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# Export Tariffs in Central African Countries

by Bruce Cohen, Herbert Marks, Gustav Schachter, Boston \*

**In recent years the export tariff has increasingly been abandoned as a policy tool by the developed countries, yet it has been maintained by the less developed countries.**

**P**ossible reasons for the maintenance of export tariffs in less developed countries are:

- ☐ as a country develops it shifts its product mix from raw materials with an inelastic demand to more competitive industrialized products;
- ☐ major exports share of total exports decline;
- ☐ other sources of government revenue are available.

However, probably the main reason that countries shift away from export taxes is that they lose their monopolistic position with new entries in the international markets of producers of specific primary products.

## Large Exports

The development of public finance using export taxes as a means of revenue for sectors where monopolistic positions prevail is well illustrated by some Central African Republics. The countries chosen here are Cameroon, Central African Republic, Chad, Congo (Brazzaville), Gabon and Mauritania. All these countries gained their independence over the last 13 years and they are the poorest countries (as measured in per capita income) in the world. Exports of one or few commodities constitute the bulk of domestic production. For Chad, the poorest country in terms of natural resources (most of the country is desert) exports account for about 10 p.c. of domestic production. For the Cameroons and the Central African Republic exports account for about 20 p.c. of domestic production. But for the other three countries exports are between 30 p.c. and 50 p.c. of domestic production, larger than in highly industrialized Germany or Japan.

With large exports, the support of public finances for taxes derived from these exports is likely to be great. Like a general import tariff, the export tariff serves several purposes. It can be used as a tool to promote balance of payments objectives, or as a revenue raising method, but, most importantly, it can be a means of offsetting a potentially

harmful domestic monopoly. The Central African countries offer an excellent case study of the application of the export tariff. Not only do all the Central African countries use a common currency unit<sup>1</sup>—which facilitates comparisons between countries and over time—but they all employ also the export tariff as a policy tool.

## Importance of Export Tariffs

The importance of the export tariff varies considerably from country to country, as measured by the ratio of export tariffs to total (registered)<sup>2</sup> exports. The tariff as a percentage of registered exports has ranged from approximately 0.25 p.c. in the case of Mauritania and the Congo to 16.02 p.c. in the case of Chad. Over the last 7 years, export tariffs of the region have tended to decline slightly in relation to total exports from a high of about 7.4 p.c. in both 1960-1961 to 6.1 p.c. in 1966-1967. While the tariff to export ratio has been declining for the region, the above four central countries have not significantly changed their export tariff in relation to exports during the entire seven year period.

The extent to which a country may use an export tariff on a particular product vs. all products in general varies considerably. At the one extreme, an export tariff on all goods is not much different from an import tariff as a tool, except to the extent that industries fare differently according to the degree of competition they face in foreign export markets. At the other extreme, an export tariff on a single commodity is *prima facie* evidence that there are special characteristics of that commodity that make it desirable to place an export duty on it.

## Export Duty vis-à-vis Total Exports

In Table 1, the export duty in relation to total exports is shown. It appears that a general export tariff is used only in the case of one country — Central African Republic. More typically, only a limited number of products face an export tariff and, moreover, the tariff may vary considerably (*ad valorem*) from product to product. In the

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<sup>1</sup> CFA, the Central African franc.

<sup>2</sup> Exports are used when registered exports are N.A.

