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South Centre wishes farewell to Dr. Yash Tandon at the successful completion of his term as the Executive Director (2005-2009) of the South Centre. We welcome Mr. Martin Khor as the new Executive Director from 1 March 2009 onwards.

South Bulletin: *Reflections and Foresights* takes stock of ongoing debates on major global policy challenges and delivers regular flow of analysis and commentary to policymakers in the South.

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### EDITORIAL: Recalling Nyerere Yash Tandon, Executive Director, South Centre



process of struggle for liberation from structures of domination and control, the right and access to decision making that affects the life and livelihood of the individual, the community, the nation and the region. He practiced what he preached; he was one of that rare breed of philosopher-kings. In his numerous writings (from 1963 to 1999), he elaborated on the objectives and processes of these struggles as in essence:

- Building of self-confidence;
- The realisation of the potential for self-support and contributing to society;
- Leading lives of dignity, which include gainful employment that helps individuals to meet basic needs, security, equity and participation, leading to self-fulfillment;
- Freedom from fear of want and exploitation;
- Freedom from political, economic and social exploitation.

By contrast, development in the current mainstream dogma of neoliberal globalisa-

tion boils down to "growth", which itself is further reduced to economics, and then even further reduced to the doctrines of the free market. This scaling down of development is further subjected to the reality on the ground where everything from trade to home mortgages is subjected to the control of banks and financial speculators – what we elsewhere called the "financialisation of development". This reductionist logic of financialised capitalism is the fundamental cause of the contemporary almost total breakdown of the global financial system and with it the global system of production and exchange.

It is time to return to the basics of development as defined by Nyerere. Development does not come from outside of the self, the community and the nation. Mwalimu Nyerere's idea of creating *Ujaama* villages - community structures based on traditional values of socialism and popular democracy – came under criticism even at the time. But, in retrospect, it is necessary to recognize that *Ujaama* had the germ of a visionary society of the future, one that is free from capitalist exploitation. One of the pioneers of this idea in practice was Ntimbanjaye Millinga, who inspired the people of his region, Ruvuma, to build *Ujaama* villages. With hardly any funding from outside, the people created 17 *Ujaama* villages by 1969 that formed the Ruvuma Development Association (RDA) – an extraordinary feat of creating rural socialist communities based on self-development, and equity between women and men and young and old. Unfortunately, internal debate within the ruling Party led to the closure of the RDA, and

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**EDITORIAL: Recalling Nyerere**

Milinga died a disappointed man in 2008. As I write these words, women and men are gathering in Dar es Salaam to remember Milinga and Nyerere's legacy, and to revive the idea that development is primarily an outcome of the struggle by the people themselves.

What is valid at the village and national levels is valid also at the larger international and global level. In the 1980s, Nyerere chaired the South Commission set up by the developing countries, the so-called G77 countries. In its final report, *The Challenge to the South* (Oxford University Press, 1990), the Commission concluded:

*For its own sake and for the sake of humanity, the South has to be resolute in resisting the present moves by the dominant countries of the North to design the system to their own advantage. (Page 285)*

And that, alas, has been the history of the last thirty years of neoliberal globalisation; it is a system designed to serve primarily the interest of the dominant countries of the North. Now that the system is finally crumbling, it is time to recall the essential message of the South Commission. On March 31, 1993, Nyerere paid a visit to New Delhi. On that occasion, the Mwalimu summarized the chief message of the South Commission succinctly in these five headings:

- Development shall be people centred;
- Pursue a policy of maximum national self-reliance;
- Supplement that with a policy of maximum collective South-South self-reliance;
- Build maximum South-South solidarity in your relations with the North;
- Develop science and technology.

A plaque inscribing the above five points, in Nyerere's hand writing, decorates one of the walls of the offices of the South Centre in Geneva.

The editorials written for this fortnightly "South Bulletin: Reflections and Foresights" over a period of eighteen months have been inspired by the legacy and teachings of Nyerere and that entire generation of third world leaders that emerged out of the struggle for emancipation from colonial and imperial rule. Of course, there were differences in strategy and tactics between them, and the struggles in their respective countries were conditioned by the historical circumstances and political and structural limitations. But they were able to unite in a movement – the Non-Aligned Movement (NAM) – which was a major force that kept them, as far as it was practically and politically possible, out of the entanglements of the cold war.

At the 14<sup>th</sup> Summit Conference of Heads of State or Gov-

ernment of the Non-Aligned Movement, Havana, Cuba, 11-16 September 2006, the South Centre was granted observer status. As Executive Director of the South Centre, I addressed the meeting in which I recalled the vision of the founding fathers of NAM, and related the role of the South Centre in following terms:

*The primary objective of the South Centre is to promote South-South solidarity, and North-South dialogue and understanding. Like the Non-Aligned Movement, the South Centre thus promotes a community of culture and tolerance. There is still not enough recognition on the part of those who hold power and the purse strings of the UN and the Bretton Woods Institutions that the world has changed. These institutions must reconfigure themselves to recognize the new realities on the ground. Above all, there is need to build an atmosphere of trust and confidence among the countries of the world, both in the North as well as in the south. They must recognize that every country has a right to develop its own institutions, and every nation a right to secure its own destiny. Mutual trust and tolerance for the coexistence of different systems in the world is the key to a more peaceful and just world. These must be based in the context of the accountability of governments to their people and to the recognition of the universality of human rights, including the right to development.*

The Non-aligned Movement is alive, despite doomsayers. Its essential message remains poignant and relevant even today. The challenge, as we face this new shattered world that was built on the false gods of commoditisation and financialisation of everything from human labour to climate change, is to re-design the structures of global governance such that people, not banks, control their destiny. Leaders are there to facilitate, not block as so often happens, the efforts of the people. Nyerere was such a leader. Underneath his small physical stature and simplicity lay a powerful intellect and a visionary spirit that charmed the world from the smallest village to the largest global auditorium. He passed away on 14 October, 1999, tirelessly working for peace in Africa, and nurturing what was still a fragile plant of the South Centre. The plant has grown a little taller, but it is still fragile. Member states of the Centre owe it to themselves, and to the memory and legacy of Julius Nyerere that they take care of this plant. Mighty oaks were once only a seed.

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## Financial Crisis: Bailing out the North when Justice Eludes the South

### Joseph M. Senona

The old, yet sometimes pertinent saying that justice is for the rich for they can afford it has never sounded more true than under the current global financial crisis and recession. In reality we are witnessing “bail out” money being paid to extricate the rich from the financial and economic woes while developing countries throughout the world can only watch as mute spectators while the rich nations stride towards economic and financial emancipation, longed for by the poor. One thing that has come out clearly out of this economic crisis is that poverty and underdevelopment can be significantly alleviated and reversed. This, however, would require the precise, thorough and unsullied actions witnessed recently on the part of the major rich countries facing credit crunch, financial crisis and economic recession. Year in and year out, developing countries “misguidedly” line the corridors of multilateral institutions, such as the International Monetary Fund (IMF) and the World Bank asking for Official Development Assistance (ODA) to be increased so that they too can extricate their economies from the grips of economic stagnation and inertia; or set them on a path to recovery. Their requests are often met with lackadaisical attitude or some form of half measures that do little to help their course, precisely because the current global economic system was not developed with their interests in mind.

To illustrate, today the tables have turned; it is the rich developed countries that are now facing down the barrel of recession, which no doubt brings with it unemployment, poverty and the threat of other unimaginable socio-economic consequences. Suddenly, the fear and certainly the reality that developing countries live with has become a grim reality for the developed countries as well. In the panic that ensues, it becomes clear that the funds and resources much desired by developing countries are available but only to bail out the most “deserving” first class citizens of the world, thus leaving the second class poor citizens of the South lambasting the blatant injustice committed on them.

