

*The next issue of the South Bulletin will come out in July 2007*

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## JOB CREATION & POVERTY ALLEVIATION KEY TO BUILDING A NEW SOUTH AFRICA

*“None of the great social problems we have to solve is capable of resolution outside the context of the creation of jobs and the alleviation and eradication of poverty”, and therefore that “the struggle to eradicate poverty has been and will continue to be a central part of the national effort to build the new South Africa.” That was the view expressed by the **President of South Africa, Thabo Mbeki** in his State of the Nation Address at the joint sitting of Parliament on 9 February, 2007. Presented below are extracts from the President Mbeki’s address, outlining the key development priorities the nation faces.*

“When she died, we knew that Mama Adelaide Tambo had been recently discharged from hospital. But because we also knew that she had the tenacity of spirit and strength of will to soldier on among the living, we had intended to welcome her and other members of her family as our guests on this august occasion. But that was not to be.

Tomorrow we will pay her our last respects as we inter her remains. Thus she will only be with us in spirit when in October this year, we celebrate the 90th anniversary of the birth of her husband, the father of her children, her companion, her comrade, and an eminent son of our people, Oliver Reginald Tambo. Once more, we convey our condolences to the Tambo family.

However, I am indeed very pleased to acknowledge in our midst this morning the Hon Albertina Luthuli, daughter of our first Nobel Peace Laureate, Inkosi Albert Luthuli, whose tragic death 40 years ago we commemorate this year, remembering the tragic day when it was reported that he had been crushed by a speeding train in the cane-fields of KwaDukuza. His death was as shocking and mysterious as his life was a lodestar pointing us to the freedom we enjoy today.

I feel immensely proud that democratic South Africa has had the sense and sensitivity to acknowledge what Albert Luthuli and Oliver Tambo mean to our nation by naming two of our National Orders after them - the Order of Luthuli, and the Order of the Companions of O.R. Tambo. I also know of the great pride felt by those who have been admitted into the ranks of the eminent National Orders.

I am also pleased to welcome to the House the activists of the 1956 Women’s March and the 1976 Soweto

Uprising who are sitting in the President’s box, as well as the eminent patriots from all our provinces, proposed by our Provincial Speakers to join the group of important guests who have joined us today.

The government of the people of South Africa on whose behalf I speak here today, as I have been privileged to do in previous years, was formed in 2004, after the General Elections of that year.

At its annual January Lekgotla or Bosberaad last month, the National Cabinet that stands at the pinnacle of the system of governance over which we are privileged to preside, reflected on the fact that its meeting marked the mid-term of the life of the government born of our last, 2004, elections.

Having understood this, it was natural that we should put the question to ourselves - what progress have we made in the quest to achieve the objectives to which we honestly told the nation we were committed, as a result of which our people gave us the overwhelming authority to govern our country from 2004 until the next elections in 2009!

With your indulgence, I would like to step further back, and recall what we said, in 2004, as representatives of our people, in the presence of our friends from the rest of the world, convened at our seat of government the Union Buildings in Tshwane on Freedom Day, the 10th anniversary of our liberation, and participated in the Inauguration of the President of the Republic, whom our Parliament had chosen, respecting the will of the people democratically demonstrated during the 2004 elections.

On that occasion we said in part:

“For too long our country contained within it and represented much that is ugly and repulsive in human society...

“It was a place in which to be born black was to inherit a lifelong curse. It was a place in which to be born white was to carry a permanent burden of fear and hidden rage...

“It was a place in which squalor, the stench of poverty, the open sewers, the decaying rot, the milling crowds of wretchedness, the unending images of a landscape strewn with carelessly abandoned refuse, assumed an aspect that seemed necessary to enhance the beauty of another world of tidy streets, and wooded lanes, and flowers’ blossoms offsetting the green and singing grass, and birds and houses fit for kings and queens, and lyrical music, and love.

“It was a place in which to live in some places was to invite others to prey on you or to condemn oneself to prey on others, guaranteed neighbours who could not but fall victim to alcohol and drug stupors that would dull the pain of living, who knew that their lives would not be normal without murder in their midst, and rape and brutal personal wars without a cause.

“It was a place in which to live in other neighbourhoods was to enjoy safety and security because to be safe was to be protected by high walls, electrified fences, guard dogs, police patrols and military regiments ready to defend those who were our masters, with guns and tanks and aircraft that would rain death on those who would disturb the peace of the masters...

