relative price variable reflects the changes in the tariff on imports. The study does not attempt to analyze the effects of changes in the commodity substitution and composition of African exports due to tariff changes as the result of GSP. This requires more data than is readily available and is beyond the scope of the paper.

CHAPTER II

REVIEW OF LITERATURE

Studies that aim at analyzing the effects of GSP on developing countries have been based on the traditional approach of estimating the trade creation and trade diversion effects of tariff reductions. This approach follows the customs union theory where trade creation is substitution against donor country products and trade diversion is from a third country. Along this line, most previous GSP studies use independent ex-ante elasticity estimates in their analysis of trade creation and trade diversion and have produced different results regarding the trade effects of preferential tariffs. [Baldwin and Murray, 1977; Ahmad, 1978; T.Murray, 1980; Andre Sapir, 1981] According to Baldwin and Murray "Most GSP benefits accrue to a short list of LDCs. Three fourth of trade increases in 1971 apply to only twelve countries. [Baldwin and Murray, 1977] At the same time among these countries it is the richer countries that benefit more. UNCTAD reports also show similar results and accordingly over half of the Preferential EEC imports in 1974 came from only four beneficiaries (Yugoslavia, Brazil, Hong Kong and India. All twenty Less Developed Beneficiary Developing Countries (LDBDCs) accounted for 2 percent of the preferential imports of the EEC, Japan and the U.S. [UNCTAD, 1979].

Many of the past studies on GSP do not use econometric techniques. Andre Sapir's study on EEC is an exception as it estimates trade flow equation for the period 1967-1978 using a general equilibrium reduced form of a competitive demand and supply model. He analyzes Generalized System of Preferences on 13

major beneficiary nations supplying over 70% of EEC imports. Using yearly cross section regressions and dummy variables for the pre and post-GSP periods, he finds that in 10 of the countries GSP had significant trade effects, particularly to labor intensive products.

Another study that follows Andre Sapir's approach is the one by Pantelis Pantellides [Pantelides, 1984] that tests the significance of U.S. GSP on actual trade flows between developing countries and the U.S. economy through the estimation of import demand functions. This study uses the Cross Sectional Gravity model [Tinbergen (1962); Linneman (1966); Aitken (1973)] to estimate an import demand model for years before and after tariff preferences were introduced by the United States. His estimation of US import demand functions using quarterly data for the period 1971-1980 gave significant GSP coefficients for three product groups; namely, transformers, veneer sheets and cameras out of six commodity groups studied under 4-digit SITC (hardboard, calculating machines and copper products were found insignificant). His tentative conclusion was that GSP affects U.S. imports of advanced goods from LDCs more than semi manufactured goods. Countries included in the above study were Taiwan, Korea, Hong Kong, Brazil, Mexico and Singapore. These countries provided 70% of the total GSP duty-free imports to USA during the period.

On the other front a study by Dale B. Truett and Lila Truett, of trade preferences on four African LDCs (Kenya, Mauritius, Tanzania and Zambia) [Dale.B. Truett and Lila Truett, 1992] concludes that lower income beneficiary developing countries have benefited more from US-GSP than higher income

beneficiary developing countries. The study uses a semi-log version of the model of import demand functions. It uses annual data on total imports and manufactured imports for the period 1967-1987. Other studies using different beneficiary countries, preference-granting nations and eligible commodities over shorter periods have come with generally mixed results and frequently with limited benefits of GSP programs to the poorest developing countries. Drusilla Brown [D.Brown, (1981)] based on general equilibrium approach, comes with the conclusion that high income beneficiary developing nations have been the primary beneficiaries from U.S. GSP while the less developed beneficiary countries may be harmed by the program.

An empirical study on U.S. GSP by MacPhee and Ogueldo [Craig R. MacPhee and Victor Iwuagwu Ogueldo (1991)] points out that extremely optimistic and pessimistic estimates of US GSP trade effects should be viewed with skepticism. Their study provides a new estimate of trade effects under the assumption of product differentiation among supplying countries. They follow a method similar to that found in Constant Market Share Studies and they explain the GSP effects as residuals. Their conclusion is that GSP probably had a modest positive impact on LDC exports to the United States [Craig, McPhee and Ogueldo, Victor, 1991, pp.19-26] The above study covers a larger sample of products and a longer period than that of Murray (1981) and others.

Another area of interest in the literature is the impact of U.S. GSP graduation. This was introduced as a measure designed to shift a greater share of benefits of U.S. GSP from the more advanced developing countries to the poorer

beneficiary nations. Mendez and Murray [Jose A. Mendez and T.Murray, 1990, pp.313-334] found that even with the provision of competitive value or share the more advanced beneficiary developing countries continued to account for the lion's share of GSP benefits. The provision for competitive need limits denies GSP duty-free treatment for the high export performers on the expectation that this will help the poorer nations to export more and get their share of GSP benefits. However, the reality has been that the US Trade and Tariff Act of 1984 that provides for country graduation was not effective in redistributing the benefits from the Asian Four (Hong Kong, South Korea, Singapore and Taiwan) to the remaining less developed countries. The above study by Mendez and Murray found that country graduation would do little to increase GSP benefits for the African beneficiaries. The results are related to the dissimilar products that are exported by Africa and East Asia. The recommendation of the study was that only broadening the product coverage to include products exported by Africa would bring a more equitable distribution of benefits. There seems to have been a consensus that country graduation in its present form would reduce the total GSP benefits but will not improve U.S. GSP benefits of African countries. The export capacity of Sub-Saharan African countries to the U.S. market and the U.S. demand for their goods are of more concern to the African nations. This is because African beneficiary nations are not in a position to take the advantages created by the U.S. government through denial of GSP benefits to the advanced developing nations. But they are likely to be harmed by competitive need limits once they expand their exports to the U.S. market as is observed in the case of Kenya and Mauritius.

Craig R. MacPhee and David Rosenbaum, calculated mean annual shares of U.S. import markets over 1976-83 for each of eighteen less developed countries (LDCs) exporting to the United States under the competitive need provisions of the United States. The asymmetric results of the study mean that GSP tariff increases (decreases) reduces (do not augment) imports. Both more and less competitive LDCs lost market shares when tariffs rose on their products, but other unaffected LDCs did not benefit from trade diversion. [Craig R. MacPhee and David Rosenbaum, July 1989, pp. 105-25].

Devault James M. estimates in two ways the effect of competitive need limits on GSP imports. First ex post trade data is used to determine the effect on import values and shares. Second, the method combines an ex-ante model with trade and elasticity data to estimate the effect of competitive need limits. Results indicate that competitive need limits reduce affected imports by 10 to 17 percent. Benefits from this import reduction accrue almost exclusively to U.S. import-competing firms. [Devault James M., 1996a, pp. 58-66]

Among the other methods used by economists to detect the presence of structural changes, competitive problems and tariff preferences among nations in international trade, the most commonly used is the statistical estimation of import demand functions. Basically, it shows how a country's imports depend on variables such as the relative prices of home and foreign goods (also influenced by exchange rates) and the income that domestic residents have to spend on imports. Other variables that are thought to have their effect on the quantities of imports can also be included of which GSP is one of them.

Theoretically, the coefficients estimated in an import demand equation are elasticities that are measures defined as percentage changes by which quantity of U.S. imports changes (rises/falls) for a one percent rise in U.S. income or prices. If the income elasticity is high, it implies that the United States will face increasing demand for imports as its income expands and vice versa. This might lead to U.S. trade deficit if its exports are not growing. However the case of U.S. imports from Sub-Saharan Africa will have a different impact from that of U.S. imports from Japan or other industrialized nation in terms of its effect on U.S. trade deficit. Thus, income elasticities depend on a number of factors among which the nature of the goods, imports volume and origin of imports are very important. Some of the recent studies of U.S. import demand show higher income elasticities for foreign goods while there are some biases that tend to exaggerate the real volume of U.S. imports from the rest of the world. [Robert A. Blecker, 1996, p.198]. The implication derived from the elasticities is that the US has been moving towards spending more of its growing incomes on imports. This is true to a large extent because, at present, the U.S. economy is highly integrated to the world economy more than ever through trade and investment. But this does not mean that growth in world trade and incomes have been shared by nations equally. Not much of U.S. growing incomes have been spent on African goods and Sub-Saharan Africa did not benefit from the growth in world output.

Another econometric approach that is of interest in studies about imports is the case of 'time trends'. The analysis helps to see roughly whether countries are moving towards pro-trade or anti-trade biased growth over time by relating imports

and exports growth to output growth with respect to time. This is also related to the degree of openness of a country over time. Tests of whether imports tend to rise or fall over time than can be explained by observable variable changes have shown a fairly robust evidence for a positive time trend in US demand for non-petroleum imports. Such studies have suggested that the greatest U.S. competitive problems on the import side have been the results of improved foreign capabilities and productivity that has caused some structural shift toward imports in U.S. consumers and firms purchasing patterns. [Robert A. Blecker, 1996, p.199] In this respect the East Asian countries and many other developing countries have improved their competitiveness and have been able to expand their markets in the industrialized countries such as the U.S., but the share of the market of the Sub-Saharan African countries is still at its lowest level.

Clark, Don P. uses a two-stage approach to study the process of adopting tariff preferences under the GSP and to identify the factors that influence the dynamic adoption process. First logistic growth functions of the share of preferential exports in total exports over time are estimated to provide measures of the adoption rate and upper limit participation value for developing country beneficiaries under each GSP scheme. The second step relates these parameters to measures of market access for GSP covered products. Results indicate that the process of implementing tariff preference scheme mirrors a dynamic diffusion process whereby beneficiaries increase their share of preferential exports over time. [Clar, Don P., 1994, pp.419-33]

Globalization and Free trade are currently advocated by the industrialized

nations and the United States is playing the leading role in this area. U.S. efforts to integrate Sub-Saharan Africa nations into world trade and its GSP policy is part of this broader objective of the U.S. government that has its own internal and external social, political and economic implications. Rodrik's study on globalization concludes that freer trade is beneficial but also questions trade's domestic side effects. He argues that trade widens the disparity of bargaining power between owners of capital and ordinary employees. He also emphasizes the importance of social norms to the United States as a nation. He makes a point by raising the issue of child labor and its prohibition in the United States. He argues that trade with a company that is free to hire children overseas is functionally identical to bringing child workers in to the U.S. [Robert Kuttner, *Business Week*, April 28, 1997, (Periodical)]

On the other front, just as there are groups that oppose free trade, there are also those that oppose GSP policy. This is largely dealt with by the political economy of GSP policy. Devault James M. examines the political and economic criteria that determine which products are eligible for GSP treatment. In his study, particular attention is paid to the role U.S. domestic industries play in determining eligibility. His study finds that active opposition by domestic industries substantially reduces the probability that eligibility is granted. Because domestic opposition is more likely when expected increases in imports are large, this opposition limits the benefits provided by the U.S. GSP. [Devault James M., 1966b, pp. 35-46]

Moreover, Dani Rodrik argues about the failure of import substituting industrialization as a development strategy and its unanimous condemnation by the

neoclassical economists in the late 1970s. Raul Prebisch's name is associated with the strategy of import-substituting industrialization that apparently failed in the developing countries. He maintains that the main difference between Latin America and East Asia was not that the former remained closed and isolated while the latter integrated itself with the world economy. The main difference was that the former did a much worse job of dealing with the turbulence emanating from the world economy. It is not openness per se that matters; it is how well you handle it. [Dani Rodrik, *The world Economy*, 1998 (Periodical)].

Coetzee, Z.R. and others (1997), by using a Computable General Equilibrium model (CGE) provided empirical illustration that accelerated trade liberalization will ease the conflicts between the short term costs and long term benefits of trade liberalization. They provide evidence from South Africa that has chosen to base its economic growth strategy on outward orientation and integration in to the world economy. Exchange rate policy has a crucial effect on the sustainability of trade liberalization. [Coetzee, Z.R., K. Gwarade, W. Naude and J. Swanepoel, 1997, pp. 165-9] Exchange rates cannot be ignored. Many African currencies are not convertible and countries have to trade through the U.S. dollar or other hard currency. Intra-African trade is discouraged due to non-convertibility of African currencies and shortages of foreign currency to finance imports.

Overall, there seems to be wide agreement that the U.S. GSP country graduation rules and competitive need limits did not benefit the poor African nations. On the other hand many studies recommended the extension of U.S. GSP and broadening product coverage to include products exported from SSA in order

to improve the distribution of GSP benefits in favor of the LDBDCs. This seems partly the case in the recent U.S. trade policy shifts towards Africa.

CHAPTER III
AN OVERVIEW OF SUB-SAHARAN AFRICA AND ITS ECONOMIC
STRUCTURE

Many of the Sub-Saharan Africa countries (SSA) became politically independent after 1960. Immediately following independence most of these nations gave more emphasis to indigenous oriented growth and followed protectionist policies that favored limited foreign investment and trade with the industrialized countries. Some of them advocated self-reliance and others favored regional economic integration. "The African experience with economic integration pre-dates the post-colonial era. In East Africa, British colonial rule had united Kenya, the United Republic of Tanzania and Uganda into a customs union which included internal free trade, a common external tariff, common customs and income tax administration, common transport and communications services and a common currency." [Franc T. Joshua, 1987].

Moreover, compared to the East African nations, independence of most of the Southern African countries came late. To mention some, countries like Angola, Mozambique, Zimbabwe became independent after 1970. On the other hand Kenya became independent in 1963, and Tanzania did so in 1961 (as mainland Tanganyika). Later, with Zanzibar becoming independent in 1963, it joined with Tanganyika to form Tanzania in 1964. Zambia got its independence in 1964 and Mauritius after 1968. [Dale B. Truett and Lila Truett, 1992] Needless to mention, the efforts of many of these nations in the economic sphere to create a robust economy and end the dependence on the industrialized nations have not been successful. Currently, Sub-

Saharan Africa countries have an economic structure that is highly dependent and linked to their former colonial powers. As in the past their economies are dependent on primary goods and raw material exports to the European nations and the United States of America. [See. Appendix 1C] These African nations are covered under the EEC GSP program given by the Lome agreement in addition to being beneficiaries of U.S. GSP program.

Unlike other GSP beneficiaries in Asia and Latin America, Sub-Saharan Africa nations have not been able to create a relatively independent economy. The last thirty years have witnessed economic decline in Sub-Saharan Africa and the region's marginalization in world trade. On the contrary, developing countries in Asia and Latin America, while they are also dependent on the industrialized countries through trade, investment and other aspects, have been able to achieve export diversification and expand their participation in world trade during roughly the same period of time.

The type of economic structure in the African nations differs from country to country. Similarly, the economic performance of each nation differs from that of other nations but in general the economic performance of the region has been poor. Agriculture is the dominant economic activity in the Sub-Saharan Africa countries and there are similarities across nations in many other areas. Resource endowments are not evenly distributed and there are nations rich in oil and minerals, as there are poor nations with limited land for farming. Land is a major factor of production and source of income to the rural population and the means of livelihood for a large part of the population. Thus, an improvement in productivity in the agricultural sector

will have an important impact in raising the per capita income of these nations. “In 1996 Africa’s total income grew at five percent. This may be low by East Asian standards, but it is the highest rate registered in the continent since 1970”. [Dani Rodrik, May 1998]. This is largely due to improved performance in agriculture as the result of favorable weather and economic policy reforms in some African nations. However, the predictability of the former and the sustainability of the later is uncertain and thus Sub-Saharan Africa nations remain to be highly vulnerable and exposed economies. Despite recent economic improvements, per capita income is very low and the standard of living of a large majority of the African people is below subsistence level. As can be seen in Table 1 below, only few nations mostly in the Southern Africa region have a per capita income above U.S. \$ 1000. This indicates that most of the poorest nations in the world are concentrated in East and Southern Africa regions.

TABLE 1: BASIC INDICATORS FOR SELECTED SSA COUNTRIES

BASIC INDICATORS	POPULATIONS mid-1996 (millions)	GNP per capita atlas U.S.\$ 1996
SUB-SAHARAN AFRICA	599.9	481
EXCLUDING S.AFRICA	557.6	273
EXCLUDING NIGERIA AND S.AFRICA	443.2	287
BOTSWANA	1.5	2530*
ETHIOPIA	58.1	110
KENYA	27.3	330
MAURITIUS	1.1	3690
RWANDA	6.7	190
SOUTH AFRICA	42.4	3140
TANZANIA	30.5	130
UGANDA	19.7	290
ZAMBIA	9.2	430
ALL AFRICA	729.5	639

Source; World Bank: African Development indicators 1997, Findings Africa Region, Number 111, May 1998, Washington D.C.

***Figure for Botswana is for 1995 from The World Atlas, Maxwell Stamp, 1995**

The World Bank classifies many of the nations in Sub-Saharan Africa as low-income countries with the exception of Mauritius that was middle income nation during 1965-1987 period. [World Bank, 1989] Since then improvement in per capita income has been observed in few nations while overall Sub-Saharan Africa experienced an economic decline. The economic decline, among other things is related to the weak foreign trade sector and poor export performance of Sub-Saharan Africa. In the case of Mauritius, as opposed to other Sub-Saharan African countries, foreign trade and investment is believed to have been the major source of economic growth.

In general, international trade has not played the role of an engine of growth in Sub-Saharan Africa and the region has not been able to penetrate markets of the industrialized countries. Traditionally, the European countries are the major trading partners of Sub-Saharan Africa. But in recent times two-way trade between the U.S. and Sub-Saharan Africa has been growing.

TABLE 2: U.S. TRADE WITH SUB-SAHARAN AFRICA (in Millions U.S. \$)

	1994	1995	1996	1997
U.S. exports	4424.5	5406.8	6139.9	6174.9
U.S. imports	11793.4	12663.3	15225.7	16418.6
NET exports	7368.9	7256.5	9085.8	10243.7

Source: United States Department of Commerce, Office of Africa, 1998

It grew by 18.2% in 1996 with US exports expanding by 14% and US imports by more than 20%. In 1995 two-way trade grew by 11.4% with export growth of 22.7% and import growth of 7.6%. [US Department of Commerce, 1998] Trade with the US is dominated by a few nations that make up for a lion's share of African exports. Nigeria, S. Africa, Gabon and Angola make up over two thirds of trade with the US and the single most important import commodity by the US economy is oil, a product that has been included in the U.S. GSP list since 1997 and Angola has benefited from it. "Sub-Saharan Africa enjoyed a \$9.1 billion surplus in its trade with the United States in 1997. Africa's trade surplus with the United States has grown 20% in the

last five years, as the United States increased its purchases of African crude oil” [US Department of Commerce ITA, 1998, p.2].

The United States is the only African trading partner that sells less than it buys from Sub-Saharan Africa nations. Other industrialized countries of Europe, Japan and Canada have surpluses in their trade with Sub-Saharan Africa. In the past this is because the US did not expand its exports to Sub-Saharan Africa as its trade has been more directed to the Latin American and Asian countries. In recent times efforts are made to share part of the African market that has been exclusively supplied by the European countries. According to US department of Commerce report “In 1996 the United States was Sub-Saharan Africa’s third leading industrial country supplier, with a 7.1% share of the region’s total import market. That represented an improvement from fifth place and a 6.6% share in 1995. The US share trailed behind France (8.9%) and the UK (7.2%).” [US Department of Commerce, 1998, p.2] In 1995 many industrial countries faced declining market shares in Sub-Saharan Africa which was not due to declining import demand by African nations but mainly because of increased sales by some Asian countries that have penetrated into the African market. Despite increased African purchases from low cost Asian suppliers such as Korea, Thailand and others the US has been increasing its market share with its emphasis on the major markets in Sub-Saharan Africa namely in South Africa and Nigeria.

Recently new U.S. trade policy has targeted all Sub-Saharan Africa nations that are pursuing economic policy reform in addition to the U.S. interests in the larger and stronger African economies. “Slower growth in US trade with Africa in

1997 was due to modest declines in exports to South Africa and Nigeria, the region's two largest markets. Sales to these two countries fell 2.8%, while shipments to the rest of Sub-Saharan Africa grew 6.5%" [G. Feldman, 1998, p.1]. Growth of US trade with Africa has been higher compared to trade growth with other nations and this has led to positive prospects for increased trade relations between Sub-Saharan Africa and the US. According to reports of the US Department of Commerce, "For the second consecutive year, the growth in U.S. trade with Sub-Saharan Africa outpaced growth in U.S. global trade. U.S. worldwide trade expanded 6.7% in 1996, with total exports growing 7% and imports 6.4%. In 1995, U.S. global trade grew 12.7% with total exports growing 13.6% and imports 12%" [U.S. Department of Commerce, 1998] The U.S. has also shown a commitment to support the Sub-Saharan Africa nations that have lagged behind in economic development. These are nations that did not benefit from the expansion in world trade and U.S. initiative is partly due to its commitment as a leading member of World Trade Organization (WTO)¹ that works towards trade liberalization at a global scale.

The US-African trade is a major source of foreign exchange for the African nations. Foreign exchange resources earned are channeled to finance imports. Most of the imports of Sub-Saharan Africa are industrial products such as machinery, transport equipment and spare parts, fertilizers, chemicals and pharmaceuticals, and recently electronic products. Fuel is the major import of the non-oil producing African nations and is vital for industrialization process. It has its effects through transport and energy related aspects that have their impact on the quality of life of

¹ WTO is the institution that replaced GATT in 1995.

the African people. Thus imports by the United States from Africa will help relax the constraints as it results in major transfer of financial resources which will ultimately be spent on imports by African nations. According to IMF data, in 1995 U.S. importers purchased nearly 17% of Sub-Saharan Africa's total exports. In 1994 it took more than 18% and in the period 1993-1995 the United States purchased an annual average of 18.3% of Africa's total exports. [IMF Reports; U.S. Department of Commerce, 1998]

Trade between Sub-Saharan Africa nations and the U.S. depends on a number of factors among which demand factors in the U.S. and the economic environment in SSA are very critical. The later is very essential to attract U.S. investment as well as expand business opportunities with other countries. There has been fluctuation in prices and quantity of African exports to the U.S over time. These are characteristic features of nations exporting primary goods, raw materials and other tropical products having unpredictable demand and supply in the world market. But despite the constraints and instabilities in export markets, trade with the U.S. has a major role to play in the economic development of SSA nations.

CHAPTER IV

U.S. TRADE AND TARIFF POLICY AND IMPLICATIONS TO AFRICA

Trade policy and, in particular, tariffs in the United States have historically been directed to protect domestic industries and jobs. Prior to World War II the U.S. economy could be characterized as one of the highly protected economies in the world where imports were subjected to high tariffs. The high U.S. import tariffs applied to products from whatever origin. This began to change following the Great Depression. According to R. Dornbusch and J. A. Frenkel “The Reciprocal Trade Agreements Act of 1934 started a reversal of restrictive trade legislation. By granting the President authority to negotiate multilateral tariff concessions it was the chief instrument of tariff cuts for the following fifty years” [Rudiger Dornbusch and Jeffrey A. Frenkel, 1987, p.82]

The U.S. adopted the principles of non-discrimination and multilateral MFN policy as American trade objectives following the World Economic Conference of 1933 and entered the era of lowering tariffs on imports. [Robert Kuttner, 1996, p.8] The Great Depression, while it had an impact on the global economy, was also a turning point that had its impact on U.S. trade and tariff policy. As it is stated by Loehr and Powelson, “A regular extension of MFN has evolved out of international bargaining formalized by the reciprocal trade agreements of 1934, which turned the tide in the United States away from a history of high tariffs” [William Loehr and John P. Powelson, 1983, p.37].

There are arguments that the U.S. tariff policy was more restrictive and protective on those products coming from the developing countries. Moreover, trade conducted with the developing countries was mostly based on the traditional pattern of specialization where the developing countries (mostly in Asia, Latin America and Africa) exported raw materials and agricultural products to the U.S. economy. In return, the U.S. exported to these countries industrial products including both manufactured consumer and producer goods. A similar pattern of trade was also observed between the developing countries and the European nations. In the case of African countries, their trade with Europe dominated that with the U.S. or any other region of the world due mainly to historical colonial ties, distance and other factors.

In the past the structure of tariff policy of the U.S., like that of many industrial countries, was believed to be against foreign processing and production. This is the case of the escalating tariff rates that discourage processing and manufacturing activity in the developing world. Tariffs of this type in the industrialized nations have restricted market access for some products and led many African countries to specialize on exports of raw materials or other tropical primary products. It was argued that the international division of labor and the comparative advantage theory dictated the trade patterns that were observed between the developing and developed countries. Free trade was advocated but the tariff escalation was a means of protecting domestic industries in the industrialized nations. The tariff rate on imports increases with the degree of foreign processing because raw materials were allowed to enter at low tariffs or duty free while

finished products are charged higher rates of duty. This discourages value-added creation and employment in the manufacturing sector in the developing world. The tariff protection works effectively when high import tariffs raise the domestic price of imports in the U.S. economy, thus making imports from developing countries non-competitive with similar or close domestic import-substitute products. As the result of this, domestic products are sold at lower prices in the local market providing the competitive edge to domestic industries in the United States.

In the past, a policy of protecting domestic products through import tariffs was common in many of the industrialized nations, even in trade among themselves. However, the fact that the developing countries are not competitive with the industrialized nations makes them more vulnerable to the influences of foreign tariffs. The developing countries themselves were highly protective and most of their domestic industries are established under high tariff walls along infant industry arguments. While tariffs in world trade have been reduced drastically over time due to bilateral and multilateral agreements (GATT Rounds), there are some indications that they are still high in Sub-Saharan Africa. However, many African countries have also been following tariff reductions following economic reform programs or as part of their commitments to regional economic integration. Table below provides highlights of the 1997 tariff rates in some of the Sub-Saharan Africa countries (major trading partners of the U.S.) compared to that of the United States.