#### History repeats itself: Need for alternatives

There are a number of lessons to be drawn here, and perhaps the most valuable is that the North will always be pre-occupied with its own interests and will re-affirm its dominance from time to time. It did so during the Great Depression with the launch of the so called “New Deal” economic

recovery plans or at the turn of World War II when the Marshall Plan to help Europe recover was put forward. Hence, for the South, the time has come to seriously consider alternatives, and engage in a paradigm shift that will see them putting the long term project of sustainable development and poverty eradication directly in their own hands. This would require a reconceptualization of the role of the global market and the forging of new global South institutions and systems, not to supplant the current global order but to lessen their doomed dependence on it. While aid and FDI from the North can make a difference, it should be clear that these are far from changing the global systemic challenges, keeping the South in perpetual dependence. It is thus imperative to recognize the true value of South-South Cooperation as a beacon of hope and an inevitable strategic measure to tackle the current and future economic crisis from a South-South perspective.

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The other equally important lesson to be drawn here is that North-South cooperation can change things for the betterment of the South, but only with political will to reform and acute action geared towards providing the necessary resources, which as we have seen are actually attainable. Indeed if developed countries were ever serious about ending poverty and underdevelopment, would it not be a positive step in the right direction if they were to respond so precisely with such bail out plans? It was only in 2002 that the World Bank at the UN Conference on Financing for Development in Mexico, Monterrey requested the doubling of ODA to about 40-60 billion US dollars to finance additional

expenditure necessary to enable developing countries to meet their Millennium Development Goals (MDGs). In a report championed by Jeffery Sachs, as part of the Millennium Project relating to the cost of attaining Millennium goals, the projection reached was that ODA must increase to about 135 billion US dollars in 2006. Hence, by 2015 the volume of ODA would have to treble to 195 billion US dollars. It should be said that these calls were made on all developed countries which essentially meant that ODA had to increase to 0.25 per cent of the GNI of these donor countries to a mere 0.44 percent in 2006 and 0.54 in 2015. Not surprisingly, however, the government pledges made after Monterrey lagged way behind the required commitments. In subsequent meeting of the Group of Eight (G8), more

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pledges and promises were made, none of which were kept; representing for developing countries yet another missed opportunity to free themselves from what seems to be an eternal sentence to a life of poverty.

Contrast this with the current prevailing crises where the threat of poverty directly affects these countries; it does not take a great mathematician to realize that the figures spoken of by the leading economies to bail themselves out far surpass what developing countries have been asking for and in fact what are actually required to meet the MDGs. Thus, for instance, the US recently unveiled a 787 billion US dollars plan to bail out its intuitions and set its economy on a path to recovery. Elsewhere in other major developed countries, Germany has set a special “stability fund” of some 500 billion euros, and Britain in late 2008 came up with a mammoth 500 billion pounds bail out package (about \$ 876 billion), primarily to shore up the fortunes of the nation's banking sector. Russia also in 2008 approved a host of measures estimated to be worth 86 billion US dollars to salvage the country's banks hit by the credit squeeze with a further bail out to the tune of 2.76 billion US dollars announced in 2009. Collectively, by end of 2008, the bail out packages in the US and Europe, expectedly tripled to about \$ 1.8 trillion. The swiftness of action comes hardly a year into the financial crisis, credit crunch and subsequent recession. For developing countries the “bail out money” which has been asked from time immemorial is in fact much more than a practical imperative, necessary to graduate them to developed status than a moral issue.

### Looking for reforms or re-assurance?

In addition to the rapid cash injections, we are suddenly witnessing a move by the North to have a rapid look at some of the fundamental international economic policy issues to ensure that this crisis does not occur again. Ironically, this crisis was brought about by the same neo-liberal capitalism which many of the developed countries seek to impose on the rest as the ideology underpinning world market economic order. In an attempt to redress the status quo, however, the systemic causes and not the symptoms of the problem should be addressed for indeed the essence of the crisis stems from flawed economic foundation perpetuated by neo-liberal globalisation phenomena. At the recent Group of Seven (G7) meeting held in Italy, from 10 to 14 February 2009, the Finance Ministers agreed and

committed themselves to work together with other leading countries to reform the global financial system, in particular the IMF, seen by many as endowed with the additional resources and in a position to respond effectively to the current crisis. What is not clear, however, is whether or not these reforms will include those called for by developing countries or are merely set to ensure that the North continues to benefit without ever again facing these types of crises. It is important to realize that since 1944 when the Bretton Woods institutions were created, the USA along with other members created for themselves positions of dominance that enable them to wield tremendous influence over the international financial system and resources. Despite the resistance and calls to reform from various quarters, the US in particular has been unwilling to relinquish its position of

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influence over the administration of these institutions or its ideological orientations towards neo-liberal free market capitalism as the substratum of the institutions. Consequently, any talk of reform should be met with circumspection as it could very well be a ploy to lull the South while reassuring the North of its dominance.

From a development perspective, the route towards building appropriate foundation to alternative justice and development order is based on the understanding that markets and capital resources should not dictate the way countries engage and relate to each other, but that markets have to be entrenched in the needs of the human being and not competition, profit or pure quantitative growth of the economy. Thus, as the IMF, the World Bank and other major global economic institu-

tions embark on developing programmes to repair the economies of the South countries affected by these crises, it would be useful to reform their systems thereby enabling policy actions that favour both developed and developing countries equally.

### Looking beyond the financial crisis

The reform agenda is expected to dominate the G20 meeting of April 2009. However for developing countries, the call to reform the international financial institutions should necessarily move away from seeking only participation and voting rights in the financial institutions and towards building new economic institutions that recognize that ODA alone cannot make a difference unless structural changes that support conducive environment and appropriate policy

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measures at national and international levels are put in place. To that extent, there is a need for developing countries to quickly realize that, while ODA is traditionally sourced from the North, it is increasingly becoming unreliable and an unhealthy addiction for their economies as it perpetuates dependence and re-enforces the economic dominance of the North instead of nourishing the South's indigenous growth and sustainable development.

If anything, therefore, the global economic crisis should serve to galvanize support for the two recent initiatives to create new South institutions in Asia and Latin America. In 2006, Venezuelan President Hugo Chavez, began promoting the idea for a "Bank of the South" as an alternative to the Bretton Woods institutions. Although the idea has received luke warm reception from other developing countries, both Argentina and Brazil have shown interest. Similarly in 2007, ASEAN+3 announced a principled position for a "self-managed reserve pooling arrangement governed by a single contractual agreement", thus essentially declaring its intentions to create a new Asia Monetary Fund, with the world's largest pool of foreign reserves amounting to over 4 trillion US dollars. These initiatives, although still inchoate are certainly a necessary step in the right direction. Hence, Africa too must follow through with remodeling and strengthening the institutional capacity and credibility of the African Development Bank. Together these initiatives could create the necessary paradigm shift leading to a multipolar financial order to lessen the dependence of the South on the North.