“We have gathered here today, on Freedom Day, because in time, our people, together with the billions of human beings across the globe, who

are our comrades-in-arms and whom our distinguished guests represent, decided to say - an end to all that! ...

"We are greatly encouraged that our General Elections of a fortnight ago confirmed the determination of all our people, regardless of race, colour and ethnicity, to work together to build a South Africa defined by a common dream...

"None of the great social problems we have to solve is capable of resolution outside the context of the creation of jobs and the alleviation and eradication of poverty. This relates to everything, from the improvement of the health of our people, to reducing the levels of crime, raising the levels of literacy and numeracy, and opening the doors of learning and culture to all...

"We pledge to all the heroes and heroines who sacrificed for our freedom, as well as to you, our friends from the rest of the world, that we will never betray the trust you bestowed on us when you helped to give us the possibility to transform South Africa into a democratic, peaceful, non-racial, non-sexist and prosperous country, committed to the noble vision of human solidarity.

"The work to create that South Africa has begun. That work will continue during our Second Decade of Freedom."

Fifty years before, as they prepared to convene the Congress of the People, which adopted the Freedom Charter, the patriots of the day had said, "Let us speak together, all of us together - African and European, Indian and Coloured ... all the people of South Africa ... Let us speak together of freedom. And of the happiness that can come to men and women if they live in a land that is free."

We must today renew our pledge, to speak together of freedom, to act in partnership to realise the happiness for all that should come with liberty, to work together to build a South Africa defined by a common dream, to say, together, in action - enough of everything that made our country to contain within it and represent much that is ugly and repulsive in human society!

We must continue to respond to the perspective we spoke of as the present government began its term of office, fully conscious that "none of the great social problems we have to solve is capable of resolution outside the context of the creation of jobs and the alleviation and eradication of poverty", and therefore that "the struggle to eradicate poverty has been and will continue to be a central part of the national effort to build the new South Africa."

Responding to the imperative to move forward as quickly as possible to build the South Africa defined by a common dream, our government committed itself, working with all South Africans, to implement detailed programmes intended:

- to raise the rate of investment in the First Economy;
- to reduce the cost of doing business in our country;
- to promote the growth of the small and medium business sector;
- to speed up the process of skills development;
- to improve our export performance, focussing on services and manufactured goods;
- to increase spending on scientific research and development;
- to implement detailed programmes to respond to the challenges of the Second Economy;
- to implement programmes to ensure broad-based black economic empowerment;
- to continue with programmes to build a social security net to meet the objectives of poverty alleviation;
- to expand access to such services as water, electricity and sanitation;
- to improve the health profile of the nation as a whole;
- to intensify the housing programme;
- to implement additional measures to open wider the doors of learning and of culture;
- to improve the safety and security of all citizens and communities;
- to ensure that the public sector discharges its responsibilities as a critical player in the growth, reconstruction and development of our country;

- to accelerate the process of renewal of the African continent; and
- increasingly to contribute to the resolution of major questions facing peoples of the world.

I am happy to report that with regard to each of these commitments, government remains hard at work to ensure that the nation's objectives are met.

At an average of over 4,5%, the rate of growth of our economy over the past two and half years has been at its highest since we attained our democracy in 1994. Investment in the economy, by both the public and private sectors has been increasing at about 11%, with overall public sector infrastructure spending increasing by an annual average of 15,8%. Today, fixed investment as a percentage of Gross Domestic Product - at about 18,4% - is at its highest since 1991.

The number of employed people has been increasing at about half-a-million a year in the past 3 years.

We have seen steady progress in the advancement of Black people in the economy. From owning just over 3% of the market capitalisation of the JSE in 2004, this has increased to close on to 5%; and the proportion of Blacks in top management has grown from 24% of the total to 27%. Yet we must remain concerned that these figures are still woefully low.

The advances in the economy have thrown up major challenges for all of us. The massive and sustained increase in consumer demand reflects a healthy growth in levels of prosperity across the population; and the major infrastructure projects that we are embarking on demand massive input of supplies and machinery.

But our international trade balance shows that we have not succeeded in building the capacity to produce the consumer and capital goods that our country needs. While household debt has increased broadly at the same rate as growth in income, the fact that South Africans are saving less means that we have to depend on savings from other nations. The continuing occasional volatility of our

currency has also not boded well for our export industries.

Over the past three years, the economy has created some one-and-half million jobs. It is encouraging that in the year March 2005 to March 2006 alone, 300 000 of the jobs created were in the formal sector outside of agriculture, representing a growth rate of about 4%.

