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How Economic Freedom Is Central to Development in Sub-Saharan Africa

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The United States has demonstrated considerable dedication to promoting economic development in sub-Saharan Africa. America has provided about $51.2 billion (in 2003 dollars) in bilateral official development assistance to sub-Saharan Africa since 1960.[1]

Under President George W. Bush, America has doubled its development assistance to $19 billion in 2004, including tripling its assistance to sub-Saharan Africa since 2000. It has expanded access to the U.S. market through the African Growth and Opportunity Act (AGOA). The U.S. is the world's largest humanitarian aid donor, providing $3.3 billion in 2003. It also is the world's largest source of bilateral and multilateral support to combat HIV/AIDS, malaria, and other infectious diseases, including $2.4 billion in international HIV/AIDS programs.[2]

Yet the U.S. is often criticized for not providing enough resources for development. The basis for this criticism is the theory that if only aid flows increased, developing countries would achieve economic growth and development. Economic analysis and the historical record do not support this reasoning.

The United States and other donor nations have spent over $2.3 trillion on bilateral and multilateral development assistance (in 2003 dollars) since 1960 to help poor countries attain economic growth and prosperity—about a fourth of it in sub-Saharan Africa.[3] Few recipients have achieved substantial improvements in per capita income, and in no case has a development success story been clearly attributable to economic assistance. The evidence provided

Talking Points

- Sub-Saharan Africa needs policy change far more than increased aid. While there may be a role for assistance and donor nations, the key to development lies in the hands of governments in developing countries.
- Governments must remove obstacles preventing their people from seizing opportunities to benefit them, their families, and their communities. This is best done by adopting the policies that bolster economic freedom, good governance, and the rule of law—policies that are the key to economic growth and development with or without foreign assistance.
- Developed countries can assist development by encouraging good policy and opening their markets to developing country products, but success in development ultimately depends on developing countries' adopting and implementing policies that promote economic freedom. Only then will developing countries be on the path to economic development.

This paper, in its entirety, can be found at:
www.heritage.org/research/tradeandforeignaid/hl922.cfm

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by numerous studies indicates that this failure is due not to insufficient funds, but to the poor policies of recipient countries.

The Disappointing History of Development Assistance

There are 92 developing countries that are in the 2006 edition of the *Index of Economic Freedom*, co-published annually by The Heritage Foundation and *The Wall Street Journal*, and for which per capita gross domestic product (GDP) data from 1980 to 2004 are available.

- Of these, 32 averaged zero or negative compound annual growth in real per capita GDP.
- Another 23 averaged marginal compound annual growth between 0 and 1 percent.
- And only 37 averaged compound annual growth in real per capita GDP over 1 percent (China and Equatorial Guinea averaged over 8 percent).

Despite hundreds of billions of dollars in development assistance, individuals in developing countries averaged a disappointing 0.94 percent in compound annual growth in per capita GDP from 1980 to 2004.

Sub-Saharan Africa performed even worse than this dismal average.

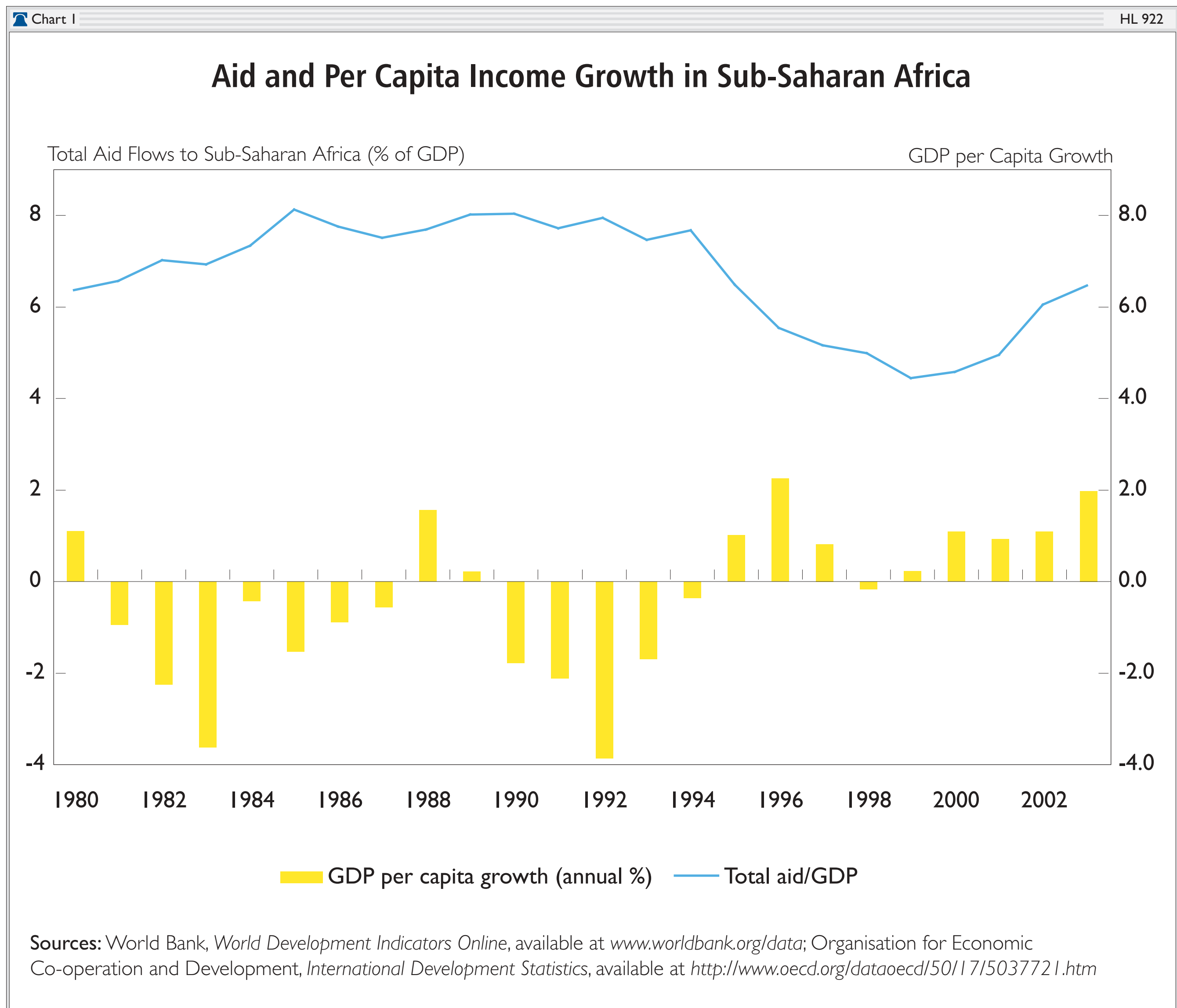
No other region of the world is in more dire need of development than sub-Saharan Africa. Sub-Saharan Africa's 719 million people face tremendous challenges, including the world's highest incidence of HIV/AIDS, deep poverty, unemployment, political instability, and a host of related problems.[4] For instance, per capita food production has fallen every year since 1962, and seven out of 10 Africans are extremely poor or on the verge of extreme poverty.[5] The total GDP in constant 2000 U.S. dollars for those 48 countries in 2004 was $385.6 billion (approximately the same GDP as Michigan or New Jersey in a region nearly three times the size of the United States in land area and population).[6]

Between 1980 and 2004, the United States provided $37.7 billion (in 2003 dollars) in development assistance to the 48 countries in sub-Saharan Africa in an effort to address the region's problems and spur economic growth.[7] All development assistance (bilateral and multilateral) to sub-Saharan Africa from 1980 to 2004 totaled $455.9 billion (in 2003 dollars), of which aid to the individual countries totaled more than $435.3 billion (in 2003 dollars).[8] (See Table 1.)

The aid investment in sub-Saharan Africa has been enormous, particularly when the relatively small sizes of the recipient countries' economies are taken into account. On average, sub-Saharan Africa received official development assistance equivalent to 6.3 percent of the region's GDP annually for 24 years. (See Chart 1.) To put this in perspective, if all of the aid spent over that period were gathered together in today's dollars and simply handed out to the 719 million people of sub-Saharan Africa, per capita GDP would increase by about $600—more than doubling the region's per capita GDP.

Despite this assistance, however, the region's economic growth has been extremely erratic, as

1. Organisation for Economic Co-operation and Development, *International Development Statistics*, at *www.oecd.org/dataoecd/50/17/5037721.htm* (January 13, 2006).
2. U.S. Department of State, "The U.S. Approach to International Development: Building on the Monterrey Consensus," September 12, 2005, at *www.state.gov/r/pa/scp/2005/53037.htm*.
3. Organisation for Economic Co-operation and Development, *International Development Statistics*.
4. Population data from World Bank, *World Development Indicators Online*, at *www.worldbank.org/data/onlinedatabases/onlinedatabases.html* (January 13, 2006; subscription required).
5. James Shikwati, "The Prospects for Economic Freedom in Africa," Inter Region Economic Network (IREN Kenya), at *www.irenkenya.org*.
6. World Bank, *World Development Indicators Online*.
7. Organisation for Economic Co-operation and Development, *International Development Statistics*.
8. *Ibid.*



Sources: World Bank, *World Development Indicators Online*, available at *www.worldbank.org/data*; Organisation for Economic Co-operation and Development, *International Development Statistics*, available at *http://www.oecd.org/dataoecd/50/17/5037721.htm*

illustrated in Chart 1. What is clear from the chart is that increased aid flows do not seem to be associated with increased economic growth.

Table 1 provides additional detail. There are 47 sub-Saharan African countries for which real per capita GDP data are available for the period between 1980 and 2004. These 47 countries averaged compound growth in per capita GDP from 1980 to 2004 of 0.33 percent.

- Of these, 23 averaged zero or negative compound annual growth in per capita GDP.
- Another 9 averaged marginal compound annual growth between 0 and 1 percent.
- And only 15 averaged compound annual growth in per capita GDP over 1 percent (Botswana and Mauritius averaged over 4 percent, and Equatorial Guinea averaged over 8 percent).