TABLE 3: TARIFF BARRIERS (1997)

	<u>All Products</u>			<u>Primary Products</u>			<u>Manufactured Products</u>		
	1	2	3	1	2	3	1	2	3
Mauritius	29.1	26.2	31.9	19.7	19.1	19.1	31.7	27.3	36
South Africa	8.8	11	8.4	8	11.4	4.2	9	10.9	9.9
Zambia	13.6	9.3	14	15.7	8.7	12.1	13.1	9.3	14.7
U.S.A. (1996)	6	12.4	4.2	6.9	25.7	3.4	5.8	5.8	4.4

Source: The World Bank: World Development Indicators, 1998, pp.330-332

1=Mean 2=Standard Deviation 3= Weighted Mean

Many economists believe that domestic economic policies in Sub-Saharan Africa (SSA) such as import tariffs have been a handicap to efficiency and comparative advantage in their export sector. In relation to import tariffs and other barriers, Rodrik explains three African facts as follows

“First, government imposed trade barriers have generally been higher in Africa than in East Asia, although the differences are not huge. Second, until the early 1990s, trade barriers in SSA have been comparable in magnitude to those prevailing in Latin America. Third, the sweeping trade reforms that have recently taken place in Latin American economies, as well as in most of the former socialist economies of Eastern Europe and Central Asia, have left SSA as the only region in the world where substantial tariff and non-tariff barriers to trade are currently the norm rather than the exception.” [Dani Rodrik, 1998, p.4]

There are also studies that provide evidence that domestic policies in Africa were a handicap to trade, efficiency and economic growth. [Alexander Yeats and Francis Ng, 1996; 1997;] On another front, by concentrating on the nature of the products produced by African countries, Chennery and Keasing attribute the poor performance to an initial concentration on tropical products such as coffee, cocoa, tea and bananas for which demand has increased slowly. [William Loehr and J. Powelson, 1983] However, while demand elasticities are important, there is wide agreement that inappropriate tax systems, trade and investment policies aimed at import substitution led to the discrimination against agricultural production and

exports. The result was a distorted pattern of development that perpetuated economic backwardness and dependency in SSA.

On the other front self-sufficiency is seen differently from autarky and in modern times nations depend on trade to satisfy domestic demand for goods and services. At the same time countries reduce their economic vulnerability and dependence on others by creating domestic capacity and following incomplete specialization in trade. This is observed in the case of many industrialized countries that have diversified sources of supply including their own domestic sources for many goods they import from other nations.

The U.S. economy has been more self-sufficient than any other country and trade has contributed a very small percentage of GDP in the past. Although it is not unexpected to see large economies have low shares of trade in GDP, the case of the US is partly the result of its trade policy and its self-sufficiency programs. The U.S. economy has been less vulnerable to external shocks compared to other nations but, as the saying goes when the United States economy sneezes other nations catch cold. It is true that, the great depression, the OPEC oil crisis in 1973 and the stock market crash of 1987 had their impact on the U.S. economy as well other nations. Thus even a strong economy like that of the U.S. is affected by the dynamics of the global economy and economic crisis at a large scale.

The recent Asian and Russian crisis and the increasing trade dependence of the US economy on these nations is also indicative of how a strong economy like that of the US is influenced by what happens in the economies of its trading partners. There is truth in the arguments widely heard that the US economy could not

maintain its current level of economic growth and prosperity through isolation from the rest of the world. Many argue that the recent U.S. efforts to contribute in financial and policy matters towards the economic and political adjustment of Russia and the Asian nations is seen in light of US trade and other interests.

Since 1980, there has been a shift in U.S. trade patterns. United States exports have been shifting away from traditional European markets towards Asia and Mexico. [U.S. Global Outlook: 1995-2000]. Among the major reasons for such development are fast growth in Asian and Latin American countries and expanding markets for U.S. products, NAFTA (1994) and reduced trade barriers, and increased U.S. and foreign investment in these emerging economies. The expansion of the Mexican market for U.S. goods until the devaluation of the peso led to a dramatic increase of U.S. exports over the past ten years. In 1992 Mexico became the second largest market for U.S. manufactured goods and Japan dropped to the number three position. [U.S. Global Trade Outlook: 1995-2000].

United States participation in world trade has been growing over time and as part of this effort there is recent interest in expanding trade and investment in Sub-Saharan Africa countries. However, the development problems of Sub-Saharan Africa are of a multidimensional nature and different from those mentioned earlier in the case of Asia and Russia. Similarly, dependence of the US economy on trade with the African nations is relatively small compared to other developing countries in Asia and Latin America. Among the major problems mentioned in U.S. trade with African economies are policies followed by African governments against free trade and foreign investments. Trade, monetary and fiscal policies are not effective

in maintaining internal and external equilibrium and as a result most of these countries face chronic balance of payments and budgetary deficits. Sub-Saharan Africa is a highly indebted region and its debt service ratio both as percent of exports and GDP is very high. Until recently, many African countries limited the allocation and use of foreign exchange by the private sector as a way of controlling imports from the rest of the world. This is observed in their reliance on outdated exchange control system and administrative instruments of import restrictions that are inefficient and costly. Restrictions have been justified by foreign exchange shortages and import-substitution has been pushed to solve balance of payments deficits. In reality, foreign exchange systems associated with import substitution have been the main culprits in countries whose export performance has been poor. [Bhagwati 1978; Krueger 1978; Little Scitovsky and Scott, 1970]

The US economy has been opening up its market for products from the developing world to encourage their efforts to exploit existing economic potential. But there has been an argument that the low US tariffs have been of no importance to many of the African countries because they are not directed to their products. In some cases the low U.S. tariffs are applicable to the same raw materials that already were subject to lower duties. Historically, in the US the reciprocal trade agreements have made it possible for imports to compete in the domestic market only to a limited extent. The reciprocal trade agreements involve mutual tariff reductions by two or more countries but the tariff reductions are extended to all other trading partners even if they do not reciprocate by lowering their tariffs.

“Under the reciprocal trade agreements, the US offered to negotiate with other countries for mutual reductions in tariffs. For example, the

US might lower its duties on French wine if the French would lower their duties on say US wheat. Since the nations had already agreed that tariffs should not be discriminatory, any U.S. reduction on French wine would also be accorded to Italian wine, Chilean wines and wine from any other country. Likewise, French reductions on US wheat would be extended to Canadian wheat, Argentine wheat and wheat from any other country. The result of the extensions is the current MFN policy which means that there will be no most-favored nation; all nations will be treated alike” [Loehr and Powelson, 1983, p.37].

MFN tariff reductions have clear advantages to trading partners compared to their initial position of protection as they are a move to free trade among nations, however limited the extent. Under such an arrangement, the benefits from mutual tariff reductions will still be enormous for nations that supply each other if they are major suppliers of certain products. Given their high degree of interdependence, both nations will benefit more from mutual tariff reductions even if the benefits will be extended to all other countries. This is because the rest of the nations are not major suppliers of the products and have a small share of the world market for the products that are subject to reciprocal tariff reductions. Despite reciprocal tariff reductions, the US as previously argued has used tariffs as an instrument for providing domestic industries a shelter from foreign competition. Currently there is the International Trade Commission (ITC) that undertakes studies and makes recommendations as regards to import injury on U.S. domestic industries and jobs.

The US tariff system has undergone significant changes since the Reciprocal Trade Agreements gave way to Multilateral tariff negotiations under GATT and currently under WTO. The US has been the leading advocate for more trade liberalization to expand world trade by reducing tariffs and non-tariff barriers. U.S. GSP program was introduced as part of its tariff policy changes to encourage trade

with the developing countries. In addition to its trade policy the U.S. government has directed its external aid policy to promote its own national interests while at the same time contributing to growth in the developing countries. Export credit guarantees, agricultural support programs and export enhancement programs are some policies used to promote global stability while they at the same time provide markets for U.S. producers and exporters. They help U.S. exporters sell their products abroad by supporting the stability of foreign markets through the IMF. They protect U.S. farmers that might face loss of incomes due to low prices and declining demand and they create more U.S. jobs by encouraging free trade with other nations.

In the food deficit Sub-Saharan Africa countries the U.S. food aid programs are of particular interest both from humanitarian and developmental angles. In recent times, food security and self-reliance is given high priority in Sub-Saharan Africa.

“The generally negative or poor record of 1997 points to serious gaps in food supply for the majority of African countries. Again this is likely to lead to a sharp decline in the stock-to-utilization ratio in 1998, pushing it below the minimum level necessary to safeguard regional food security. Of the 31 countries projected by the FAO to face critical food deficits, 20 are located in Africa. The replenishment of stocks might be suspended by low-income countries and the resumption of such efforts will require sizable improvements in production techniques and increases in actual production in the coming year otherwise these countries will revert to long term dependence on food aid.” [ECA: African Economic Report 1998, pp. 3-4].

The U.S. is the major exporter of food to the African region and it also provides its support under the Export Enhancement Program (EEP) using its policy of food aid under the P. L. 480 (Public law) Title I, II and III. In this context, EEP acts as an

instrument of subsidizing sales of U.S. wheat. This leads to lower world prices of wheat because of the competition and discretionary pricing practices of other countries in particular Europe, Canada and Australia which is to the advantage of importing nations.

The proposal for legislation that allows unused EEP funds to be spent on food aid at the end of each year is aimed at supporting U.S. farmers that are likely to be damaged by low prices and low demand. Low prices for wheat have been primarily related to abundant supply and weak demand in importing countries. This is because many of the importing countries are in economic crisis and face shortages of foreign exchange to pay for imports. U.S. food aid program in this regard under EEP not only supports economic development but also promotes political stability¹. The criteria for U.S. food aid allocation to the developing countries are not purely analyzed from commercial and political motives while U.S. GSP is an economic and political instrument used by the U.S. government in its trade relations with the developing countries. In general the U.S. trade and tariff policy encourages free trade more than protection. This is contrary to what American trade policy looked like in the pre World War periods. While the U.S. trade policy encourages free trade and economic liberalization at a global scale it has not positively impacted the SSA nations. In addition to the considerable U.S. interest in the Asian and Latin American countries, recent policy changes (in the post 1990 period) have shown increased U.S. interest in Africa. In the following we briefly discuss the criteria for eligibility under U.S. GSP.

¹ This program is not only directed to Sub-Saharan Africa but has been observed recently in Russia, Indonesia, South Korea and other countries in economic and political crisis.

U.S. GSP POLICY AND CRITERIA

Not all developing countries are eligible for the GSP benefits provided by the industrialized countries. This is because each of the countries granting GSP has its own criteria for allocating their privileges. At the same time not all goods are allowed duty free entry to the markets of the industrialized nations. The list of goods covered under the U.S. GSP program has been increasing over time even as most nations, including the U.S., have restricted GSP application on agricultural goods and other import sensitive areas. By providing market access to exports from the developing countries, all GSPs simultaneously help consumers and firms in the industrialized nations to benefit from lower prices of goods and materials that enter duty-free. “GSP programs in the US, Japan, Canada, Australia and EU countries promote growth in, and exports from, the developing countries while also reducing the cost to national consumers of many imported products. More than 4400 products from some 146 beneficiary entities are eligible for duty free entry under the GSP program”[World Trade Almanac, 1996, p.10]

The GSP system permits a range of discretionary judgment or legislative choice on the part of the preference-giving nation whether a particular product or country should be included or not. Similarly, any trade based on such an arrangement is subject to loss of preference at any time at the discretion of the preference-giving nation. Usually this occurs when certain actions of the receiving nation are in violation of the requirement for GSP. In the case of U.S. GSP, some of the provisions or criteria for the President of the United States not to designate a country as a beneficiary developing country are;

“ 1. If a country is dominated or controlled by international communism

2. If a country is a member of the Organization of Petroleum Exporting Countries (OPEC)

3. If a country affords preferential treatment to the products of a developed country other than the United States which has or is likely to have, a significant adverse effect on the United States commerce.

4. If such country has nationalized, expropriated or otherwise seized ownership or control of property owned by United States citizens or by a corporation, partnership or association which is 50% or more beneficially owned by United States citizens.

5. If a country has taken steps to repudiate or nullify an existing contract with a US citizen or corporation or partnership or association which is 50% or more beneficially owned by US citizens, the effect of which is to nationalize, expropriate or seize ownership or control property so owned or has imposed or enforced taxes on such property which has produced similar effect, unless prompt, adequate and effective compensation has been or is being made to such affected citizen or person.”

[S. K. Chaterjee (1988)].

Decisions regarding the list of countries to be included as beneficiaries of U.S. GSP rest on the U.S. President who takes a number of factors into account. Some of the factors considered are “the level of economic development of the country, whether other developed countries provide preferential tariff treatment to the country and the extent to which the country is prepared to provide equitable and reasonable market access to foreign investment in the country.” [S.K. Chaterjee, 1988 p.59].

On the other front, there are countries that are excluded from the list of GSP beneficiaries for a number of reasons. The GSP program is subject to 'competitive need' limitations by law. Accordingly, a country loses its duty-free benefits for a product if its exports of a particular product over a year exceed 50% of total US imports of that good or a certain value adjusted annually to reflect growth of US GNP. The rationale behind was to distribute the GSP benefits to the poor nations rather than their being concentrated in few advanced developing countries. The good performers are required to pay the MFN standard rates once their export sector grows and reaches the competitive need limits.

Since their first introduction, GSPs have been controversial and have been a subject of considerable scrutiny regarding their effects on the developing countries. They have been more controversial in Africa; in particular in Sub-Saharan Africa, a region that has been marginalized in world trade over the last 30 to 40 years. There is a belief that beneficiaries in Sub-Saharan Africa do not have enough information and knowledge about the operation of GSP. Thus the contention is that Sub-Saharan Africa did not benefit from U.S. GSP arrangements in the past while other developing nations have used GSP as an engine for their export growth. This is true at least in the initial stages of development of countries in East Asia and Latin America. Despite its limitations, the United States in its trade with the African countries then can regard GSP program as a significant step forward in the provision of market access.

In addition to the above requirements, the dynamics of the international economy and national interest of the US are important factors tied to GSP

preference. GSP programs are used for political objectives as well. A study by Wang Yeh-Lih examines the political issues surrounding the operation of the GSP program in the case of Taiwan's economic development. His conclusion is although GSP program is a developmental trading scheme; the U.S. government has used it for political purposes. [Wang Yeh-Lih, *The U.S. GSP and Its influence on the Economic Development of the Republic of China on Taiwan (China)*, Ph.D. Dissertation, University of Texas, 1989]. Currently U.S. GSP is designed to encourage beneficiaries to eliminate or reduce significant barriers to trade in goods, services and investment; to afford all workers internationally recognized worker rights; and to provide adequate and effective means for foreign nationals to secure, exercise and enforce exclusive intellectual property rights. [USTR Press Release, July1, 1998].

CHAPTER V

U.S.-AFRICA GROWTH AND ECONOMIC OPPORUNITY ACT

The House of Representatives approved United States trade and development strategy towards Africa under H.R. 1432 'Growth and Economic Opportunity Act' in March 1998. This act is awaiting the approval of the US congress.

"In 1997, the administration, along with the US International Trade Commission, submitted two reports addressing the issue of the United States economic and trade relations with Africa. Integrating Africa into the world economy is a cornerstone of the President's Partnership Initiative for Economic Growth and Opportunity in Africa. This initiative, in turn, complements the African Growth and Opportunity Act which has been passed by the House of Representatives and is pending Senate approval" [USTR, News Release, July 1 1998].

In broad terms, its major objectives are: a) building markets and creating jobs through increased U.S. exports, b) strengthening Africa's growth and economic competitiveness, and c) enhancing effectiveness of U.S. foreign policy.

[S.778/H.R.1432] The later is in line with U.S. political and other interests in Africa.

The Act is based on major findings that emphasize the mutual interests of the United States and the Sub-Saharan Africa nations. Along this line sustainable growth and development of Sub-Saharan Africa through market-led strategies is supported by the United States. The aim is to reverse the declining economic trend and marginalization of the African countries and the private sector is expected to play a key role in this process.

The Act includes an important part on eliminating trade barriers and encouraging exports. In this section the emphasis is on the finding that the lack of

competitiveness in the manufacturing activity of Sub-Saharan Africa nations is less of a threat to domestic market disruption and to job loss in the United States if H.R. 1432 is implemented. Thus, on the basis of the ITC report, it is believed that opening U.S. market for African products will not affect the U.S. economy negatively while it will have positive impact on exporters in Africa. [U.S. ITC, Impact of H.R. 1432, Investigation No. 332-379, 1997].

The classic case is that of textile manufacturing where there is some production capacity in Sub-Saharan Africa. Based on the ITC study, reports by the Congress show that annual textile exports to the U.S in 1996 were less than 1 percent of all textile and apparel exports to the United States. The Congress projects modest growth rates of textiles and apparel manufacturing in Sub-Saharan Africa over the period 1998 to 2002. On the basis of its findings, it concludes that it is difficult for the exports from Sub-Saharan Africa to exceed 3 percent annually of the total U.S. imports of textiles and apparel. Consequently, if U.S. imports of textiles and apparel from Sub-Saharan Africa are around 3 percent there will be no threat to United States workers, consumers or manufacturers. [H.R. 1432, 1997, 105th Congress, 2d Session, p.8].

The new U.S. trade strategy for Africa is targeted to those countries that are willing to undertake economic reforms. In its efforts to provide support to these countries, the act makes certain amendments to the Generalized System of Preferences to extend the benefits to the Sub-Saharan Africa countries. The major ones are;

a). The preferential tariff treatment for certain articles: Section 503(a)(1) of the Trade Act of 1974 is amended to include the growth, production, or manufacture of an article from an eligible country in Sub-Saharan Africa. At the same time the president determines if such article is import sensitive (upon advice of International Trade Commission) and may provide duty-free treatment accordingly.

b). On the rules of origin; Section 503(a)(2) of the Trade Act of 1974 is amended to include the changes that are expected to benefit and apply to each eligible Sub-Saharan Africa beneficiary developing nation. i.) If the cost or value of materials produced in the customs territory of the U.S. is included with respect to an article, then an amount not exceeding 15 percent of the value of the product at the time of entry may be attributed to United States cost or value. This is applied for purposes of determining the percentage requirements for duty free treatment. In other words, under the 35 percent requirement for local origin, a country would be required to add costs or value of 20 percent on the article if it has included the 15 percent of the United States cost or value. ii.) The cost or value of the materials included in the article that are produced by an eligible Sub-Saharan Africa beneficiary developing country are applied fully in determining the percentage requirement for duty free treatment. This is in line to what is referred as the regional GSP benefits directed to encourage trade integration among African nations as part of the recent changes in U.S. GSP scheme to be discussed in the following part.

c.) On the Waiver of Competitive Need Limitations: Section 503(c)(2) of the Trade Act of 1974 is amended for the Competitive Need Limitations to be not applicable

for the Least Developed Beneficiary Developing Country (LDBDCs) and eligible countries in Sub-Saharan Africa.

[H.R. 1432, Sec. 9, 105th Congress, 2d Session]

At the center of the efforts to change the current state of affairs in Sub-Saharan Africa are the changes taking place in the areas of economic policy reform and other non-policy barriers to trade. The dynamic changes at the domestic level and the favorable external factors such as those designed by the U.S. government will be the basis for African economic recovery. Thus, it is well recognized that unless internal factors are favorable and economic reforms are consistently pursued by Sub-Saharan African nations, no positive results can be achieved through U.S. "Growth and Opportunity Act" or the U.S. GSP policy. In the act, trade and policy reform in Africa is stressed because of this fact.

It is believed that the shift in the U.S. policy towards Sub-Saharan Africa has been propelled by the changes that have taken place in Africa in recent times. After 1990 many of the Sub-Saharan Africa nations have undertaken economic policy reforms of different magnitudes, mostly directed towards strengthening the private sector and opening their economies to world trade. This is unlike the previous 20 to 30 years when most of the African nations were following inward-oriented strategies and misguided economic policies. Then, some of these nations were socialistic guided by highly centralized command economic policies. Markets had no role in the resource allocation in these economies. Domestic and foreign trade was highly regulated and many African governments were repressive and corrupt.

Today the African economies are highly fragile and, despite some positive signs of economic and political recovery, there exist deep-rooted problems of both internal and external nature. In the economic sphere, positive achievements were recorded in Sub-Saharan Africa (in the post 1990 period) that created hope for economic recovery.

“The positive growth rates in 1996 with some nations growing at comparable rates to those of East Asia (as high as 12%), and trade which has doubled between 1990-1995 and is expected to grow by more than 6% per year through 2001. U.S. exports to Africa grew 20% in 1996 and the total exports to Africa are more than 25% greater than exports to the entire former Soviet Union. Foreign direct investment flows to Sub-Saharan Africa reached \$4.5 bill in 1996, triple the average annual level for the period 1990-1993.” [White House Fact Sheet, June 17, 1997]

There is considerable evidence that those nations that are making the most progress are those that follow open economic policies as in the case of Mauritius, Botswana and recently Uganda. According to a study by Francis Ng and Alexander Yeats, “import barriers in Africa are higher than in those developing countries that achieved higher export growth rates, and appear to be biased against potential export products.” [Francis Ng and Alexander Yeats, August 1996, p.29] The recommendation that follows from many studies including those from the World Bank is for the African countries to adopt appropriate trade policies and introduce Structural Adjustment Program (SAP) in order to encourage exporters to take advantages of the opportunities in foreign markets. To this effect, trade liberalization and openness are considered essential for African nations striving to promote economic growth. Having realized this and due to the external pressure, many of the Sub-Saharan Africa nations adopted structural adjustment programs

long before the growth and opportunity Act was designed. As the result of SAPs, there has been significant relaxation of trade policy restrictions in many African economies over the last decade. [Oyejide, Ndulu and Gunning, 1997].

SAPs are unpopular in Africa while the US Growth and Opportunity Act seems to have been received positively by many Sub-Saharan Africa countries. (Some argue the transitory nature of the effects caused by the trip of the U.S. President to Africa). The reality is that SAP is considered to be painful because there are economic groups in the society that suffer due to the welfare costs of adjustment (as in the case of declining purchasing power, less savings and unemployment due to devaluation).

“Perhaps the most controversial aspect of the debate on SAPs has been the impact on the poor. In the Southern African countries, the majority of the poor live in the rural areas. As producers of agricultural commodities they have benefited from policy reforms in agricultural marketing and also from foreign exchange and trade liberalization. Prices paid to the rural farmers have increased and delivery of agricultural commodities has improved. However, rising food prices and other prices as well as declining opportunities for employment in the formal sector have tended to have adverse effect on both urban and rural poor” [K.R. Hope and G. Kayira, 1997, p.267]

Some critics claim SAPs push for more privatization and trade liberalization without taking into account the overall economic problems of Africa. They criticize and discount whatever safety net programs are introduced to minimize the welfare loss to the people in the short run.

On the other hand African governments show less commitment to pursue SAP because they fear the political costs of Structural Adjustment Programs. Due to

this policy reversal or incomplete economic reform, in some African countries no significant export and investment growth has resulted.

“As a reflection of the diversity and nature of economies in Southern Africa, the experiences and the impact of SAPs have been somewhat dissimilar. Some countries have experienced stable macroeconomic environments, while others have suffered severe shocks. Some countries have sustained policy reforms for sometime, while others have experienced reversals in policy” [K.R. Hope and G. Kayira, June 1997, pp.258-274]

Two classic cases that need more study in this area are Ethiopia’s incomplete reform (less commitment) and Zimbabwe’s policy reversal (issue of subsidy and land distribution). There are also studies that relate the lack of commitment and determination towards economic reform on the side of governments in Africa to political power and conflict of interest of the ruling elite rather than the welfare interests of the people.

It is true, the U.S. Growth and Opportunity Act is not a free lunch and has certain requirements and commitments to be fulfilled by African governments. Above all, the U.S. growth and Opportunity act encourages Sub-Saharan Africa countries to follow the recommendations of the World Bank and IMF in order to be eligible for the necessary funds for economic adjustment. In this respect U.S. policy is directed to encourage and promote economic reform programs designed by African governments and the international financial institutions as partners in development. It calls other industrialized countries to follow more open economic policies and to support the integration of the African economies into the world economy. In light of the broad objectives mentioned earlier, the US-Africa Growth and Opportunity Act is then seen as a way of accelerating the process of economic

change and expanding trade relations between the US and Sub-Saharan Africa nations. The United States government will provide access to markets for exports from African countries and economic assistance to the region will be targeted to generate growth of exports and output.

Economic growth is a function of a number of factors and trade policy is only one aspect of the equation. According to Rodrik

“The fundamentals for long term economic growth are human resources, physical infrastructure, macroeconomic stability and the rule of law. Governments that undertake investments in these areas will be rewarded with increased rates of economic growth. The role of trade policy in economic growth is largely auxiliary and of an enabling nature; extremes of export taxation and import restrictions can surely suffocate nascent economic activity, but an open trade regime will not on its own set an economy on a sustained growth path”. [Dani Rodrik, May 1998, p.3].