The talk of policy shift and stimulus packages should necessarily also be seen in the context of other major economic issues affected by this crisis, such as international trade, in particular its impact on developing countries. As recession worsens and the demand for agricultural and mineral goods lessen drastically, it becomes clear that many developing countries will find themselves losing much needed export revenue. Conversely, in an effort to revive some sectors, many countries might resort to tactics, such as enhanced protectionism seen during the Great Depression of the 1930's. Already the USA has made headlines by their "Buy American" strategy included in the recent economic recov-

ery plan. The strategy is meant as an incentive for their citizens to buy American products in order to fast track economic recovery in the identified industries. A similar measure was proposed by France which made plans to grant state aid to its car manufacturing sectors. Indeed trade liberalisation will find itself tested by the increased desire to resort to protectionism and other trade measures, such as distorting subsidies, export taxes, inappropriate safe guard measures, etc all of which have to be carefully monitored. At the G7 meeting Ministers made a pledge to avoid protectionism as they battle the global economic crisis. However pledges and promises have been made before and if history is anything to go by, there is really little cause for optimism.

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The last financing for Development Conference held in Doha, Qatar in November 2008 took a critical view of the implementation of the Monterrey consensus and in essence re-affirmed commitment to the realization of the Consensus. The Doha Declaration in para 2 states that: "We [heads of government] reaffirm the Monterrey in its entirety, in its integrity and holistic approach, and recognize that mobilizing financial resources for development and the effective use of all those resources are central to the global partnership for sustainable development, including in support of the achievement of the internationally agreed development goals, including the Millennium development Goals."

However, reading this and contrasting this with how developed countries have reacted to their own crisis, a sullen atmosphere suddenly prevails, as the true colours of the North emerge and justice continues to elude the poor. A South-South paradigm shift is thus not a lofty ideal but a necessary shift if the South is to be permanently bailed out.

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*The views presented in this article are personal and do not represent the view of the organization the author works for.*

## Global Financial Crisis: How to deal with it?

### Badar Alam Iqbal

The world financial crisis is not only an economic crisis but also an ending of the political and economic model that trumpeted the lack of controls as a concept and as a practice. This has been more reliant on markets. Not long back, analysts were of the opinion that the world may see a financial crisis as they realized that what they were hiding was in fact the real possibility of their own bankruptcy, as it indeed happened.

Most of humanity is watching the international financial crisis deepening and increasingly jeopardising the precarious living conditions of billions of people the world over. Meanwhile, a fast processing of mergers and acquisitions is underway, and a huge amount of taxpayers' money is

pouring into the financial market. <sup>1</sup> As in other historical experiences, the most vulnerable ones would end up paying for the excesses of others, unless a viable and technically well designed roadmap is created to defend their interest.

While the global financial crisis originated in the developed econo-

mies, it perpetuated a sudden and sharp rise in the borrowing costs of developing countries, and in many cases their currencies have fallen dramatically too. The Millennium Development Goals are among the first casualties of this crisis. These goals have been set back by about seven years, precisely because there is a slowdown. <sup>2</sup> Developing countries are in a peculiar situation; they are not the cause of this crisis, but are amongst the worst affected. The contraction of exports, a credit crunch, and lower flows of capital and foreign direct investment would slow down their economic growth, pushing millions of people back to poverty, with adverse effects on nutrition, health and education levels. <sup>3</sup>

For the first time the problems are not in the developing countries; they are in the developed countries. It does not help to look for palliative measures if you do not resolve the chronic problems of economic policy of the US and the EU. However, it is the developing world that has to bear the heat and burns. <sup>4</sup>

#### When did it originate?

Whereas year 2008 was the year of persisting crisis, the

origins of this crisis date back to the middle of 2007, when home owners, who had borrowed money to finance property purchased by them, began defaulting on their borrowed debts. Thereafter it became clear that so many persons having limited or poor creditworthiness had been induced to take substantial amounts from banks eager to exploit the considerable amount of liquidity and the low level of interest rates in the system. An unbearable percentage of defaulters became inevitable. What was most significant in the events to follow was that this 'sub-prime' problem soon dispersed and created a systematic crisis that soon bankrupted a host of mortgage finance firms, banks, investment banks and insurance firms that include globally dominated players, namely-Bear Sterns, Lehman Brothers and AIG. <sup>5</sup>

#### Why did it happen?

Noble Laureate in economics, Prof. Amartya Sen has stated that the present global financial crisis "has come about from an over-reliance on markets and not enough regulation". <sup>6</sup> Similarly another Noble Laureate, Prof. Joseph Stiglitz has

opined that the US was responsible for this crisis and he was very critical about the role of the US in it. According to Prof. Stiglitz, "the US has exported its toxic mortgages. If this had not happened we would be even worse off. We have also exported our deregulation policy. Decoupling was a myth and the US was now exporting its recession. September 15, 2008, the day when Lehman Brothers filed for bankruptcy, was a black day in the history of capitalism". <sup>7</sup>

September 15, 2008 would be to free market economics as Berlin wall was to the fall of communism. Market fundamentalism does not work. The idea that markets are self-correcting is flawed. There were several inferences that could be drawn from this very economic crisis: Wall Street has made several bad decisions and has repeatedly failed; prices are a bad signal for resource allocation; and though the G7 has been expanded to G20, old paradigms are still at work. Global financial crisis is not just a crisis of capitalism but a crisis in as to how we understand and approach economics. Prof. Stiglitz has rightly emphasized that Prof. Amartya Sen's work, which is all about increasing the well-being of human beings, is more important and relevant here. The new financial order must be built up on this proposition. <sup>8</sup>

**Table I: Credit Crisis Cost Crosses US \$ 1 Trillion**

Americas	678.40 Billion US \$	67.0 %
Europe	302.10 Billion US \$	29.5 %
Asia	31.50 Billion US \$	3.5 %
<b>Total</b>	<b>1011.00 Billion US \$</b>	

*Source: John Mack; CEO, Morgan Stanley; the Financial Express; New Delhi; December 19, 2008.*

## Global Financial Crisis: How to deal with it?

### Major contributory factors

There are many contributory factors that are responsible for the present global financial crisis resulting into recession. The rise in sub-prime credit took place owing to the complex nature and contents of the present financial structure that is in practice worldwide. The existing financial system allows an array of agents to earn lucrative returns even while transferring the risk. Mortgage brokers seek out and find willing borrowers for a fee, taking on excess risk in search of volumes. On the other side of it, mortgage lenders or financiers extend credit to the mortgages, not with the intention of garnering the interest and amortization flows associated with such lending but to sell these mortgages to Wall Street banks. The Wall Street banks buy these mortgages because they can bundle assets with varying returns in order to create securities with differing profitability of default that are then sold to a range of investors, namely banks, mutual funds, pension funds and insurance firms.<sup>9</sup>

Another important and very relevant contributory factor for this crisis was that institutions involved therein did not fully take care of the risk. Instead the risks were shared and now rest in significant measures with the final investors in the chain. The most unfortunate thing is that all players were exposed to each other and to the toxic assets. When sub-prime defaults started then the whole existing financial structure collapsed, resulting into financial crisis of great magnitude.

### Magnitude of the crisis

The present global financial crisis is of a very large magnitude. Morgan Stanley marked down the values of mortgages and leveraged loans, estimating the total cost of credit losses and write downs from the credit crisis to over USD 1

trillion.<sup>10</sup> The largest credit losses and write downs are reported in case of the US. Then comes Europe and lowest possible figure is in case of Asia (see Table I).

### Biggest losers

Biggest losses and write downs in terms of individual organizations can be seen from chart 1. The largest losses are registered in case of Wachovia, as high as US \$ 96.5 billion, and the lowest possible losses are witnessed in regard to Bank of America, as low as US \$ 27.4 billion (see Chart 1). On the whole it is the largest loss that the world has ever seen owing to over reliance on markets and minimum regulations thereon.