A small part of these are the permanent job opportunities created through the Expanded Public Works Programme. But there is no question that this programme can and must be ratcheted upwards quite significantly. There is also no question that we can do much better to create self-employment through small and micro-enterprises. And given that a large majority of the unemployed are youth, we can do much better in terms of such interventions as the National Youth Service and the development of young entrepreneurs.

It is a matter of pride that, in line with our commitment to build a caring society, we have since 2004 improved service provision and other aspects of the social wage. While beneficiaries of social grants numbered about 8 million in 2004, today 11 million poor South Africans have access to these grants. It is encouraging that the rates of increase in uptake have, in the recent period, been within manageable ranges, as the programmes reach maturity. This will ensure sustainability, and employment of more government resources to provide economic services to create more jobs and business opportunities.

The housing programme has seen close to 300 000 new subsidies allocated in the past two years. However, as we sought to improve quality and develop plans for those who are being missed by the public and private sector programmes currently under way, the pace of roll-out has been much slower than we expected. We must act to change this situation.

As Honourable members are aware, we have over the past few years developed and started implementing various programmes aimed at improving passenger transport. These include the taxi recapitalisation programme and provincial initiatives

such as the Moloto Rail Corridor in Mpumalanga around which feasibility work has started, the Klipfontein Corridor in Cape Town and the Gautrain project with its linkages to the rest of the public transport system.

These and many other initiatives form part of a comprehensive passenger transport strategy, combining both road and rail. We will attend to the urgent implementation of these programmes to improve the quality of life of especially the working people.

Access to electricity, water and sanitation has improved. By 2005, South Africa had already achieved the Millennium Development Goal in respect of basic water supply, with improvement of access from 59% in 1994 to 83% in 2006. According to the United Nations Development Programme (UNDP), South Africa is one of the few countries that spend less on military budgets than on water and sanitation. In the words of the UNDP Human Development Report of 2006:

“... South Africa has demonstrated how the human right to water can serve as a mechanism for empowerment and a guide to policy... Rights-based water reform has enabled it to expand access and overcome the legacy of racial inequality inherited from apartheid, partly through rights-based entitlements”. (pp62/63)

We should indeed celebrate this great achievement. But it is a fact that 8 million people are still without potable water. Many more are without electricity and sanitation.

We are proud that within one year, we have been able to reduce the backlog in the eradication of the bucket system in established settlements by almost half. We are on course to put an end to this dehumanising system in these areas by the end of this year.

We will continue to confront these challenges so as to erase in our country that which is ugly and repulsive so that together we can speak of freedom and the happiness that comes with liberty.

An examination of education and skills acquisition shows improvement of quite a high base by 2004, though

at a slow pace. This applies to literacy levels, gross school enrolment and tertiary participation rates. The fluctuating Matric pass rates do indicate that much more needs to be done to stabilise the system and ensure steady improvement. At the same time, the number of Matric students who pass Mathematics at the higher grade is only slightly better than in 1995. We also continue to show weaknesses in implementing the Adult Basic Education programme.

While the land restitution programme has resulted in more settlements in the recent period, we still need to put in extra effort in dealing with remaining cases, many of which are much more complex. On the other hand, very little progress has been made in terms of land redistribution. We will undertake a careful review of the inhibiting factors so that this programme is urgently speeded up.

All these economic and social programmes form part of our strategies to reduce and eradicate the poverty that continues to afflict many of our people.

The work done during the course of last year, by women through the South African Women in Dialogue working with various government departments, including a visit to countries such as Tunisia and Chile where great progress has been made in dealing with poverty, does point to some defects in our systems in this regard. From the experience of this delegation it is clear that we must among other things:

- Define clearly the poverty matrix of our country;
- Develop a proper database of households living in poverty;
- Identify and implement specific interventions relevant to these households;
- Monitor progress in these households as the programmes take effect in graduating them out of poverty;
- In this context, address all indigence, especially the high numbers of women so affected;
- Co-ordinate and align all anti-poverty programmes to maximise impact and avoid wastage and duplication; and,
- Accelerate the training of Family Social Workers at professional

and auxiliary levels to ensure that identified households are properly supported and monitored.

This will ensure the systematic linkage of beneficiaries of social assistance to municipal services and work opportunities, continuously focused on the task to ensure that as many of our people as possible graduate out of dependence on social grants and enter the labour market. In the meantime, we will continue to explore new initiatives which will progressively improve the social wage.

A critical leg of these social interventions should be the intensification of joint efforts among all South Africans to improve social cohesion.