In other words, about half the countries in sub-Saharan Africa experienced negative growth in real per capita incomes despite hundreds of billions of dollars in aid invested over the past two decades.[9] Instead of desperately needed economic growth, sub-Saharan African as a region saw a decline in per capita GDP from $575 in 1980 to $536 in 2004 (in 2000 dollars).[10]

Table 1a HL 922

Aid to Sub-Saharan Africa vs. Marshall Plan

Marshall Plan

Country	Aid from 1946 to 1952 (millions 2003 dollars)	The Largest Single Year of Marshall Plan Aid (millions 2003 dollars) *	Aid from 1946 to 1952/GDP in 1950 **	Largest Single Year of Marshall Plan Aid Disbursements/GDP in 1950 ***
France	$22,333	$8,397	12.0%	4.5%
Germany	$25,205	$8,041	16.8%	5.4%
United Kingdom	$48,103	$27,201	20.3%	11.5%

Total ODA to Sub-Saharan Africa 1980 to 2004

Country	Total Net Official Development Assistance from 1980 to 2004 (millions 2003 dollars)	Total Net Official Development Assistance in 2004 (millions 2003 dollars)	Total Net Official Development Assistance 1980 to 2004 /GDP in 2004	2004 Net ODA/GDP in 2004	Compound Growth in Real Per Capita GDP 1980 to 2004
Angola	$8,491	$1,036	64.5%	7.9%	(0.32)
Benin	$6,342	$343	222.7%	12.0%	0.90
Botswana	$3,373	$37	49.9%	0.5%	4.62
Burkina Faso	$11,101	$553	328.2%	16.3%	1.46
Burundi	$5,968	$320	736.0%	39.4%	(0.81)
Cameroon	$13,099	$688	115.5%	6.1%	0.08
Cape Verde	$3,207	$126	472.1%	18.6%	3.32
Central African Rep.	$4,428	$95	455.1%	9.7%	(1.28)
Chad	$6,233	$292	239.5%	11.2%	2.53
Comoros	$1,392	$22	589.7%	9.3%	(0.47)
Congo Dem. Rep. (Zaire)	$19,897	$1,645	381.9%	31.6%	(4.22)
Congo, Rep.	$4,256	$105	108.6%	2.7%	(0.01)
Ivory Coast	$14,971	$138	141.0%	1.3%	(2.00)
Djibouti	$3,064	$59	468.0%	9.0%	(3.64)
Equatorial Guinea	$983	$26	45.8%	1.2%	9.24
Eritrea	$2,444	$242	314.9%	31.2%	1.91
Ethiopia	$25,416	$1,682	302.5%	20.0%	0.39
Gabon	$2,572	$34	45.6%	0.6%	(0.82)
Gambia	$2,280	$58	430.5%	10.9%	0.13
Ghana	$16,175	$1,234	253.6%	19.3%	0.73
Guinea	$7,845	$256	211.1%	6.9%	1.25
Guinea-Bissau	$3,121	$69	1396.6%	30.9%	(0.22)
Kenya	$19,654	$586	166.3%	5.0%	(0.17)
Lesotho	$3,382	$93	325.7%	8.9%	2.30
Liberia	$3,374	$197	768.6%	44.9%	(7.35)
Madagascar	$11,855	$1,119	269.0%	25.4%	(1.56)
Malawi	$11,129	$432	567.9%	22.1%	0.08
Mali	$12,843	$516	389.0%	15.6%	0.46
Mauritania	$7,457	$163	609.5%	13.4%	0.82
Mauritius	$1,376	$34	24.4%	0.6%	4.29
Mozambique	$25,584	$1,117	466.3%	20.4%	1.83
Namibia	$2,774	$164	67.4%	4.0%	(0.13)
Niger	$9,825	$485	438.4%	21.6%	(1.85)
Nigeria	$5,368	$525	10.0%	1.0%	(0.52)
Rwanda	$9,829	$426	418.0%	18.1%	(0.29)
Sao Tome & Principe	$997	$30	1707.3%	51.8%	(0.11)
Senegal	$16,915	$953	302.1%	17.0%	0.79
Seychelles	$648	$9	109.4%	1.5%	1.56

Table 1b HL 922

Aid to Sub-Saharan Africa vs. Marshall Plan (cont.)

Country	Total Net Official Development Assistance from 1980 to 2004 (millions 2003 dollars)	Total Net Official Development Assistance in 2004 (millions 2003 dollars)	Total Net Official Development Assistance 1980 to 2004 /GDP in 2004	2004 Net ODA/GDP in 2004	Compound Growth in Real Per Capita GDP 1980 to 2004
Sierra Leone	$4,675	$326	392.9%	27.4%	(1.40)
Somalia	$12,288	$174	n/a	n/a	n/a
South Africa	$6,090	$560	3.8%	0.3%	(0.19)
Sudan	$21,514	$821	131.4%	5.0%	1.94
Swaziland	$1,327	$105	82.2%	6.5%	1.36
Tanzania	$31,175	$1,583	249.1%	12.6%	1.45
Togo	$4,163	$55	268.0%	3.6%	(1.09)
Uganda	$16,208	$1,062	206.3%	13.5%	2.24
Zambia	$18,313	$974	446.4%	23.7%	(1.09)
Zimbabwe	$9,895	$169	149.4%	2.5%	(0.72)
SUM or AVERAGE	$435,316	$21,740	339%	14%	0.33

Notes: *1949 for France and Germany. 1947 for the United Kingdom. ** and *** The ratio beween aid and GDP was computed by using constant 1950 data. Aid data in constant 2003 dollars were deflated to constant 1950 dollars.

Sources: Aid data for Marshall Plan countries: U.S. Agency for International Development, *Greenbook,* available at *http://qesdb.cdie.org/gbk/index.html*; 1950 GDP data for Marshall Plan countries were computed by using 1950 GDP data in national curreny and 1950 exchange rates from the IMF *International Financial Statistics*, available at *http://ifs.apdi.net/imf/logon.aspx* by subscription; ODA data from Organisation for Economic Co-operation and Development, International Development Statistics, available at *http://www.oecd.org/dataoecd/50/17/5037721.htm*; GDP data for sub-Saharan countries from World Bank's *World Development Indicators Online*, available at *https://publications.worldbank.org/subscriptions/WDI/* by subscription.

What are the implications for poor growth? To reach upper-middle-income status (gross national income per capita of $3,256 or higher), the average sub-Saharan African with an income of $536 would have to experience real compound growth in per capita income of over 5 percent for over 35 years.[11] To become as wealthy as the United States, the average country in sub-Saharan Africa must grow at 5 percent per year for nearly 90 years. Quite simply, without high, sustained levels of economic growth, sub-Saharan Africa will not close the gap with the developed countries.

The poor growth record undermines improvements in human development as well. World Bank estimates indicate that sub-Saharan Africa will require annual growth of 7 percent to halve severe poverty—one of the United Nations' indicators for the Millennium Development Goals (MDGs)—by 2015.[12]

Some have argued that this lack of growth is due to a paucity of aid and call for a "Marshall Plan" for Africa modeled after the effort to rebuild post–World War II Europe. But an objective look at the Marshall Plan reveals that, in constant dollars and

9. This failure to grow is all the more amazing when the natural wealth of Africa is tabulated: 40 percent of the world's hydroelectric potential, 50 percent of the world's gold, 50 percent of its phosphates, 40 percent of platinum resources, large reserves of coal, oil, and gas, and extensive farmland, just to scratch the surface. See George B. N. Ayittey, *Africa in Chaos: A Comparative History* (New York: St. Martin's Press, 1999).

10. World Bank, *World Bank Development Indicators Online.*

11. World Bank, "Country Classification: Definition of Groups," at *www.worldbank.org/data/countryclass/countryclass.html.*

12. Some individual countries are on track, but not the region. "Ends Without Means," *The Economist*, September 11, 2004, p. 72.

in terms of aid to GDP, sub-Saharan Africa has received a Marshall Plan several times over.

As shown in Table 1, the United Kingdom was the largest single recipient of Marshall Plan assistance, receiving the equivalent of 20 percent of its 1950 GDP in assistance between 1946 and 1952 (in constant 1950 dollars).[13] The largest single annual disbursement in 1947 was equivalent to 11.5 percent of its GDP in 1950. In 2004, 23 countries in sub-Saharan Africa received more net assistance in relation to GDP than the U.K. did in 1947 under the Marshall Plan. Only Nigeria and South Africa have received less net development assistance between 1980 and 2004 as a percent of 2004 GDP than the U.K. did under the Marshall Plan.

With the support of donors and private-sector innovations in medicine, science, and agriculture, sub-Saharan Africa has experienced improvements in literacy, school enrollment, infant mortality, and life expectancy (although it has decreased since its 1990 high of 50 years to 46 years due to AIDS and the higher incidence of other diseases such as malaria). However, in most cases, these improvements have fallen short of advances elsewhere in the developing world because poor economic growth erodes the resources governments and individuals have to invest in improving these indicators. While foreign assistance may be able to finance short-term improvements, these achievements are transitory without economic growth to sustain and improve upon them.

The Need for Economic Freedom

While it is impossible to say how sub-Saharan countries would have done without receiving economic assistance, the record discussed above clearly shows that large disbursements of development assistance did not lead to the economic growth in sub-Saharan Africa that many aid advocates envisioned. However, achieving high per capita economic growth is possible even in low-income countries. This fact is illustrated by successful development by countries in East Asia. Per capita GDP in East Asia and the Pacific was lower than in sub-Saharan Africa in 1960 but has since far eclipsed sub-Saharan Africa.

How did this happen? Economic studies indicate that sound economic policies, the rule of law, and good governance are the key.

Over the past decade, economic studies have concluded that economic freedom, good governance, and the rule of law are key drivers in promoting economic growth and reducing poverty. A 1997 World Bank analysis of foreign aid found that, while assistance positively affects growth in countries with good economic policies (free markets, fiscal discipline, and the rule of law), countries with poor economic policies did not experience sustained economic growth regardless of the amount of foreign assistance received.[14]

Other studies have reached similar conclusions, maintaining that aid can increase economic growth in certain circumstances.[15] These studies conclude that aid may help the poor to cope temporarily with some of the consequences of poverty but that countries beset by a weak rule of law, corruption, heavy state intervention, and other policies that retard growth will not experience increased economic growth even with greater amounts of economic assistance. Subsequent studies question whether aid could spur growth even in good policy environments.[16]

Yet many advocates of aid ignore this research and evidence. The U.N. Millennium Project, commissioned by U.N. Secretary-General Kofi Annan in 2002 to assess what is necessary to meet the MDGs, advocated "a big push of basic investments between now and 2015 in public administration, human capital (nutrition, health, education), and key infra-

13. GDP data before 1950 were not available or were subject to question. GDP data for the other Marshall Plan recipients were not available. This is unlikely to change the overall picture, however, as France, Germany, and the U.K. were by far the largest recipients of Marshall Plan funds.