### Major consequences

The following are the major consequences for the people of developed economies:

a. This crisis has made households, whose houses were now worth much less, more careful in their respective spending and borrowing behaviour, leading to a collapse of consumption expenses.

b. The crisis has made institutions, namely banks and other financial firms that are affected by defaults, more cautious in policy of extending credit. This has resulted into

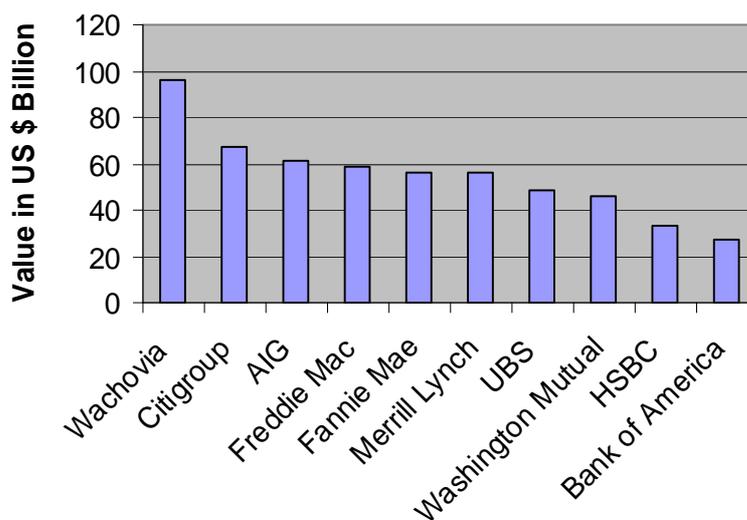
credit paucity leading to bankruptcy in regard to business.

c. The crisis has shown substantial downward trend in respect of values of assets held by banks and financial institutions, resulting into a situation of insolvency.

d. The crisis has led to a situation wherein there is an enormous pullout of capital from the emerging markets, namely China, India, Brazil, South Africa and Mexico.

e. The crisis has resulted into a decline of capital flows to developing countries making it difficult to finance their development needs. It is estimated that capital flows to developing nations are likely to go down to a level of US \$ 530

Chart 1: Biggest Losses and Write downs in 2008



Source: John Mack; CEO, Morgan Stanley; the Financial Express; New Delhi; December 19, 2008.

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billion in 2009 from an all time record figure of US \$ 1 trillion in the year 2007.

f. The crisis has affected the availability of credit and demand for credit, leading to fall in exports. This may result into recession in developing economies.

g. These emerging trends would lead to a decline in demand, which means a crisis in real terms to global economy in general and the developing world in particular. These trends would also result into a decline in output on one hand and an increase in unemployment on the other.

h. The existing crisis and situation, i.e. the financial crisis would worsen further in 2009.

Now comes the very pertinent question, what to do to ease out the crisis. This would require a sound and effective strategy.

### A possible strategy

The following are the guide posts to face the issues and challenges of the existing financial crisis:

- Changes are required in the existing global financial structure.
- Developed nations must put their house in order, especially the US and Europe, and must come forward with an amicable solution.
- Stepping up global cooperation in creating and regulating financial markets.
- Globally coordinated and huge fiscal stimulus.
- Immediate measures in regard to reforms in respect of international financial institutions.
- There should be immediate cooperation and coordination with regard to regional blueprint.
- Regional Monetary Agreements are the need of the hour.

- Permanent monitoring of the exchange rate policy.
- Strict vigilance on the working of developed countries' financial markets.
- Effective and efficient regionalization of banking and credit structure, both in terms of contents and nature.

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*“The crisis has led to a situation wherein there is an enormous pullout of capital from the emerging markets, namely China, India, Brazil, South Africa and Mexico.”*

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- Economic Partnership Agreements: More losses than gains for Africa (also available in French and Spanish)
- Intellectual Property Quarterly Update, Fourth Quarter, 2008.
- WCO SECURE: Lessons Learnt From the Abortion Of the TRIP-Plus-Plus IP Enforcement Initiative.

**More information at: <http://www.SouthCentre.org> (English, French, Spanish)**

## Learnings from China: Bailing out the Poors First amidst Financial Crisis

Xuan Li

In his interview with Financial Times during his "journey of confidence" in Europe, Chinese Premier Wen Jiabao made an enlightening revelation: when he travels, he carries Adam Smith's *Theory of Moral Sentiments* in his suitcase. The book may seem abstruse to many of us, but Premier Wen has learnt a simple message from Adam Smith: if fruits of a society's economic development cannot be shared by all, it is morally unsound and risky.<sup>1</sup>

Such a message is key to understand the root cause of the financial crisis and the subsequent global economic slow-down, and the way the crisis should be addressed by each nation as well as the international community as a whole. Let us make it clear, the current crisis is not "Made in China" as a result of its citizens' saving ratio and foreign reserves, but has more to do with "Made in America", or the madness of unregulated greedy pursuit of wealth. As Premier Wen put it, it is confusing right and wrong when people who have been overspending blame those who lent them the money.

Beyond this global financial crisis that dominated headlines in recent months, we must not lose sight of another long lasting crisis- hunger crisis, i.e. the absolute poverty that has been affecting lives of several hundred millions of poor people in developing countries. Even before the financial crisis was widely felt and publicized, the World Bank released in August 2008 an update of its global and regional poverty estimates, which show that there are more poor people in the world than previously believed. The 2005 world poverty is estimated at 1.4 billion people (25.2% of the world population), up from earlier estimates of 879 million people (16.1%). The new data shows that marked regional differences in progress against poverty persist. Poverty in East Asia has fallen from nearly 80 percent of the population living below US\$1.25 a day in 1981 to 18 percent in 2005. However, the poverty rate in Sub-Saharan Africa remains at 50 percent in 2005—no lower than in 1981, although with more encouraging recent signs of progress.<sup>2</sup> As the financial crisis intensified, the growth prospects for both developed and developing countries have deteriorated substantially. The global growth is expected to fall from 2.5 percent in 2008 to 0.5 percent in 2009, its lowest level since World War II.<sup>3</sup> Such a global economic slow down will certainly exacerbate the hunger crisis

by pushing more people back to below the poverty line. While the emergency bail-out for the financial crisis involved injection of some several hundreds of billions of dollars into bankrupt banks and corporations within just a few weeks in developed countries, a similarly urgent and long overdue response to tackle the poverty in Sub-Saharan Africa and other developing countries remains unfulfilled for decades.

It is, therefore, the right time to draw some lessons from the world's development experience in recent decades, particularly from that of China, and implement concrete

measures to ease the symptoms and, more importantly, tackle the causes of the financial crisis and widespread poverty at both national and international levels.

### National response: Visible hand vs. invisible hand

The financial crisis originating from Wall Street and the widening poverty in developing countries have shown that the market, or so called "invisible hand", though a powerful tool in the modern economy, has its limitations: (i) it cannot contain the insatiable greed of some rich people, and (ii) it cannot ensure the fair distribution of wealth to vulnerable people. Therefore, governments of both developed and developing countries should reflect on what would be the right economic model for their sustainable social development. In this regard, many, particularly those in the developing world, fix their eyes on the Chinese model that has delivered unprecedented high economic growth for the last three decades. While state driven investment has been indeed a significant factor in the Chinese economic miracle, it is also crystal clear that China has abandoned rigid central planning and gradually embraced market economy that encourages individual entrepreneurship. In other words, China's success is not explained solely by the invisible hand nor by the visible hand, but by subtle combination of both hands, or what China called "a market economy with socialist characteristics".