In this year of the 60th anniversary of the Doctors Pact of leaders of African and Indian communities (AB Xuma, GM Naicker and Yusuf Dadoo), the 30th anniversary of the murder of Steve Biko and the 20th anniversary of the visit to Dakar by Afrikaner intellectuals to meet the ANC, the issue of our variety of identities and the overarching sense of belonging to South Africa needs to be better canvassed across society, in a manner that strengthens our unity as a nation.

Further, on this the 30th anniversary of the banning of *The World* and *The Weekend World* newspapers, we are duty-bound to ask the question - have we all fully internalised our responsibility in building social cohesion and promoting a common sense of belonging, reinforcing the glue that holds our nation together!

In other words, measures required to improve social cohesion cannot be undertaken by government alone. We must together as South Africans speak of freedom from want and from moral decay, and work to attain the happiness that comes with it.

I am certain that we shall all agree that working together to achieve the happiness that comes with freedom applies equally to the challenge of dealing with crime. In the 1994 RDP White Paper we said:

“Promoting peace and security will involve all people. It will build on and expand the national drive for peace and

combat the endemic violence faced by communities...with special attention to the various forms of violence to which women are subjected...

“Peace and political stability are also central to the government’s efforts to create an enabling environment to encourage investment...Decisive action will be taken to eradicate lawlessness, drug trafficking, gun running, crime and especially the abuse of women and children.”

Certainly, we cannot erase that which is ugly and repulsive and claim the happiness that comes with freedom if communities live in fear, closeted behind walls and barbed wire, ever anxious in their houses, on the streets and on our roads, unable freely to enjoy our public spaces. Obviously, we must continue and further intensify the struggle against crime.

While we have already surpassed that targeted figure of 152 000 police officers employed in the South African Police Service, and while we have improved the training programme, we recognise the fact that the impact of this is not yet high enough for everybody to feel a better sense of safety and security. While we have reduced the incidence of most contact crimes, the annual reduction rate with regard to such categories as robbery, assault and murder is still below the 7-10% that we had targeted. And the abuse of women and children continues at an unacceptable level.

The increase in the incidence of particular crimes during the security workers’ strike should have brought home to all of us the fact that the security industry cannot be handled simply as a private affair of the private sector. Quite clearly the regulatory system that we have in place is inadequate. This applies to such issues as wage levels, personnel vetting systems, enforcement of guidelines on cash-delivery vehicles, and so on.

This is a matter that we shall review during the course of the year, so that, in addition to improving the work of the police, we can together with the private security industry create an environment in which the security expectations of the public, in which huge resources are expended, are actually met.

We will also continue to put more effort into improving the functioning of our courts, to increase the rate of reduction in case backlogs. And we will ensure that decisions to expand the Correctional Services infrastructure, improve the management of Border Control as well as the immigration and documentation services, among others, are implemented.

Many of the weaknesses in improving services to the population derive in part from inadequate capacity and systems to monitor implementation. As such, in the period leading up to 2009, the issue of the organisation and capacity of the state will remain high on our agenda.

What has emerged, among others, as a critical area for strategic intervention is the content of training that public servants receive in various institutions and the role of the SA Management Development Institute (SAMDI) which in actual fact should be the major service provider including in the mass induction of public servants.

Compliance levels within departments, in relation to public service and finance management legislation, have been somewhat mixed. Obviously this cannot be allowed to continue, even if we take into account the correct observation that auditing requirements at national and provincial levels have become more stringent. In this regard, the application of the performance agreement system particularly for senior management is crucial.

Programmes to improve the capacity of our local government system continue apace. Immediately after the March 2006 local government elections, induction programmes were conducted, taking into account that 62% of the mayors are new.

What is of concern, though, is that in many of these municipalities, many vacancies remain or have emerged in senior management and the professions. For instance, in September last year, 27% of municipalities did not have municipal managers; in the Northwest Province, the vacancy rate at senior management level was over 50%; and in Mpumalanga only 1% of senior managers had concluded Key Performance Agreements.

We continue to respond to these challenges and will undertake all necessary tasks, informed by our Five Year Local Government Strategic Agenda, which includes hands-on assistance to municipalities by national and provincial structures, the deployment of skilled personnel including professional volunteers from the public, and strengthening the Ward Committees - 80% of which have been established across the country. The programme to align planning instruments across the spheres of government (that is, the National Spatial Development Perspective, Provincial Growth and Development Strategies and Integrated Development Plans) is continuing, with pilot projects for complete alignment being run in 13 of our districts and metros. These pilot projects should be completed by the end of this year.