14. Craig Burnside and David Dollar, "Aid, Policies, and Growth," World Bank, Policy Research Department, Macroeconomic and Growth Division, June 1997, and World Bank, *Assessing Aid: What Works, What Doesn't, and Why* (Washington, D.C.: World Bank, 1998).

structure (roads, electricity, ports, water and sanitation, accessible land for affordable housing, environmental management)."[17] Jeffrey Sachs, special adviser to the U.N. Secretary-General on global poverty, reaches similar conclusions in *The End of Poverty*, which asserts that developed countries must transfer "about $100 [billion] to $180 billion per year for the period 2005 to 2015" to meet the MDGs and that "Africa needs around $30 billion per year in aid in order to escape from poverty."[18]

Several recent economic studies, however, dismantle the arguments used by Sachs and the U.N. for increased aid. Former World Bank economist William Easterly specifically analyzed the evidence on whether increased aid or investment can spur growth:

> The classic narrative—poor countries caught in poverty traps, out of which they need a Big Push involving increased aid and investment, leading to a takeoff in per capita income—has been very influential in development economics. This was the original justification for foreign aid.… *Evidence to support the narrative is scarce*…. Takeoffs are rare in the data, most plausibly limited to the Asian success stories. Even then, the takeoffs do not seem strongly associated with aid or investment in the way the standard Big Push narrative would imply.[19]

A 2005 study by two economists at the International Monetary Fund (IMF) corroborates this conclusion, finding that their research yielded "no evidence that aid works better in better policy or geographical environments, or that certain forms of aid work better than others."[20] The same authors published a subsequent study that concluded:

> We examine one of the most important and intriguing puzzles in economics: why it is so hard to find a robust effect of aid on the long-term growth of poor countries, even those with good policies…. We find that aid inflows have systematic adverse effects on a country's competitiveness, as reflected in a decline in the share of labor intensive and tradable industries in the manufacturing sector. We find evidence suggesting that these effects stem from the real exchange rate overvaluation caused by aid inflows. By contrast, private-to-private flows like remit-

15. Other studies arrive at similar conclusions. For example, economists Richard Roll and John Talbott support this conclusion with evidence that the economic, legal, and political institutions of a country explain more than 80 percent of the international variation in real per capita income between 1995 and 1999 in more than 130 countries. Richard Roll and John Talbott, "Developing Countries That Aren't," unpublished manuscript, University of California at Los Angeles, November 13, 2001, p. 3, at *www.cipe.org/pdf/whatsnew/events/talbot.pdf*. Other studies include Paul Collier and Jan Willem Gunning, "Why Has Africa Grown Slowly?" *Journal of Economic Perspectives*, Vol. 13, No. 3 (September 1999), pp. 3–22; Robert J. Barro and Xavier Sala-i-Martin, *Economic Growth* (New York: McGraw-Hill, 1995); Jeffrey D. Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration," in William C. Brainard and George L. Perry, *Brookings Papers on Economic Activity, 1995* (Washington, D.C.: Brookings Institution Press, 1995), pp. 1–118; and David Dollar, "Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976–1985," *Economic Development and Cultural Change*, Vol. 40, No. 3 (April 1992), pp. 523–544.
16. William Easterly, "Can Foreign Aid Buy Growth?" *Journal of Economic Perspectives*, Vol. 17, No. 3 (Summer 2003), pp. 23–48, at *www.nyu.edu/fas/institute/dri/Easterly/File/EasterlyJEP03.pdf* (September 21, 2005).
17. U.N. Millennium Project, *Overview Report*, 2005, p. 19, at *www.unmillenniumproject.org/reports/index_overview.htm* (September 21, 2005).
18. Jeffery D. Sachs, *The End of Poverty: Economic Possibilities for Our Time* (New York: Penguin Press, 2005), pp. 298–300 and 309.
19. William Easterly, "Reliving the 50s: The Big Push, Poverty Traps, and Takeoffs in Economic Development," Northwestern University, Kellogg School of Management seminar, June 1, 2005, at *www.kellogg.northwestern.edu/finance/faculty/seminars/easterly_william.pdf* (September 21, 2005). Emphasis added.
20. Raghuram G. Rajan and Arvind Subramanian, "Aid and Growth: What Does the Cross-Country Evidence Really Show?" National Bureau of Economic Research *Working Paper* No. 11513, abstract, July 2005, at *papers.nber.org/papers/w11513* (September 14, 2005).

tances do not seem to create these adverse effects….[21]

A Better Strategy for Development. A World Bank study found that increased integration into the world economy from the late 1970s to the late 1990s led to higher growth in income. The more integrated countries achieved 5 percent average annual growth in per capita income during the 1990s.[22] In contrast, the non-globalizing nations experienced average growth of only 1.4 percent during the 1990s, and many experienced negative growth rates.

A related World Bank study found that increased growth resulting from expanded trade "leads to proportionate increases in incomes of the poor" and that "globalization leads to faster growth and poverty reduction in poor countries."[23] Easterly concurs in his 2005 study, finding "support for democratic institutions and economic freedom as determinants of growth that explain the occasions under which poor countries grow more slowly than rich countries."[24]

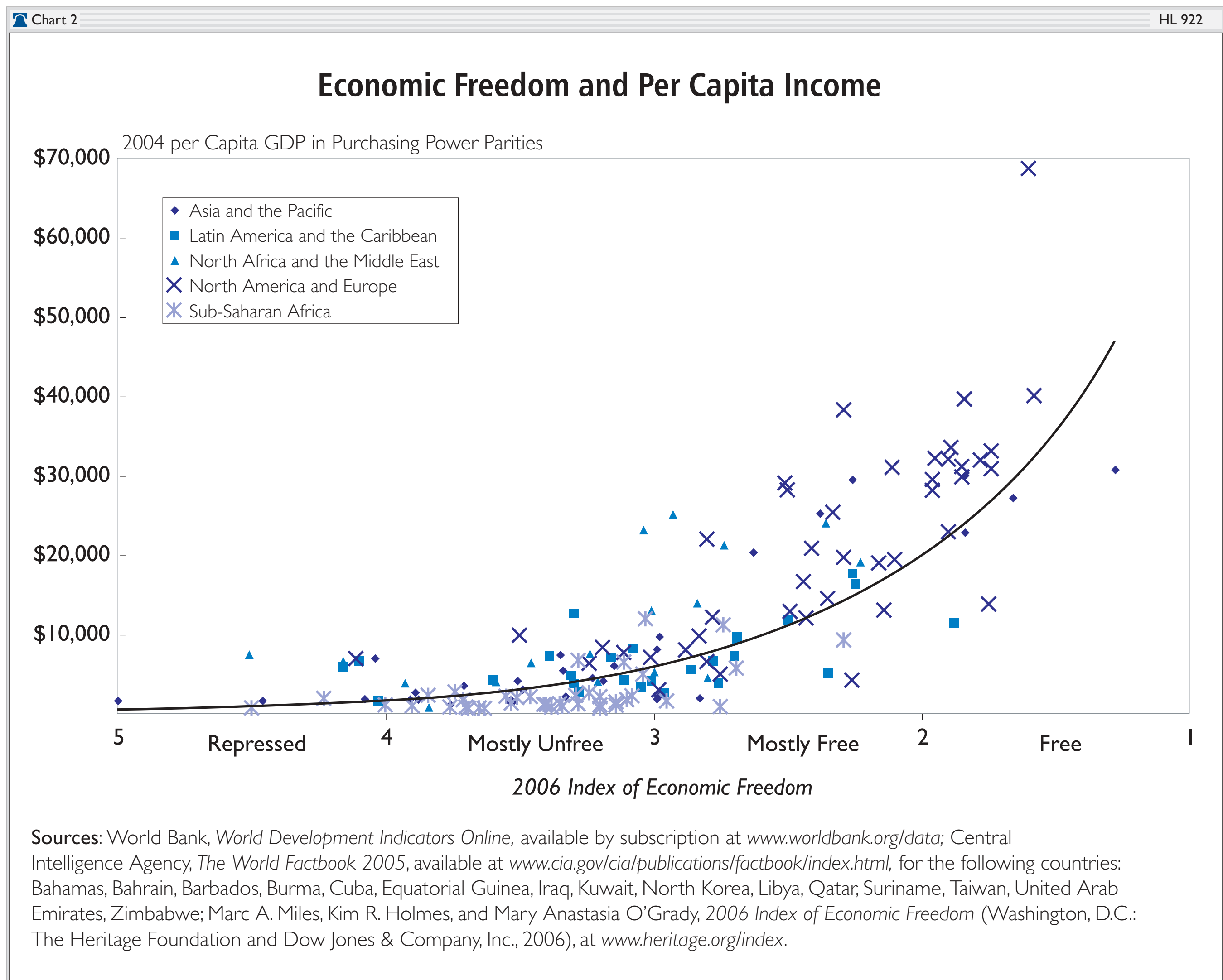
Why would economic freedom, globalization, and the rule of law contribute to economic growth? Rigid labor policies, high regulation and bureaucratic red tape, high official taxation, corruption, and trade barriers are obstacles that create a drag on economic growth. The greater the level of government intervention in the economy, the lower the probability that individuals, investors, and businesses will be able to prosper because costs on private economic activity become higher. This leads talented people to leave the country for more advantageous opportunities or to engage in activities that do not contribute to GDP (such as government service) and enrich themselves through rent seeking and corruption. The practical result is that countries with anti-market economic policies and bad governance are more likely to be poor, to be isolated from the international economy, and to find it more difficult to escape that poverty.[25]

The Heritage Foundation has been analyzing the effect of economic freedom on development for many years. Our work indicates that economic freedom and the rule of law played a key role.