The massive economic stimulus packages that are being put in place by many countries seem to suggest a return to Keynesian style Government driven interventions. Such

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## Learnings from China: Bailing out the Poor First amidst Financial Crisis

strong interventions by the visible hand may well help to curb the economic slow down, but as past experience has shown repeatedly, GDP growth alone will not resolve the widening social and economic inequality. Even in China, in spite of significant poverty reduction, the Gini coefficient, a measure of economic equity, has deteriorated from 0.30 in late 1970s to about 0.45 in 2005.<sup>4</sup> With the financial crisis unfolds, the question is no longer whether or not the Government should intervene, but whether the interventions are "pro-rich" or "pro-poor". The international media has widely reported China's stimulus package to maintain the economic growth with a focus on the amount of Government spending, but few have noticed that the package also involves putting in place a fairly comprehensive safety net that will benefit the poor people, particularly in rural areas. This is another lesson we have learnt from China: only such a pro-poor intervention can help to ensure economic equity and sustainable growth.

### International responses: Short term vs. long term

Needless to say, not all developing countries have China's financial strength to implement needed pro-poor economic development policies and actions. In the short and medium term, many of these countries will continue to rely on development assistance from the World Bank and other multilateral development banks

(MDBs) for investment in agriculture, education, health and infrastructure, such as roads and power. The existing capital resources of some MDBs are insufficient given the scale of requirements in developing countries; thus an early general capital increase of these MDBs will be needed. The proposal for a vulnerability fund to which developed countries could devote 0.7% of their economic stimulus packages is a welcome move but still too modest compared to the large and pressing requirements of developing countries. Developed countries have the responsibility and obligations to substantially increase their assistance and channel more of these funds through the MDBs which have professional expertise in project financing in developing countries.

In the medium and long term, the current international financing system will have to be reformed through a consultative process with all stakeholders. While the MDBs remain relevant with focus on financing social and physical

infrastructure needed for poverty reduction and economic growth, the role and governance structure of International Monetary Fund (IMF) has to be reshaped fundamentally. Just like the wealth should not be concentrated in the hands of a small number of people, it is also morally unsound to have the power of running such an important financial institution like IMF by a small number of wealthy countries. Under the new international financial order, developing countries should have greater weightage and representation in international financing institutions. In particular, the IMF should play the role of international financial watchdog and establish

an early warning system that covers all countries of the world, including the G8. With the coordination of a new IMF, financial authorities in each country should ensure full information sharing and monitor global capital flows to strengthen financial supervision and regulation. IMF should gradually relinquish its role as bail-out lender and transfer this role to newly established regional monetary funds (RMFs). The RMFs, established by regional member countries with adequate resources, will be better positioned to deal with financial and monetary stability in their own regions. In this regard, Chiang Mai Initiative (a network of bilateral swap arrangements) and the recently agreed plan to establish a multilateral stabilization plan in East Asia will pave the way for the establishment of an Asian Monetary Fund that can more effectively meet the needs of Asian countries.

*"The bottom line is that every country should be responsible to the entire international community as well as to its own people, just like Chinese Premier Wen said in his interview with Financial Times: "I firmly believe that running our own affairs well is the biggest contribution to entire mankind."*

ary Fund that can more effectively meet the needs of Asian countries.

### Consensus Building: Call for a UN special session on financial markets and the world economy

The above prescribed measures, at both national and international levels, are clearly beyond the capacity and the mandate of G20, which will meet again in London in April 2009. The South Centre recommends a special session of the United Nations to build consensus on the needed global responses to address the challenges of financial crisis and poverty reduction in the world. Such an international forum will allow all countries, developed or developing, big or small, to express their views and make a commitment to the international community.

The bottom line is that every country should be responsible to the entire international community as well as to its own people, just like Chinese Premier Wen said in his interview

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with Financial Times: "I firmly believe that running our own affairs well is the biggest contribution to entire mankind". Indeed, not so long ago, China was still one of the world's poorest countries. Within a span of 25 years, China reduced the number of poor people below \$1.25 world poverty line from 835 million (84.0% of the population) in 1981 to 208 million (15.9%) in 2005.<sup>5</sup> Globally, poverty reduction in the world has been mainly driven by China. Without China, the world would not be successful in achieving Millennium Development Goal 1 (i.e. halving poverty between 1985 and 2015).<sup>6</sup>

Amidst the severe financial crisis, governments all around the world should bail out the poor people first and take their responsibilities to run their own affairs well without shifting troubles to others. This is the true lesson we learn from China.

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## Human Rights Council 10th Special Session: Resolution on the impact of global economic and financial crises on human rights adopted

The Human Rights Council concluded its tenth Special Session held on 20th and 23rd February 2009, after adopting a resolution on the impact of the crises on universal realization and effective enjoyment of human rights.

The resolution (A/HRC/S-10/L.1), which was adopted by a vote of 31 for and 14 abstentions, underlined the urgent need to establish an equitable, transparent and democratic international system to strengthen and broaden the participation of developing countries in international economic decision-making and norm-setting. The Council expressed grave concern that these crises threatened to further undermine the achievement of the internationally agreed development goals including the Millennium Development Goals. Countries that abstained from voting included EU members, Canada, Switzerland, Republic of Korea, Japan and Mexico.

The special session was convened at the request of Egypt (on behalf of the African Group) and Brazil and was supported by 26 members of the Council.

## 14th ASEAN Meeting Concludes in Thailand

The 14th ASEAN meeting concluded on 1st March with several agreements, including those on measures to deal with the global economic and financial crisis, realizing the ASEAN Charter and accelerating efforts to build an ASEAN Community.

The ASEAN leaders signed the Cha Am-Hua Hin Declaration on the roadmap for an ASEAN Community by 2015.

Other documents adopted by ASEAN leaders included blueprints for the ASEAN political-security community and the ASEAN socio-cultural community, the 2nd initiative for the ASEAN Integration (IAI) work plan, a joint declaration on attaining the Millennium Development Goals and a statement on food security in the region.

They also signed the ASEAN Petroleum Security Agreement and an agreement to establish an ASEAN-Australia-New Zealand free trade area.

ASEAN is expected to convene the ASEAN+1, ASEAN+3 and East Asia Summits in Thailand in April.

## Poverty of Africa in the Richly Endowed Basin

### Akhilesh Chandra Prabhakar

Africa is the second largest continent after Asia in the world. It has a huge land mass with abundant natural resources like huge reserves of mineral wealth, including gold, diamonds, and oil reserves. Africa is as well suited to agriculture as any other continent; the volcanic soils of the Great Lakes region are—by some measure—the best in the world. Yet, owing to several reasons, today 300 million African people live on less than \$1 US per day.

The United Nations reported that African economies are forecast to grow 6.2% in 2008, after a strong 5.8% growth in 2007. However, despite this promising report, the effects of the improvement have not alleviated the extreme poverty of the continent. “The growth failed to trickle down to the poor,” noted the report. With recent increases in food prices, it is estimated that one billion people will go hungry, while another two billion will be undernourished.” Sub-Saharan Africa’s poverty rate is constant at 50 percent. According to the World Bank data, “the number of extreme poor has fallen – from 1.8 billion to 1.4 billion – between 1990 and 2005, with the biggest gains made in eastern Asia, in particular, China. In Sub-Saharan Africa and the Commonwealth of Independent States, however, the number of poor has increased in the same period.” In Sub-Saharan Africa, more than 218 million people live in extreme poverty. Among them are rural poor people in Eastern and Southern Africa, an area that has one of the world’s highest concentrations of poor people.

There is considerable internal variation within countries. Urban areas, especially capital cities, are generally wealthier than rural zones. Inequality is pronounced in most African countries; an upper class has much higher income than the majority of the population. Poverty in Africa is predominantly rural. More than 70 per cent of the continent’s poor people live in rural areas and depend on agriculture for food and livelihood, yet development assistance to agriculture is decreasing.