The African Growth and Opportunity Act is not only about trade. It includes a number of components such as investment and debt relief to beneficiary countries. There are projects to be undertaken by USAID-financed, specific growth-oriented programs in Africa emphasizing trade and investment expansion. These programs are mainly designed to support economic reform initiatives of the African governments by encouraging them to follow more liberal trade regimes, introduce current account convertibility, provide national treatment to foreign investors, enter into bilateral investment treaties and seek admission to the WTO (World Trade Organization). [H.R. 1432, 1997, African Growth Opportunity Act]. Moreover, the strategy of the US government clearly stipulates that maximum support will be provided to reduce the scope of government activities and help private sector

development. Above all, it encourages investment in human resources by shifting resources towards education and health. [White House Fact Sheet, June 17, 1997]

The development of human resources and growth of private sector would ultimately contribute to economic self-reliance of Africa. Economic self-reliance will help African nations reduce their dependence on aid and increase their participation in world trade. In summary, President Clinton's Africa Initiative as a partnership for economic growth and opportunity in Africa provides a range of opportunities and assistance that allow these countries to participate at different levels. These are given as follows;

Level I: a) enhanced Market access through GSP for Less Developed countries for 4000 product groups and an additional 1800 products for Least Developed countries. b) investment support c) support for regional integration d) support for American African business relations. Other measure included are U.S. efforts through the IMF, the World Bank Group, African Development Bank. The targets are to increase private sector investment, trade growth and capacity creation.

Level II: To provide further market access by adding to the GSP list some products that are at present excluded or products traditionally excluded due to import sensitivity. Textiles and clothing are of interest to Africa at this stage.

Level III: To pursue a free trade agreement with strong performing and growth oriented Sub-Saharan Africa countries. This is envisaged to be of long run interest to the U.S. and Sub-Saharan Africa and will have no immediate implication.

[S.778/H.R. 1432]

As can be seen from the types of policies and programs included under each level of cooperation, it is clear that most Sub-Saharan African countries are participating under level I while countries like Kenya and Mauritius have more benefits from participation at level II. At this stage it is important to note that there is an alternative bill being considered by the U.S. Congress and this has been referred as the Senate version (S.2400) as distinct from the House version (H.R. 1432). The preferences to be granted under Level II are the basis for the Senate version of the Trade bill. The Senate version has a different approach in the granting of duty free and quota free access to textiles and apparel from Sub-Saharan Africa. [Senate Finance Committee, July 21, 1998] Under this bill that is part of the Trade and tariff Act of 1998, the U.S. will grant duty free and quota-free access to exporters /manufacturers from SSA only when the final product is assembled using U.S. yarns and fabrics.

Below we provide a summary of major sections of importance in the new Trade and Investment policy for Sub-Saharan Africa under H.R. 1432. (105th Congress 2nd Session).

Section 5. deals with economic assistance under the Development Fund for Africa and stresses sustainable development assistance to support economic growth.

Section 8. deals with efforts at eliminating trade barriers and encouraging exports and raises the concern of U.S. textile imports from Africa.

Section 9. deals with GSP preferential treatment, rules of origin, waiver of competitive need limits and extension of programs.

Section 11. deals with the allocation of equity and infrastructure funds and stresses U.S. support for the improvement of economic and social infrastructure in Sub-Saharan Africa to create a better investment climate for foreign investors and domestic producers.

Section 12. identifies the role of Overseas Private Investment Corporation (OPIC) and Export-Import Bank (EXIM) in encouraging trade and investment in Africa. It stresses the provision of loans, guarantee, insurance programs and financial commitment to support American businesses in Sub-Saharan Africa.

The Act lists major areas of US assistance by types of policy, activities and major participants and beneficiaries. [See. Appendix 3A]

As in the case of GSP the eligibility requirements for African nations under the act depend on the decisions of the U.S. President. In general such decisions are based on progress towards establishing market-based economy, establishment and enforcement of appropriate policies and respect for internationally recognized human rights. The growth and economic opportunity act provides a list of the specific economic policies stressed for eligibility. [See. Appendix 3B.] For a summary of the key parts of the African Growth and Opportunity Act (referred as H.R. 1432). [See. Appendix 3C]

RECENT CHANGES IN U.S. GSP SCHEME

The New GSP initiative is complementary to the African Growth and Opportunity Act because the trade bill provides enhanced trade benefits and cooperation for reforming Sub-Saharan African economies. The ‘Growth and Opportunity Act’ over and above GSP, calls for increased technical assistance, financing, equity and infrastructure investment funds for Sub-Saharan Africa to promote economic development and further socio-economic reform. As discussed in the previous chapter the “Growth and Opportunity Act” is a trade and development strategy with both short and long run implications to Sub-Saharan Africa. The new GSP initiative in its turn encourages accelerated liberalization of trade and investment regimes in Africa. This new initiative came to be announced as part of the annual review of the GSP program during which the administration adds or removes products from the list of eligible goods. Various criteria are applied in the review process and it is on the basis of the result of this review that some African nations have qualified for the new GSP privilege that allows cumulating of costs to meet the 35% requirement. The benefits derived from this are referred as ‘regional GSP benefits’ to differentiate them from the regular GSP benefits accruing to a developing nation. [USTR, July 1 1998].

There is a view that U.S. GSP could be made effective by first expanding the regional markets in Africa. This requires encouraging and supporting trade between Sub-Saharan Africa nations. This view is advocated by the U.S. government because small markets and low incomes are not able to generate more U.S. business and jobs while at the same time they limit U.S. investment to the

region. Moreover, export capacity of Sub-Saharan Africa countries needs to be improved both in terms of quality and quantity in order to achieve positive results under the growth and opportunity act.

The expansion of intra-African trade is a major objective of regional economic integration efforts in Africa. The U.S. has been supporting economic integration and increased trade expansion among African nations because of the above reason. At the same time the U.S. believes that it is only when African countries open their markets to each other that they can successfully integrate into the world economy. "The United States government wishes to support accelerated African economic integration in order to improve the continent's competitiveness in global markets. Regional trade integration will expand market size and make member states more attractive to private investors, both local and foreign." [USTR, July 1 1998] However, there have been problems in the area of economic integration and not many of the Sub-Saharan African nations have been willing to follow free trade. Often this is because of their tariffs that are justified for revenue purposes and their protection to domestic industries. Thus economic integration moves in Africa have been facing various setbacks.

Among the recent changes in U.S. GSP, the most important are i.) the provision of more access to the US market for those African countries that have shown progress in fulfilling their requirements for economic integration. ii.) Duty-free and quota-free entry for textiles and apparel from SSA. The additional benefits are expected to come from relaxing the rule of origin for GSP treatment.

Under the new policy, an eligible country will be allowed to accumulate the

production costs incurred in other African nations that are also covered by U.S.

GSP to count as part of the 35% requirement so that it can get the GSP treatment.

According to the US Trade Representative,

“The new reforms are particularly focused on encouraging Sub-Saharan Africa countries to accelerate their economic integration and work collectively to expand their exports. African countries which are members of any one of the three regional associations will be permitted to accumulate their value added contributions (on GSP imports) making it easier for these countries to meet the 35% value added requirement of the GSP rule of origin. Specifically, these countries will be allowed to cumulate the direct costs of growth, production, manufacture and assembly of a product with other qualifying members of their association” [USTR, Press Release, July 1 1998].

The cumulating benefit is being granted immediately to members of the West African Economic and Monetary Union (WAEMU).² These are mostly French Speaking African nations that have achieved a higher stage of economic integration. In the areas of exchange rates and monetary integration the Common Franc Area (CFA) countries have made progress while COMESA members have lagged behind. This has also contributed to stronger trade integration in the Western Africa states as compared to the weak trade integration observed among the COMESA members.

There are problems in the case of trade among COMESA members related to currency convertibility and tariff reductions. But, COMESA has played an important role through PTA Bank and other arrangements to facilitate trade transactions in eastern and southern Africa regions in recent times. It has introduced a payment and settlement system acceptable to member states that eases the problems of the region; in particular, those related to shortages of foreign exchange. Thus, COMESA members are also designated as qualifying for the

regional GSP benefits but only to be granted after fulfilling the tariff reductions targeted by COMESA. Among SADC members Botswana, Mauritius and Tanzania have been considered for the benefits because of their commitments to economic integration. All members of SADC will be considered for the new GSP rule when they ratify the protocol. Among nations in Eastern Africa, Kenya, Tanzania and Uganda will benefit from GSP cumulating as members of East African Cooperation (EAC) after they sign an agreement that formalizes their efforts at trade integration. These three countries are working to revive their trade relations and restore the lost opportunities. (East African Community was dismantled in 1977) Currently, some positive steps have been taken towards effective trade liberalization and creating the necessary mechanism for full economic integration among these nations. Tanzania has already been considered for the regional GSP benefits as the result of its membership in SADC.

² includes Burkina Faso, Benin, Cote D'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo.

CHAPTER VI

ROLE OF REGIONAL ECONOMIC INTERATION

Trade within regional blocks is expanding and there is evidence that it has captured an increasing share of exports of member's trade. [The World Bank, World development Indicators, 1998] It is also the case that regional blocks have been less vigorous in expanding trade with the rest of the world. This is true for EU, NAFTA, ASEAN, MERCUSOR etc. There are similar trends in Sub-Saharan Africa despite the problems and weaknesses of regional trading blocks in the continent. Exports within trading blocks such as Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) are also growing, but it has been less rapid compared to that of the Economic Community of West African States (ECOWAS). On the other hand, a comparison of SADC and COMESA shows that trade has expanded faster in the former than in the latter. [ECA, African Economic Report, 1998]

Regional integration is an important factor that improves a nation's ability to benefit from U.S. GSP. This is explicitly stated in the U.S. Growth and Opportunity Act because nations that are highly integrated are able to act as a large market and be able to take advantages of efficiency and increased trade with the U.S. economy.

“Most African markets are not big enough to attract private investment. The main cause for this lack of interest is attributed to the low per capita income combined with the low growth rates, which will probably not experience a substantial increase of purchasing power in the near future. On top of the small size of its markets, the region's integration is in its infant stages. Experience, mainly in Asia and Latin

America, has proved how important integration is in extending the possibilities of attracting investment. Transport infrastructure could have a substantial impact on regional trade, economic growth, and poverty reduction” [World Bank, July, 1998, No. 114, p.2].

The data in Table 4 below show the growing trend of exports among COMESA and SADC member countries. It roughly indicates that SADC members have expanded trade among themselves more than COMESA members during the period 1970-1996.

TABLE 4: REGIONAL INTEGRATION, EXPORTS WITHIN BLOCKS (\$MILL)

	1970	1980	1985	1990	1993	1994	1995	1996	%change 1996-1970
COMESA	239	592	400	847	808	1025	1270	1479	518
SADC	76	96	294	942	2245	2671	2872	4231	5467

Source: The World Bank, World Development Indicators, 1998.

Exports within SADC and COMESA as measured by the growth during 1970-1996 in percentage terms from their initial positions in 1970 shows that growth in SADC is over ten times to that of COMESA. The increase in trade among COMESA members is also due to the increase in intra-SADC trade because some are members of both regional trade blocks. But much of the difference in trade growth is due to the inclusion of South Africa. South Africa has played an important role in trade expansion among SADC members, in particular in the fast trade growth of the post 1990 period. But the share of world exports of both COMESA and SADC has been declining and this is indicated in Table 5 below.

Table 5: COMESA AND SADC: Percent Share of World Exports

	1970	1980	1985	1990	1993	1994	1995	1996
COMESA	1.1	0.3	0.3	0.2	0.2	0.2	0.1	0.2
SADC	1.9	1.5	1.1	1.0	0.9	0.8	0.7	0.8

Source: The World Bank, World Development Indicators, 1998

The declining share in world exports is partly the result of the fast growth in world trade and exports and the inability of the SADC and COMESA members to maintain or increase their share in that growing market. Economic reform is aimed at increasing exports but very few nations have been able to make any breakthrough in the area of trade.

“At the same time that these reforms were taking place, African governments sought to diversify their production base. The diversification drive focused on the horizontal dimension not only because that is where African countries have their comparative advantage but also because other options, and more so the dynamic expansion of the manufacturing industries, continue to face impossible impediments” [ECA, African Economic Report 1998, p.3]

Kenya and Mauritius have been successful in export diversification in particular in the textile and apparel industry. They are among the major exporters to the U.S. market and both are members of WTO. As the result they are subject to the rules set by the Agreement on Textiles and Clothing (ATC) an arrangement that has replaced the Multi Fiber Agreement (MFA) under WTO.

KENYA AND MAURITIUS: THE CASE OF TEXTILES AND APPAREL

Kenya and Mauritius are among the founding members of (PTA) Preferential Trade Area for eastern and southern Africa (now COMESA) that was established in 1981 under the Lagos Plan of Action that recommended sub-regional economic blocks and economic integration moves as a way of expanding intra-African trade. [OAU, Lagos Plan of Action, 1981]. Kenya's share of total intra-COMESA trade was 35.6 percent in 1980 and declined to 23.8 percent in 1990. Kenya exports more than it imports from COMESA countries. Its share of total intra-COMESA exports was 51.8 percent in 1980 and declined to 43.2 percent in 1990 while its share of total intra-COMESA imports fell from 19.4 percent in 1980 to 4.5 percent in 1990. [See. Appendix 2A, 2B] This shows that other members are increasing their share of intra-COMESA trade while Kenya is still a major exporter to the region.

Unlike Kenya, Mauritius is not highly integrated with the COMESA countries and its trade linkage with the industrialized countries has been of major importance to the country. Its share of total intra-COMESA trade has been around 1.4 percent in 1980 and 1.54 percent in 1990. This is not only small but has not significantly changed over time. Its share of total intra-COMESA exports was 0.5 percent in 1980 and 1.7 percent in 1990 while of total intra-COMESA imports it was 2.36 percent in 1980 and 1.45 percent in 1990. This is an indication that participation of Mauritius in intra-COMESA trade is very small and limited. Mauritius joined Southern Africa Development Community (SADC) in 1995 as a

strategy to expand its trade in Sub-Saharan Africa. Since then, it has created trade and investment links with countries like Mozambique, South Africa and other SADC members. Among production areas that Mauritius emphasizes are production of sugar, fishing and textiles.

In the COMESA market, Kenya is a dominant player and a major supplier of manufactured products to other African countries, particularly to the east African nations. It has close trade linkages and agreements with Uganda and Tanzania that are working jointly to revive the East Africa Community. Kenya, as a major beneficiary of U.S. GSP in east Africa, is expected to play an important role just like South Africa in the Southern Africa region. This means that it takes a lead in expanding trade in the region and works towards trade liberalization. This will contribute towards increasing trade and investment share from the United States and the rest of the world. The benefits of such expansion, while primarily are reaped by Kenya, will have spillover effects that are positive to other African countries. There are challenges to the Kenyan economy in this direction as a country that is working towards the establishment of East African Cooperation (EAC) with Uganda and Tanzania. Other countries that have shown growing share in intra-COMESA trade are Uganda, Zimbabwe, Zambia and Mozambique. The Democratic Republic of Congo has potentials that are not exploited while Ethiopia, Rwanda, Tanzania and Burundi played less important role from the point of intra-COMESA trade. [Appendix, 2C]

On the other front, Kenya and Mauritius have been successful in the textile industry because they followed relatively open economic policy compared to other

countries in Sub-Saharan Africa. Following independence these two nations encouraged the private sector while many other African countries either went socialist or followed stronger protection policies in line with import substitution strategies. Table 6 provides a glimpse of industrial production growth in the textile, apparel and leather sectors in Kenya in the past. There was modest growth in textile production in Kenya during the 1980's and the 1990's.

TABLE 6: KENYA

KENYA: INDEX OF INDUSTRIAL PRODUCTION (1976=100)											
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	%Δ(1987-1976)
TX	140	152	161	170	134	147	167	174	187	193	93
APP	205	234	275	380	389	407	370	353	355	360	260
LTH	115	100	94	111	93	93	81	80	82	84	-16

Source: African Statistical Yearbook (1987), UNECA, Addis Ababa
(TX = Textiles, APP = Apparel, LTH = Leather goods)

During the 1976-1987 period, in Kenya, textile production grew by 260 percent, apparel by 93 percent while leather goods declined by 16 percent. The fast growth in textile production coincides with the period when tariff preferences were introduced and also with that of U.S. GSP. Kenya's response to the GSP regime created in world trade was positive while the industrial strategy that led to the expansion in textile production was also directed to satisfy the domestic market. It is believed, however, that Kenya's efforts to compete with other developing countries and benefit from the U.S. GSP and the EEC tariff preference system was clearly behind the increase in textile manufacturing. The trend of shares of total Exports from Kenya to U.S.A., Africa and EEC for the period 1980-1989 are indicated roughly by figures 1, 2 and 3 below. The share of exports to the U.S. market has expanded over time reaching its peak in 1986 at around 16 percent of total exports

to industrial countries and about 12 percent of total exports (including exports to Africa). The U.S. faced merchandise trade balance deficit with Kenya during the same year. [See. Appendix 4B] Recent figures for U.S. imports of textiles and clothing from Kenya are \$34.559 millions, \$33.239 millions, \$25.715 millions and \$30.736 millions during 1994, 1995, 1996 and 1997 respectively. [Bureau of Census, Highlights of U.S. Export and Import Trade] In the post 1990 period the Kenyan economy faces major competitors in the African market from reforming countries and above all from South Africa.

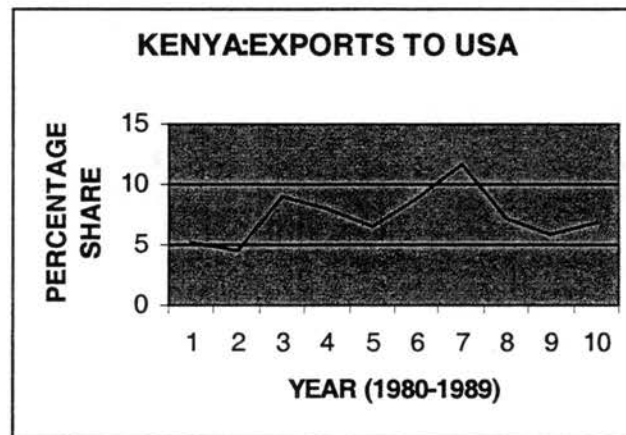


Figure 1.

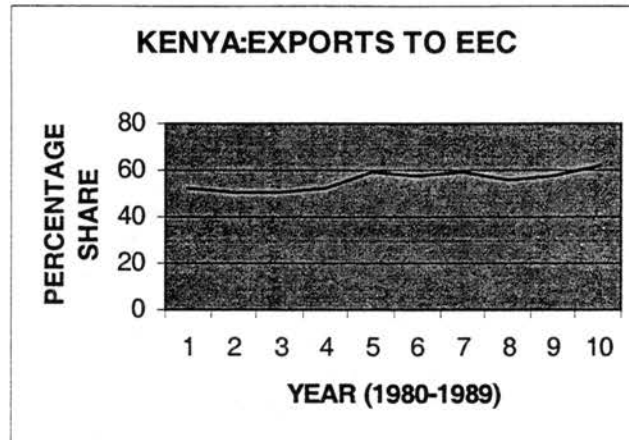


Figure 2.

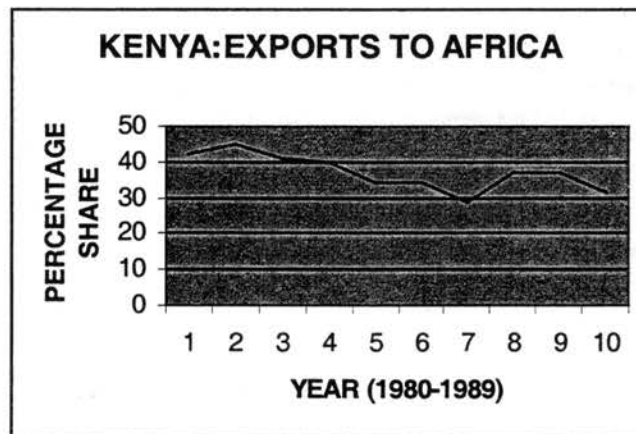


Figure 3.

The issue of trade integration in Africa as envisaged by the new U.S. policy will bring with it both benefits and as well as strong competition. Kenya has a fear in this area of losing its market share in COMESA. In east Africa, Kenya is facing new competitive pressures in some areas although of much concern to Kenya has been the role of South Africa. (Such as in Trans African Railway and recent S. Africa's trade and investment deal with Tanzania, Uganda and others). The concern of Kenya is that its freight transport will lose market in the short run. However, at the same time there are benefits in the long run to all nations due to efficiency that

will lower freight rates. The improvement in economic infrastructure of Sub-Saharan Africa is a component part of the U.S. Growth and Opportunity Act as it is a necessary condition for African economic integration. Safe air transport and efficient sea transport have been emphasized in order to create the fertile ground for the expansion of U.S. trade with the region. At the same time rail transport and efficient road links will promote regional trade and reduce costs of doing business internationally.

The trend in the case of U.S. imports from Mauritius can be explained by similar analysis that shows the direction of trade of Mauritius during the period 1980-1987. This is shown by figures 4, 5 and 6 below where exports of Mauritius to African countries are small and declining. An important trend is shown by figures 5 and 6 where exports from Mauritius to the U.S. has been rising over time reaching its peak in 1986 at around 17 percent of its total exports (including exports to Africa). In 1980 Europe was the major market for export products from Mauritius (accounting for over 90 percent of its export share) while the U.S. market made up only about 5 percent. Europe is still the major market for products from Mauritius although there has been shifting trade patterns towards the U.S. market.

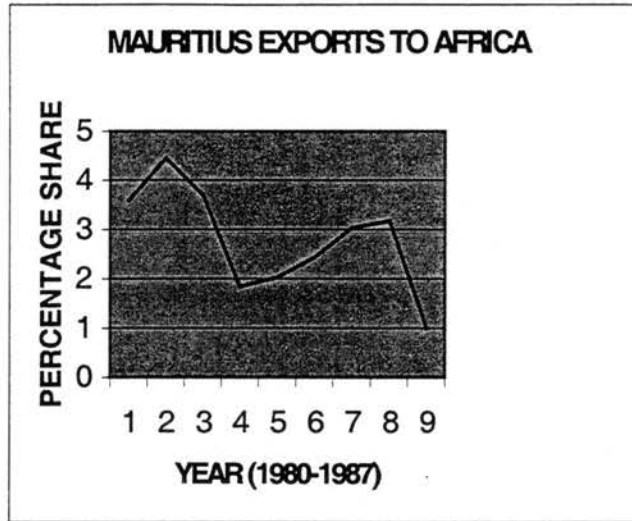


Figure 4.

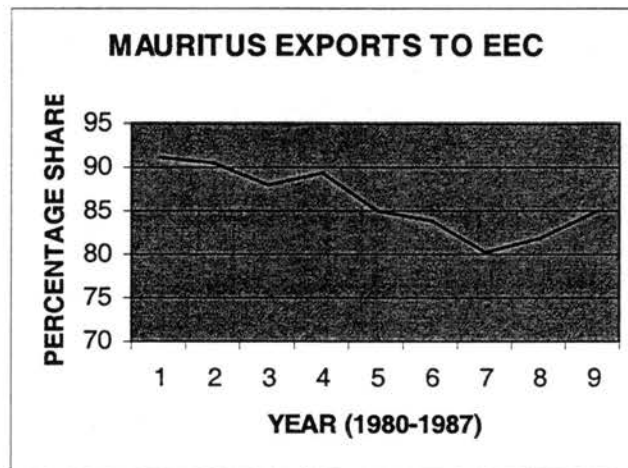


Figure 5.

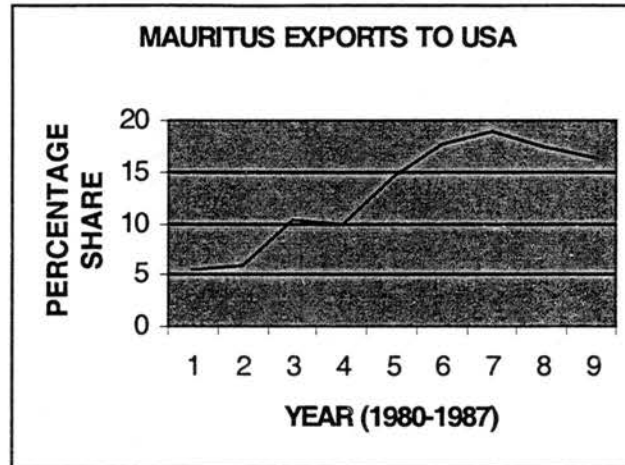


Figure 6.

The index of industrial production for textiles, apparel and leather goods in Mauritius for the period 1983-1987 is shown in table 7.

TABLE 7: MAURITIUS

MAURITIUS:INDEX OF INDUSTRIAL PRODUCTION (1982=100)						
	1983	1984	1985	1986	1987	%Δ(1982-1987)
TX	95	145	145	175	193	93
APP	109	213	213	300	375	175
LTH	108	108	108	111	119	19

Source: African Statistical Yearbook (1987), UNECA, Addis Ababa

In the case of Mauritius production of textiles and apparel expanded fast after 1984. The introduction of an Export Processing Zone (EPZ) contributed significantly in export expansion. During the period 1982-1987 production of textiles increased by 93 percent, apparel by 175 percent and leather goods by 19 percent. Mauritius is a success story in export drive to the OECD and the U.S. market. There is some fear whether economic growth in Mauritius will be sustainable in view of U.S. restrictions on its exports of textiles and clothing and the quota on sugar. Exports of textiles and clothing in the post-1990 period are shown in Table 8 below.