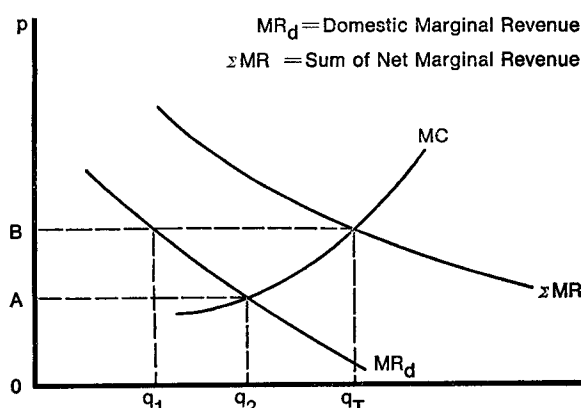
**Table 1**  
**Export Tariffs Relative to Exports for Selected Central African Republics**  
(in p.c.)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Cameroon	8.55	8.16	8.38	7.28	8.26	8.41	8.98	.	.	.
Central African Republic	.	.	.	.	4.93	4.15	4.28	.	.	.
Chad	.	10.95	10.73	12.32	11.83	12.22	16.02	.	.	.
Congo	.	1.67	.95	.68	.68	.26	.28	.	.	.
Gabon	4.65	6.32	6.02	5.87	7.21	6.27	.	.	.	.
Mauritania	.	.	.	.	3.65	4.57	4.73	5.19	5.92	6.52
All Countries	7.45	7.40	6.61	7.08	6.04	5.66	6.10	.	.	.
Four Country Group	7.40	6.61	7.08	6.72	6.70	7.46	.	.	.	.

Source: Calculated by the authors from: Surveys of African Economies I, II; International Monetary Fund, Washington, D.C. (1968-1970).

case of the Congo, the export tariff varies from 1 to 5 p.c., in Cameroon from 4 to 7 p.c., in Chad from 9 to 11 p.c., and from 0 to 12.25 p.c. in Gabon. In Mauritania, for example, the Government even goes so far as to vary the export tariff for each shipment according to the price received, not an unexpected move according to the economics they apply to monopolistic purchases. "Export tax is equal to 1 U.S. cent per pound for copper exported or sold in Mauritania at an F.O.B. price of 40 cents or less per pound. This tax will increase to 1.25 cents per pound, if the F.O.B. price exceeds 40 cents but is less than or equal to 50 cents per pound, and to 1.50 cents per pound for an export price above 50 cents per pound<sup>3</sup>."

**Figure 1**



The case for restricting the exports of a monopolist can be shown quite simply. In Figure 1, a monopolist chooses a marginal revenue of OB when permitted to sell without restriction (selling  $q_T$  of which  $q_1$  is marketed domestically). The most extreme (export) tariff is one that eliminates exports altogether, in which case domestic sales will be  $q_2$ . (In this case, marginal revenue of OA is equated to marginal cost.) Generally, the optimal tariff will be one that allows some exports (see  $q_T - q_1$ ) which will result in domestic sales greater than  $q_1$  and less than  $q_2$  and at a price less than B, but greater than A. This clearly produces a welfare gain as domestic consumption has increased (and the marginal conditions on imports vs. exports are fulfilled).

<sup>3</sup> International Monetary Fund, Surveys of African Economies, Washington, D.C., 1970, Volume 3, p. 359.

It is in the self-interest of a developing country to place an export tariff on domestically produced products which face relatively little competition in international export markets. As long as international conditions remain unchanged—that is, no new entries in the market occur—the export tariff in less developed countries, such as the Central African Republics, may benefit the countries domestically by increasing the use of their products for domestic consumption and production (development of domestic industries)<sup>4</sup> and also by supplying needed government revenues.

A monopolist will (generally) set differing prices in spatially separated markets<sup>5</sup>. An implication of this theorem is that domestic economic welfare of a country will be improved if the monopolist is restricted to sell less than the profit-maximizing quantity in foreign markets (assuming that the monopolist is not operating under conditions of falling marginal costs.)

For a monopolist producing only in his country and selling domestically and in world markets, the optimum quantities (from the firm's viewpoint) equates net (of transportation costs) marginal revenue with marginal cost<sup>6</sup>. If the monopolist is restricted to sell a quantity which equates foreign marginal revenue with domestic price, the result will be an increase in domestic sales (at lower prices) and therefore a general welfare gain.

### Conclusion

Central African nations present a good example of the rationale for export tariffs used by the developing nations. These nations, by placing an export tariff on domestic products that face rela-

<sup>4</sup> Export tariff on crude petroleum is aimed at this also in oil producing countries.