#### Diseases and poverty

The lack of clean drinking water has resulted in the rise of malaria and dysentery. Productive family members are often lost at a young age to disease which further hinders their earning power. The most significant illnesses have long been malaria and cholera.

Further, the health-care costs, including those of importing

anti-retroviral AIDS drugs from the West, is a new burden on many African states, leading to the challenge of high drug prices and the need to manufacture cheap generic alternatives. About two thirds of the 34 million people in the world with HIV/AIDS live in Africa. The majority of people living with HIV, 60 percent of them are women in Sub-Saharan Africa. Parents dying or becoming unable to work adds to the burden of already struggling families and states. Since the tropical regions are poorer, pharmaceutical companies are reluctant to invest in curing the diseases of the region. Disease not only reduces the work force and creates a burden on health care, but also harms agriculture and transportation. In Sub-Saharan Africa, with the highest level of maternal mortality, progress has been negligible.

According to survey report, a child dies every three seconds from AIDS and extreme poverty, often before the fifth birthday. More than one billion people do not have access to clean water. Every year six million children die from malnutrition before their fifth birthday. More than 50 percent of Africans suffer from water-related diseases, such as cholera and infant diarrhoea. According to various sources, more than 800 million people go to bed hungry every day, of whom 300 million are children. More than 90 percent of them are suffering from long-term malnourishment and micronutrient deficiency.

*“Rural poverty in many areas of Africa has its roots in the colonial system and the policy and institutional restraints that it imposed on poor people.”*

#### Cruel legacy of colonialism

The colonial history of the continent has left a cruel legacy of dictatorships and plundered resources. Democracy in Africa has not been historically successful, almost always supplanted by centralized authoritarian rule, such as military dictatorships. Among the most notorious was Mobutu Sese Seko of Zaire, whose regime has been called a kleptocracy due to its looting of the nation’s wealth. Bribery and graft abound, owing to poverty and poorly handled decolonisation as well as the superpowers’ (USSR & USA) practice during the Cold War of supporting any ruler with the desired political alignment, regardless of his managerial practices or human rights records. Africa as a whole has not prospered compared with other colonized regions in Asia and the Americas. At the end of World War II, the Americas were economically the strongest of the colonised regions; in the span of one generation, former colonies in Asia have become economic powerhouses. Once independent, African states saw an exodus of European administrators and consequently lacked individuals with the training or education to

## Poverty of Africa in the Richly Endowed Basin

operate the government they had inherited. For instance, the massive area of French Equatorial Africa was divided into four independent nations, but was home to only five locals who were university graduates.

### Mineral wealth captured by USA and European multinational companies

Africa's huge reserves of mineral wealth are divided up between the giant multinationals based in Europe and the United States. Local people are unlikely to receive a share of the huge profits being made. The multinational corporations controlled most of Africa's major industries. How can businesses based in Africa possibly compete with Exxon or Citibank? Walter Rodney argues that these *colonial policies are directly responsible for many of Africa's modern problems*. Other post-colonial scholars, most notably Frantz Fanon, have argued that the true effects of colonialism are psychological and that domination by a foreign power creates a lasting sense of inferiority and subjugation that creates a barrier to growth and innovation. With the entry of MNCs into export-oriented agriculture, a serious threat of dispossession of small and marginal farmers is becoming a reality with grave social consequences.

### Economic reforms and liberalisation

By 1990, forty of the nations of Sub-Saharan Africa had agreed to follow rigorous International Monetary Fund (IMF) restructuring plans. IMF recommendations saw the continent's currencies drop by an average of 50%, the selling off of government-owned industries, and the slashing of government spending. After twenty years, however, these methods have seen as little success as the socialist approaches of the previous era. Average growth increased from 2.3% per annum to just 2.8%. Trade liberalisation, globalisation and the fight against poverty has developed a new measure of the scale of export dumping by the EU and the USA. It suggests that both these agricultural superpowers are exporting at prices more than one-third lower than the costs of production. These subsidy exports from rich countries are driving down prices for exports from Africa and other developing countries, and devastating the prospects for smallholder agriculture. As African countries dependent on primary agricultural commodities and exports to the developed countries, have pointed out in the WTO Ministerial meeting at Doha (November 9-11, 2001) "It is a matter of life and death."

### Failure of structural adjustment programmes

As a result of structural adjustment programmes (SAP) and liberalisation policies, the income inequality gap among the people, has been widening as the rich become richer and poor are poorer. Structural adjustments have dismantled existing rural systems, but have not always built new ones. In many transitional economies, the rural situation is marked by continuing stagnation, poor production, low incomes and the rising vulnerability of poor people. Lack of access to markets is a problem for many small-scale enterprises in Africa. The data from all corners show that African economy has stagnated and even regressed in terms of foreign trade, investment, per capita income, and other economic growth measures. Poverty has had widespread effects, including low life expectancy, violence, and instability, which in turn have perpetuated the continent's growth problems.

*"Structural adjustments in Africa have dismantled existing rural systems, but have not always built new ones. In many transitional economies, the rural situation is marked by continuing stagnation, poor production, low incomes and the rising vulnerability of poor people."*

### Poor farm policy

Around 60 percent of African workers are employed by the agricultural sector, with about three-fifths of African farmers being subsistence farmers. Subsistence farms provide a source of food and a relatively small income for the family, but generally fail to produce enough to make re-investment possible. The rest of the work forces are engaged by large multinational industrial farms/labour on huge export-crop fields. Larger farms tend to grow cash crops, such as coffee, cotton, cocoa, and rubber. These farms, normally operated by large corporations, cover tens of square kilometers and employ small numbers of labourers. The situation whereby African nations export crops to the West while millions on the continent starve has been blamed on Western States including Japan, the European Union and the United States. These countries protect their own agricultural sectors with high import tariffs and offer subsidies to their farmers, which many contend lead to the overproduction of commodities like grain, cotton and milk. The result of this is that the global prices of such products are continually reduced until Africans are unable to compete. Cash-strapped African governments try to squeeze every last penny out of their agricultural sector, imposing export taxes and commodity taxes on production. This drives up prices and drives down wages, increasing poverty rates. Meanwhile European and US governments do the opposite: they subsidise farmers to the tune of \$300

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billion US per year. In addition, African governments often are forced to sell their crops at bargain prices, in order to remain current on their foreign debt load. Importing nations in the developed world know that the producers have to sell.

According to the African Development Bank, about 15% of workers are employed in the industrial sector. An educated populace, good infrastructure and a stable source of electricity are essential to investments. These factors are rare in Africa. Only South Africa, Egypt, Morocco and Tunisia in general have substantial degree of infrastructures. Despite readily available cheap labour, nearly all of the continent's natural resources are exported for secondary refining and manufacturing. Many African states used to limit foreign investment to ensure local majority ownership. Attempts to foster local industry have been hampered by insufficient technology, training, and investment money. The paucity of local markets and the difficulty of transporting goods from major African centres to world markets contribute to the lack of manufacturing outside of South Africa and Egypt.

Africa's most valuable exports are minerals and petroleum. A few countries possess and export the vast majority of these resources. The southern nations have large reserves of gold, diamonds, and copper. Petroleum is concentrated in Nigeria, Angola, and Libya. While mining and drilling produce most of Africa's revenues, these industries only employ about two million people, a tiny fraction of the continent's population. Profits normally go to the multinational companies. Although Congo is rich in minerals, the country remains one of the poorest in the world. This is historically due to ownership fights over the minerals, tracing back to the early 1900s. After Congo's independence from Belgium, the colonial government hesitated to leave behind these resources. Congo solicited help of the UN against Belgium, but that turned out to be a bad idea. In an attempt to get out of the quagmire, Congo sought Soviet assistance. This led the country into deeper trouble as the country separated into two and a long proxy war between the West and East began.