TABLE: 8 MAURITIUS EXPORTS OF TEXTILES AND CLOTHING TO THE U.S. (SITC 61 AND 62)					
YEAR	1993	1994	1995	1996	1997
VALUE (MILL \$ U.S.)	161,601	186,349	190,942	164,750	184,464

Source: Bureau of Census, Highlights of U.S. Export and Import Trade

“The U.S. trade deficit in textiles and apparel with Sub-Saharan Africa declined by 60.7 million (31 percent) from the 1995 level to \$ 194.4 million in 1996. Decreased imports of sector products were attributed, in part, to the continued effects of U.S. import quotas from two Sub-Saharan producers and declining competitiveness of regional apparel products” [African Growth and Opportunity Act] Likewise, U.S. tariff rates on African products are highest on textiles and apparel products. “The average trade weighted duty rate on U.S. imports from Sub-Saharan Africa fell from 1.7 percent ad valorem in 1995 to 1.5 percent in 1996. The highest tariffs on U.S. imports from Sub-Saharan Africa were on textiles and apparel (17.9 percent), footwear (12.2 percent) and agricultural products (8.8 percent)” [Africa Growth and Opportunity Act].

According to WTO, quotas and restrictions imposed on textiles will be totally lifted in the year 2005. [WTO] In the meantime as part of the U.S. Growth and Opportunity Act the US will provide some market access to textiles exported from Africa into its market. The elimination of current U.S. import quotas on textiles and apparel from Africa are also based on the necessary measures and safeguards to be taken against transshipment. “African Growth and Opportunity Act removes quotas on Mauritius and Kenya, and establishes no quota policy for Sub-Saharan

Africa and provides effective provisions against transshipment from third countries.” [African Growth and Opportunity Act Coalition Inc., May 1998].

SOUTH AFRICA AND GROWTH AND OPPORTUNITY ACT

South Africa is a major economic power in the Southern Africa region and in Sub-Saharan Africa at large. It is among the big emerging markets in world trade. Moreover it has significant influence on the economic development of its neighboring countries and the region. "South Africa is the most advanced and productive economy in Africa, accounting for 75 percent of GDP of the Southern Africa region and 45 percent of the entire continent's output" [U.S. Global Trade Outlook: 1995-2000, p.95]. Thus, it is expected to play a major role under the new U.S. Trade and Investment Policy towards Africa. In Table 9 data on some economic indicators for South Africa are presented to provide background information on the structure of the economy.

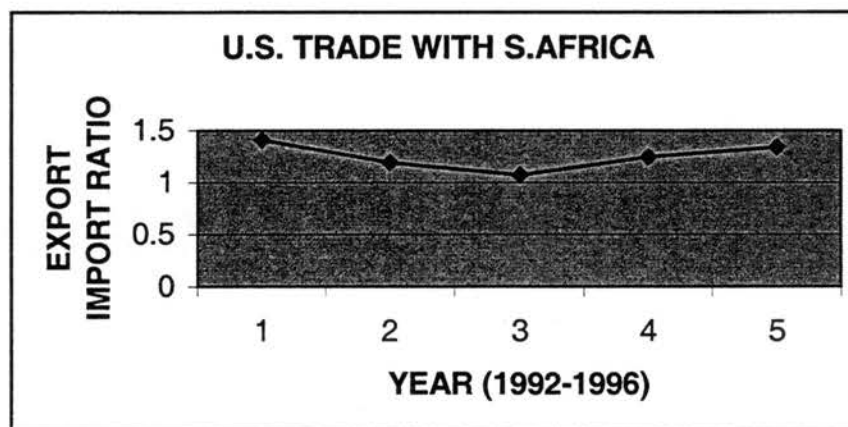
TABLE 9.
SOUTH AFRICA: KEY ECONOMIC INDICATORS-in Bill U.S. \$

	1995	1996	1997
AGRICULTURAL GDP	5.18	5.46	5.22
MANUFACTURING GDP	28.84	26.75	27.53
MINING GDP	9.30	9.11	9.03
PERCAPITA GDP -U.S. \$	2880	2659	3041
EXPORTS TO U.S.	2.2	2.3	0.5
IMPORTS FROM U.S.	2.8	3.1	1.2
TRADE BALANCE -U.S	-0.6	-0.8	-0.7
TOTAL EXPORTS	28.6	29.1	22.9
TOTAL IMPORTS	27.0	27.0	21.4
TRADE BALANCE-RSW	1.6	2.1	1.5
CURRENT ACCT/GDP	2.1	1.6	1.1
AID FROM U.S. (\$ mill)	187	176	110

Source: Department of State Report, Economic policy and Trade Practices Report (1997)

South Africa is a country that has some of the modern services that are commonly found in the industrialized countries, in particular financial services, that are mostly absent in many other African countries. “South Africa is a middle income developing country with abundant supply of natural resources, and relatively well developed financial, legal, communications, energy and transport sectors. It has a stock exchange which ranks among the twenty largest in the world and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region” [Department of State Report, 1997]. The export and import ratio of U.S. trade with South Africa as indicated in the figure 7 below shows that the U.S. is expanding its business with South Africa in recent times.

Figure 7.



South Africa trades largely with the OECD countries, but its trade with the East Asian countries has also been increasing. Major commodities traded include processed foods, pharmaceuticals, beverages, fertilizers, explosives, chemicals, plastics, textiles, footwear, articles of iron and steel, machinery, motor vehicles and

their parts. The South African economy is currently among the vibrant economies in Africa and it is highly linked to the U.S. economy. Its trade with the U.S. economy has been expanding in recent times and the U.S. has recorded balance of trade surplus in all the years as shown in table 10 or in the figure above.

TABLE 10

U.S. TOTAL TRADE WITH THE REPUBLIC OF

SOUTH AFRICA (in Millions of US \$)

YEAR	EXPORTS (F.a.s)	IMPORTS (Customs)	BALANCE OF TRADE
1992	2425	1723	702
1993	2197	1847	350
1994	2173	2030	143
1995	2751	2210	541
1996	3106	2323	783

Source: U.S. Department of Commerce, 1998

There are no significant barriers imposed by South Africa in its trade with U.S. economy. Historically, the terms of the import and export control act of 1963 allow South Africa's Minister of Trade and Industry to prohibit, ration or regulate imports in line with the national interest. In recent years, the list of restricted goods requiring import permits have been reduced although it still includes goods such as foodstuffs, clothing, fabrics, wood and paper products, refined petroleum and chemicals. [Department of State Report, 1997] Import and Export data by commodity (at SITC rev 3 commodity) show that the U.S. exports dominantly machinery and transport equipment while it imports manufactured goods in its trade with South Africa. [See. Appendix 4A]

The major commodity groups imported by the U.S. from the Republic of South Africa are (SITC 681) silver, platinum, other platinum group metals, (SITC 671) pig iron, iron and steel powder etc.,(SITC 288) nonferrous base metal waste and scrap, (SITC 667) pearl, precious and semiprecious stones, (SITC 673) iron, non alloy steel flat roll products. There is a higher degree of concentration of US imports from South Africa on the category of (SITC 06) which includes manufactured goods chiefly classified by material. [Appendix 4D]

The South African Government has eliminated a primary subsidy regime referred as General Export Incentive Scheme (GEIS) that provides exporting companies direct cash on the basis of processing and local content of exported product. “Despite opposition from local manufactures, the Department of Trade and Industry revised the GEIS in early 1995, downsized it in again in early 1996 and has now completely phased it out as of July 11, 1997. The stated reason for phasing out the scheme was that it was not WTO consistent.” [Department of State Report, 1997] The government instead provides Export Marketing Assistance (EMA) that provides financial assistance for the development of new export markets mostly financing trade missions and market research. It also provides support for the development and promotion of small and medium exporters through credit guarantees by financial institutions. Such exporters can have the potential to take advantages of U.S. GSP by expanding their exports.

The U.S. encourages increased participation of South Africa in global economic integration. U.S. policy makers and economic analysts have stated that South Africa’s fiscal and monetary policies are on the right track. [U.S. Department

of Treasury; U.S. Department of Commerce] The sanctions imposed by the international community in the past have led to South Africa's long years of isolation. Needless to mention, the African nations with the exception of a few had no formal links with South Africa during those times. In recent times, with the end of the Apartheid era, the South African economy has started to open up its economy to the rest of the world. "The new South African government demonstrated its commitment to open markets, privatization and a favorable investment climate with the (June 1996) release of its macroeconomic strategy called Growth, Employment and Redistribution (GEAR)" [Department of State report, 1997] Manufacturing sector has shown the strongest rate of growth since 1994 while most sectors have contributed their share in the economic recovery since the end of Apartheid era.

The key macro-economic policies (GEAR) designed by the South African government for the post Apartheid period will have their effect on the role South Africa plays in the economic integration and development of the region. Similarly they will have an impact on U.S. trade and investment in South Africa in the future.

SOUTH AFRICA AND ITS ROLE IN TRADE INTEGRATION:

The issue of free trade agreements between South Africa and other African nations has been seen as a relationship between nations at different levels of economic development. South Africa mainly exports manufactures to the African nations while it imports natural resources and other raw materials. This is due to its relatively developed industries that are capable of producing consumer and capital goods demanded by Sub-Saharan Africa nations. In this sense, the Republic of South Africa competes with the industrialized nations that supply similar products to Africa. South Africa trades mainly with the industrialized countries in Europe, North America and East Asia. Among, SADC members, trade with Zimbabwe is very significant while other members account for a small proportion of total trade.

TABLE 11.
SOUTH AFRICA: TRADE WITH MAJOR SADC TRADING PARTNERS
(IN MILL RAND)

	<u>EXPORTS</u>				
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
MALAWI	434.9	419.2	576.5	695.3	591.7
MOZAMBIQUE	371.9	462.9	689.3	676.7	961.6
ZAMBIA	446.3	530.4	663.4	1111.7	1305.0
ZIMBABWE	991.5	1158.7	1600.7	1548.7	1745.2
SADC TOTAL	2268.66	2635.7	3678.44	4431.7	4925.28
TOTAL SOUTH AFRICA	30830.5	32445.8	36849.3	42425.3	49517.1
	<u>IMPORTS</u>				
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
MALAWI	58.5	81	91	131.5	159.5
MOZAMBIQUE	17.5	30.4	37.4	47.4	60.3
ZAMBIA	5.7	6.3	14.5	40.5	75.5
ZIMBABWE	457.4	440.7	471.6	810.6	659
SADC TOTAL	557.77	575.72	618.67	1048.05	984.7
TOTAL SOUTH AFRICA	38682.7	38013.4	42054	46319.6	56124.8

Source: World Bank Discussion Paper, no.342, October 1996 (See. Merle Holden).

Agriculture accounts for only 5% of GDP in South Africa while most of the other countries in Sub-Saharan Africa are highly dependent on the agricultural sector. South Africa trades heavily with its neighbors and depends on food imports from the rest of the world including the United States to fulfill domestic demand. The indices of export and import intensity [See. Table 12] calculated by Merle Holden using the formula shown in the footnote¹ indicate that trade with the neighboring countries such as Mozambique, Zimbabwe, Malawi and Zambia is of considerable importance to South Africa. The proximity of these markets to South Africa and South African trade policy towards countries like Zimbabwe and Mozambique is of importance in explaining its trade with the Southern Africa states.

“Trade agreements with Zimbabwe dates from 1964 with the Smith government under Unilateral Declaration of Independence (UDI). The agreement is so complicated it has been difficult to assess its impact on Zimbabwean imports into South Africa. Nevertheless, it is estimated that the level of preference given by Zimbabwe to South African exporters ranges between 2.5 and 20% and South Africa grants preferential access to Zimbabwean goods amounting to 25 to 30% ” [African Development Bank, 1994, p.23].

In addition to Zimbabwe, South Africa provides tariff preferences to a number of other nations in Africa and outside of Africa, among which Mozambique and the BLS countries (Botswana-Lesotho-Swaziland) are the major ones.

“South Africa also grants unilateral tariff concessions on some imports from Mozambique and Turkey. The required level of local

¹ $I_{ij} = X_{ij} / M_j$ where I_{ij} = Trade intensity index [Export or Import Intensity]
 X_{ij} = share of country i 's exports going to South Africa (j), M_j = Share of South Africa in world imports (net of imports from country ' i '). The other side of the picture is to calculate the export intensity by finding the ratio of X_{ji}/M_i where the numerator is share of South Africa's exports going to country ' i ' and M_i is country i 's share in world imports (net of imports from South Africa).

content in imports from Mozambique is 35%. These goods range from fish through to textiles and tiles. In some instances these goods are subject to import quotas. The agreement reduces South Africa's tariffs on imports from Mozambique to 3% on a range of goods that are also subject to quotas. Goods qualifying for preferential access can only be consumed in South Africa or Botswana. South Africa is not given any tariff concessions by Mozambique in return." [Merle Holden, 1996, p.9]

In addition Malawi benefits from trade preferences granted from South Africa.

"The agreement with Malawi is the most generous which allows duty free imports of all goods, grown, produced or manufactured in Malawi with a required minimum local content of 25%." [GATT, 1993, p.50]. Beginning 1995, the government of South Africa abolished surcharges on all imports as a positive move in the direction of free trade.

The importance of South Africa to the above African nations is however, more pronounced than the reverse because more of South African trade is with the industrialized nations.

TABLE 12.
INDICES OF EXPORT AND IMPORT INTENSITY (S. AFRICA)

Trading Partner	Export Intensity	Import Intensity
Malawi	28.1	87.9
Mozambique	25.1	50.4
Zimbabwe	23.4	56.1
Zaire	6.72	3.9
Zambia	4.36	82.5
USA	0.80	0.22
U.K	19.6	0.82

Source: World Tables 1995, Adapted from Merle Holden, 1996

South African trade intensity with Malawi, Zimbabwe, Mozambique, Zambia and United Kingdom is very high. This indicates that these countries are major trading partners for South Africa and their economies are highly linked with

that of South Africa. The U.K. for historical and political reasons has been an important trading partner of South Africa. One can however see that the economy of South Africa is highly integrated with U.K. as an importer rather than as an exporter. The reverse is however true with the case of Malawi, Zimbabwe, Zambia and Mozambique where South Africa is stronger as an exporter than as an importer. The UK is a large economy and has larger share of world imports and its import from South Africa is a smaller portion of that large sum. Thus the import intensity index has a value that is below one. In this sense it is not surprising to get indices of export and import intensity less than one for the U.S. as well. (See. Table 12).

South African currency has its impact on the economy and trade of its neighboring countries, particularly countries like Zimbabwe, Mozambique and Zambia. The depreciation of South African Rand (national currency) over recent years has been of particular concern to Zimbabwe. This is because of the negative effect on its trade balance with South Africa and the fear that domestic industries in Zimbabwe will be weakened by the low price of imports from South Africa. This will lead to loss of domestic jobs and Zimbabwean workers and firms in import competing industries will suffer. But as there are losers there are gainers, and in this case mostly consumers and industries that use imported inputs coming from South Africa are potential beneficiaries from currency depreciation. Economists have attributed the recent South African Rand's decline in the month of July 1998 to the turmoil in the Asian markets and the South African Reserve Bank allowing its currency to float with intervention applied only when deemed necessary to smooth

market adjustments. "A 20 percent depreciation in the trade weighted exchange rate of the Rand between February and July 1996 was described as the most important shock or change in South African macroeconomic scene in 1996" [Z.R.Coetzee, K. Gwarade, W. Naude and J. Swanepoel, June 1997].

According to some analysts, the joining of South Africa into free trade arrangements with smaller African nations might lead to more polarization and concentration of economic activities in South Africa. Preferential tariff arrangements are expected to be no substitute for multilateral trade liberalization for dominant economies such as South Africa. The benefits to South Africa will not be significant but the costs to the smaller economies will be large because more trade will be diverted in favor of South Africa. Revenue redistribution scheme in the case of South African Customs Union (SACU) that involves South Africa and the BLS countries is a mechanism of addressing such problems that arise from free trade agreements among unequal trade partners. The idea that South Africa would lead to more polarization and marginalization of other African countries if it joins free trade agreements has been widely held by many economists. [Merle Holden, October 1996, pp.51-60]. As the result of economic integration and specialization in the region production will concentrate in South Africa and industries in countries like Zimbabwe, Mozambique, Zambia, Malawi and Botswana will not be competitive and ultimately jobs will be lost leading to migration from these countries to South Africa. This is irrespective of the tariff revenue redistribution from South Africa to those countries that lose due to free trade because the firms are expected to move to South Africa. [Merle Holden, 1996]. Moreover, new

investments will be attracted to South Africa because of the favorable large market and the smaller neighboring nations will only benefit from the spillover effects from South Africa rather than directly. One would expect some form of gravity effects of larger market and some countries might feel the competition for investment, but the situation in the smaller nations does not make them competitive with South African core industries. There are some smaller activities and industries in the periphery that are likely to be competitive with some African nations that are expected not to be significant for South Africa.

Trade liberalization and economic integration can however still benefit the smaller African nations that are able to import components and inputs from South Africa to produce goods that are imported by U.S. in order to fulfill the 35% value added requirement. This will be possible when South Africa and the other African countries highly integrated with its economy are eligible for the new GSP scheme that allows 'regional GSP benefits'. Currently, in the Eastern and Southern Africa region only some of SADC and the EAC nations are eligible for such special treatment.²

The South African economy has the potential of expanding trade with SADC as well as the rest of Africa. As the Table 13 below shows, currently exports of the South African economy exceed its imports in its trade with SADC. South Africa's annual exports to SADC was on average about 9 percent of total exports during while its annual imports from SADC was around 1.75 percent during the same period. Countries of major importance in this trade as previously noted are

² Members of the West African Economic and Monetary Union (WAEMU includes Burkina Faso,

Zimbabwe, Zambia, Malawi and Mozambique.

TABLE 13.
SOUTH AFRICA: TRADE WITH SADC (%)

		<u>EXPORTS</u>			
1989	1990	1991	1992	1993	
7.4	8.1	10.0	10.4	9.9	
		<u>IMPORTS</u>			
1.4	1.5	1.47	2.36	1.75	

Source: World Bank Discussion Paper, No. 342, October, 1996.

South Africa's balance of merchandise trade with SADC and PTA-COMESA has been in its favor. This is indicated in Table 14 and one can clearly observe that trade between South Africa and the Non SADC members of PTA has not been large. These are nations mostly located in Eastern Africa that had little trade with South Africa. Its merchandise trade balance as taken from the balance of payments statistics is shown in Table 14 and it is believed that South Africa has similar advantages in service trade particularly in the Southern Africa region.

TABLE 14.
MERCHANDISE TRADE BALANCE (MILL RAND): South Africa

1989	1990	1991	1992	1993
SADC 1811	2060	3060	3383	3940
PTA 2391	2968	3871	4350	4856

Source: World Bank Discussion Paper, No. 342, October, 1996.

Currently, South Africa is not a member of COMESA but its role in regional economic integration of Africa is positive. The inclusion of South Africa as a member of COMESA will have important implications for the role of COMESA in

Benin, Cote D'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo).

the creation of an African Common Market in the future. South Africa's influence will expand to reach the entire Eastern and Southern Africa region.

Recently Egypt, a country in North Africa, has been admitted to COMESA.³ It is the only nation outside of the eastern and southern Africa region to join COMESA. Egypt is a nation that is relatively industrialized and at a higher level of economic development compared to many of the Sub-Saharan Africa nations. It is not known however, whether South Africa will join COMESA and it is yet to be seen whether the entry of Egypt will encourage South Africa to follow suit. A study by Merle Holden, suggests that it is more likely trade will be diverted than created if South Africa joins PTA-COMESA. [Merle Holden] The argument follows Viner-Meade criterion where differences in levels of income and development associated with the production of different goods implies complementarity and thus low possibilities of trade creation. This is true for COMESA members and South Africa even in those relatively industrialized SSA countries such as Zimbabwe, Kenya, Zambia and Mauritius. Trade diversion if it is significant would imply redistribution of income from some African nations to South Africa. This is likely to lead to a deadweight loss because the benefits to South Africa are not going to be high compared to the welfare loss of the other nations. Over time South Africa and COMESA might end up losing from such trade diversion according to some analysts. There are recommendations that multilateral trade rather than regional trade is to the benefit of the South African economy along these lines. There are, however, facts indicating that South Africa's trade is not restricted to a particular

³ Egypt joined COMESA on JULY 12, 1998 as a full member.

region and regional trade is not a substitute for trade with rest of the world. In this respect trade expansion within South Africa benefits rather than harms COMESA members as trade creation will be greater than trade diversion over the long run.

In Sub-Saharan Africa unofficial or unrecorded trade is believed to be large and has been growing mainly due to war, restrictions, shortages due to government policies, and so forth. This is also true of South Africa where unrecorded trade with its neighboring countries has been expanding. As trade is liberalized, it is expected that official trade channels will be encouraged and thus unofficial trade is likely to fall and so will transshipment of goods. Regional economic integration is then expected to contribute positively to expansion of trade and reduction of contraband trade.

THE U.S. GSP SCHEME AND SOUTH AFRICA: South Africa was included in the list of beneficiary countries for U.S. GSP in 1994. “During 1994 South Africa negotiated GSP agreements with the US, EU, Canada and Czechoslovakia and Norway. The GSP program with the EU applies to about 2000 products and increases duty free exports to the EU by 3 percent. The benefit to South African exporters in terms of redistributed tariff revenue is estimated at R55 million, accounting for 0.02 percent of GDP and 0.2 percent of total exports to the EU” [Holden, M, January 1995 (Periodical)]. In the short period of time elapsed the country has made use of the U.S. program to its benefit because of its existing export capacity. “African GSP has surged since 1994, when South Africa first became GSP eligible. That year GSP benefits in Africa increased 136%. In 1995, GSP shipments grew an additional 48%. South Africa continued as Africa’s largest GSP beneficiary in 1996, with 430.7 million or 73% of total benefits for Sub-Saharan Africa. South Africa claimed a comparable portion of total benefits in 1995” [U.S. Department of Commerce, 1998]. At the same time South Africa is a major player in the new U.S. trade and development policy for Africa known as Growth and Opportunity Act (H.R. 1432). Due to its higher level of trade interconnection with the U.S. and with SADC members it is the major beneficiary of U.S. GSP and other programs.

The trend towards greater regional economic integration is based on discriminatory treatment of non-members. Due to this, trade liberalization on a larger scale has been slow in Sub-Saharan Africa and while there are many economic unions in existence the success of trade liberalization has not been remarkable. The view of trade as a zero sum game and the tension between the

gainers and losers has been a major problem in the distribution of tariff revenue and other benefits across African nations. South Africa has been mostly excluded from such regionalism on the African continent until very recently when it came to the forefront to play a major role in the growing trade and investment links in Sub-Saharan Africa.

The distribution of GSP benefits is in favor of those African nations that have supply and export capacity. But more important is the U.S. demand for the products exported by these nations and accordingly benefits from U.S. GSP are more concentrated in South Africa. This is shown in the table 15 below, where in 1996 the Republic of South Africa, Zimbabwe, Mauritius, Swaziland and Mozambique are the major beneficiaries of U.S. GSP.

**TABLE 15.
PERCENTAGE DISTRIBUTION OF
US GSP BENEFITS FOR SSA (1996)**

COUNTRY	GSP BENEFITS	%
S. AFRICA	430.7	73.2
ZIMBABWE	71.2	12.1
MAURITIUS	18.2	3.1
SWAZILAND	13.8	2.3
MOZAMBIQUE	12.4	2.1
OTHERS	41.8	7.1
TOTAL	588.1	100

Source: U.S. Department of Commerce (Total not 100% because of rounding)

Despite the increase in African GSP benefits in 1996, the program continues to be highly concentrated among a small number of beneficiary nations in Africa. Moreover, South Africa will benefit more by importing raw materials from other African nations and processing them for exports to the US. The benefits to other

African countries, particularly those in east Africa (with the exception of Kenya), is likely to be marginal in the short run. This is because they lack export industries that cater to the U.S. market by using domestic inputs or components from other African nations. Among the leading GSP goods in 1996 are cane sugar, ferro-chromium, ferro-silicon, manganese, parts for ore processing machinery, motor vehicle radiators and jewelry. Goods imported under GSP from Africa increased during the period 1995 to 1996 by 22%. In 1997 South Africa continued to be the leading GSP beneficiary with \$450.8 million to be followed by Angola with \$356.5 million of GSP benefits. In the case of the later it was mainly due to the inclusion of oil from least developed beneficiary countries in the GSP list beginning 1997. In the same year four countries accounted for more than 87 percent of available GSP benefits with Zimbabwe (\$79.8 million) and Malawi (\$28.5 million) as the other two major beneficiaries. Of the total GSP utilization in 1997, the African countries accounted for 6.9 percent showing a significant increase from around 2.1 percent in the previous years. The total U.S. importation of goods from Africa under U.S. GSP was \$1048 million. There was no significant change in the commodity composition of imports with the exception of oil. GSP was suspended due to legislative authority but retroactive rebate of duties paid for all eligible goods was fully applied.

CHAPTER VII

METHODOLOGY AND THEORY

THEORY

The conceptual basis for import demand analysis is similar to any other demand model in economics. The price and quantity demanded for a normal good, other things being equal, are inversely related. The equilibrium price and quantity will then be determined by the interaction of supply and demand. The traditional demand for import equation includes few explanatory variables; namely, own price, income and prices of substitutes. The price variables are often expressed in relative terms.