It is a matter of proud record that over half of the districts and metros have held their Growth and Development Summits, and the rest intend to complete this process by the end of February. This will lay the basis for co-operation among all social partners in speeding up local economic development.

I would like to take advantage of this occasion to express my gratitude to Deputy President Phumzile Mlambo-Ngcuka for the inspiring leadership she has given to the implementation of the Accelerated and Shared Growth Initiative (AsgiSA), working with the Ministers and Premiers who constitute the Task Team, concretely addressing very specific issues that need to be done to ensure higher rates of investment and labour-absorption, as well as matters pertaining to skills development and the efficiency of the state system. We highly appreciate the contribution of all Members of the Executive and our public service managers, across the three spheres of government, in leading this process and in implementing the government programme as a whole. This is central to our efforts to erase that which is ugly and repulsive in our society so that we can speak of freedom and the happiness that comes with liberty.

In this regard, in order further to speed up the implementation of AsgiSA, over and above the multi-year programmes announced in the recent past, government will this year:

- complete the process of reviewing the country's experience in the articulation among such macro-economic indicators as the Exchange Rate, inflation and interest rates, so as to put in place measures that will facilitate the growth of industries which produce tradables for both the domestic and export markets, and have the potential to absorb large pools of semi-skilled workers;
- in line with the National Industrial Policy Framework which has now been completed, we will:
  - intensify implementation of customised sector measures to facilitate investments in Business Process Outsourcing, tourism, bio-fuels and chemicals, and finalise practical programmes for forestry and paper, clothing and textiles, metals and engineering;
  - develop an overarching strategy to prioritise key interventions in mining and mineral beneficiation, agriculture and agro-processing, the white goods sector, creative industries, community and social services and pharmaceuticals. This must include a determined drive to increase our national capacity to produce capital goods. With regard to mineral beneficiation for instance, we will set up a State Diamond Trader that will purchase 10% of diamonds from local producers and sell them to local cutters and producers. We are happy that DeBeers has agreed to assist free of charge with management, technical skills and asset provision for a period of three years;
  - develop programmes to facilitate investments in sectors along the supply chain for our infrastructure programmes, including capital goods in ICT, transport and energy: with regard to energy, we will also expedite our work to ensure greater reliance on nuclear power generation, natural gas and the various forms of renewable sources of energy. With regard to communications, I am pleased to announce that the Department of Communications together with the mobile

telephone companies and Telkom are finalising plans to address call termination rates this year for the benefit of all consumers. In addition, Telkom will apply a special low rate for international bandwidth to 10 development call centres each employing 1000 persons, as part of the effort to expand the BPO sector. These centres will be established in areas identified by government. The special rate will be directly comparable to those for the same service and capacity per month offered in any of the comparable countries.

- We will also take a variety of steps to improve competition in the economy, among others to lower the cost of doing business and promote investment, including practical introduction of the Regulatory Impact Assessment (RIA) system, developing high-speed national and international broadband capacity, finalising the plan to improve the capacity of the rail and port operators, and strengthening the effectiveness of our competition authorities.

The progress we have made with regard to the recapitalisation of Further Education and Training (FET) Colleges has created the possibility for us significantly to expand the number of available artisans. Starting this year, resources will be allocated to provide financial assistance to trainees in need, who enter these institutions. At the same time, we shall urgently resolve the issue of responsibilities between the national and provincial spheres in the management of the FET system. We do hope that our efforts to promote this area of opportunity will help send the message especially to our young people, that artisan skills are as critical for economic growth as other levels of qualification.

After intense interaction between government and leaders of our universities, agreement has been reached and decisions taken on the resources required to ensure that the skills in short supply are provided. In this regard, we wish to commend the role played by the Joint Initiative on Skills Acquisition (JIPSA), which brings together government, business, labour, training institutes and others.

As the Honourable Members know, we have also significantly increased the number of non-fee paying schools.

In carrying out this infrastructure and other programmes we will be informed by our commitment to ensure that the 2010 FIFA World Cup is the best ever. We wish in this regard to congratulate our Local Organising Committee (LOC) and other partners for the sterling work they are doing.