### Capital outflow from Africa

Corruption in Africa consists primarily of extracting economic rent and moving the resulting financial capital over-

seas instead of investing at home. University of Massachusetts researchers estimate that from 1970 to 2006, capital out flow from 30 Sub-Saharan countries totalled US\$287bn, exceeding those nations' external debts. This disparity in development is consistent with the model theorized by economist Mancur Olson. Because governments were politically unstable and new governments often confiscated their predecessors' assets, officials would stash their wealth abroad, out of reach of any future expropriation.

### Conclusion

African countries have an abundance of natural resources with ample cheap labour as a competitive advantage. The road map has to set the direction and build the industrial base, just as China has done, and promote the small-medium scale industries at large scale from local economy to national to regional, meaning south-south and then to the global level. African countries can utilize their resources as well as labour force at full scale by focusing on industries or niche markets in which they can excel and as a result increase their exports to the developed markets, thereby generating much needed foreign exchange.

Five types of policy changes are necessary:

- Improve trading infrastructure, including transport, payment systems, and financial services.
- Liberalise trade restrictions within the African countries as well as with the South.
- Create an effective and innovative capacity for the development of more efficient products and techniques suitable to factor and resource endowments of the south.

and

- Accelerate the growth of the productive forces so as to build a strong and internally self-sustaining national economy, free from the influences of capitalist market;
- Expand, strengthen and ensure the dominance of socialist production relations with a view to creating a conducive environment for the growth of productive forces, expand socialist economic organizations, and management.

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*“The road map has to set the direction and build the industrial base, just as China has done, and promote the small-medium scale industries at large scale from local economy to national to regional, meaning south-south and then to the global level.”*

## Work Together to Write a New Chapter of China-Africa Friendship

Hu Jintao

Tanzania is one of the cradles of mankind. The Tanzanian people have a glorious tradition and have made important contributions to the victory of the African people in gaining national independence and fighting against apartheid. In recent years, under the leadership of President Kikwete, Tanzania has worked hard with “New Zeal, New Vigor, and New Speed” to grow its economy, improve the well-being of the people, maintain political stability, make continued progress in development, and play an important role in African and international affairs. It is renowned as the “oasis of peace” in Africa. We rejoice at the achievements of Tanzania and we sincerely wish the brotherly Tanzanian people new and even greater success in the future.

As an old Chinese saying goes, “Nothing can separate people with common goals and ideals, not even mountains and seas.”

In the 1950s and 1960s, people of China and Africa fought shoulder-to-shoulder against the colonial rule in order to achieve national liberation on the African continent. This was followed by our cooperation in various forms on the basis of equality and mutual benefit. Now in this new century, we are working together to attain the Millennium Development Goals (MDGs) and bring about development and rejuvenation of China and Africa. China-Africa friendship has travelled a glorious path in the past half century and more. Similar historical experiences and shared goals have tied our destinies together and enabled our relationship to withstand the test of time and changes in the international situation.

At the Beijing Summit of the Forum on China-Africa Cooperation in 2006, leaders of China and African countries agreed to develop a new type of strategic partnership featuring political equality and mutual trust, economic win-win cooperation and cultural exchanges. It marked a new page in the annals of China-Africa relations. In the past two years and more, thanks to our joint efforts, China and Africa have further increased political exchanges and enhanced strategic mutual trust. We have given each other understanding and support on major issues of our respective concern. Our cooperation in the economic, trade and other fields continues to deepen. A large number of important cooperation projects have been launched or completed. For the very first time, our two-way trade exceeded 100 billion US dollars last year. Our cultural and people-to-people exchanges are flourishing, as we have

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increasingly frequent cultural, educational, youth, tourist and non-governmental interactions.

At the Beijing Summit, I announced on behalf of the Chinese Government eight policy measures to strengthen practical cooperation with Africa and support African countries’ development. It is heartening to see that the implementation of these measures is well under way. China has substantially increased its assistance to Africa, exempted tariffs on some African exports to China and basically completed the debt cancellation plan. The China-Africa Development Fund is up and running. China has begun the construction of the conference centre for the African Union (AU), and has made good progress in building hospitals, malaria prevention and treatment centres, agricultural technology demonstration centres and rural schools in Africa. Youth volunteers and senior agricultural experts from China have arrived and started their work in Africa. Progress in all these areas has brought tangible benefits to the people of Africa and offered an even brighter prospect for China-Africa cooperation.

Today, the world is undergoing major changes and adjustments. There is a growing trend toward a multi-polar world, and economic

globalization continues to gather momentum. The pursuit of peace, development and cooperation has become the call of our times. The international situation is generally stable. On the other hand, however, destabilizing factors and uncertainties are clearly on the rise in international political and economic landscape. The international financial crisis triggered by the sub-prime mortgage crisis is worsening. It has rapidly spread from some parts of the world to the entire globe, from developed countries to emerging markets and developing countries, and from the financial sector to the real economy. It has grown into a severe and widespread international financial crisis rarely seen in history. The impact of the crisis on economies around the world is still deepening and its grave consequences will be felt more acutely in the days to come. It has put developing countries in a particularly disadvantaged position.

At the G20 Summit on Financial Markets and the World Economy held in Washington last November, I appealed on behalf of the Chinese Government to the international

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community to pay greater attention to the damage of the crisis on developing countries, especially the least developed ones, and do all it can to minimize the damage. The international community, developed countries in particular, should assume due responsibilities and obligations, continue to deliver on their aid and debt relief commitments, maintain and increase assistance to developing countries and effectively help them maintain financial stability and economic growth. They should take concrete steps to help developing countries, especially those in Africa, overcome difficulties and improve the external environment necessary for the development of these countries.

During times of adversity, it is all the more important for China and Africa to support each other, work in concert and tide over the difficulties together. Let us work together and focus our efforts on the following key areas:

First, strengthen solidarity and mutual assistance to jointly meet the challenge of the international financial crisis. We know full well the difficulties we face at home; we are also keenly aware of the difficulties faced by our African friends. We will continue to increase assistance to Africa and cut debts owed by African countries as our ability permits. We will expand trade and investment and strengthen practical cooperation with Africa. We are also willing to increase exchanges and cooperation with African countries to jointly fend off financial risks.

Second, enhance mutual trust and cement the political foundation for traditional friendship. China is ready to have closer high-level exchanges with African countries and strengthen strategic dialogue and consultations with you by taking full advantage of the various consultation mechanisms at different levels so as to enhance mutual understanding and trust between us. China firmly supports the efforts of African countries, the AU and other regional organizations to safeguard state sovereignty and independently resolve African issues. We will continue to be actively involved in UN peacekeeping operations in Africa and play a constructive role in addressing conflicts and hot-spot issues and maintaining peace and security on this continent.

Third, raise the level of practical economic cooperation and trade on the basis of reciprocity and mutual benefit. China will continue to promote trade with Africa, accommodate Africa's concerns as best as it can, and adopt preferential measures to increase imports from Africa. The Chinese Gov-

ernment encourages and supports the efforts of more and more established Chinese companies to invest in Africa, create more jobs for the local people and transfer more technologies to their African partners. We also encourage Chinese companies in Africa to shoulder more social responsibilities and forge amicable relations with the local communities. As for problems that may arise from our cooperation, we want to properly resolve them through consultations with our African friends on an equal footing so as to maintain the larger interests of our friendly cooperation.