The central product of this research is the *Index of Economic Freedom*, co-published annually by The Heritage Foundation and *The Wall Street Journal*. The *Index* analyzes 50 economic indicators in 10 independent factors: trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity. Those 10 factors are graded from 1 to 5, with 1 being the best score and 5 being the worst score. Those scores are then averaged to give an overall score for economic freedom. Countries are designated "free," "mostly free," "mostly unfree," and "repressed" based on these overall scores.

This is not to say that there is no role for government in development or that all government intervention is counterproductive. On the contrary, the *Index* defines economic freedom as "*the absence of government coercion or constraint on the production, distribution, or consumption of goods and services*

21. Raghuram G. Rajan and Arvind Subramanian, "What Undermines Aid's Impact on Growth?" National Bureau of Economic Research *Working Paper* No. 11657, abstract, October 2005, at *www.nber.org/papers/w11657*.
22. Paul Collier and David Dollar, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (Washington, D.C.: World Bank and Oxford University Press, 2001), p. 5.
23. David Dollar and Aart Kraay, "Trade, Growth, and Poverty," World Bank, Development Research Group, abstract of draft, March 2001, at *www.worldbank.org/research/growth/pdfiles/Trade5.pdf* (September 14, 2005).
24. Easterly, "Reliving the 50s," p. 29.
25. World Bank research found that increased integration into the world economy from the late 1970s to the late 1990s by 24 developing countries with over 3 billion people led to higher growth in income. These countries achieved average growth in income per capita of 5 percent per year in the 1990s. By contrast, the non-globalizing nations have seen poor economic growth of only 1.4 percent on average in the 1990s, and many saw negative growth. Paul Collier and David Dollar, under supervision of Nicholas Stern, *Globalization, Growth, and Poverty*, p. 5.



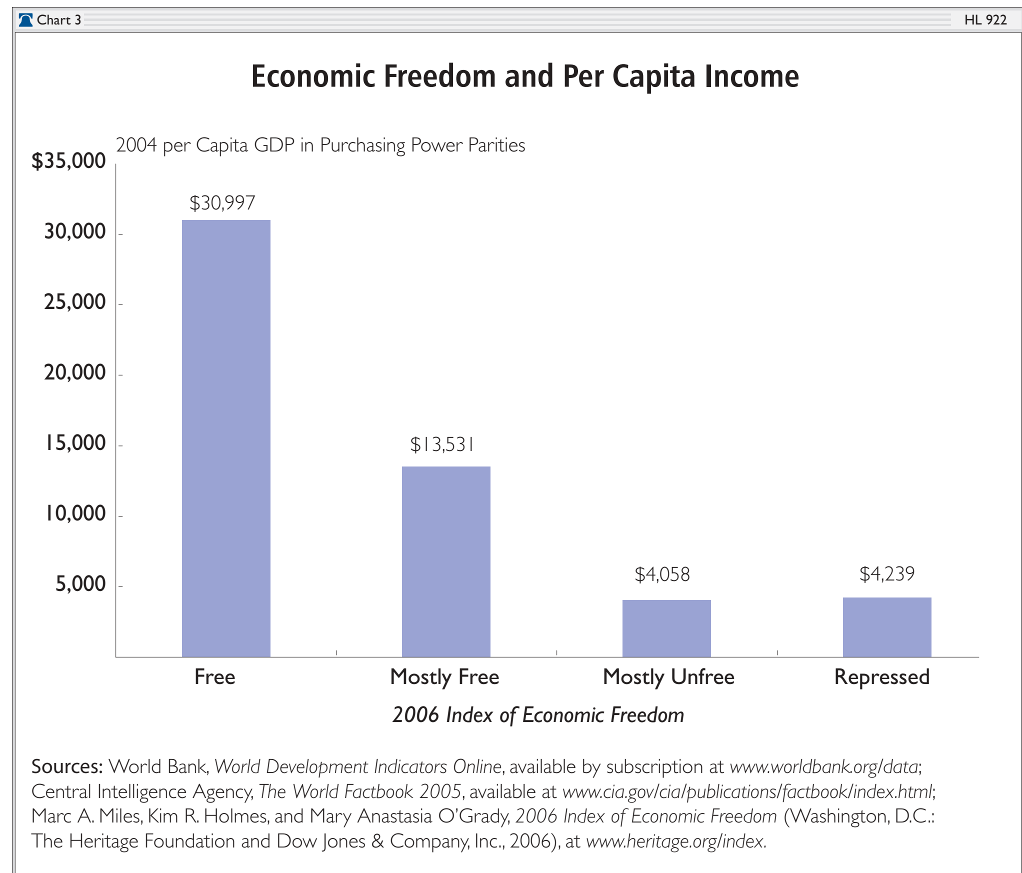
Sources: World Bank, *World Development Indicators Online,* available by subscription at *www.worldbank.org/data;* Central Intelligence Agency, *The World Factbook 2005*, available at *www.cia.gov/cia/publications/factbook/index.html,* for the following countries: Bahamas, Bahrain, Barbados, Burma, Cuba, Equatorial Guinea, Iraq, Kuwait, North Korea, Libya, Qatar, Suriname, Taiwan, United Arab Emirates, Zimbabwe; Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), at *www.heritage.org/index*.

beyond the extent necessary for citizens to protect and maintain liberty itself." (Emphasis in original.) Thus, the *Index* clearly recognizes that without some government, economic growth and development is impossible.

For instance, a government can greatly facilitate economic growth by enforcing an impartial and reliable rule of law. A rule of law with these characteristics serves as the supporting structure of an economy, without which it cannot operate efficiently. It ensures entrepreneurs that (1) policies will have lasting power and can be changed only through transparent, widely recognized procedures, permitting an environment conducive to long-term investment; (2) the rules will apply equally to all rather than exempting some or being subject to change at the behest of the powerful; and (3) they will have legal recourse if policies unlawfully affect their activities, thereby reducing the risk of investments.

On the other hand, an arbitrary, overly onerous, or poorly enforced rule of law can prove a very strong deterrent to growth by creating opportunities for corruption or increasing the costs of complying with the law to the point where economic activity is discouraged or leaves the formal sector. In other words, governments must be cautious that efforts to create and maintain a secure environment for eco-

nomic activity do not become excessive and thereby impede such activity. The *Index* offers an objective means for weighing the economic policies of a government in pursuit of this goal.



Sources: World Bank, *World Development Indicators Online*, available by subscription at *www.worldbank.org/data*; Central Intelligence Agency, *The World Factbook 2005*, available at *www.cia.gov/cia/publications/factbook/index.html*; Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), at *www.heritage.org/index.*

One inescapable conclusion from this research is that economically free countries are associated with higher per capita incomes than countries with less free economies. Chart 2 illustrates this relationship. As shown in Chart 3, "free" countries on average have a per capita income (in purchasing power parity) over twice that of "mostly free" countries; "mostly free" countries have a per capita income more than three times that of "mostly unfree" and "repressed" countries.

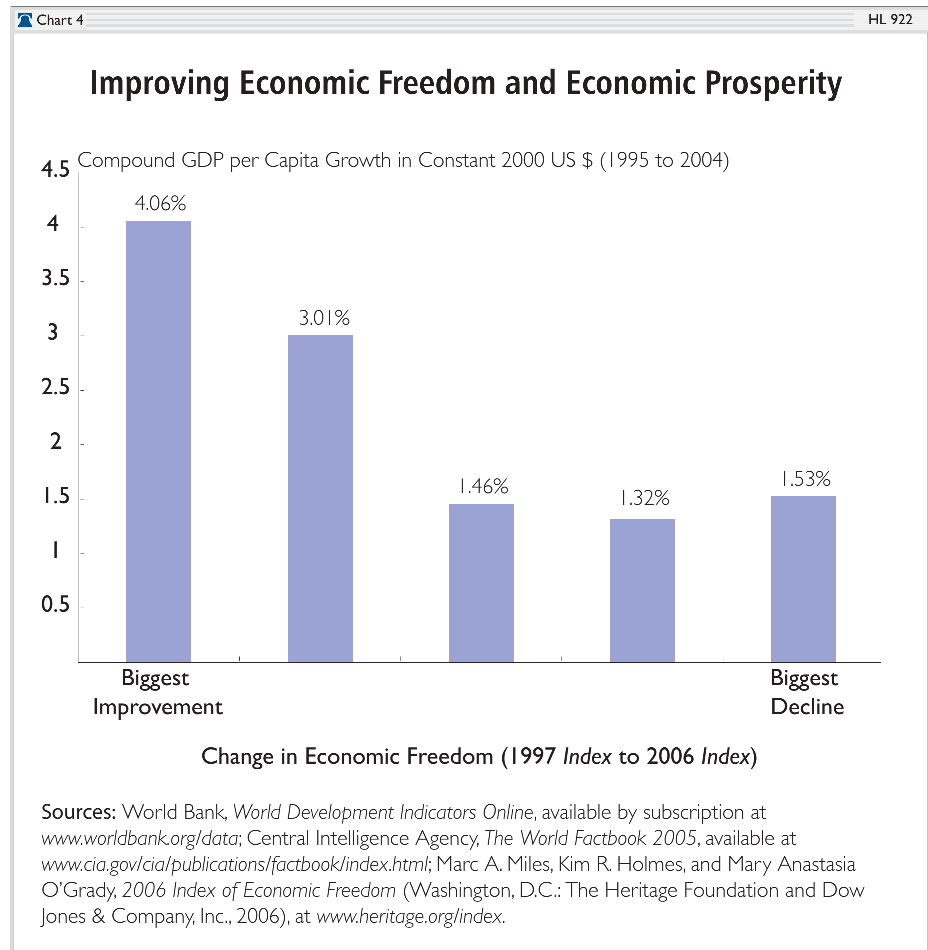
Chart 4 ranks the graded countries according to the improvement in economic freedom between the 1997 *Index* and 2006 *Index*.[26] Not only is a higher level of economic freedom clearly associated with a higher level of per capita GDP, but GDP growth rates increase as a country's economic freedom score improves.[27] The countries represented in the left-hand bar were most improved, and those in the right bar were the least improved. Average growth rates across the 10 years of changes were then computed for the countries in each bar or group. In general, the more countries improved their economic freedom, the higher the average economic growth they achieved. In other words, over the past decade, countries that have most improved in terms of economic freedom have enjoyed the most progress toward prosperity.