There is a common problem of identification that arises if the supply relationship is not taken into consideration. This has been raised by a number of studies in international trade. The solution has been given by the assumption of large or infinite supply elasticity. [Murray and Ginman, 1976; Tegene, 1989] If the above assumption is made then there will be no need for the explicit consideration of the export supply equation as shown in many empirical studies of import demand functions. [Houthaker and Magee, 1969; Kahn, 1974; Bahmani-Oskooee, 1984, 1986]. According to Tegene, the theoretical approach following the assumption of infinite elasticity reduces the model to be estimated to a single equation. Estimation problems become easier by reducing multi-collinearity and thereby decreasing standard errors when prices are considered as relative prices.

Tegene [Tegene, 1989] estimated export and import demand functions of some African countries by including the effective exchange rate as a determinant variable. The model in a log linear functional form is as follows:

$$\ln M_t^d = \beta_1 + \beta_2 \ln Y_t + \beta_3 \ln (PM / PD)_t + \beta_4 \ln E_t + \mu_t$$

Where M is the quantity of imports, Y is real GNP, PM is the unit value of imports, PD is the domestic price level and E is the export-weighted effective exchange rates. μ is an error term, 'd' denotes demand and 't' refers to time. The expected signs are for $\beta_2 > 0$, $\beta_3 < 0$, $\beta_4 > 0$. [Tegene, 1989] The coefficient of E is expected to be positive when defined by Tegene as units of foreign currency per unit of domestic currency. Thus a depreciation of domestic currency is expected to reduce imports and encourage exports under certain conditions.

Empirical studies show that the effects of currency depreciation on the trade deficit or the balance of payments are not conclusive. Currency depreciation thus does not guarantee an improvement in trade balance. There are many cases where the so called J-curve effect was not observed in the developing countries that have adopted Structural Adjustment Programs and accordingly devalued their currencies. [A.K. Rose and J.L. Yellen, 1989, pp. 53-68.] Theoretically, for devaluation to be effective in improving trade deficits the Marshall-Lerner condition should be fulfilled and more so the Birnedicke, Robinson and Metzler (BRM) conditions are necessary. [A.K. Rose, 1991, pp.301-16]. It is also important to recognize the need for consistent policies to achieve certain targets. The role of economic policy mix (fiscal and monetary policy) cannot be ignored in the process of Structural Adjustment Programs. Thus, trade policy reforms should be

synchronized with other policy instruments for an effective macroeconomic adjustment in Sub-Saharan Africa. However, there are problems of policy inconsistency and at times policy reversal that lead to sub-optimal results in Sub-Saharan Africa.

Theoretically, imports are expected to increase with an increase in real income, decrease with rising relative prices and increase with a rise in the exchange rate. The coefficients estimated from an import demand model in logarithmic form are interpreted as elasticities with respect to each of the variables. However, such elasticities should be interpreted with caution when aggregate import demand functions are used.

An import demand for a particular good represents the reduced form, general equilibrium excess demand for that good. This can be expressed as $M_1^d = S_1 - D_1$ where M_1^d = import demand for good 1, S_1 = domestic supply of good 1 and D_1 = domestic demand for good 1. This representation of import demand for a good is traditionally expressed as a function of changes in internal prices for that good. [Joseph F. Francois and H. Keith Hall, 1997] Under the assumption that imports are homogenous to domestic goods (perfect substitute case), one can plot the import demand function as a negatively sloped downward curve. (This is under the assumption that import goods are normal). Changes in prices and the import demand response are reflected in the import market for the good. If we assume there are no restrictions imposed on foreign trade and producers and consumers are guided by changes in internal prices for goods in making their decisions, then one would expect changes in import decisions to follow the relative price changes. Other

things remaining the same, if internal prices are low they will discourage production but they will encourage domestic demand and if domestic producers are not willing to supply more at the prevailing lower prices that would encourage foreign suppliers to fill the gap in domestic demand.

Under free trade consumers will reallocate their expenditures reducing the consumption of home goods if prices of home goods are expensive relative to foreign goods and vice versa. This makes demand for foreign goods a function of internal prices and lower internal prices would encourage imports because less domestic supply is competing with imports at low domestic prices. This is similar to the scenario when tariffs are reduced to lower prices of imported goods locally. If this occurs consumers will benefit from lower prices for imports but domestic producers will lose. Under the above conditions, if tariff is imposed on the good it will change the free trade equilibrium. In this case, the tariff, by raising internal prices of imports, is expected to reduce the volume of imports and encourage domestic production. On the contrary, if tariffs are reduced and internal prices of imported goods are low, there will be less domestic supply from industries that lose their protective tariffs.

In the literature of international trade the marginal effects of the tariff on welfare are theoretically related to terms of trade and volume of trade effects. Under the small country assumption tariffs imposed on its imports do not change world prices of import goods and the terms of trade effects are expected to be zero. The effects of tariffs are then analyzed by their impact on gross trade creation.

Under normal conditions it is expected that a lower volume of imports and eventually exports will result.

A much simpler specification of import demand that is not based on general equilibrium theory is written as a function of prices and income along the ordinary Marshallian demand models as follows.

$$\text{IM}_i = F(P_i, P_s, Y) \text{ where } i=1, 2, \dots, n ; s=1, 2, \dots, m$$

Where IM_i is a vector of imported goods

P_i and P_s are vector of prices and Y is income

P_s represents price index of close substitute products for the imported good 1. [See. A. Usman and A. Savides, 1994] In some cases P_s^1 can be dropped from the import demand equation when the analysis of import demand is for goods that are imperfect substitutes to each other. (The case of differentiated goods model). It is a well-known fact that most goods are substitutes to each other in the expenditure function or the budget constraint, but most frequently goods are classified as substitutes on the basis of measures of cross price elasticities. "Cross price elasticities tell how changes in relative prices of imports from one country will affect demand for domestic output and for imports from other countries. These cross price elasticities are needed to predict how changes in US tariffs will affect imports from individual countries because US tariff changes generally affect relative prices between imports from different countries as well as between domestic output and imports". [Donald Rousslang and Stephen Parker, Dec 1983 pp. 518-523].

In the literature of GSP tariff reductions, less attention is given to trade diversion and the cross substitution. This is because trade diversion effects are more complex to measure and require more data than is readily available. Attempts at

measuring trade diversion effects of discriminatory tariff changes by U.S., such as reductions of MFN tariff rates that erode tariff preferences granted to developing countries, have faced difficulty getting reliable statistical estimates of the needed cross price elasticities. [Rousselang et al., 1983, P.518] Some indicate the shortcomings to be mainly related to obtaining time series data. [Richardson J. David, 1976]. Others relate to problems of price data needed to estimate these cross elasticities. [Kravis Irving B. and Robert E. Lipsey, 1971].

There are studies of U.S. imports that have found very small cross elasticities with respect to import prices from developing countries. [Gene M. Grossman, May 1982, pp.271-281; Robert M. Stern et al. 1982] In particular, the results of a study on US import demand by Rousslang and Parker suggests that a price advantage given to imports from Developed Countries (DCs) such as in the case of MFN tariff reduction where tariffs on imports from Newly Industrializing Countries (NICs) and Less Developed Countries (LDCs) remain unaltered (under the GSP) would displace a larger proportion of imports from NICs than of domestic output and would displace a slightly larger proportion of domestic output than of imports from LDCs for most two digit manufacturing industries. Advantage given to manufactured imports from NICs is likely to displace a larger proportion of imports from LDCs than of imports from DCs and to displace a larger proportion of imports from DCs than of competing domestic output. [Rousslang and Parker, 1983, p.523] This suggests that it is not unrealistic to assume that African products imported by the US are different from domestic goods and from US imports from other DCs. It is also true that some goods the US imports from Africa are substitutes

to products it imports from other LDCs. But, given that cross price elasticities are generally low and the existence of supply constraints in Africa, GSP price advantages to Sub-Saharan Africa are not likely to displace US imports from the NICs. This is what is indicated by studies on effects of US-GSP country graduation on African countries. [Jose Mendez and T. Murray, 1990] The idea that country graduation, mainly of the East Asian and other successful exporting countries, would provide more GSP benefits to the African nations was not supported by empirical studies. As previously argued, the poor African nations did not benefit from that provision because their exports were different and were not substitutes to the manufactured goods exported by the East Asian nations and above all because they lack the export capacity.

An alternative model that is based on the assumptions of differentiated goods looks at US imports from African nations as being different from domestic goods. This is the case of Armington type demand models [Paul S. Armington, July 1969, pp.159-177] that differentiate import goods according to their origins. Under the Armington model imports are imperfect substitutes for each other and for competing domestic output and substitution effects of goods of different kinds are zero. [P. S. Armington, 1969; A. Usman and Andreas Savides, 1994, pp.583-590].

METHODOLOGY

In this section we report results of the relationship between U.S. imports from Sub-Saharan African countries and the determinant variables. We begin by sketching import demand and its growth (as indicator of African exports to the US). Then we present the regression results and the analysis. Finally, we discuss the implications and compare the results with former studies in the area.

THE IMPORT DEMAND FUNCTION: Consider an aggregate import demand function where imports depend on relative prices and income. For the US this is given as;

$$IM^{us}_{i,t} = F [eP^i/P^{us}, Y^{us}]$$

Where, $IM^{us}_{i,t}$ = Total US imports from country 'i' in period 't'

P_i = Consumer Price Index (or Export price index) of country 'i' (Africa)

P^{us} = Consumer Price Index of U.S.A

e = exchange rate [U.S. Dollar (\$) / respective African currency] (Kenyan Shilling, South African Rand etc.)

eP^i/P^{us} = Relative price

Y^{us} = US income (GDP)

Growth of imports will at any time depend on the rates of change of the relative prices and US income level. It is realistic to make the assumption that domestic prices of US imported goods are influenced by tariffs. Thus, import prices in the foreign country will have an influence on the import volume and the small country faces fixed or exogenous prices. This will be reflected in the changes in the relative price variable that is expected to influence import decisions. In logarithmic form the equation to be estimated is then written as;

$$\ln IM_{i,t} = \alpha + \beta_1 \ln RP + \beta_2 \ln Y^{US} + \mu$$

where; $\ln IM_{i,t}^{US} = \text{LOG of } M_{i,t}^{US}$

$\ln RP = \text{LOG of } (eP_i / P_{us})$

$\ln Y^{US} = \text{LOG of } Y^{US}$

As discussed above, the changes in relative prices are influenced by US tariff policy in addition to other factors. Thus, US GSP policy as a tariff reduction policy is analyzed in light of the relative price change and its effect on imports from African countries. In the above import demand equation other determinant variables can be included to take into account supply factors and policy variables such as the GSP. Supply factors have their influence on the export capacity of the African countries and for this purpose we include GDP and population of each country as determinant factors. The later is also important to take care of size of the market and the country. For GSP, a dummy variable is used that takes a value of '1' for periods when a country was eligible for GSP (beginning 1976). It takes a value of '0' for periods before 1976 or when a country was not eligible for GSP in the post 1976 period. (This can be due to suspension or due to competitive need limits).

GSP = 0 if not included and GSP = 1 if included.

The model that includes all these variables is given below

$$IM_{us,i,t} = F(P^{us} / P^i, Y_{us,t}, Y_{i,t}, N_{us,t}, N_{i,t}, GSP)$$

Where $N_{us,t}$ = US population in period t

$Y_{i,t}$ = Output (GDP) of country 'i' in period 't'

$N_{i,t}$ = Population of country 'i' in period 't'

GSP = US Generalized System of Preferences

In logarithmic form it can be expressed as

$$\ln IM_{i,t}^{us} = f(\ln RP, \ln Y^{us}, \ln Y^i, \ln N^{us}, \ln N^i, GSP)$$

All the variables are in logs and for convenience we have ignored the time subscript. In per capita terms this can be further written as

$$\ln IM_{us} = F(\ln RP, \ln PCY_{us}, \ln PCY_i, \ln N_{us}, GSP)$$

The equation to be estimated is then given as follows,

$$\ln IM_{us} = \alpha + \beta_1 \ln PCY_i + \beta_2 \ln PCY_{us} + \beta_3 \ln RP_i + \beta_4 GSP + \beta_5 \ln N_{us}$$

where $\ln IM_{us,i}$ = log of U.S. imports

$\ln PCY_i$ = log of Per Capita income of country 'i'

$\ln PCY_{us}$ = log of per capita income of U.S.

$\ln RP_i$ = log of relative price ($RP_i = eP_i/P_{us}$)

$\ln N_{us}$ = log of U.S. population

GSP (Generalized System of Preferences) = Dummy for country and period of U.S. GSP. Definitions of data used and the sources are indicated in the Appendix 1A.

The theoretical relationship between the dependent and the independent variables (right hand side variables) in our import demand function follow the traditional demand theory. In this respect, relative prices are expected to have negative effect on imports; that is, higher domestic prices (P^{us}) will tend to encourage imports but if domestic prices of imported goods (P^i) are high they will tend to discourage imports ($\beta_3 < 0$). Thus higher import prices will encourage domestic producers and discourage imports into the United States of foreign goods. This is more realistic in those cases where the US has domestic import competing

industries it wants to protect as observed in those products which the US restricts their entry through higher tariffs.

Other factors that influence imports are the economic environment, the policy of the U.S. government, population, foreign income, degree of openness and supply factors. Theory tells that the overall performance of the US economy and the economic environment has a positive influence on US imports. One would then expect import demand during periods of recession to behave differently from periods of prosperity. There are experiences showing that US imports are likely to decline during recession and downturn of the economy and rise during economic prosperity. Currently U.S. imports have reached their highest levels while declines in business and purchases by the Asian countries have affected some U.S. firms. However U.S. imports from Sub-Saharan Africa have not been significantly affected. Population, GSP and supply factors are expected to have a positive impact on U.S. imports. ($\beta_4 > 0$, $\beta_5 > 0$) Supply factors have a positive effect on imports by making goods available for imports. Thus relaxing supply constraints on the side of the African countries would create its own demand at least in the domestic market. In the domestic market there are clear supply problems of various goods and services but conditions have recently improved following open trade policy in many countries.

Another important relationship exists between output growth and export growth in the developing nations which has been the subject of many studies in the past. [B. Bellasa 1978; M. Michaely 1977; Lance Taylor and others, 1987; Eshafani H. Saleh 199]. It has been believed that exports promote growth, but it is also the

case that for exports to grow, there must be output growth or the potential to grow. In the African countries the dilemma is whether they have to grow to export more or they have to export more in order to grow. This is the issue of the supply conditions in many of the African countries that touches areas of investment, technology, productivity and policy alike. Countries with a lower level of output growth tend to export less. One would expect this to be true for the African countries with low growth in manufacturing output and overall export growth. Sub-Saharan Africa's exports declined in the last thirty years and this was due to the declining export production and overall decline in output in the agricultural sector (due to drought, political instability, inappropriate domestic policy etc.) Many of the African countries did not benefit from U.S. GSP and those that initially benefited from it, later faced restrictions on their major exports to the US, such as the case of Kenya and Mauritius on textiles and clothing.

The rate of economic growth of African economies will depend on how fast they are integrated into the world economy after long years of marginalization. In African countries there is a tendency that larger countries (high population) tend to be more protective than smaller countries (low population). Over all large countries tend to depend on their domestic market and as the result they follow inward oriented trade policies while small countries adopt export oriented policies. Mauritius is a typical case of a small economy (less than 1million people) that successfully introduced export promotion strategy while Ethiopia on the other hand (over 55 million people) has been following import substitution strategy and has proven to be unsuccessful in the export drive. Thus each country's trade regime has

its impact on the speed and success of a country's economic integration into the world economy.

It has been contended that African countries following sound economic reform programs would benefit more from trade integration with the U.S. economy. But the economic and political environment at the national, regional and international level will also have its effect on how fast these countries will take advantage of increased trade and investment with the United States. The speed at which a country closes the knowledge gap and technological gap is dependent on national policies (such as educational policy, technological transfer, trade and investment policy etc.) Nelson and Phelps argue in the context of human capital accumulation [Nelson and Phelps, 1966] and Edwards deals with application of trade policy [Edwards, 1989,1992] in the process of technological changes required for economic development. The main idea is that countries with more open economies will tend to absorb or initiate technological progress originating in other leading nations and they are expected to experience a higher level of growth (higher GDP growth). According to Sebastian Edwards "In the spirit of many new models of growth, it is assumed that more open countries have a greater ability to absorb ideas from the rest of the world and thus higher speed of closing technological and development gap" [Sebastian Edwards, March 1993, pp.383-398].

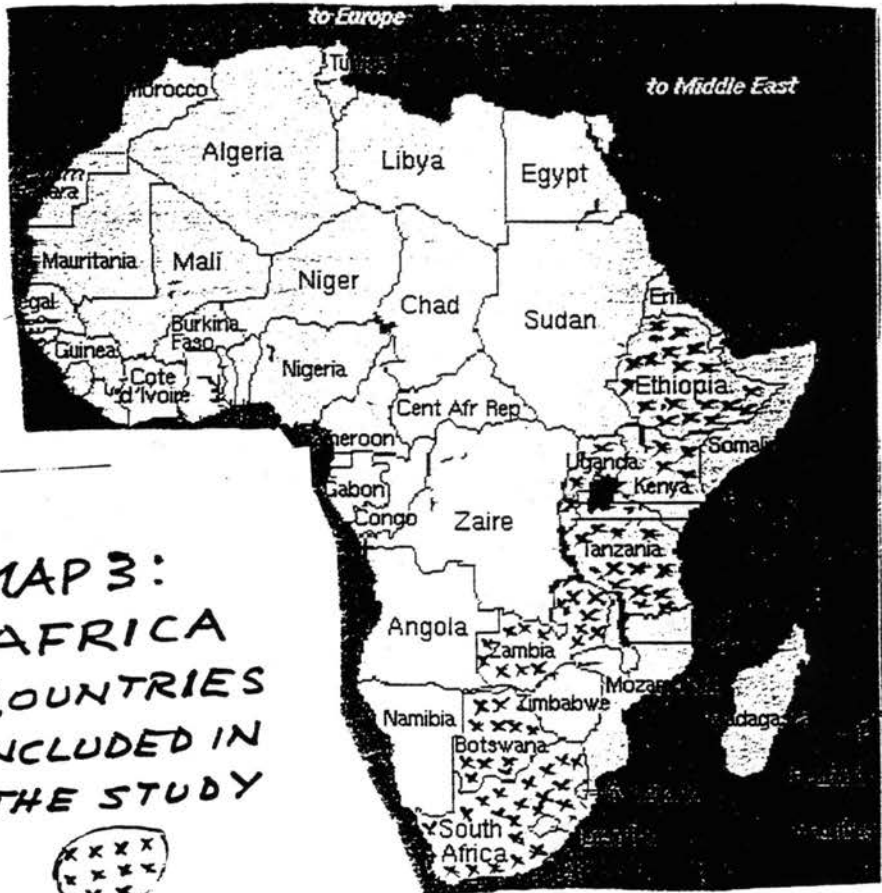
CHAPTER VIII

ANALYSIS AND RESULTS OF ESTIMATED REGRESSIONS

The empirical estimation of US import demand for African products using aggregate data provides a very broad picture of the market access for Sub-Saharan Africa into the US economy. However, the use of more dis-aggregate import data is necessary to look at behavior of specific commodities and to estimate the demand elasticities for particular products. Our study uses aggregate data of U.S. imports (non-fuel merchandise imports) from African nations and thus the elasticity measures need to be interpreted with caution.

Our study is limited to selected countries from Eastern and Southern Africa regions depending on the availability of data. The following nine countries are included: Ethiopia, Kenya, Rwanda, Tanzania, Uganda, Mauritius, Zambia, South Africa and Botswana. [See. Map 3] Countries included are members of COMESA with the exception of Botswana and the Republic of South Africa. They are selected on the basis of availability of data series for the period 1970-1997. At the same time, due to our interest on the regional factors, care is taken to represent nations from both the southern and the eastern regions of Sub-Saharan Africa. In terms of their geographical location and regional classifications by Economic Commission for Africa (ECA), the Organization for African Unity (OAU) and other international organizations, Ethiopia, Kenya, Rwanda, Tanzania and Uganda are referred as East Africa countries in our study. The other four countries namely Botswana, Mauritius, Zambia and South Africa are in the Southern African region and are members of SADC (Southern African Development Community). Mauritius is an

island state and joined SADC in 1995. Out of those five countries in East Africa under study only Tanzania is a member of SADC. In addition Tanzania is also a member of the EAC (East African Cooperation) which includes Kenya and Uganda as its other members. Of the countries included in this study Tanzania is thus the only member of all three regional trading blocks mentioned above namely COMESA, SADC and EAC.



MAP 3:
AFRICA
COUNTRIES
INCLUDED IN
THE STUDY



Below in Table 16 OLS regression results are reported for the US import demand from the selected Sub-Saharan African countries. The dependent variable in all cases is the log of U.S. total imports from each country.

TABLE 16: OLS REGRESSION RESULTS

	Intercept	lnPCYi	lnPCYus	lnRPi	GSP	R ²
BOS	-19.219 (-16.715)	2.515 (2.837)	0.5348 (2.7206)	-2.0634 (1.4610)	-0.0094 (0.0386)	0.364
ETH	7.514* (3.753)	-0.2886 (0.7132)	-0.5206* (0.2262)	0.0209 (0.1415)	0.0004 (0.0062)	0.414
KEN	0.218 (14.221)	0.1962 (1.6628)	0.5553 (0.404)	0.5584 (0.3548)	-0.0082 (0.0049)	0.732
MAU	26.5629** (7.879)	2.909** (0.8205)	0.3732 (0.534)	2.576* (0.5471)	-0.0052 (0.0085)	0.918
RWA	4.667** (1.0765)	-1.199 (0.8387)	0.563 (1.1125)	0.6117** (0.0204)	-0.0182 (0.05256)	0.384
TAZ	1.1498 (2.3299)	0.9062** (0.3198)	-0.1362 (0.5684)	0.1069 (0.2092)	0.0044 (0.0076)	0.238
UGA	22.615** (3.47)	3.6427** (0.8199)	0.7686* (0.2551)	0.8627 (0.8534)	0.0195 (0.0142)	0.70
ZAM	-3.229 (2.5687)	-0.099 (0.5274)	2.465** (0.7208)	-0.4492** (0.147)	-0.0436* (0.0133)	0.397
RSA	52.972** (18.8565)	6.24* (2.234)	1.617** (0.5612)	-0.358 (0.738)	0.0128 (0.0115)	0.744

Standard errors are reported in parantheses.

* significant at $\alpha = .05$ level , t = 1.721 ** significant at $\alpha = .01$ level, t = 2.518

According to the regression results reported above in Table 16, we find GSP coefficient to be significant only in the case of Zambia but the sign is not as expected. Therefore, the results indicate that the GSP policy is not an effective policy of increasing U.S. imports from the Sub-Saharan African countries. The results roughly agree with the current view that the U.S. GSP as it stands now, is very unlikely to promote exports from the Sub-Saharan African countries. On the other hand, the OLS estimation of import demand functions that includes U.S. population ($\ln N_{us}$) as a determinant variable shows positive signs for Botswana, Zambia and South Africa. GSP coefficients are negative only for Kenya and Mauritius while it is positive and significant only in the case of Zambia. Thus U.S.

population as a proxy for market size has its own influence on U.S. imports in some of the cases while it has negative and insignificant effect in other cases. (results are not reported in the text).

In using regressions for purposes of explanation, as everything depends on everything, it becomes difficult to provide answers by citing all factors. Thus, we tend to eliminate unimportant variables and concentrate our analysis on a few significant or important variables. According to Mayer, there are three alternative meanings for unimportant variable from the context of explanation using regressions “

1. A variable is unimportant if a unit change in the variable has only a small effect on the dependent variable. The regression equation coefficient provides us this information.
2. If during the sample period only a small proportion of observed changes in the dependent variable is due to change in the variable. This is measured (in a relative sense) by the Beta coefficient or partial correlation coefficient.
3. If the seeming effect of the variable on the dependent variable has too high a probability of being merely the product of sampling errors. This is measured by the t-values” [Thomas Mayer, 1995]

In our analysis we have kept all variables in the equation even if they are found to be statistically insignificant because of their theoretical plausibility and because we have included few explanatory variables from the very beginning. The significance of the GSP variable will also be affected by dropping some variables that might be found as unimportant by the regressions. Leamer argues, “But

regardless of whether or not one uses a 5 percent level, a variable should usually not be considered significant if it becomes so only when a theoretically plausible, but statistically insignificant, variable is dropped from the regression. This does not invalidate Hendry's proposal for general to specific modeling but merely suggests caution in interpreting its results" [Thomas Mayer, 1995, p.104] However, it is common to eliminate or drop insignificant regressors without reporting it, as there are those who believe the decision to eliminate a variable is a matter of judgement. According to Leamer, some subjective judgement cannot be avoided and a rule that can be established is that, if the confirmation of a maintained hypothesis depends on whether a variable in the initial equation is or is not eliminated then this should be reported. [Leamer, 1978].