<sup>5</sup> T. O. Yntema, "The Influence of Dumping on Monopoly Price", *Journal of Political Economy*, XXXVI (December, 1928), 686-698; Joan Robinson, *The Economics of Imperfect Competition*, London, 1933, pp. 181-184 and Steven Enke, "The Monopsony Case for Tariffs", *Quarterly Journal of Economics*, LVIII (February, 1944), pp. 229-245.

<sup>6</sup> Outright prohibition of exports will also increase (by a larger amount) domestic sales. The optimal (export) tariff equates foreign marginal value of imports and exports. (See Enke, op. cit., and Richard Caves, *Trade and Economic Structure*, Cambridge, Harvard University Press, 1960, p. 184.) See figure 1.

tively little competition in international export markets, may induce investment at home with high multiplier effects. One may speculate why the export tariff is rarely used by the developed nations. Perhaps this may be explained by the relatively greater competition in manufactured products vis-à-vis raw materials such as diamonds and copper. In the case of raw materials, it is more difficult for new producers to enter the market place unless the entering countries are

by chance endowed with the same chance factors — presence of minerals, in the case of diamonds or copper, or the right climatic and natural circumstances, in the case of agricultural goods. On the other hand, modern technology is highly exportable. It is much more difficult for a country to corner a technique. These differences in the composition of trade between developed and less developed nations explain the relative confinement of the export tariff to the developing nations.

## Trade Relations Between the US and China

by Bernd Kunze, Hamburg

**President Nixon's intention to visit Peking is attracting tremendous interest all over the world. The present article discusses past developments of US/Chinese trade and its possibilities in the future.**

Washington's foreign trade policy is primarily determined by two fundamental Acts of Congress: the Export Control Act of 1949 and the Mutual Defense Assistance Control Act (known as "Battle Act") of 1951. The former, being administered by the Department of Commerce, prohibits exports of so-called strategic goods, as defined by the United States and its allies. The latter, for whose application the State Department is responsible, authorises and instructs this Department to institute measures against such foreign nation or alliances of nations which trade with other states that threaten the US or its own allies.

### The Embargo Policy of the US

Principally in response to the demand of the United States, the mounting tensions between East and West have led to the creation of a multi-lateral system of trade controls, in 1949, at a conference in Paris, directed against the "Sino-Soviet Bloc". A Consultative Group, consisting of two separate committees, was set up, of which the first one came into life in 1950 and was known as the Coordinating Committee, COCOM, to deal with trade with the countries of the Soviet Bloc in Europe. The second one was the child of worldwide reorientation induced by the Korean War. It saw the light of day in 1951 and was called the China Committee, or CHINCOM, designed to control trade with Asian communist countries. With the sole exception of Iceland, all the member governments of NATO and that of Japan are represented on these two committees<sup>1</sup>.

In order to prevent shipment of strategic goods, four embargo lists were drawn up containing the description of goods whose exports are either totally prohibited or subject to special permission. List No. 4 is the "China List" which names all the goods that must not be shipped to either Red China or North Korea.

It took till 1957 before the special China List was abandoned, and the two former COCOM and CHINCOM committees were merged. At the same time, all exports to Far Eastern Communist states were transferred to List No. 3, which contains names and descriptions of goods whose shipments are being restricted through controls imposing a modified embargo. In 1958, export controls were further reduced through adopting only two lists, known as the Embargo List and a further list naming controlled exports.

This meant that both the states of Western Europe and Japan were able to resume "normal" trade relations with the People's Republics of China and North Korea, which were only subject to the rules and regulations of the supra-national agreement. But the United States, during all this time and later, did not participate in this general loosening of restrictions, keeping in being their strict trade embargo against China. The formal reasoning behind this abstention from trade with China was that the Korean War had not been terminated by a true peace treaty but merely by a general truce.

### A Period of Reorientation

For a couple of years, Washington refused all talks with Red China till, at last, in 1955, US representatives started to deal with those of China in

<sup>1</sup> See Far Eastern Economic Review (Hong Kong), No. 2, July 13, 1967; also: East-West Trade. Hearings before the Committee on Foreign Relations United States Senate. Eighty-Eight Congress, Second Session, Part I, Washington, D.C., 1964, p. 216.