Table 2 lists the sub-Saharan African countries graded by the *Index* along with their current score and the net change in score since they were first graded. Although average levels of economic freedom in sub-Saharan Africa remain poor and the region remains the world's least free economically, no other region has made greater strides in economic freedom than sub-Saharan Africa. The median economic freedom score for sub-Saharan Africa improved by 0.37 point from the 1997 *Index*—more than any other region—and the improvement in the average score followed only North America and Europe.[28] In the 2006 *Index*, economic freedom in

26. The analysis does not extend to the 1996 and 1995 editions of the *Index* because they involved significantly fewer countries.

27. Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), Executive Summary, p. 2.

25 sub-Saharan Africa countries improved, and it declined in 12 countries. Regrettably, these gains have been from relatively low levels of economic freedom undermining the impact of these improvements.



Sources: World Bank, *World Development Indicators Online*, available by subscription at *www.worldbank.org/data*; Central Intelligence Agency, *The World Factbook 2005*, available at *www.cia.gov/cia/publications/factbook/index.html*; Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), at *www.heritage.org/index*.

As illustrated in Chart 5, "mostly free" economies in sub-Saharan Africa graded in the 2006 *Index* averaged a per capita GDP (in purchasing power parity) over twice that of "mostly unfree" economies, which in turn averaged a per capita GDP about $700 greater than "repressed" economies.[29]

Similar to the trend for all countries, Chart 6 illustrates that those sub-Saharan African countries that improved their economic freedom score experienced higher GDP growth rates. As with all countries, African countries that improved the most saw the greatest improvement in GDP growth rates. While short-term trends are always suspect, increased growth rates in sub-Saharan Africa in recent years may indicate returns on improved economic freedom.[30]

Botswana and Mauritius are good examples of these trends. Both countries achieved a compound average growth in per capita GDP from 1980 to 2004 of 4.62 percent and 4.29 percent, respectively. Not surprisingly, these countries adopted economic freedom early and reaped the rewards. Both nations have been rated "mostly free" economies for most of the time that the *Index* has graded them. Botswana is currently the freest economy in sub-Saharan Africa, and Mauritius is sixth in the region.

Trade Openness

Much attention has been given to the need for developed countries to lower trade barriers to developing country goods. Such attention is merited. A key component of economic freedom is the freedom to trade. Increased economic freedom in trade

28. *Ibid.*, pp. 4–5 and 8.
29. There are no "free" economies in sub-Saharan Africa, although Botswana ranks among the 40 freest economies and continues to improve steadily.
30. According to the U.S. Trade Representative, "In 2004, economic growth increased to an eight-year high of 5.0 percent up from 4.1 percent in 2003…. Economic growth was strongest in the oil producing states at 7.0 percent. Non-oil producing countries experienced fairly strong growth at 4.4 percent." Office of the United States Trade Representative, *2005 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, May 2005, p. 16, at *www.ustr.gov/assets/Trade_Development/Preference_Programs/AGOA/asset_upload_file215_7746.pdf*.

Table 2 HL 922

Economic Freedom in Sub-Saharan Africa

Mostly Free			Mostly Unfree						Repressed		
	2006 *Index* Score	Change in Score Since First Graded in the *Index*		2006 *Index* Score	Change in Score Since First Graded in the *Index*		2006 *Index* Score	Change in Score Since First Graded in the *Index*		2006 *Index* Score	Change in Score Since First Graded in the *Index*
Botswana	2.29	1.04	Mauritius	3.03	(0.30)	Zambia	3.34	(0.19)	Zimbabwe	4.23	0.14
Madagascar	2.75	0.99	Mauritania	3.08	0.80	Tanzania	3.20	0.59	Nigeria	4.00	(0.62)
South Africa	2.74	0.49	Senegal	3.10	0.66	Central African Republic	3.41	(0.10)			
Cape Verde	2.69	0.86	Swaziland	3.04	0.31	Equatorial Guinea	3.74	0.62			
Uganda	2.95	0.20	Namibia	3.11	(0.31)	Niger	3.38	0.82			
			Mali	3.14	0.34	Rwanda	3.53	1.07			
			Ivory Coast	3.14	0.29	Cameroon	3.46	0.05			
			Burkina Faso	3.28	0.63	Benin	3.40	0.13			
			Guinea	3.55	(0.26)	Malawi	3.63	0.11			
			Kenya	3.20	0.25	Togo	3.71	0.43			
			Djibouti	3.20	(0.02)	Ethiopia	3.70	0.20			
			Ghana	3.29	0.25	Sierra Leone	3.76	0.09			
			Mozambique	3.35	0.99	Congo, Republic of	3.90	0.10			
			Lesotho	3.24	0.49	Guinea-Bissau	3.65	0.85			
			Chad	3.29	0.95						
			Gabon	3.28	(0.09)						
			The Gambia	3.51	0.09						

Note: Suspended from grading in the 2006 *Index of Economic Freedom:* Democratic Republic of the Congo, and Sudan.
Not Graded by the *Index:* Comoros, Eritrea, Liberia, Somalia, Seychelles, and Sao Tome and Principe.

involves lower trade barriers in developing and developed countries alike, leading to lower costs and greater efficiency as entrepreneurs determine the activities in which they have a global or regional comparative advantage. These gains translate into increased economic growth and per capita income.

Despite the claims of many anti-globalization groups, the evidence indicates that increased trade and globalization does not lead to a "race to the bottom." On the contrary, global per capita GDP and global trade as a percent of global GDP have been increasing in virtual lockstep since 1960. (See Chart 7.)

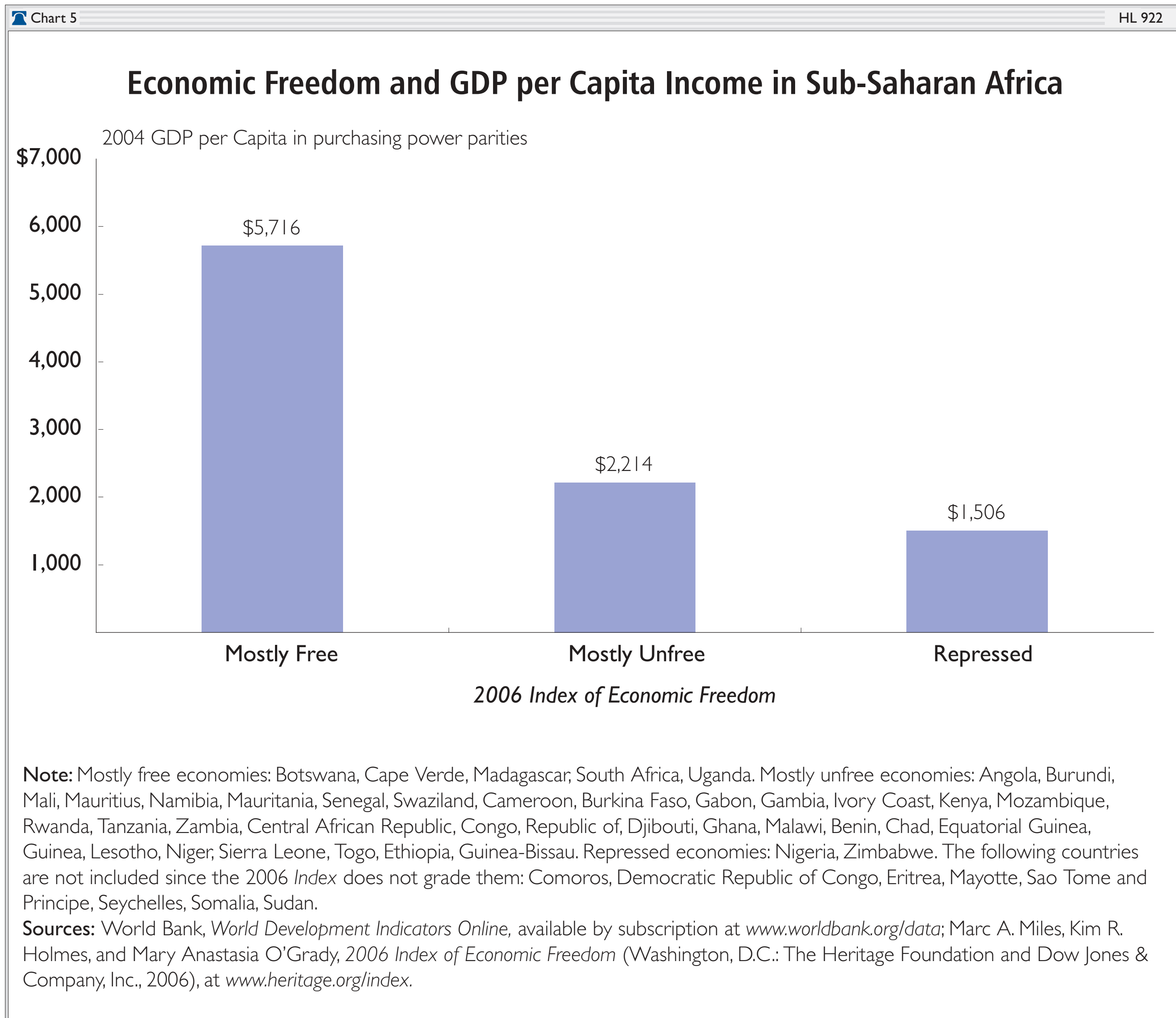
But what about claims that trade hurts workers? A World Bank study found that "In the long run workers gain from integration [with the world economy]. Wages have grown twice as fast in globalized developing countries than in less globalized ones…."[31] And the environmental damage caused by trade? "Despite widespread fears," the study continued, "there is no evidence of a decline in environmental standards. In fact, a recent study of air quality in major industrial centers of the new globalizers found that it had improved significantly in all of them."[32] Same story on poverty: Globalization is good for the poor. A related World Bank study found that increased growth resulting from expanded trade "leads to proportionate increases in incomes of the poor" and that "globalization leads to faster growth and poverty reduction in poor countries."[33]

Quite simply, trade liberalization brings far more benefits than costs and is a key aspect of economic growth and development. However, the focus on

31. Collier and Dollar, *Globalization, Growth, and Poverty*, p. 13.

32. *Ibid.*, p. 16.