Following the above guide lines, the analysis of the regression results show overall poor explanatory power in the case of Botswana, Ethiopia, Rwanda and Tanzania. Coefficients for relative prices and income variables are not significant and their signs are not as expected. Low R^2 are reported for the regressions. In the case of Kenya, Mauritius and the Republic of South Africa the coefficients of U.S. income have the positive sign as expected and they are significant. Relative price variable is of correct sign only in the case of South Africa, Botswana and Zambia. This is explained by the nature of products exported to the United States. In the case of South Africa it exports manufactured goods, other articles and minerals to the U.S. and its economy is highly linked to the U.S. economy than the rest of Africa. The negative sign of the relative price variable is in line with theoretical expectations because as lower import tariffs reduce prices of South African goods in

the U.S. market, we expect U.S. import demand to rise depending on the elasticity of demand for the products. In the case of Zambia and South Africa the income elasticity of demand is greater than unity which defines products exported from these countries as income elastic. Coefficients for U.S. income are 2.645 and 1.617 for Zambia and South Africa respectively. [See. Table 16] Coefficients of U.S. income are also significant for Uganda and Ethiopia but have negative signs. These can be partly explained by the nature of the export goods from these two countries. It is known that the major export items to the U.S. from Uganda and Ethiopia are coffee and other primary products where increased U.S. incomes are not expected to raise demand for such products. Moreover the U.S. is a major importer of coffee (both Arabica and Nesoi (Robusta)) from Latin American countries such as Brazil, Mexico, Colombia and others and the share of the U.S. market supplied by the African countries is small. (less than 3 percent). The coefficients of U.S. income are negative and less than one in both cases (-0.5206 for Ethiopia) and (-0.7686 for Uganda) indicating that their exports are income inelastic and inferior in the U.S. market.

The principal U.S. import items from Sub-Saharan Africa are crude oil, non-ferrous metals, textile and apparel products, diamonds, ferrous alloys and steel products, cocoa beans and coffee. (See. Appendix 1D). Zambia and South Africa export non-ferrous metals and ferrous alloys and steel products. In addition, South Africa exports gold while Botswana exports diamonds to the U.S. market. The products imported by the U.S. such as gold and diamonds are income elastic and they are mainly imported by countries that are at a higher level of development.

Thus, the export structure is explained by the structural differences among the economies of the Southern African region and the East African region. The Southern African region is more dependent on minerals and manufacturing industry while the East African countries (Kenya is an exception) are highly over dependent on agriculture and primary goods exports. The coefficients of U.S. income reflect such differences in their exports. In the case of Zambia and South Africa, the coefficients of U.S. income are in the same direction and comparable to those found by other studies for U.S. imports. Past estimates of income elasticities of U.S. import demand by some authors are given in Table 17 for purposes of comparison.

TABLE 17: INCOME ELASTICITY OF U.S. IMPORTS

AUTHOR(S)	INCOME ELASTICITY
Krugman and Baldwin (1987)	2.87
Helkie and Hooper (1988)	2.11
Cline (1989)	2.44
Lawrence (1990)	2.47
Blacker (1992)	2.68
New Estimates*	2.22

Source: U.S. Trade Policy and Global Growth, Economic Policy Institute Robert A. Blecker (ed), 1996, p.198.* (Model including adjustment for computer price measurement)

GSP coefficient is negative in the case of the regressions for Mauritius, and Kenya. This implies that GSP negatively affects exports from these countries. Similar results are found in a study by Dale B. Truett and Lila Truett for Kenya and Mauritius. [Dale B. Truett et al. (July, 1992), 26, pp. 457-] Dale B. Truett and Lila J. Truett examined the nature of U.S. demand for non primary export goods from four African countries namely Kenya, Mauritius, Tanzania and Zambia using aggregate data for 1967 to 1987. They estimated two sets of regressions, first using total U.S. imports as the dependent variable and then using manufactured exports

as the dependent variable. Their determinant variables include a dummy variable to reflect the years for GSP program, relative price, real income and a measure of apparent consumption to take care of supply factors in each of the African countries. The study finds the estimated coefficient of U.S. real income variable to be significantly greater than zero at 5 percent level of significance for Kenya and Mauritius but not for Tanzania and Zambia. More important the estimated coefficient of the GSP variable was negative for Kenya and Mauritius. According to the study the results would be consistent with the hypothesis that the U.S. GSP program had a negative rather than a positive impact on exports of manufactures from Kenya and Mauritius. The estimated coefficients of GSP for Tanzania and Zambia were positive but they were significantly greater than zero only in the case of Zambia.

At present there exists a view that the U.S GSP program is not a dependable program for African countries. There are arguments that it has slowed the successful growth of exports of countries like Mauritius. This is because Mauritius faces quota restrictions on its exports of sugar and textiles and this means that it has to pay the MFN rate in order to expand its market share. In the past Mauritius achieved a relatively rapid economic growth under the U.S. and EEC trade preference scheme by exporting mainly textiles, apparel and sugar. The effects of the reduced preference seems to have been expected by Mauritius and the country has been actively pursuing policies of export diversification and encouraging foreign investment in different sectors of its economy. Tourism is among the sectors that have been of interest while fruits and flower exports have also been given attention

recently. The country is linked to investors from East Asia and has benefited more from trade and investment with the region.

The estimation of U.S. import demand functions jointly from a set of Sub-Saharan Africa countries using the Seemingly Unrelated Regression (SUR) method helps to exploit the effects of interdependence and the contemporaneous changes that are assumed to occur across countries. Decisions of U.S. importers and the economic environment are expected to have similar influences. There are policy and non-policy factors that are expected to influence U.S. imports from each country in the same direction. At the same time there are some common variables that explicitly enter in U.S. import demand functions from each country. In the first set of equations countries included are Ethiopia, Kenya, Rwanda, Tanzania and Uganda (East Africa region) and results are reported in Table 18. In the second set of equations we jointly estimate U.S. import demand functions from Zambia, South Africa, Mauritius and Botswana. (South Africa region) and we report the SUR results in Table 19.

TABLE 18 SUR RESULTS FOR SELECTED COUNTRIES IN EAST AFRICA

	Ethiopia	Kenya	Rwanda	Tanzania	Uganda
intercept	4.555* (2.2867)	-2.3027 (10.3077)	5.0469* (0.8521)	1.2011 (1.8773)	20.5158* (2.5244)
lnPCYi	0.2010 (0.4299)	0.5644 (1.2085)	-0.1235 (0.5902)	1.0078* (0.3181)	-3.238* (0.5882)
lnPCYus	-0.5876** (0.1781)	0.642* (0.3088)	-0.7914 (0.7934)	-0.2444 (0.4603)	-0.6913** (0.2091)
lnRP	-0.0307 (0.0801)	0.4493* (0.262)	0.2121 (0.362)	0.1652 (0.1691)	0.9983 (0.5602)
GSP	0.0021 (0.0052)	-0.0083* (0.0043)	0.0037 (0.0151)	0.0052 (0.0064)	0.0208 (0.01)

System Weighted MSE = 1.1527

System Weighted R² = 0.6033 number of observations = 26

* significant at $\alpha = 0.05$, t = 1.706 ** significant at $\alpha = 0.01$, t = 2.479

By estimating jointly using SUR method the regression for the East African countries shows the GSP coefficient to be negative and significant only for Kenya. This is similar to what was found in the case of OLS for individual nations. In all the other countries namely Ethiopia, Rwanda, Tanzania and Uganda the GSP coefficient is not significant. The coefficient of U.S. income is negative and significant for Ethiopia and Uganda. In the case of Kenya the coefficient of U.S. income is positive and significant and this is explained partly by the success of Kenya in exports of manufactured goods. It is, however, important to note that coefficients are all less than one (income inelastic goods). The relative price variable is only marginally significant for Kenya but not in the other cases.

TABLE 19: SUR RESULTS FOR SELECTED COUNTRIES IN SOUTH AFRICA

	<u>REGION</u>			
	Zambia	Mauritius	Botswana	South Africa
Intercept	-2.961 (1.8075)	-22.2776* (7.347)	-15.1698 (9.7229)	-29.3405* (11.5729)
lnPCYi	-0.0006 (0.3337)	2.5232* (0.77)	1.9733 (1.7334)	3.5042* (1.3603)
lnPCYus	2.2942** (0.5381)	0.3151 (0.5083)	0.7090 (1.7896)	1.8513* (0.3662)
lnRP	-0.3474* (0.1125)	0.7613 (0.4915)	-1.459 (1.012)	-0.8173** (0.4632)
GSP	-0.0424* (0.0112)	-0.123* (0.0079)	-0.0109 (0.028)	-0.0059 (0.0076)

System Weighted MSE = 1.166 System Weighted R² = 0.84
number of observation = 26

* significant at $\alpha = 0.05$, t = 1.706 ** significant at $\alpha = 0.01$, t = 2.479

From Table 19 we can read coefficient of U.S. income to be significant for Zambia and South Africa while GSP coefficient is significant only in the case of Zambia and Mauritius. The negative coefficient for Mauritius is explained along the lines already reported. Copper and copper products dominated Zambian exports to

the United States and the coefficient of relative price variable is significant for imports from Zambia and South Africa at the 5 percent level of significance.

In the previous regressions $\ln PCY_i$ (per capita income of African countries) was included to take in to account the relationship between U.S. imports and the level of development of each country as indicated by the per capita income. This is in line to the arguments that rich countries trade more with the U.S. economy than the poor countries with low per capita incomes. Rodrik makes the following conclusion as regards to Sub-Saharan Africa “The marginalization of Africa in world trade seems to be due primarily to the slow growth of African economies. Taken as a whole, the region participates in international trade as much as can be expected according to international benchmarks relating trade volumes to income levels, country size and geography.” [D. Rodrik, May 1998, p37].

If domestic demand for exportable products rises due to an increase in per capita income of an African country, then domestic consumers will compete with foreign consumers for the goods. Under such a situation the relative price level will determine whether they will enter the export market. Foreign price of the commodities at the appropriate exchange rate should be higher than domestic prices of the goods other wise they will not be exported. In actual fact many African countries differentiate their products that are destined for export market from those that are sold in the local market. The export products are mostly of higher quality, higher prices and involve additional selling costs. This makes exportable products unaffordable by consumers in Africa that have low incomes and do not compete

with U.S. producers. The coefficients of $\ln PCY_i$ were found to be insignificant for many cases and this is not unexpected.

In the following we estimate the import demand functions by dropping the variable $\ln PCY_i$ (per capita income of African countries) and report results in Tables 20 and 21 for East African and Southern African countries respectively. We find the relative price variable ($\ln RP$) to be significant for Kenya and Uganda. (See Table 20). Similarly coefficients of relative price variable for Mauritius, Zambia, and South Africa are also significant at 5% level of significance (See. Table 21).

TABLE 20: OLS AND SUR RESULTS FOR EAST AFRICAN COUNTRIES
(after dropping the variable $\ln PCY_i$)

Ethiopia		intercept	$\ln RP$	$\ln YC_{us}$	GSP	R^2	$SYSR^2$
OLS		5.5098** (0.4643)	0.0376 (0.1629)	-0.526** (0.1673)	0.0003 (0.54)	0.38	0.506
SUR		5.594** (0.4429)	-0.0276** (0.0068)	-0.5504** (0.1624)	0.0015 (0.005)		
Kenya							
OLS		2,8548** (0.7781)	0.574* (0.2808)	0.5959* (0.2878)	-0.008* (0.004)	0.743	
SUR		2.144* (0.6645)	0.2472 (0.227)	0.8588** (0.2457)	-0.0092* (0.0041)		
Rwanda							
OLS		5.174** (0.9309)	0.1127 (0.3613)	-0.9561** (0.2974)	0.0067 (0.0096)	0.33	
SUR		5.6405** (0.8442)	-0.2589 (0.2532)	-1.0275** (0.2932)	0.108 (0.0092)		
Tanzania							
OLS		4.8862** (1,4673)	0.1459 (0.2056)	-0.5000 (0.5339)	0.0078 (0.0073)	0.04	
SUR		5.7289** (1.508)	0.2598 (0.1861)	-0.7746 (0.4905)	0.0101 (0.0071)		
Uganda							
OLS		7.5382** (0.893)	1.5925* (0.7219)	-1.1632** (0.2939)	-0.202 (0.0128)	0.42	
SUR		6.6438** (0.7822)	0.5473 (0.5175)	-0.9144** (0.2683)	-0.0048 (0.0105)		

Standard errors are indicated in parentheses. * significant at $\alpha=0.05$, $t=1.706$
** significant at $\alpha = 0.01$, $t= 2.479$

The coefficient of U.S. income is significant under all cases except in the case of Rwanda and Tanzania. Moreover, the coefficients of U.S. income have positive signs for Botswana, Zambia, South Africa and Mauritius while it is negative for Ethiopia and Uganda. This is not unrealistic given the imports from the later countries are likely inferior goods.

TABLE 21: OLS AND SUR RESULTS FOR SOUTHERN AFRICA COUNTRIES
(after dropping the variable $\ln PCY_i$).

Botswana					
OLS	intercept	$\ln RP$	$\ln YC_{us}$	GSP	R^2 $SYSR^2$
	-5.4225*	-1.92	2.9956**	-0.0417*	0.42 0.80
	(2.619)	(1.2086)	(0.8931)	(0.0181)	
SUR	-2.2536	-0.2872	1.94*	-0.0257*	
	(2.2599)	(0.9979)	(0.7767)	(0.0168)	
Mauritius					
OLS	1.1168	1.2528*	1.352**	-0.0317**	0.87
	(1.6345)	(0.5812)	(0.5312)	(0.0061)	
SUR	2.0577	1.6027*	1.0507	-0.0331*	
	(1.5404)	(0.5445)	(0.5015)	(0.0060)	
South Africa					
OLS	-0.7534	-2.0291**	2.6778**	0.0120	0.71
	(1.3403)	(0.4698)	(0.4277)	(0.0078)	
SUR	0.6805	-1.5076**	2.2264**	0.0046	
	(1.0739)	(0.3684)	(0.3452)	(0.0066)	
Zambia					
OLS	-4.6966**	-0.493**	2.8735**	-0.0495**	0.48
	(1.6964)	(0.1239)	(0.5823)	(0.0115)	
SUR	-2.2253	-0.2857**	2.0486**	-0.0394	
	(1.4572)	(0.1002)	(0.505)	(0.109)	

Standard errors are in parantheses.

* significant at $\alpha = 0.05$, $t = 1.706$ ** significant at $\alpha = 0.01$, $t = 2.479$

The GSP coefficient is significant for Kenya, Mauritius and Zambia. Compared to previous results where it was only significant for Zambia, this is not unexpected in view of the role of Kenya and Mauritius in the U-S GSP from its inception. The coefficients are negative and this according to previous studies implies that GSP is actually reducing imports from these countries. As discussed earlier this is partly due to the restrictions imposed on their major export items, namely textiles and

clothing in the United States. The proposed changes under the Growth and Opportunity Act that aim at relaxing the restrictions by providing waiver of competitive need limits are then expected to improve the situation and benefit Kenya and Mauritius.

Testing for Contemporaneous correlation is done following the standard procedure. (See. George Judge and others, 1988.)

H0: No contemporaneous correlation;

H1: There exists contemporaneous correlation

The null hypothesis can also be written as

H0: $r_{12} = r_{13} = r_{14} = r_{15} = r_{23} = r_{24} = r_{25} = r_{34} = r_{35} = r_{45} = 0$

H1: At least one covariance is non-zero.

Using the SUR regression results and the cross model correlation matrix (r_{ij}) the lagrange multiplier statistic is computed. [as suggested by Breusch and Pagan Test] This is given as $\lambda = N (r_{12}^2 + r_{13}^2 + \dots + r_{45}^2)$ where N is number of restrictions (hypothesis) and r_{ij} are cross model correlations. According to the test we reject the null hypothesis of no contemporaneous correlation between imports from the respective African countries because $\lambda = 37.8$ and the χ^2 at $\alpha = 0.05$, d.f. = 10 is 18.307. (Our computed λ value $> \chi^2$ from table). Thus we accept the alternative hypothesis and there exists contemporaneous correlation. Analysis of the results further shows that the contemporaneous correlation exists between Ethiopia, Uganda and Rwanda. These three countries depend mainly on exports of coffee to the United States as opposed to Kenya and Tanzania. It seems that the products exported are the sources of contemporaneous correlation than the degree of integration among these countries.

Testing for contemporaneous correlation of imports from the Southern African countries using lagrange multiplier statistic (λ) indicates the existence of contemporaneous correlation. Computed $\lambda = 40.28$ and χ^2 at $\alpha = 0.05$, d.f =6 is 12.59. Thus $\lambda > \chi^2$ and we reject the null hypothesis of no contemporaneous correlation. Thus the SUR method is efficient than the OLS and this is partly indicated by the lower standard errors. The standard error is simply the square root of the true variance and caution is required in interpreting results using only the standard errors. [See. George Judge etal. pp. 461-2]. The results show that there exists correlation between imports from South Africa, Botswana and Zambia. Mauritius is not highly integrated with the rest and this is reflected in the results. Such results also reflect the degree of integration among the three nations as members of SADC. Mauritius and South Africa are late entrants to the regional trading block (1995) and their interconnection with the rest of Sub-Saharan Africa has been very weak. But Mauritius is less linked to the Sub-region and its export products to the U.S. are different from those of the above three countries.

A study of U.S. preferences using data from 1971-1979 shows that supply side factors were important and played significant role in South-North trade flows in manufactures. Moreover, per capita income and population tend to be more important for the poorest countries (African countries). Distance is expected to have influence as expected and U.S. GNP has a generally perverse effect and generally negative. [Dodaro Santo, Ph.D. Dissertation, 1986]. Past studies of U.S. GSP Preferences carried out separately on geographical subgroups suggest that the U.S. GSP tends to have a negative effect on African exports, no effect on Asian exports

and a positive effect on Latin American exports. [Dodaro Santo, 1986 (Ph.d dissertation)] However, dynamic changes and developments in trade between the developed and developing world show that the U.S. GSP scheme had positive impact on Asian exporters of manufactures more than the Latin American countries while it had no positive effect on Sub-Saharan Africa. Later, the graduation rules were introduced to end the GSP benefits going to countries that have achieved a certain level of export growth with the aim of distribution of GSP benefits. Accordingly, the East Asian countries were the first to graduate and they became competitive producers in the world market. But in the case of Africa, there is fear that even those countries that have been successful exporters due to the preferential market access might face problems in maintaining their share of the U.S. market with out the preferences. This is the case for countries lie Kenya and Mauritius that have been at a disadvantage in recent times. In this respect, while U.S. Growth and Opportunity Act should be welcome, more needs to be done to make it effective. The U.S. recognizes that most of the Sub-Saharan Africa countries are not able to compete in the international economy and thus the policy that extends the GSP Scheme for another ten years until 2008 is a positive move. However, it is important to note that not only GSP policies but other policies need to be considered if exports are to expand and economic growth is to be achieved. Foreign investment, offshore assembly and joint ventures are some activities that need to be encouraged by African governments to exploit existing potentials with the support of foreign partnership.

CHAPTER IX

ALTERNATIVES AND COMPLEMENTARY POLICIES TO GSP

Under the current state of affairs where GSP policy is weak in promoting exports from Sub-Saharan Africa countries, encouraging foreign investment and offshore assembly provision could be seen as alternatives and complementary policies to expand export possibilities. Offshore assembly provision is expected to increase market access in the U.S. for goods assembled in Sub-Saharan Africa while foreign investment contributes to expanding production capacity and augments domestic capital. There is no presumption that all SSA countries would have the capacity to benefit from such policies or activities. In fact, the reality is that only very few of these countries have been able to attract U.S. investments. At the same time there is limited offshore assembly in Sub-Saharan Africa that links domestic producers with U.S. component suppliers and importers of assembled goods. A number of factors are responsible for this; such as, domestic economic policy, politics, distance and other physical barriers, lack of entrepreneurial skills, services, infrastructure and so forth.

Recently trade has been expanding and exporting is given much attention by African countries and there are some positive improvements in that direction. Small-scale producers and exporters in Sub-Saharan Africa can play an important role in such trade by specializing in the assembly of foreign components with the ultimate objective of exporting the final product. At the same time large firms and branches of multinational companies can be involved in investments that require big initial capital and higher overhead costs. These include investments in different

sectors such as telecommunications, banks, mining, commercial farms, pharmaceutical and capital goods industries to satisfy demand in domestic markets, regional markets and for export demand. There are challenges in this area for African entrepreneurs and the business of exporting requires overseas partnership and identification of markets for products. Small firms, while they might not be directly involved in exports, can be indirectly involved in exporting as secondary tier exporters. This is the case where they supply to an exporting firm that uses their product for completing the export business. Firms in this sense will benefit from the input and output relationship (as suppliers and buyers) among each other. In the case of domestic and foreign firms, the interconnection is largely influenced by the degree of openness of an economy, trade policy and investment regime in SSA and the industrialized countries.

Under the current trading system, most export products consist of some imported input in their making whether it is labor, materials, energy, transport or services. This is the result of more specialization on economic activities that are highly oriented towards the production of specific components and the integration among producers. Today, there is a high degree of industrial concentration and incomplete specialization going on in the industrialized countries. The basis for trade among the industrialized nations has changed from what it was in the past. The change is the result of the movement from inter-industry competition to intra-industry competition observed in firm's behavior. Under the later, economies of scale, differentiated goods and differences in variety of products and taste are the basis for trade rather than the traditional comparative advantage, which is mostly

associated with inter-industry competition. In modern trade, no firm can stand on its own and become successful in the business of exporting. Thus it needs to link itself to the success of its suppliers. In this regard even large companies will depend on small firms for their success. Small suppliers will have a role in this process by vertically integrating their production process with other producers and contributing to exports. Such firms can act as invisible exporters but their business is crucial to the success of other big firms engaged in the exporting business. In the U.S. there are big companies that depend on many small suppliers of components and parts for their final product. Linking firms in Africa with U.S. companies and producers will then maximize two-way trade and contribute in the industrialization process of SSA. This requires pragmatic policies and forward-looking policies on the side of African governments.

OFFSHORE ASSEMBLY PROVISION

There are some African countries that can benefit from offshore assembly provision if due attention is given to such policies in order to exploit the existing potentials. Products of interest have been largely the metals, textiles and apparel and garments. Other products covered under the OAP should also be carefully identified and considered by the SSA countries. This will help over time to integrate their economy into the world market by expanding their share of the U.S. market. Countries that are likely to benefit from such provisions in the short run are those that have a relatively developed capacity of export production and improved infrastructure. Among the countries in our study, South Africa, Kenya, Zambia and the small countries like Botswana and Mauritius have some potential to benefit from offshore assembly. Lesotho and Zimbabwe are among the other countries in the Southern Africa region that have potentials in this area (not included in our study).

Theoretically, U.S. offshore assembly provision requires the use of U.S. components by foreign producers before an imported product be allowed to enter the U.S. market under the special duty exemption. According to the provision (special classification 9802.00.8605 HTSUS) partial exemption from customs duty is provided for any product imported into the U.S. that is assembled abroad in whole or in part of fabricated U.S. components. Eligible products pay duty in the U.S. on the full value of the imported good less cost of the value of U.S. components. This has its implication on the effective rate of protection ¹given to U.S. component

¹ $EFT_j = V_{jf} - V_j / V_j$ where EFT_j = Effective rate of Protection per unit of output of industry
 V_{jf} = value added per unit of output in industry j under free trade (Free Trade regime)
 V_j = value added per unit of output in industry j under protection (Tariff regime)

producers and assembly. At the outset the program is a means of encouraging (foreign assembly) producers abroad and component suppliers in the U.S. while it is against (U.S producers) domestic assembly of the goods. It also might impact foreign suppliers, those that supply finished goods to the U.S. market by paying MFN rates. At the same time component suppliers in the rest of the world and in SSA will be negatively affected because of offshore assembly in SSA while the U.S. government loses tariff revenues because of duty exemption provided to SSA. Prices are also expected to change over time as the result of the changing patterns of production in the U.S. and SSA as well as the demand and supply conditions for components and finished goods. The expansion of demand for U.S. components in SSA will lead to rising prices for U.S. components. As long as supply expands and offshore assembly is profitable this will expand employment and increase value added in SSA. Ultimately with the assembled goods exported to the United States growing, it is expected to increase foreign exchange earnings that can be allocated to increase imports.

Sub-Saharan African countries should make use of the offshore assembly provision whenever there are possibilities and it can be seen as a second best policy for some countries. On the other side, OAP in textiles and apparel is viewed as being damaging and against the interests of countries like Mauritius because there are domestic components that can be used in the production of textiles and apparel for exports. Under the current rule for textiles and apparel that requires U.S. fabric, technically this would amount to destroying domestic fabric suppliers and other related activities in Mauritius. Domestic textile industries in SSA are vertically

integrated with local suppliers of raw materials and components. There are backward and forward linkages among firms in the textile industry, cotton growers (plantations) and fabric producers. These linkages are likely to be affected by OAP and thus costs might outweigh benefits for countries like Kenya and Mauritius at least in the short run. According to Department of Commerce there are 33 SSA countries supplying textiles and apparel to the U.S. market while only seven are the major exporters. Offshore assembly provision could then act as a vehicle to expand production and exports of textiles and apparel in those countries that are not currently competitive in the U.S. market. It is then natural to find that offshore assembly provision is not preferred by countries that have well established industries with domestic component suppliers and this seems to be the reason for the opposition by Mauritius to the Senate version of the trade bill.