Fourth, expand people-to-people exchanges and deepen cultural cooperation. The purpose of growing China-Africa relations is to serve the Chinese and African people and

fruits of our cooperation should be shared by all our people. We are ready to increase exchanges with African countries in culture, education, health, sports, tourism and other fields. We want to forge closer links among young people, women, non-governmental groups, media organizations and academic institutions of the two sides, and enhance human resources cooperation. In this way, the China-Africa friendship will take a deep root in the hearts of the people.

Fifth, work closely together and strengthen coordination in international affairs. We will intensify cooperation with

African countries in the United Nations, the World Trade Organization and other multilateral institutions and jointly meet such global challenges as climate change, food security, poverty alleviation and development. We also wish to take part in the formulation of international economic, financial and trade rules and build a more equitable and reasonable international economic order together with African countries. China appreciates Africa's desire to increase its representation and say in reforming the international financial system and supports AU's participation in the G20 financial summit.

Sixth, enhance coordination and jointly promote the further development of the Forum on China-Africa Cooperation. We are ready to strengthen institutional building of the Forum and bring into full play its role of giving political guidance to the overall China-Africa relations. We will continue to have full coordination with African countries to comprehensively implement all follow-up actions of the Beijing Summit.

The year 2008 marked the 30th anniversary of China's reform and opening up program. Over the past thirty years, China has successfully realized the historic transformation

*“China firmly supports the efforts of African countries, the AU and other regional organizations to safeguard state sovereignty and independently resolve African issues.”*

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from a highly centralized planned economy to a vibrant socialist market economy, and from a closed or semi-closed society to one that fully embraces the world. China has achieved sustained and rapid economic growth, marked progress in social development programs and moderate prosperity for its people as a whole. China is a big developing country with a population of 1.3 billion. What it has achieved in the reform and opening up endeavor is in itself a significant contribution to world peace and development. We are keenly aware, however, that China remains the biggest developing country in the world. A huge population, weak economic foundation and uneven development are the basic features of the country. The problems and difficulties that we encounter in the course of development are rarely seen elsewhere in terms of their scale and complexity. To build a well-off society in an all-round way and at a higher level that benefits the over one billion population, to basically achieve modernisation of the country and to ensure common prosperity for all the Chinese people, we still have a very long way to go and we still need to make persistent and unyielding efforts.

Since last year, due to the impact of the international financial crisis and the notable slow-down of the world economy, China has encountered more difficulties in economic development. In the face of the situation, we strengthened macro-economic regulation and swiftly adjusted our policies. Our primary task now is to maintain steady and relatively fast

economic growth and to this end, we have rolled out an array of policy measures to boost domestic demand and promote economic growth. This will not only lend a strong impetus to China's economic development but also stimulate world economic growth. We will continue to take effective measures to ensure steady and relatively fast growth of our own economy and play a constructive role in promoting stability and development of the world economy.

To strengthen friendship and cooperation between China and Africa is a noble mission that history has entrusted to us. Let us join hands to build on our past achievements, work tirelessly to advance the new type of China-Africa strategic partnership and write a new chapter in the annals of China-Africa friendship!

### H.E. Hu Jintao is the President of the People's Republic of China.

*Excerpts from the speech delivered by the President in Dar es Salaam, Tanzania on 16 February 2009 on his visit to the country as a part of his eight-nation African tour to enhance friendship and cooperation between China and African countries.*



## Op-Ed: Developed Country Climate Financing Initiatives Weaken the UN Climate Convention (continued from back cover)

- minimum estimated annual amount of US\$278.82 - 557.64 billion (0.5-1% of Annex I total GDP as of 2007);
- 2) The UNFCCC's financial mechanism must be the vehicle through which such scaled-up public financing will be channeled to developing countries. This will require structurally enhancing the financial mechanism to handle the potential financial flows and associated administrative and logistical matters. The G-77 and China have already submitted a proposal in this regard for enhancing the operationalization of the UNFCCC financial mechanism. It is only when financial resources are channeled through the UNFCCC that they will be able to contribute most effectively to meeting the objective of the UNFCCC (including its ultimate objective); and
  - 3) The scaled-up financing must be new and additional to existing ODA flows to developing countries. There should not be any mixing or double-counting of ODA and climate financing in terms of reporting and accounting for specific flows in relation to donor country compliance with

either the 0.7% of GNP target for ODA from developed countries or with the UNFCCC obligation to provide financing support for developing country implementation of the UNFCCC.

It is only if such financial resources are channeled to and through the UNFCCC and its financial mechanism, consistent with the UNFCCC's principles and obligations, and making full use of the mechanisms and processes already established within the UNFCCC, that the global community will be able to achieve the objective of the UNFCCC in the most effective manner.

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### Reference:

Developed Country Climate Financing Initiatives Weaken the UNFCCC, South Centre Analytical Note, SC/GGDP/AN/ENV/7, January 2009. Available at [www.SouthCentre.org](http://www.SouthCentre.org)



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## Op-Ed: Developed Country Climate Financing Initiatives Weaken the UN Climate Convention

Vice Yu

Current developed country actions in relation to climate financing undermine the institutional effectiveness of the United Nations Framework Convention on Climate Change (UNFCCC) because of primarily three reasons.

First, the amounts pledged or to be committed from Annex I Parties for climate financing remain far too low to meet the scale of the financing needs of developing countries in relation to climate adaptation and mitigation. The UNFCCC estimates that US\$262.15 - 615.65 billion annually by 2030, while the G-77 and China in their August 2008 climate finance proposal has suggested that initially (as a minimum) at least US\$278.82 billion to US\$557.64

billion (based on the 2007 GDP of Annex I Parties) will be needed. Currently, climate-related funds under the GEF amount to US\$10.03 billion to US\$10.25 billion, while US\$18.95 billion (including US\$6.68 billion in bilateral initiatives and US\$12.27 billion through multilateral initiatives) in climate-related financing may be forthcoming from Annex I Parties' individual climate financing initiatives, with approximately US\$4.8082 billion annually being made available as a result of these initiatives over varying time periods. That is, climate financing that is available or may be made available by Annex I Parties in the foreseeable future are a little over one-tenth of the minimum estimated requirements for climate financing coming from the UNFCCC or the G77 and China.

Second, developed countries prefer to use either their own bilateral channels or other multilateral channels such as the World Bank as their vehicles for public sector financing flows. They also show a preference for relying on unpredictable and market-driven private sector financing. The public financing from developed countries for climate change-related actions that go through non-UNFCCC channels, and such financing that do go through the UNFCCC's financial mechanism (via the Global Environment Facility as an operating entity), reflect and respond to the donors' political and economic priorities and interests rather than to the sustainable development priorities of developing countries.

Third, developed countries also stress that the climate change-related aspects of their official development assistance (ODA) flows should be considered as compliance with their UNFCCC obligations to provide new, additional and predictable financing to support developing countries' climate actions. This can be clearly seen in the national communications of many Annex I Parties.

Existing modalities under which climate financing is being provided by developed countries have the effect of weakening the UNFCCC in terms of its effectiveness as a normative legal regime for global action on climate change and in terms of the effectiveness of its financial mechanism as a catalyst and vehicle for climate financing that is consistent with and supports the objectives of the UNFCCC. To address these, the following three points need to be highlighted:

- 1) There must be a minimum nine-fold increase of public financing to be made available by Annex I Parties through the UNFCCC for such financing to at least be commensurate and responsive to the lower-end figures of either the UNFCCC estimate of US\$262.15-615.65 billion per year or the G-77 and China proposal of an initial

(continued on the inside back cover)