33. Dollar and Kraay, "Trade, Growth, and Poverty."



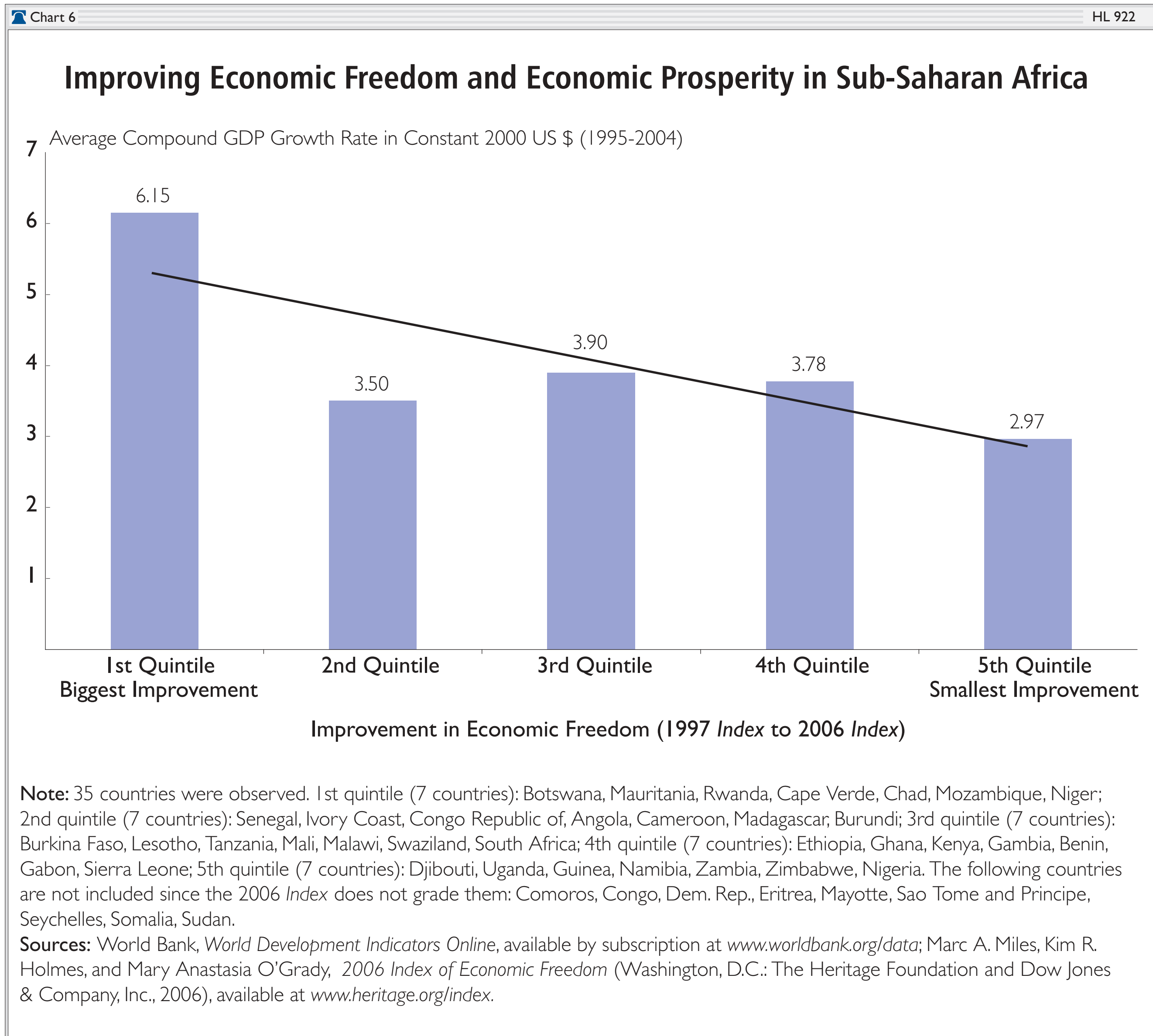
developing and developed country trade is only part of the equation. The World Bank notes:

> [I]n addition to facing high barriers in [Organisation for Economic Co-operation and Development] countries, developing countries impose high barriers on trade with one another, and the incidence of these intra-developing country trade restrictions is higher for poorer countries—just as the incidence of OECD trade restrictions is higher for poorer countries.[34]

Indeed, the U.S. Department of State reports that "Seventy percent of tariffs paid by developing countries go to other developing countries."[35] This is particularly true for sub-Saharan Africa, which is one of the world's most protectionist regions.

34. "Chapter 4: Realizing the Development Promise of Trade," in World Bank, *Global Monitoring Report 2005*, p. 131, at *http://siteresources. worldbank.org/GLOBALMONITORINGEXT/Resources/ch4.pdf.*

35. U.S. Department of State, "The U.S. Approach to International Development: Building on the Monterrey Consensus," p. 3.



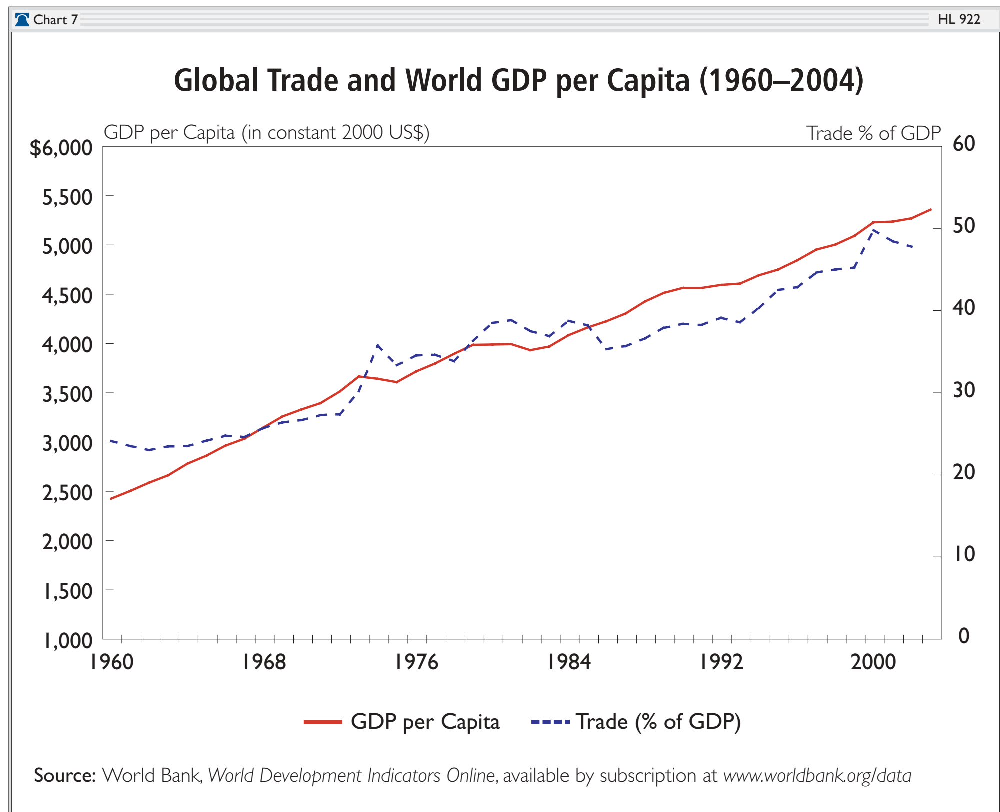
Note: 35 countries were observed. 1st quintile (7 countries): Botswana, Mauritania, Rwanda, Cape Verde, Chad, Mozambique, Niger; 2nd quintile (7 countries): Senegal, Ivory Coast, Congo Republic of, Angola, Cameroon, Madagascar, Burundi; 3rd quintile (7 countries): Burkina Faso, Lesotho, Tanzania, Mali, Malawi, Swaziland, South Africa; 4th quintile (7 countries): Ethiopia, Ghana, Kenya, Gambia, Benin, Gabon, Sierra Leone; 5th quintile (7 countries): Djibouti, Uganda, Guinea, Namibia, Zambia, Zimbabwe, Nigeria. The following countries are not included since the 2006 *Index* does not grade them: Comoros, Congo, Dem. Rep., Eritrea, Mayotte, Sao Tome and Principe, Seychelles, Somalia, Sudan.

Sources: World Bank, *World Development Indicators Online*, available by subscription at *www.worldbank.org/data*; Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), available at *www.heritage.org/index.*

According to Marian Tupy of the Cato Institute, "nontariff protection in the poorest countries of SSA [Sub-Saharan Africa] is four times greater than nontariff protection in rich countries. Strikingly, trade liberalization within SSA could increase intra-SSA trade by 54 percent and account for over 36 percent of all the welfare gains that SSA stands to receive as a result of global trade liberalization."[36]

To measure a country's willingness to interact with the global economy, The Heritage Foundation developed a Trade Openness Index from a subset of four of the 10 factors used in the *Index of Economic Freedom*: trade policy, capital flows and foreign investment, property rights, and regulation. These four factors were deemed most influential over decisions to engage in international transactions.[37]

36. Marian L. Tupy, "Trade Liberalization and Poverty Reduction in Sub-Saharan Africa," Cato Institute, December 6, 2005, Executive Summary, at *www.cato.org/pubs/pas/pa557.pdf*.



Source: World Bank, *World Development Indicators Online*, available by subscription at *www.worldbank.org/data*

Not surprisingly, more open economies on average have higher levels of trade as a percentage of GDP. Analysis of the relationship between trade openness and per capita GDP (in purchasing power parity) reveals that "open" economies have an average per capita GDP nearly twice that of "mostly open" economies, "mostly open" economies have a per capita GDP more than three times that of "mostly closed" economies on average, and "mostly closed" economies have a per capita GDP nearly twice that of "closed" economies.

Unfortunately, sub-Saharan Africa as a region has missed out on the benefits of trade. Trade as a percentage of GDP in sub-Saharan Africa has increased only marginally since 1960. Taking the poor economic growth of sub-Saharan countries over that period, this means that trade has been largely stagnant for decades. As a result, the region has fallen behind in international trade and has seen its percentage of world trade dwindle to less than 2 percent of global trade. While the region as a whole has done poorly in terms of trade, individual nations in sub-Saharan Africa have approached trade differently.