The eligibility requirements for assembled textile and apparel products are;

- 1). Components which are products of the U.S.**
- 2). Foreign fabric which has been cut to shape in the U.S.**
- 3). Packaging materials of U.S. origin [Apparel Industry Magazine, October 1998].**

The provision does not allow any further fabrication other than assembly at the time of export. Technically, assembly operations involve simply the process of joining or fitting together components in to a finished product but they do not exclude minor incidental operations. Any process that involves steps other than assembly is not covered under the special duty exemption. Activities or processes that involve changes in size of the component, fabrication, completion or any other physical or chemical improvement of the U.S. component are not considered for

duty exemption. According to U.S. rules the use of U.S. components by foreign producers does not permit the finished product to be marked as a U.S. product and for all practical and legal reasons it is treated as a foreign product. According to the Department of Treasury, “Harmonized Tariff Schedule of the United States provides that any product of the U.S. which is returned after having been advanced in value or improved in condition abroad, or assembled abroad, shall be a foreign article for the purpose of the tariff Act of 1930 as amended.” [Department of Treasury, 1998]

The process involves U.S. importers of the finished good that have to provide the necessary documents. The valuation for duty exemption purpose is based on cost of U.S. components when last purchased by foreign producers or value of component at time of shipment for exportation. A declaration by the assembler mostly describes the foreign operations performed for export, component’s unit value, name and address of component manufacturer or supplier. An endorsement of the declaration by the importer is necessary and finally the importer must provide origin documentation that is necessary to establish U.S. origin of the components claimed for exemption. The Customs requires evidence of origin from U.S. manufacturer of components. The General Rules for Country of origin for textile and apparel product is a). Wholly obtained or produced

- b). Yarn, including single and multiple yarns**
- c). Fabric**
- d). All other textile products**

[Department of Treasury, October 1996].

In addition to the general rules, there are special rules and multi country Rule. The special rules apply to articles produced from yarns, articles produced from fabric and knit to shape products. The multi country rule is involved when a product is the result of processing of two or more countries, which makes the country of origin difficult to determine. In such cases the country in which the most important assembly or manufacturing process occurs is the country of origin. If that cannot be determined it is the last country in which an important assembly or manufacturing operation occurred.

U.S. DIRECT INVESTMENT AND SUB-SAHARAN AFRICA

Foreign investment has an important role to play in African economic development. The recent economic reform programs in African countries give more attention to foreign investment as they do to trade. This is indicated in the investment policies of SSA nations that aim to expand the private sector and encourage foreign investment in Africa. Many governments in SSA have come with liberal investment policies that allow foreign capital in different sectors. In some countries foreign investors are allowed to compete in some sectors that have been exclusively the area of government operation. Moreover, there are countries that do not discriminate between domestic and foreign capital and provide foreign investors national treatment. Others provide some preferences to local capital and encourage nationals than foreigners in some areas.

Despite all the efforts foreign investment flow into Sub-Saharan Africa has not been encouraging and very little foreign capital is invested in the different sectors in Africa. According to Michael B. Brown and Pauline Tiffen,

“To date foreign investment has made Sub-Saharan Africa neither ripe for industrialization nor an attractive market. Since export-led growth depends on access to external markets, protectionism is a barrier not only to exports, but also to investment in further capacity where actual or expected trade barriers cannot at the same time be overcome. Europe is Africa’s principal market and investment partner. Western Europe itself has many low productivity and labor intensive industrial plants, and is displaying less interest in developing the first stages of industrialization in Africa than are Japan and the U.S. in their respective spheres of influence of East Asia and Latin America. This lack of western interest has compounded by the opening up of Eastern Europe for capital investment. Eastern Europe’s labor intensive industries are likely in time also to require protection from Third World competition” [Michael B. Brown and Pauline Tiffen, 1994]

In the case of U.S. foreign investment a large part of it goes to South Africa and Nigeria, the two largest economies in SSA. COMESA members did not benefit much from U.S. investment. This is because U.S. investment is directed to the rich economies and larger markets rather than to low income and small markets such as those in Sub-Saharan Africa. “The increase in USDIA position continued to be concentrated in developed, high wage countries rather than developing low wage countries; evidently U.S. direct investors have been motivated more by a desire for access to major markets than by a search for low cost sources of supply” [Survey of Current Business, July 1996, p.45]

There are number of factors that influence decisions of foreign investors. In the past important factors were low cost supply of resources including labor, government policy such as tax and incentives, availability of market for goods and the rate of profit. While these factors are still important in decisions as to where to invest, at present foreign investment is becoming increasingly influenced by trends in the global economy in particular in the financial and emerging markets. In addition foreign investment in different areas give due attention to environmental and labor standards in developing countries. There are also issues of workers rights in SSA nations that are of concern to policy makers in the United States. They were at the center of the issues related to the Fast Track Legislation that allows the president to negotiate trade agreements with out the approval of the Senate. The issues of labor and environment have been at the center of U.S. investment abroad such as in the case of U.S. investment in Mexico. [The case of Maquiladoras in

Mexico]² In general U.S. investors prefer larger markets with safety and financial stability because of the nature of competition that exists from other industrialized countries in these areas.

At present the U.S. has large investment interests in the European countries and Canada. "The U.S. direct investment position abroad valued at historical cost, the book value of U.S. direct investors equity in, and net outstanding loans to, their foreign affiliates was \$711.6 billion at year end 1995. The largest positions by far remained those in the United Kingdom (119.9 billion or 17% of the total) and in Canada (81.4 \$ billion or 11% of the total)". There is also a trend to diversify U.S. investments from Europe to other emerging countries such as Mexico, Brazil, East Asian countries and South Africa. In addition the U.S. has large investment interests in the Middle East.

In SSA, the direction of U.S. investment flows has been more towards very few sectors and is concentrated in selected industries such as oil production, manufacturing and mining. Agriculture in Africa has not attracted more foreign investment despite its importance and potential in economic growth.

"At year-end 1995, the U.S. direct investment position in Sub-Saharan Africa was \$4487 million, a 22% increase from 1994. US \$ 1269 million of the position was in South Africa, \$650 million in Angola and \$ 595 million in Nigeria. Most of the increase in the position was due to large outflows of capital from the United States for new investments or to expand existing investments in South Africa and Nigeria. U.S. direct investment in the region is concentrated in the petroleum sector, while the position in South Africa is mostly in manufacturing" [U.S. Department of Commerce, 1998].

² These are U.S. firms or subsidiaries located in Mexico to exploit and take the advantages of low cost labor. There are controversial issues related to job creation, workers rights and benefits and environmental factors in this area of U.S. investment abroad.

The rate of return on U.S. investment in Africa has been high although it is biased by the profitability of these few sectors that account for a larger share of U.S. investments. "U.S. direct investment in Africa consistently generates high rates of return. During the period 1990-1994, the average annual return on book value of U.S. direct investment in Africa was nearly 28%, compared with 8.5% for U.S. direct investment worldwide." [US Department of commerce, U.S. Foreign Commercial Service, 1998] In the post 1990 period South Africa is the only emerging market in Sub-Saharan Africa that has been able to attract significant foreign investment from the United States and other nations.

THE SENATE VERSION OF THE TRADE BILL

As part of the Trade and Tariff Act of 1998, under the Senate version of the trade bill, the U.S. will grant duty free and quota-free access to exporters /manufacturers of textiles and apparel from SSA only when the final product is assembled using U.S. yarns and fabrics. The proponents of the Senate version argue that both the U.S. and SSA will benefit from this arrangement because i.) the U.S. industry is protected from transshipment of goods (textiles and apparel). ii.) U.S. producers of yarns and fabrics (components) are encouraged and iii.) Investment in textile and apparel industry in Africa is expanded etc. They also do not favor unilateral market opening and they push for trade liberalization in SSA countries.

A study by the Economic Strategy Institute (ESI) advocates the above approach and it is in favor of offshore assembly of textiles and apparel. This is contrary to the study by the U.S. ITC which is the basis for the Growth and Opportunity Act that recommends duty and quota free entry of textiles and apparel from SSA without the requirement to use U.S. yarns and fabrics. [U.S. ITC, Investigation No. 332-379, 1997]

It is important to note that the House and Senate version are not in conflict as to the rationale behind U.S. trade and investment expansion with SSA. But they are different because the Senate version is skeptical of the findings of the ITC that there will be no effect on the U.S. textile and apparel industry if the products from SSA are granted duty and quota free access. The ESI study shows that the ITC report ignores issues of transshipment, investment expansion, low start up costs of textile industry, high labor intensity and other factors that underestimate the supply

potential of SSA in textile and apparel industry. On top of that experience shows that some Sub-Saharan Africa nations have been illegal points of transshipment from Asia and the Middle East. According to the ESI study, countries like Kenya, Mauritius, South Africa and Tanzania are among these countries. This supports the argument made that although the Growth and Opportunity Act consists of provisions designed to prevent transshipment (rule of origin clauses and value added requirements), it is less likely to be effective. As a result there is fear that duty free and quota free access to the U.S. market will likely lead to an increase in supply of textiles and apparel coming from outside Africa. This will lead to a transfer of the GSP benefits to other regions that are at a relatively higher level of development. In this way the program misses its target and the U.S. loses while SSA has no appreciable gain. In actual fact, in the long run SSA loses because no significant investment from the U.S. will be attracted to SSA.

The ITC report estimates export growth of \$100 to \$180 million for SSA duty and quota free exports of textiles and apparel. It is argued that this is small for the U.S. but not for SSA and it takes into account only seven SSA countries currently exporting and other nine that have the necessary infrastructure to develop textile industry. It then arrives at its conclusions that if H.R. 1432 is implemented shipments of textiles and apparel would decrease by \$47.1 million (0.1%) and it would cost 676 U.S. jobs. The corresponding ESI figures are \$761 million and 7750 U.S. jobs respectively and both are above the upper bound estimates of ITC.

The ITC simulation method uses \$3.5 billion in textile and apparel exports from SSA as the base value for assessing the impact of quota and duty-free entry.

This represents 2% of total U.S. imports of textiles and apparel. According to the ITC study, this is very unlikely to be achieved by SSA over the ten years period. The ESI argues that ITC has underestimated the potential that exists in SSA in the textile industry and also warns that the U.S. market is likely to be over flooded with foreign textiles and apparel through transshipment if H.R. 1432 is implemented.

As previously discussed Mauritius opposes the Senate version of the trade bill that requires the use of U.S. yarns and fabrics as it has more stake in H.R. 1432 by participating under Level II. Moreover, the Senate version has been criticized and its economic viability has been under question from different angles. The economic sense in shipping U.S. fabric to be sown in Africa and then shipped back to the U.S. when countries like Mauritius have domestic fabric and yarns has been doubted. In fact, there are those who do not agree with the profitability of offshore assembly in textile and clothing even if labor costs are low in Africa. This is because of the long distance and high transport costs involved in shipping products from the U.S. to Africa and vice versa. However a study by Warner International shows a success case in the case of men's sport shirts imported under quota and duty free from SSA and assembled from U.S. fabric. They show that prices of these products were lower than a comparable product from China and Thailand. These products are shipped from Kenya, South Africa, Ethiopia, Cote d'Ivoire and Senegal. [Warner International] This study suggests that it is important to look at the possibilities and opportunities for offshore assembly in Sub-Saharan Africa.

**OPPORTUNITIES AND POTENTIALS FOR OFFSHORE
ASSEMBLY AND FOREIGN INVESTMENT IN SUB-SAHARAN
AFRICA**

In this part we try to provide highlights of the leading sectors of interest to U.S. foreign investment and the state of offshore assembly in some African countries; Mauritius, Kenya, Botswana, Zambia and South Africa; where the manufacturing sector has been growing and exports expanding. In Zambia, a country that is highly dependent on exports of unwrought copper, there is the possibility of increasing GSP benefits by increasing its market share in the United States. Countries like Ethiopia, Rwanda, Tanzania and Uganda are highly dependent on coffee and other primary products. No significant offshore assembly exists and their efforts to attract foreign investment have not been successful to a large extent. Export diversification should be given due attention in these countries and the existing Structural Adjustment Programs need to be consolidated and economic reform intensified to attract foreign investment. There seems to be positive results in the case of Uganda where economic reforms programs have been consistently adopted while in others like Ethiopia there have been policy reversals and inconsistencies that have slowed changes taking place in the export sector and overall economy.

SOUTH AFRICA: South Africa is rich in mineral resources. South Africa's principal exports are base metals, mineral products, precious stones and metals, chemicals and machinery. It is the world's largest producer of gold and an exporter of large amounts of coal. The value added processing of minerals to produce ferro

alloys, stainless steels and similar products is a major industry of importance for growth. Manufacturing is a striving sector in South Africa and among the specialized sectors are railway rolling stock, synthetic fuels, mining equipment and machinery. Brewery industries of South Africa are also expanding their investments in other African countries and recently to the East African countries. South African agriculture does not satisfy food demand of the population. The country thus relies on food imports from the rest of the world. Cereal imports (wheat, sorghum etc.) from the U.S. have been growing due to the shift to U.S. sources as part of an effort to diversify the origin of food imports by importers.

ZAMBIA: Zambia's openness to foreign investment is reflected in its investment policy that makes no distinction between foreign and domestic investors. In addition, it has removed all restrictions on domestic currency conversions (The Kwacha) into foreign currencies and on any transfer of money into or out of the country. According to the country's investment act more encouragement and incentives are provided for investments in rural enterprises, farming and non-mineral exports. There seems to be more interest in agriculture recently, a sector that has been relatively neglected due to the concentration on minerals and metals (mainly the copper industry). South Africa and U.K. are the largest investors in Zambia and U.S. firms have their subsidiaries there. Privatization is attracting foreign investors including U.S. investors. The leading U.S. companies in this area are Phelps Dodge and Cyprus Amex. According to a report by the International Trade Administration, there are about thirty U.S. subsidiaries in Zambia.

[International Trade Administration, Zambia, Nov 13, 1998, pp.2-3].

BOTSWANA: In the Southern African region Botswana is believed to be a country where opportunities do exist for trade and investment and where U.S. firms have discovered some profitable investment areas. The improved political climate and the economic prospects in the region brought new opportunities for assembly or service operations targeting the much larger regional market. [International Trade Administration, Botswana, 1998] It is believed that the government is actively pursuing this type of investment and offers generous incentives to foreign investors. In the private sector, given the small-scale nature of the commercial opportunities, the aim is to exploit the regional market as regional duties come down, particularly in SADC. Some small-scale businesses of interest are franchising fast foods, auto repair, investment in assembly operations and vehicle sales. Growth of per capita income in Botswana has been significant in recent times and its major imports are food, beverages, machinery and electrical products, vehicles and transportation goods, chemicals and rubber products, wood and paper, textile and footwear, and mineral fuels. [ITA, 1998, p1]

Some of the major trade and investment opportunities related to the development plans and projects in the country are water pipes and infrastructure (Supply of pipe line and construction materials) and heavy mining machinery. Mining industry and in particular diamond mines are the mainstay of the economy. In this regard, heavy equipment and machinery such as earthmoving trucks, dump trucks, bulldozers, road graders, forklifts and spare parts are of interest to U.S. suppliers. The U.S. has a sizable portion of the market in this field mainly due to Caterpillar (65% of the market), but has very low overall market share as indicated

by tentative and unofficial estimates for heavy duty equipment imports by Botswana. [ITA, 1998]

Heavy Duty Machinery (\$ millions)

	1996	1997	1998
Total Market Size	35.89	67.93	74.72
Local Production	.002	.045	.049
Total Exports	2.48	4.3	4.73
Total Imports	35.89	67.93	74.72
Imports from the U.S.	1.59	2.48	2.73

Source: ITA, Botswana, Leading sectors for U.S. exports and investments, 1998, p.2.

Almost all heavy equipment and machinery is imported and there exists no local production or assembly in this sector in Botswana. According to the report by International Trade Administration, the value of imports from the U.S. is understated because equipment is supplied by distributors and recorded as imports from the country of supply and not as imports from the country of origin.

Botswana has one of the most modern telecommunication services in Africa and since mid 1996 the country allows private sector participation in the sector. Demand for telecommunications products such as cordless phones, car phones and pocket service phones are expected to increase with increased incomes and expansion of business. Cellular phone licenses have been issued in the country and sales prospects are positive. European firms dominate the telecommunication sector and a conventional way for U.S. businesses to enter the market through joint ventures is a possibility, but not the only one. ITA's tentative import estimates for telecommunications equipment by Botswana, as given below, show low U.S. shares in this market.

Telecommunications equipment including electrical apparatus for line telephony (\$ mill)

	1996	1997	1998
Total market Size	6.15	15.39	16.93
Local Production	none	none	none
Total Exports	0.16	0.23	0.25
Total Imports	6.15	15.39	16.39
Imports from the U.S.	0.126	0.18	0.2

Source: ITA, Botswana, 1998, p.3.

In the computer hardware and software industry, the government and other big companies constitute the largest portion of the end user market with about 70% in 1997. This creates additional opportunities to the private sector such as consultancy and support services. Local production of computers is virtually non-existent in Botswana and the industry is made up of resellers. An assembly plant for personal computers is an area of investment that would reduce the transportation costs; insurance and other related risks in shipping the finished product. Components can be imported and assembled for resale and this would be economically viable if the assembly plant caters for the regional market rather than the small Botswana market.

Preliminary and tentative estimates by ITA provide evidence of very small U.S. participation in the area of portable and automatic data processing machines as given below. But it is known that the great majority of products in the computer industry sold in Botswana are of U.S. origin.

Computers (Hardware, Parts, Accessories and Software) \$ millions

	1996	1997	1998
Total Market Size	1.02	1.13	1.24
Local production	none	none	none
Total Exports	none	none	none
Total Imports	1.02	1.13	1.24
Imports from the U.S	0.21	0.23	0.25

Source: ITA, Botswana, 1998. P.5.

Other areas of investment in Botswana are Offshore Banking and Insurance, Tourism, Motor vehicle Assembly, Mining, Agro-industry and Manufacturing. According to 1998 official SADC Trade, Industry and Investment Review, in the mining sector emphasis is on exploration of copper, zinc, copper-nickel, gold and platinum minerals. In agro-industry processing of hides and skins into finished products, processing of edible vegetable oil and development of the livestock sector is given more attention. Finally, in manufacturing key areas for foreign investment is in apparel manufacturing, paper and stationary, leather goods manufacturing, jewelry manufacture (diamonds) and computer assembly. Due to the small size of the domestic market, export-led industries are the only way out for Botswana and direct foreign investment is key to expansion of exports. The immediate export market is the Southern African region and Botswana's economic growth could be expected to be positively affected by the U.S. Growth and Economic Opportunity Act in the future.

MAURITIUS: In Mauritius the impetus to growth in the manufacturing sector and exports came from the export processing zone industries. EPZ activities are highly concentrated in wearing apparel (knit wear, gloves and garments). To reduce

vulnerability due to high degree of concentration, diversification has been encouraged by the government into products such as leather goods, electronics, jewelry, optical goods and so forth. EPZ exports are largely destined to EEC and the U.S. market. There has been high degree of market concentration with around 95% of total exports in value terms going to the EEC and U.S. in 1988.

In Mauritius efforts towards diversification into the electronics sector faced drawbacks and was not successful. Given the dynamism of the electronics industry the country does not have the capacity to attract a multinational company that could set up a subsidiary firm. Mauritius is a small island isolated from the rest of Africa. Its small market does not justify the research and development capacity in such industries. The country has, however, been engaged in attracting medium sized and small companies in this sector. There has also been the restrictive rule of origin requirement for electronics industry under the Lome Convention. According to Matthew McQueen, "Imported inputs must be kept to less than 40% of the value of the finished product in most cases (50% for the rest) while the value of the transistors used may not exceed 3% of the value of the finished product (this is not cumulative with the 40%). It has been estimated that an African Caribbean and pacific (ACP) country would only be able to meet this requirement if it manufactured all the basic components and assembled all the circuit boards" [Matthew McQueen, March/April 1982, pp. 119-132]. The electronics industry has been of serious concern for Mauritius whether the county should concentrate on the manufacture of electronic components or in the assembly of imported components. In practice the requirements of rules of origin excludes ACP countries including

Mauritius from exporting with preferential treatment from the EEC unless the inputs are imported from EEC countries. This is a serious exclusion that has its implication in the diversification in this sector and there are studies that favor assembly rather than manufacturing components in the electronics field although the former are admitted duty free into the EEC.

Other promising sectors identified are traditional and electronic toys.

Jewelry is considered a high value added sector in Mauritius with advantages of transport costs, which has attracted Asian investors mainly from Hong Kong and Singapore. "Outside the wearing apparel industry, there are as yet few significant export flows. The only non textile items achieving over Rupees 200 million of exports in 1991 were fish and fish preparations, watches and clocks, pearls, precious and semi precious stones" [A World Bank Country Study: Mauritius, 1992, p.78].

There were efforts undertaken at expanding assembly operations outside of textiles, mainly in jewelry, sunglasses, watches, optical and electronic products. Despite its export performance success in textiles and sugar there has been very little assembly attracted in the other sectors and offshore assembly is in its very rudimentary stage.

"Watch movement assembly is undertaken on assembly fee basis with no involvement in sourcing, product design or marketing. Assembly of electronic elements of watches is just beginning and, attempts to attract more sophisticated assembly operations have come up against the problem of a lack of local support facilities on the island" [World Bank, 1992, pp.78-79].

In the agricultural sector horticulture has been key to production diversification of fruits, vegetables and flowers destined to Europe. Needless to

mention, until the advent of the Export Processing Zone (EPZ) industries, sugar production was the predominant activity in the country. The country's endowments and climate are suitable for the cultivation of sugar cane and it uses 88% of its area to produce sugar with the bulk of it for export.

To summarize, appropriate policies that encourage and stimulate offshore assembly operations need to be introduced in SSA. In this area, Mauritius has been following open economic policies for long time but it is necessary that other countries liberalize their trade and investment regimes in order to attract foreign investment and offshore assembly activities. The elimination of import duties and restrictions on raw materials and components is desirable for assembly operations in addition to exchange rate stability. But, above all, foreign know-how and market links are vital. In many of the Sub-Saharan Africa countries it is very likely that some of these activities are going to be foreign owned or be established in the form of joint ventures. Governments in Sub-Saharan Africa should provide foreign investors national treatment in this respect so as to create more confidence and encourage foreign participation.

CHAPTER X

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The study casts doubts on the effectiveness of U.S. GSP in promoting exports of the poorest nations in SSA. Currently, the major gainers from U.S. GSP scheme in SSA are mainly countries in the Southern African region. This scenario is likely to continue for some time until countries in the east Africa region create export capacity to benefit from U.S. GSP. The current trade relations of the U.S. with South Africa and the role South Africa plays in the sub-region are expected to influence the distribution of GSP benefits under the U.S. Growth and Economic Opportunity Act in the future if it passes into law. Among the major factors that will influence the distribution of U.S. GSP benefits are the level of industrial development, level of economic integration, economic policy reform, trade interdependence within the region and U.S. demand for African products. Growth of U.S. imports from SSA in particular will have a key role to play in reversing trade marginalization of SSA in world trade

Experience shows that GSP benefits few countries and this is likely to be true of the recent U.S. Growth and Opportunity Act for Sub-Saharan Africa if approved by Congress. After more than a quarter of a century experience with U.S. GSP and then with country graduation rules since 1984, it has been difficult to achieve a more even distribution of the U.S. GSP benefits among the beneficiary nations in the developing world. Similarly, high concentration in the distribution of GSP benefits among few nations is observed in Sub-Saharan Africa. Currently, over 90 percent of the benefits go to five SSA countries that are members of SADC and South Africa's

share in 1996 was 73 percent of total GSP benefits to SSA.

Tariff reductions under COMESA and SADC and the U.S. GSP are expected to contribute positively in trade liberalization. SSA countries are also expected to obtain membership of WTO and tariffs will gradually be reduced on a number of products. At the same time trade and investment policies followed by governments in SSA encourage economic integration and trade with the rest of the world. But, trade policy is only a necessary and not a sufficient condition for African economic recovery and development. Thus, it is important to note that U.S. GSP will not achieve positive results unless it is supplemented by changes in the real sector of the economy. Above all, foreign investment in Sub-Saharan Africa is key to the promotion of trade with the U.S. economy. Thus, it is important to synchronize domestic policy changes with the external trade opportunities offered by U.S. Growth and Opportunity act.

The econometric results of U.S. import demand for African products are poor. This is indicated by the regressions for U.S. imports from Sub-Saharan Africa countries where coefficients of some major determinant variables are not significant. The exceptions are South Africa, Mauritius and Kenya in which equations estimated have some explanatory power. The relative price, U.S. income and GSP have their effects on U.S. imports from the above nations. It is mainly because these three countries have a diversified export structure but overall U.S. GSP is not a significant contributor in encouraging exports from Sub-Saharan Africa. For Kenya and Mauritius the GSP coefficient has a negative value and this is not unexpected given the U.S. import restrictions imposed on textiles and clothing

from both countries. The Growth and Opportunity Act among others includes a waiver of competitive need limitations and elimination of quota restrictions on textiles and clothing and this is expected to have a positive impact on both countries and increase their benefits if Congress approves the new proposed changes. If H.R. 1432 is not adopted by Congress the alternative is the Senate version that emphasizes offshore assembly of textiles and apparel.