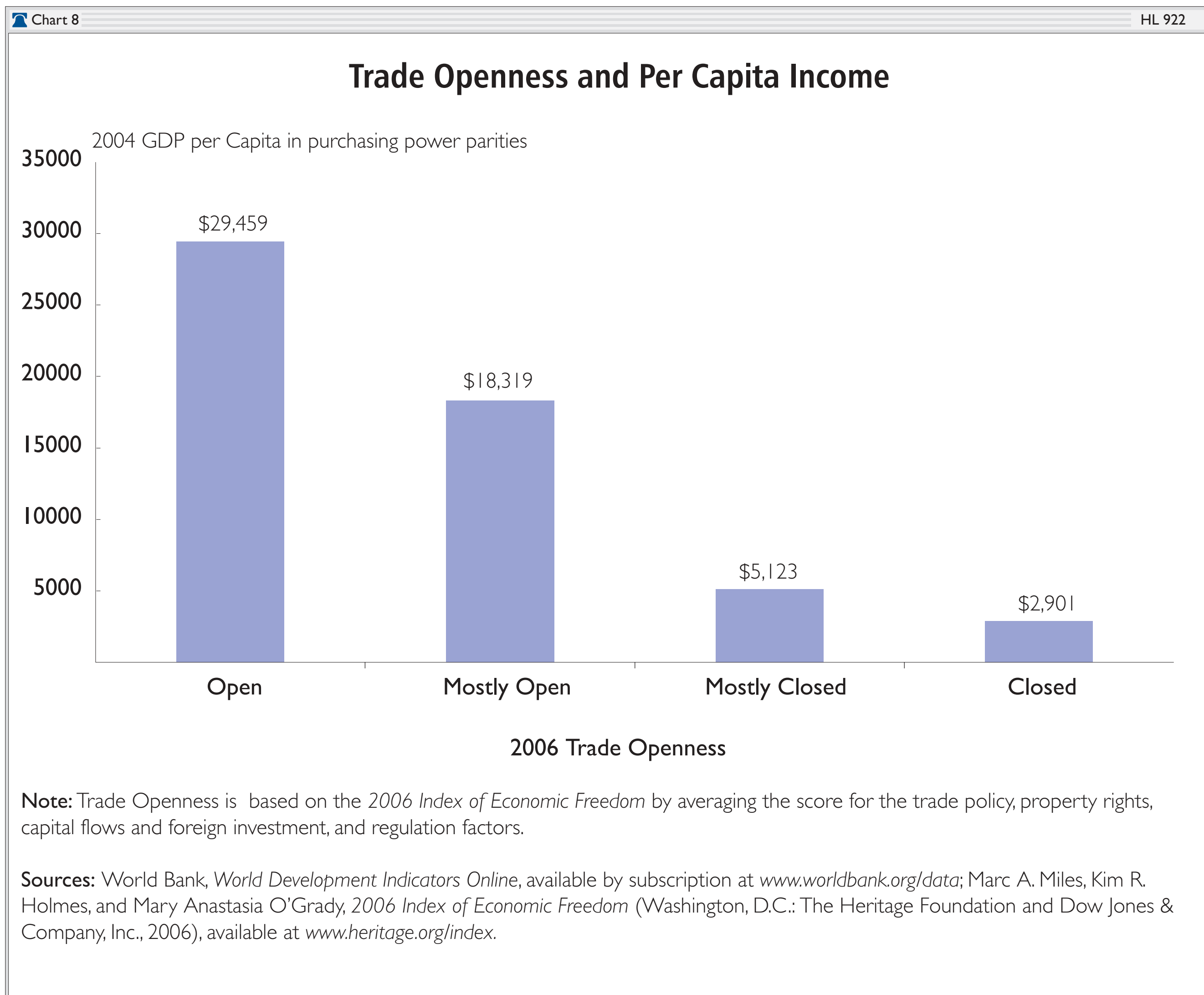
The relationship between trade openness as measured by the *Index of Economic Freedom* and higher per capita GDP (in purchasing power parity) holds for sub-Saharan Africa. "Open" economies (Botswana is the only one) in sub-Saharan Africa have a per capita GDP about one and a quarter times that of "mostly open" economies. "Mostly open" economies have a per capita GDP more than three times that of "mostly closed" economies, which in turn have a per capita GDP a bit less than twice that of "closed" economies.

Thus, developing countries and developed countries alike need to reduce barriers to trade in the Doha Round of World Trade Organization negotiations if the benefits of trade to economic growth and development are to be fully realized.

Lessons for Development

Experience demonstrates that simply providing assistance will not spur economic growth and development. On the contrary, indiscriminant distribution of assistance may actually hurt development prospects. According to IREN Kenya, a Kenyan think tank:

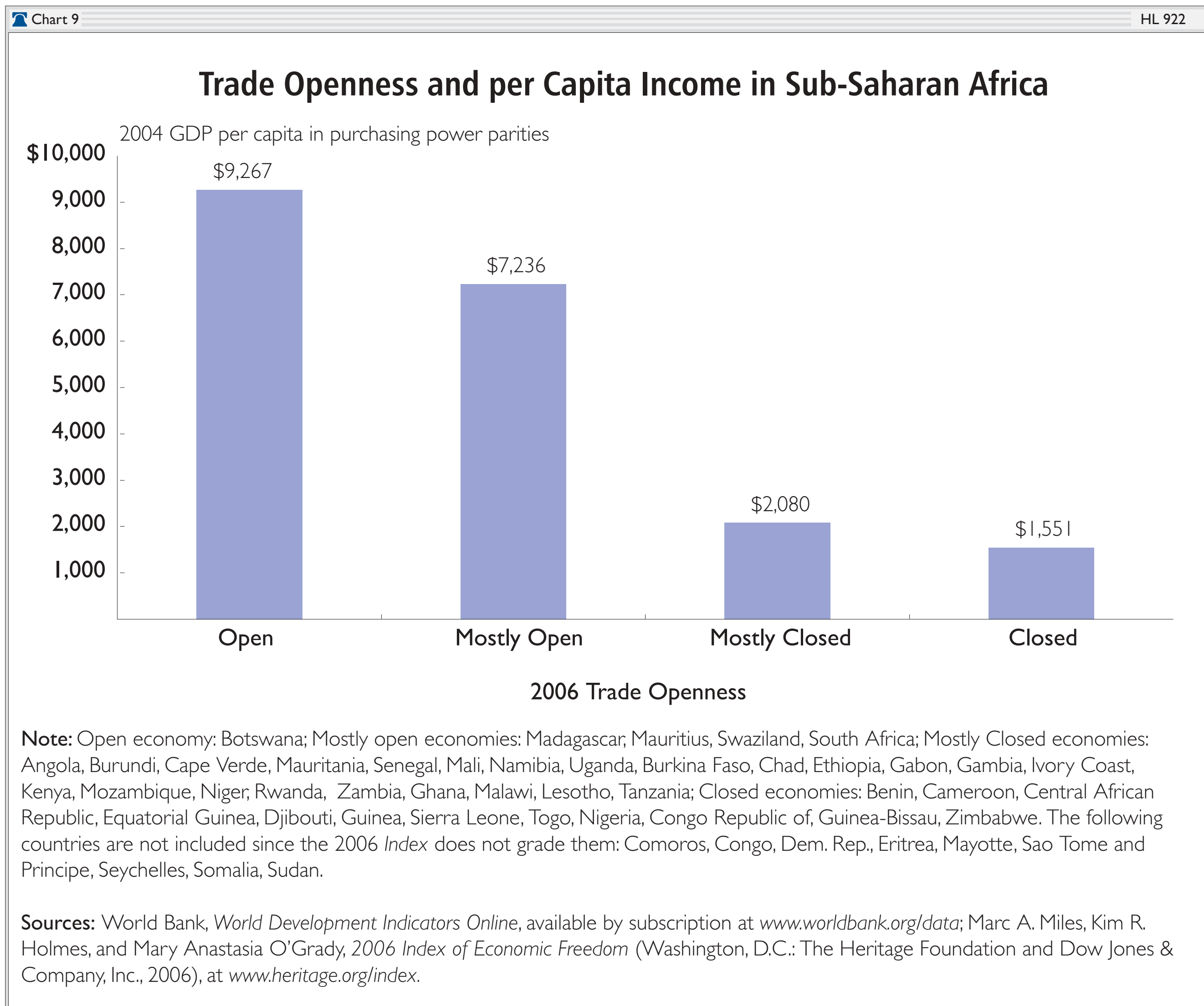
37. For more information, see John C. Hulsman, Brett D. Schaefer, and Anthony B. Kim, "The Benefits of a Global Free Trade Alliance," Chapter 3 in Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2005 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2005), pp. 37–48.



> The combination of massive aid increases and uneven or ineffective policy conditionality has ensured the sustainability of policies that would have been disciplined by market forces. Aid has had a powerful effect on state institutions in Africa, simultaneously sustaining them and stripping them of decision making-power…. Public aid has been used as a substitute for private capital and has provided support to African governments to survive the economic crisis while minimizing policy change…. [Government-to-government assistance has also] played a major role in eroding political and economic entrepreneurship in Africa.[38]

The lessons from nearly five decades of development efforts indicate that sub-Saharan Africa needs policy change far more than increased aid. While there may be a role for assistance and donor nations, the key to development lies in the hands of governments in developing countries. For development to occur, governments must remove obstacles

38. "Donor Aid: The Morality of Bribing the Poor," *IREN Kenya Newsletter*, October Issue Number 4, October 27, 2004, at *http://irenkenya.org/page.php?instructions=page&page_id=431&nav_id=18.*



Note: Open economy: Botswana; Mostly open economies: Madagascar, Mauritius, Swaziland, South Africa; Mostly Closed economies: Angola, Burundi, Cape Verde, Mauritania, Senegal, Mali, Namibia, Uganda, Burkina Faso, Chad, Ethiopia, Gabon, Gambia, Ivory Coast, Kenya, Mozambique, Niger, Rwanda, Zambia, Ghana, Malawi, Lesotho, Tanzania; Closed economies: Benin, Cameroon, Central African Republic, Equatorial Guinea, Djibouti, Guinea, Sierra Leone, Togo, Nigeria, Congo Republic of, Guinea-Bissau, Zimbabwe. The following countries are not included since the 2006 *Index* does not grade them: Comoros, Congo, Dem. Rep., Eritrea, Mayotte, Sao Tome and Principe, Seychelles, Somalia, Sudan.

Sources: World Bank, *World Development Indicators Online*, available by subscription at *www.worldbank.org/data*; Marc A. Miles, Kim R. Holmes, and Mary Anastasia O'Grady, *2006 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2006), at *www.heritage.org/index.*

preventing their people from seizing opportunities to benefit them, their families, and their communities. This is best done by adopting the policies that bolster economic freedom, good governance, and the rule of law—policies that are the key to economic growth and development with or without foreign assistance.

The fact that development lies predominantly in the hands of developing country governments does not mean that there is no role for developed countries. Specific policy changes that can help include:

- **Focusing assistance on countries with good economic policies and institutions.** By focusing on rewarding good performers, donor nations can help to encourage policy reforms that are associated with increased economic growth and development and reduce chances that aid will be squandered. An example of this approach to aid is the United States' Millennium Challenge Account (MCA).

The MCA makes assistance available only to countries "that govern justly, invest in their people and encourage economic freedom" as determined by their performance on 16 specific indicators.[39] If a country bests the average in at least half the indicators in these three general categories, it becomes eligible to receive MCA grants. Failure to meet that standard

excludes the country from aid consideration for that year.[40]

This provides incentives for reform among candidate countries. For instance, one of the economic indicators used by the MCA to determine eligibility is the number of days it takes to open a business. According to the World Bank, which is the source for this indicator, establishing a business in sub-Saharan Africa took 74 days on average in 2004 (the MCA's first year). In 2006, the average had fallen to 63 days and, out of the 31 countries measured in both 2004 and 2006, 17 countries reduced the number of days required versus only five that increased the number of days required.[41] Moreover, six countries not measured in *Doing Business in 2004* provided the World Bank the data necessary to conduct their measurement in the 2006 edition. Thus, the opportunity to receive MCA grants is both providing an incentive for countries to improve their business environment and encouraging transparency.

Differentiating among potential recipients and denying aid to countries that fail to demonstrate a commitment to good policies and awarding it based solely on objectively measured, pre-existing policies has potential for improving the effectiveness of foreign assistance, which has long been hindered by the failure of aid recipients to adopt policy change to remove obstacles to economic growth.[42]

- **Reducing trade barriers and subsidies.** While developed countries generally maintain relatively low average trade barriers, their highest trade barriers tend to apply to the goods that developing countries export, such as textiles and agricultural products. They also tend to provide subsidies disproportionately on goods that compete with developing country products, particularly agricultural products.

  The World Bank and Oxfam estimate that trade barriers erected by developed countries cost developing countries $100 billion a year—roughly twice the amount they receive

39. The six indicators for Governing Justly (followed by the source for the indicator) are Civil Liberties (Freedom House); Political Rights (Freedom House); Voice and Accountability (World Bank Institute); Government Effectiveness (World Bank Institute); Rule of Law (World Bank Institute); and Control of Corruption (World Bank Institute). The four indicators for Investing in People are Public Expenditures on Health as Percent of GDP (National Governments); Immunization Rates—DPT and Measles (World Health Organization); Public Primary Education Spending as Percent of GDP (National Governments); and Primary Education Completion Rate for Girls (World Bank/UNESCO). The six indicators for Promoting Economic Freedom are Cost of Starting a Business (World Bank); Inflation (IMF and others); Three-Year Budget Deficit as a Percent of GDP (IMF/National Governments); Days to Start a Business (World Bank); Trade Policy (The Heritage Foundation); and Regulatory Quality (World Bank Institute). In addition to passing a majority of the indicators in each category, countries must pass the "control of corruption" indicator to qualify. For 2006, the MCC replaced Country Credit Rating, which was one of the economic freedom indicators for 2004 and 2005, with the Cost of Starting a Business. For more information about the Millennium Challenge Accounts, see *www.mca.gov/countries/selection/short_descriptions.shtml* (October 25, 2004).
40. The Millennium Challenge Account was created in response to the ineffectiveness of previous foreign assistance in promoting economic growth. President Bush called for "a new compact for global development, defined by new accountability for both rich and poor nations alike. Greater contributions from developed nations must be linked to greater responsibility from developing nations." See White House, "The Millennium Challenge Account," at *www.whitehouse.gov/infocus/developingnations/millennium.html* (November 23, 2004). To qualify for the MCA, a country must score above the median for half of the indicators in each policy area—that is, it must pass three of the six perfo1rmance indicators that measure good governance, two of the four that measure investment in people, and three of the six that measure economic freedom.
41. World Bank, *Doing Business in 2006: Creating Jobs*, Washington, D.C., 2006, pp. 95–97, and *Doing Business in 2004: Understanding Regulation*, Washington, D.C., 2004, pp. 118–120.
42. This differs from IMF or World Bank conditionality. Conditionality is best characterized by disbursing aid in return for promised reform. Reforms were seldom adopted under this approach but pressure to disburse aid continued. The MCA demands proof of good policy before countries become eligible for assistance. See Brett D. Schaefer, "Multilateral Economic Development Efforts in Sub-Saharan Africa," Heritage Foundation *Lecture* No. 858, December 20, 2004, at *www.heritage.org/Research/TradeandForeignAid/hl858.cfm#pgfId-1120314.*

in official development assistance.[43] Non-tariff barriers that distort trade also pose significant problems. For instance, agricultural subsidies encourage production and put downward pressure on agricultural prices, which makes it difficult for developing countries to compete. Michael Moore, former Director-General of the World Trade Organization, estimated that removing all tariff and non-tariff barriers "could result in gains for developing countries in the order of $182 billion in the services sector, $162 billion in manufactures and $32 billion in agriculture."[44]

The U.S. has partially addressed these trade distortions through the African Growth and Opportunity Act, which provides duty-free access to nearly all (in 2004 over 98 percent of imports from AGOA countries entered the U.S. duty free) goods exported from African countries through 2015—provided they have established or are making progress toward market-based economies, enhanced rule of law, representative governance, lower barriers to U.S. trade and investment, improved human rights, and other goals.[45] AGOA contributed immediately to a strong increase in two-way trade between the U.S. and sub-Saharan Africa from $19.6 billion 1999 to $29.4 billion in 2000, including a 67 percent increase in African exports to the U.S.[46] U.S. merchandise imports from AGOA-eligible countries continued to increase by 88 percent to $26 billion from 2003 to 2004. Much of this increase is due to higher oil prices, but even non-oil imports increased 22 percent over 2003.[47] Two-way trade in goods between the U.S. and sub-Saharan Africa increased 37 percent from 2003 to 2004 to $44.4 billion.[48] The European Union has also partially opened its market through its "Everything But Arms" initiative.

However, full realization of the benefits of free trade for development requires a broad-based multilateral effort to remove tariff and non-tariff barriers among developed and developing countries alike. Successful negotiation of the Doha Round, including eliminating applied

43. Collier and Dollar, *Globalization, Growth, and Poverty*, p. 9; Oxfam, "Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty," May 15, 2001.

44. Michael Moore, "Special Event at the UNDP 2002 Executive Board Meeting," *WTO News*, World Trade Organization, June 25, 2002.

45. The 37 AGOA-eligible countries are Angola; Benin; Botswana; Burkina Faso; Cameroon; Cape Verde; Chad; Republic of Congo; Democratic Republic of Congo; Djibouti; Ethiopia; Gabon; The Gambia; Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; South Africa; Swaziland; Tanzania; Uganda; and Zambia. Côte d'Ivoire was removed from the list in December 2004—an important signal that the U.S. takes the criteria seriously, which is the only way to ensure that they are effective. "African Growth and Opportunity Act: Country Eligibility," at *www.agoa.gov/eligibility/country_eligibility.html*, and Office of the United States Trade Representative, *2005 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*. Congress took additional steps to help African nations when it passed the AGOA Acceleration Act in June 2004, which extended market access under AGOA to 2015. AGOA Acceleration Act of 2004, H.R. 4103 , Sec. 7(a)(1), at *www.agoa.gov/agoa_legislation/AGOAIII_text.pdf*.

46. Office of the United States Trade Representative, *2001 Comprehensive Report of the President of the United States on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, May 2001, pp. 12–17, at *www.ustr.gov/assets/Trade_Development/Preference_Programs/AGOA/asset_upload_file547_3746.pdf*.

47. Office of the United States Trade Representative, *2005 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, Executive Summary, p. 7, at *www.ustr.gov/assets/Trade_Development/Preference_Programs/AGOA/asset_upload_file215_7746.pdf*.

48. Office of the United States Trade Representative, *2005 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, p. 17, at *www.ustr.gov/assets/Trade_Development/Preference_Programs/AGOA/asset_upload_file215_7746.pdf*.

tariffs, reducing non-tariff barriers by half, and eliminating agricultural production and export subsidies, could result in substantial gains for developing countries. Indeed, according to the World Bank:

> Deep trade reform could generate large global gains. Freeing all merchandise trade and abolishing all trade-distorting agriculture subsidies would boost global welfare by $80–280 billion a year by 2015…. [R]esearch suggests that developing countries would obtain about one-third of the global gain from freeing all merchandise trade, well above their one-fifth share of global GDP.[49]

But the World Bank also cautions that improvements from trade liberalization are "conditional on further liberalization by developing countries."[50] Trade liberalization needs to be adopted in conjunction with other policies linked to improved economic growth.

Conclusion

Foreign assistance alone cannot increase economic growth and development. Achieving these objectives requires the political will to implement policy change to expand opportunities and remove barriers to growth. Developed countries can assist development by encouraging good policy and opening their markets to developing country products, but success in development ultimately depends on developing countries' adopting and implementing policies that promote economic freedom, good governance, and the rule of law. Only then will developing countries be on the path to economic development.

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49. "Chapter 4: Realizing the Development Promise of Trade," in World Bank, *Global Monitoring Report 2005*, pp. 132–135.

50. *Ibid.*, p. 135.