Other factors that need to be addressed are related to the non-economic factors in particular, the political situation in SSA. Apart from weak demand elasticity for African goods imported by the U.S. there are other constraints to trade and investment in SSA. The lack of peace and stability in particular in the Horn of Africa and the Great Lakes region has raised questions regarding U.S. initiatives and the proposed trade policy changes in the region. Among others the major internal and external factors that are a challenge to the effectiveness of U.S. GSP and the implementation of the U.S. Growth and Economic Opportunity Act are;

1. Internal, inter-state and regional conflicts that still undermine peace and stability in the region.
2. Opposition, lobbyists and Congress that are relating the trade bill to other issues as part of the internal U.S. politics. Some times the Trade Act has been related to the Fast Track Authority legislation and critiques look at such a move as a means of attempting to kill the Trade bill.

Similarly there are regions considered to be competitive to the African region in attracting the attention both of U.S. investors and the U.S. policy makers. The Africa Trade bill as some critiques argue is likely to be marginalized by U.S. deals

and trade partnerships with other regions and other global issues. Some of the issues of concern are;

- 1. U.S. business interests in Eastern Europe and China.**
- 2. U.S. concerns on the Russian economy and its political stability**
- 3. U.S. efforts to confront global financial instability (Asian Crisis)**
- 4. NAFTA, MERCUSOR and U.S. interests in Latin America and the Caribbean countries.**

There are schools of thought that warn governments in Africa of the possibilities of foreign domination. They base their arguments to neo-colonialism and advocate isolationism. Some argue that H.R. 1432 is the result of the U.S. political and business competition with Europe than about African growth and development. While there are clear and undisputed American interests to be promoted through the initiative, the important issue is whether there is something to be gained by SSA and its stake from the new trade strategy. Thus, on balance, the program should promote mutual interests and benefits to both sides.

H.R. 1432 and the Senate version of the trade bill seem to be in agreement when it comes to the need to expand trade and investment with Sub-Saharan African countries. But they differ in the policies and the approach to achieve the objectives. The Senate approach is more cautious and is aimed at protecting U.S. economic interests from adverse effects of unilateral opening of the U.S. market.

If the ESI study is correct and if the Senate adopts H.R. 1432 it will lead to an increase in U.S. textile and apparel imports from SSA. But, part of this increase will be due to transshipment from Asia and the Middle East. This will then reduce

the probability that H.R. 1432 (in particular the duty and quota free entry of textiles and apparel) will be adopted by the Senate. At the same time this will also increase the opposition to the House version of the trade bill (H.R. 1432, referred as the Growth and Opportunity Act) which we discussed in detail. Under this scenario, if Senate version is implemented, countries that provide foreigners national treatment and allow foreign participation will benefit from offshore assembly and foreign investment.

It is important to note that H.R. 1432 did not pass the 105th Congress because it was considered part of a larger package under the fast track legislation. More over H.R. 1432 has become a controversial issue and there are forces working on both sides, those that are in favor and against its passage by Congress. It is the balance of these forces that will determine whether H.R. 1432 or the Senate version passes the 106th Congress. However, U.S. GSP is a temporary instrument that can not guarantee export growth in SSA. The bottom line is increased competitiveness and efficiency in SSA as the only solution to market expansion in the long run. While policy changes create conditions favorable for expanding existing markets or creating new ones they do not guarantee demand expansion for SSA products.

RECOMMENDATIONS

For SSA to improve its competitive edge in world trade, a level ground must be prepared with the necessary infrastructure expanded and improved with modern technology. There is a consensus that improved air and sea transportation; telecommunications and other services are preconditions for the expansion of international trade and investment. In addition, safety and security are key areas of concern that need to be given attention to attract U.S. investments to Sub-Saharan Africa. However these are only few among the many factors considered by foreign investors.

The distance factor and the high transportation costs are clearly a constraint to the expansion of trade between Africa and the U.S. This gives a competitive edge to Asia and Latin America. For trade to be encouraged foreign price inclusive of transport costs or tariffs must be less than or equal to the domestic price of the good. Transportation costs are high and existing facilities in many African nations are inefficient and these, coupled with other costs of marketing and distribution, make exporting and importing less profitable. Thus, delivery systems need to be improved, port and port services should be efficient and adequate to promote effective trade expansion between the US and African countries.

Another important factor is the need to meet international standards and business practices that provide guarantees for bigger projects. These are provided by multinational institutions such as the World Bank and the IMF. The U.S. also provides guarantees to U.S investors in some Sub-Saharan Africa nations through OPIC and EXIM Bank.

The dynamic changes in trade participation and integration of Sub-Saharan Africa require changes in the economic fundamentals as well as economic policy. This should involve on the one hand, growth in productivity, employment, infrastructure and other services. On the other hand governments in SSA should pursue policies that lead to a reduction in inflation and budget deficits, encouraging free trade and export promotion and expanding efforts towards economic integration. They should recognize that policy reversals and inconsistency have their own costs and lead to loss of credibility.

Above all, for the U.S. Africa Growth and Economic Opportunity Act to be fruitful, it requires political stability and the rule of law. For economic growth to be sustainable, it is important to end military conflicts and direct resources on economic development. The fight against bribery and corruption should also be at the center of the socioeconomic reform programs in SSA.

Trade is not a zero sum game and it is to the advantage of African nations to expand trade among each other so that they can maximize the benefits from U.S. GSP. Moreover trade is an instrument of promoting peace and stability and should not be a source of conflict; thus regional economic integration should be encouraged and consolidated in Africa. South Africa has recently followed a strategy of expanding its trade with the eastern and southern African states to expand intra-African trade and trade with the rest of the world. Similar trends are observed in the efforts of Egypt to expand its trade with Sub-Saharan Africa in particular following its entry to COMESA. Increased interdependence among Sub-Saharan Africa nations in the export and import of raw materials and other components is

key to the expansion of domestic manufacturing activity. This will have positive impact on raising export capacity of the African nations to the United States. This is because African export products to the U.S. that use inputs or components originating from the region are allowed to enter duty-free to the U.S. market under the new GSP scheme.

Critiques of the U.S. Growth and Opportunity Act argue that the trade bill promises more than it can deliver to Sub-Saharan Africa. One thing is clear a lot of expectations have been created by the new trade strategy to Sub-Saharan Africa. But it is also true that there are a number of forces internal and external that make their realization uncertain. Along the above lines of argument pessimists predict that the trade bill is likely to die in congress and if approved will have very little impact on African exports to the U.S. because there are a number of factors that act as constraints to trade expansion between the U.S and Sub-Saharan Africa. They say that Sub-Saharan Africa is not ready and there are problems such as ethnic conflicts, unstable governments, human rights abuses etc. The economic reform process alone is not enough. On the other hand the optimist view is that the U.S. Africa Growth and Opportunity Act will provide market access to African exports and encourage U.S. investments in Sub-Saharan Africa. Our study concludes that the U.S. Growth and Opportunity Act is likely to benefit few nations producing products that are imported by the U.S and these countries are mainly in the Southern African region. The republic of South Africa is the likely gainer from the U.S investment while the benefits to other African countries are only of a long run and uncertain nature. Given the huge potential that exists in Africa the region

however should not look trade with the U.S. as the only way out. It is important to strengthen efforts towards regional integration by putting resources together and liberalizing trade. This should be undertaken with an eye to expanding trade among themselves and diversifying their exports with the rest of the world. Trade with the U.S. will ultimately expand if countries act jointly as bigger regional markets. The bottom line is to recognize that the Growth and Opportunity act cannot be a panacea to the problems of economic development of SSA as much as U.S. GSP is not effective to promote exports from SSA. Thus expectations must be rational and reasonable and SSA countries should encourage the private sector and make the best use of the programs designed by the U.S. government.

Finally offshore assembly and joint ventures are a means of creating domestic export capacity and should be encouraged by SSA nations as a means of linking domestic producers with modern technology as well as foreign markets. SSA nations should be actively engaged in world trade and investment by ending the era of protectionism and isolationism. The fear of Africa from being dominated by foreign capital and the neo-colonialist theories advocated by some schools of thought are simply based on political rhetoric and ideological motives rather than pragmatic thinking. In some corners the issue of U.S. Africa trade has raised serious and valid concerns as to its impact on African people, U.S. jobs and multinational firms that need more attention.

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APPENDIX 1A: DATA SOURCES

Data on Total U.S. imports are from Directions of Trade Statistics, IMF, Annual Report (various issues).

Data on U.S. imports by country are also available in STAT-USA Database and Department of Commerce, U.S. Foreign Trade Highlights, General imports and imports for consumption. (various years).

Population (Mid Year estimates), Export price index (1990 prices), Consumer price index (1990 Prices) and GDP Data (1990 prices) are from International Financial Statistics (IFS) Data Base available in CD ROM, IMF.

Maps are adapted from COMESA Websites available on the Internet. The purpose is solely to show countries included in the study and their locations.

SAS Proc and SAS IML is used for running the regressions. (See Handbook by Frank Carter a Supplement to the book Introduction to the Theory and Practice of Econometrics by George Judge and others).

APPENDIX 1B. List of SSA Countries

Angola	Benin		
Botswana	Burkina Faso		
Burundi	Cape Verde		
Comoros	Central African Republic		
Chad	Democratic Republic of Congo (former Zaire)		
Congo (Brazzaville)	Cote d'Ivoire		
Djibouti	Equatorial Guinea		
Eritrea	Ethiopia		
Gabon	Ghana		
Guinea	Guinea Bissau		
Gambia	Kenya		
Liberia	Lesotho		
Mauritius	Mozambique		
Madagascar	Malawi		
Mauritania	Mali		
Namibia	Nigeria		
Niger	Senegal		
Sierra Leone	South Africa		
Seychelles	Sao Tome and Principe		
Somalia	Sudan	Swaziland	Tanzania
Togo	Uganda	Zambia	Zimbabwe

Source: Economic Commission for Africa: Addis Ababa, Ethiopia, 1998

APPENDIX 1C: SSA countries by main source of export earnings

<u>Fuel</u>	<u>Manufactures</u>	<u>Primary Products</u>	<u>Services & private transfers</u>	<u>Diversified sources</u>
Angola		Botswana	Benin	Cameroon
Congo		Burundi	Burkina faso	Kenya
Gabon		Central African Rep.	Cape Verde	Mauritius
Nigeria		Chad	Comoros	Senegal
		Congo Dem. Rep.	Djibouti	Sierra Leone
		Cote d'Ivoire	Eritrea	South Africa
		Equatorial Guinea	Gambia	
		Ethiopia	Lesotho	
		Ghana	Mozambique	
		Guinea	Seychelles	
		Guinea Bissau		
		Liberia		
		Madagascar		
		Malawi		
		Mali		
		Mauritania		
		Namibia		
		Niger		
		Rwanda		
		Sao Tome & Principe		
		Somalia		
		Sudan		
		Swaziland		
		Tanzania		
		Togo		
		Uganda		
		Zambia		
		Zimbabwe		

Source: Economic Commission for Africa, African Economic Report, 1998

APPENDIX 1D: U.S. imports and export (SSA) leading items (millions \$ US)

<u>Commodity</u>	<u>U.S. imports (1996)</u>
Crude oil	11540.5
Non-Ferrous metals	1027
Textiles and apparel products	455
Diamonds	415.3
Ferrous Alloys and Steel products	267.9
Cocoa beans	197.7
Coffee	171
	<u>U.S. Exports (1997)</u>
Aircraft and Parts	407.7
Construction machinery and equipment	275.8
Wheat and wheat flour	241.3
Computers and peripherals	230.7
Telecommunication equipment	151.9
Motor vehicles	134
Agricultural machinery and equipment	116
Used Clothing and textiles	109.2

Source: United States Department of Commerce, Office of Africa, ITA, March 1998,

Washington D.C.

Appendix 2A

Total Intra-COMESA EXPORTS of Selected Countries (F.O.B IN MILLIONS U.S. \$)

	ETHIOP*	KENYA	MAURITIU	ZAMBI	RWANDA	TANZANI	UGANDA
			A	A	A	A	
1980	12.06	325.4	3.12	39.9	57.61	56.8	6.38
1981	9.9	298.94	2.36	59.19	2.53	39	6.02
1982	22.91	235.56	1.91	53.96	4.47	24.27	2.95
1983	1.71	238.85	1.95	43.82	0.87	21.62	6.01
1984	6.74	224.45	3.97	27.02	3.47	24.43	13.49
1985	8.25	199.34	2.85	29.8	3.87	12.4	3.91
1986	9.81	251.7	3.11	32.6	4.57	15.6	3.74
1987	8.54	206.2	3.78	52.61	119.47	11.8	3.66
1988	2	242	4	43	11	21.19	1
1989	3	218.91	7	52	13.91	18.1	3
1990	1	379.64	15	40	1.91	15.73	3
1991	1	144.82	17	117	1	33.64	1
1992	0	184	26	62	0	61.55	5
1993	0	333	28.64	45	0	54.55	7
1994	0	375	32.45	73	1	61.46	8

Percentage Share of Total Intra-COMESA Exports

	ETHIOPIA	KENYA	MAURITIU	ZAMBI	RWANDA	TANZANI	UGANDA
			A	A	A	A	
1980	1.92	51.87	0.5	6.36	9.18	9.05	1.02
1981	1.52	45.79	0.36	9.07	0.39	5.97	0.92
1982	4.11	42.3	0.34	9.69	0.8	4.36	0.53
1983	0.36	49.8	0.41	9.14	0.18	4.51	1.25
1984	1.47	48.81	0.86	5.88	0.75	5.31	2.93
1985	1.98	47.79	0.68	7.14	0.93	2.97	0.94
1986	2.02	51.72	0.64	6.7	0.94	3.2	0.77
1987	1.41	33.96	0.62	8.66	1.97	1.94	0.6
1988	0.34	41.7	0.69	7.41	1.9	3.65	0.17
1989	0.51	37.29	1.19	8.86	2.37	3.08	0.52
1990	0.11	43.19	1.71	4.55	0.22	1.79	0.34
1991	0.17	25.02	2.94	20.21	0.17	5.81	0.17
1992	0	30.1	4.25	10.14	0	10.07	0.82
1993	0	44.4	3.82	6	0	7.28	0.93
1994	0	43.91	3.8	8.55	0.12	7.2	0.94

SOURCE: COMESA REPORT, COMESA in FIGURES

Percentages calculated from COMESA data

* Data includes exports from Eritrea

Appendix 2B

Total Intra-COMESA Imports for Selected Countries (F.O.B. in Millions of U.S. \$)

	ETHIOP*	KENYA	MAURIT	RWANDA	TANZAN	UGANDA	ZAMBIA
	I						
1980	7.28	121.7	14.85	41.65	22.07	195.19	35.45
1981	4.18	28.06	16.5	55.64	23.8	127.19	65.37
1982	4.77	48.36	9.28	42.69	44.41	102.48	48.33
1983	5.69	9.02	7.09	42.08	24.03	105.52	43.09
1984	9.07	18.11	7.78	46.05	37.68	98.19	50.21
1985	7.63	14.71	7.3	42.19	27.74	86.59	60.6
1986	10.15	22.08	9.65	51.45	28.25	111.53	41.88
1987	8.44	142.79	11.71	43.11	28.73	86.73	47.95
1988	10	46.91	9.91	35.55	39	95	77
1989	7	42.36	10	33.64	40	88	92
1990	10	39.91	12.82	83	41	198	75
1991	10.91	67	24.73	25	51	49	67
1992	11	72.18	20.73	45	53	76	63
1993	29	39	29.73	61	104	118	80
1994	33	43	31.73	68	126	135	67

Percentage Share of Total Intra-COMESA Imports

	ETHIOP	KENYA	MAURIT	RWANDA	TANZAN	UGANDA	ZAMBIA
	IU			IA			
1980	1.16	19.4	2.38	6.64	3.52	31.11	5.65
1981	0.64	4.3	2.52	8.53	3.65	19.48	10.01
1982	0.86	8.68	1.67	7.67	7.97	18.4	8.68
1983	1.19	1.88	1.48	8.77	5.01	22	8.98
1984	1.97	3.94	1.69	10.01	8.19	21.36	10.92
1985	1.83	3.53	1.75	10.11	6.65	20.76	14.53
1986	2.09	4.54	1.98	10.58	5.8	22.92	8.61
1987	1.39	23.51	1.93	7.1	4.73	14.28	7.9
1988	1.72	8.08	1.71	6.13	6.72	16.37	13.27
1989	1.19	7.22	1.7	5.73	6.81	14.99	15.67
1990	1.14	4.54	1.46	9.44	4.66	22.53	8.53
1991	1.88	11.58	4.27	4.32	8.81	8.47	11.58
1992	1.8	11.9	3.39	7.36	8.67	12.43	10.31
1993	3.87	5.2	3.96	8.13	13.87	15.74	10.67
1994	3.87	5.04	3.72	7.97	14.76	15.81	7.85

Appendix 2C

Total Intra-COMESA trade (F.O.B. in Millions of U.S. \$) Selected

Countries	ETHIOP	KENYA	MAURIT	RWANDA	TANZAN	UGANDA	ZAMBIA
*			IU				
1980	19.34	447.1	17.97	99.26	78.87	201.57	75.35
1981	14.08	327	18.86	58.17	62.8	133.21	124.56
1982	27.68	283.92	11.19	47.16	68.68	105.43	102.29
1983	7.4	247.87	9.04	42.95	45.65	111.53	86.91
1984	15.81	242.56	11.75	49.52	62.11	111.68	77.23
1985	15.88	214.05	10.15	46.06	40.14	90.5	90.4
1986	19.96	273.78	12.76	56.02	43.85	115.27	74.48
1987	16.98	348.99	15.49	162.58	40.53	90.39	100.56
1988	12	288.91	13.91	46.55	60.19	96	120
1989	10	261.27	17	47.55	58.1	91	144
1990	11	419.55	27.82	84.91	56.73	201	115
1991	11.91	211.82	41.73	26	84.64	50	184
1992	11	256.18	46.73	45	114.55	81	125
1993	29	372	58.37	61	158.55	125	125
1994	33	418	64.18	69	187.46	143	140

Percentage Share of Total Intra-COMESA Trade: Selected Countries

	ETHIOP	KENYA	MAURIT	RWANDA	TANZANI	UGANDA	ZAMBIA
			IU		A		
1980	1.54	35.63	1.43	7.91	6.29	16.07	6.01
1981	1.09	25.04	1.44	4.45	4.81	10.2	9.54
1982	2.49	25.09	1	4.23	6.17	9.47	9.18
1983	0.77	25.84	0.9	4.48	4.76	11.63	9.06
1984	1.72	26.37	1.28	5.38	6.75	12.14	8.4
1985	1.9	25.66	1.22	5.52	4.81	10.85	10.84
1986	2.05	28.13	1.31	5.76	4.51	11.84	7.65
1987	1.4	28.74	1.28	13.39	3.34	7.44	8.28
1988	1.03	24.89	1.2	4.01	5.19	8.27	10.34
1989	0.85	22.25	1.45	4.05	4.95	7.75	12.27
1990	0.63	23.86	1.58	4.83	3.23	11.43	6.54
1991	1.03	18.3	3.6	2.25	7.31	4.32	15.89
1992	0.9	20.95	3.82	3.68	9.37	6.63	10.22
1993	1.93	24.8	3.89	4.07	10.57	8.33	8.33
1994	1.93	24.48	3.76	4.04	10.98	8.38	8.20

APPENDIX 3A.

List of major areas of U.S. assistance under 'Growth and Opportunity Act'

- A) strengthening and expanding the private sector in Sub-Saharan Africa, especially women owned businesses**
- B) encouraging increased trade and investment between the United States and Sub-Saharan Africa**
- C) reducing tariff and non-tariff barriers and other trade obstacles**
- D) expanding US assistance to Sub-Saharan Africa's regional integration efforts**
- E) negotiating free trade areas**
- F) establishing a United States Sub-Saharan Africa Trade and investment partnership**
- G) focusing on countries committed to accountable government, economic reform and the eradication of poverty**
- H) establishing a United States Sub-Saharan Africa Economic Cooperation Forum continuing to support development assistance for those countries in Sub-Saharan Africa attempting to build civil society [H.R. 1432]**

APPENDIX 3B

Specific Economic Policies for Eligibility under African Growth and Opportunity Act.

- 1. promoting free movement of goods and services between the US and Sub-Saharan Africa and among Sub-Saharan African countries**
- 2. Promoting the expansion of the production base and the transformation of commodities and non traditional products for exports through joint venture projects between African and foreign investor**
- 3. foreign investment issues, such as the provision of national treatment for foreign investors and other measures to create an environment conducive to domestic and foreign investment**
- 4. Trade issues, such as the protection of intellectual property rights, improvements in standards, testing, labeling and certification and government procurement**
- 5. supporting the growth of regional markets within a free trade area framework**
- 6. Appropriate fiscal systems, such as reducing high import and corporate taxes, controlling government consumption, participation in bilateral investment treaties and harmonization of such treaties to avoid double taxation**
- 7. Government issues, such as eliminating government corruption minimizing government intervention in the market such as price controls and subsidies and streamlining business license process**
- 8. Encouraging the private ownership of government controlled economic enterprises through divestiture programs supporting the growth of the private sector and removing restrictions on investment.**

APPENDIX 3C.

Key parts of the African Growth and opportunity Act, H.R. 1432:

Policy: creation of a transition path from development assistance to economic self-reliance for African countries committed in economic and political reform, market incentives and private sector growth. The bill does not cut USAID budget.

US-Africa Free-trade Area: develop a plan for trade agreements to establish a US-Sub-Saharan Africa Free trade Area to serve as a catalyst for increasing trade between US and Africa. This will increase private sector development in the region.

Trade initiative: elimination of quotas on textiles and apparel from Kenya and Mauritius after these countries adopt a visa system against transshipment. To continue no quota policy in Africa through year 2005 and authorize the President to grant duty-free treatment for certain products from Africa that are currently excluded from GSP subject to sensitivity analysis by the ITC [US International Trade Commission]. It also calls for extension of the GSP program for Africa for 10 years.

US-Africa Economic Forum: to establish US-Africa economic forum to facilitate annual high level discussions of bilateral and multilateral trade and investment policies and initiatives. This will generate a long-term trade and investment agenda with private sector and NGO involvement.

Equity and Infrastructure Funds initiative: directs OPIC (Overseas Private Investment Corporation) to create \$150 mill equity fund and a \$500 mill infrastructure fund for Africa beginning in 1998. These are expected to support

innovative investment practices and maximize employment opportunities for the poor and for women.

Export Import Bank and OPIC Initiative: To expand loans, guarantees and insurance to Africa and report to congress on recommendations and other matters.

APPENDIX 4A: U.S. EXPORTS (IMPORTS):TRADE WITH SOUTH AFRICA

[in Millions of US \$, F.a.s valuation (customs valuation)]
 SITC rev 3 1992 1993 1994 1995 1996 % Growth

						(1996-1992) /1992
0-Food and live animals	456 (52)	217 (71)	122 (86)	228 (91)	263 (113)	-42.0 (117.3)
1-Beverages and tobacco	2 (4)	1 (5)	8 (7)	11 (6)	14 (7)	600.0 (75)
2-Crude mater except fuel	60 (236)	69 (268)	85 (273)	88 (319)	87 (383)	45.0 (62.28)
3-Mineral fuels, related	41 (10)	49 (13)	57 (19)	77 (30)	143 (30)	148.78 (200)
4-Anim, veget oils,fats, wax	3 (0)	6 (0)	6 (0)	4 (0)	2 (0)	-33.3 (0)
5-Chemicals and related	313 (84)	280 (85)	338 (88)	453 (103)	440 (144)	40.57 (71.43)
6-Mfg goods by material	199 (1213)	182 (1157)	184 (1372)	223 (1396)	265 (1330)	33.16 (9.64)
7-Mach and transp equip	1023 (53)	1064 (64)	995 (75)	1247 (108)	1423 (148)	39.1 (179.24)
8-Misc Mfg articles	216 (13)	231 (28)	270 (59)	284 (81)	295 (90)	36.57 (592.3)
9-Commodities n.e.c	114 (60)	99 (156)	108 (52)	135 (77)	174 (77)	52.63 (28.33)
TOTAL	2425 (1723)	2197 (1847)	2173 (2030)	2751 (2210)	3106 (2323)	28.08 (34.8)

Source: From Official Statistics of Department of Commerce
 Note: figures in Brackets are for Imports

Appendix 4B
U.S. Merchandise Trade Balance in Millions U.S. \$

	ETH	KEN	RSA	TAZ	UGA	ZAM
1980	-15	87	858	30	-114	-102
1985	160	5	-866	36	-108	2
1986	31	-71	-1206	26	-129	-30
1987	62	16	-65	23	-62	-2
1988	127	28	160	10	-42	6
1989	-3	65	128	-24	-17	26
1990	117	58	34	33	11	52
1991	196	22	385	20	-5	-18
1992	241	51	707	23	3	-2
1993	115	25	350	22	11	1

Source: Bureau of Census, Highlights of U.S. Export and Import Trade

Appendix 4C

U.S. Manufactured Goods Imports (c.i.f.) in Millions U.S. \$

	BOS	ETH	KEN	MAU	TAZ	ZAM	RSA
1987	6	3	20	144	8	51	1195
1988	8	7	15	150	8	20	1329
1989	15	6	18	140	28	24	1282
1990	13	7	17	135	8	28	1493
1991	13	6	22	113	5	41	1475
1992	12	1	28	134	4	70	1422
1993	7	2	41	182	5	40	1490
1994	13	2	56	207	10	63	1646
1995	21	3	54	219	13	33	1764
1996	27	9	46	193	12	64	1789

Source: Department of Commerce: U.S. Foreign Trade Highlights, various years

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