Quite clearly, in order to ensure that all South Africans enjoy the happiness that comes with a growing economy, these and other measures will need to be accompanied by an intensified programme to address challenges in the Second Economy. Because of this, during the course of this year, we will among other things:

- take further practical action to improve access to micro-finance including the reach of the Apex Fund (SAMAF) and the agricultural micro-credit fund (MAFISA);
- ensure the proper functioning of the Small Enterprises Development Agency, SEDA;
- process the Companies Bill, adopted for public comment by Cabinet last Wednesday, as part of the battery of measures to reduce the regulatory burden on small, medium and micro-enterprises and to empower minority shareholders and employees;
- having surpassed the 10 000 target we set ourselves, we will increase the number of young people engaged in the National Youth Service by at least 20 000 through 18 of our departments which have already developed plans in this regard, enrol 30 000 young volunteers in community development initiatives, and employ 5 000 young people as part of the Expanded Public Works Programme in the maintenance of government buildings;
- intensify efforts to integrate youth development into the mainstream of government work, including a youth co-operatives programme, and the ongoing efforts to link unemployed graduates with employment opportunities - and in this regard we wish to thank the many companies, public and private, big and small, which have responded

in a splendid and practical manner to this initiative; and,

- start implementing the Communal Land Rights Act in order to improve economic utilisation of communal land, while at the same time expanding assistance such as irrigation, seeds and implements to small and co-operative farmers.

The economic programmes to which we have referred form part of the concerted drive in which all of South Africa should engage in order to reduce the levels of poverty and inequality in our society. For us it is not a mere cliché to assert that the success of our democracy should and will be measured by the concrete steps we take to improve the quality of life of the most vulnerable in our society.

In order to improve on the social programmes that we have implemented over the years, we aim this year to complete the work already started to reform our system of social security so that phased implementation can start as early as possible. A critical part of this reform will be the task of repairing a defect identified in the 2002 Report of the Committee of Inquiry into a Comprehensive System of Social Security in South Africa. This is that the contributory earnings-related pillar of our social security system is missing or unreliable for large numbers of working people.

The principle guiding this approach is that, over and above social assistance provided through the government budget, we need to explore the introduction of an earnings-related contributory social security system that is informed by the principle of social solidarity.

This will mean that all South Africans will enjoy membership of a common, administratively efficient social insurance system, while those earning higher incomes will be able to continue contributing to private retirement and insurance schemes. In the discussions thus far conducted within government, consensus is emerging that elements of this system would need to include:

- continuation of the minimum benefits contained in our social grants system with the benefits paid through a modern administrative system;

- a wage subsidy for low-wage employees, possibly directed at first entrants into the job market, especially young people; and
- a social security tax to finance basic retirement savings, death, disability and unemployment benefits.

The Minister of Finance will further elaborate on these issues in the Budget Speech. What we should underline though is that in finishing the new social security dispensation, government will undertake a comprehensive process of consultation with all social partners both individually and through NEDLAC.

In addition, we have also started examining measures to reach vulnerable children over the age of 14 years.

Our programme in the social sector for this year will also include:

- speeding up of the construction of low-cost housing which will require the urgent establishment of a Special Purpose Vehicle to handle finances, piloting of the Land Use Management Bill and ensuring that the remaining elements of the much-delayed agreement with the private sector on low-cost housing are finalised;
- speeding up the implementation of the taxi recapitalisation project, implementing detailed plans for passenger rail and road transport including the Bus Rapid Transit System in the Metros and recapitalisation of Metrorail: and in this regard, let me take this opportunity to emphasise that government and our partners in SANTACO will not be bullied into abandoning the taxi recapitalisation project, and any attempts to undermine public order in pursuit of selfish interests will be dealt with accordingly;
- expanding access to Early Childhood Development both as part of the programme to improve the general education system and as part of the Expanded Public Works Programme;
- expanding training and employment of nurses and social workers as well as auxiliaries, increasing the number of training institutions, improving the quality of training, and instituting a bursary system;
- continuing with the implementation of the remuneration dispensation

for medical professionals, and providing additional resources further to improve the remuneration levels of teachers;

- ensuring the implementation, without further delay, of measures to reduce the cost of medicines; and
- continuing work to address especially the various non-natural causes of death in our society as well as lifestyle diseases, malaria, the various strains of TB, road accidents and violent crime.

In this regard, government commits itself to intensify the campaign against HIV and AIDS and to improve its implementation of all elements of the comprehensive approach such as prevention, home-based care and treatment. We shall ensure that the partnerships built over the years are strengthened, and that our improved national comprehensive strategy against AIDS and sexually transmitted infections is finalised as soon as possible.

This year we shall complete concrete plans on implementation of the final stages of our programmes to meet the targets for universal access to water in 2008, sanitation in 2010 and electricity in 2012. We shall also finalise the strategy and programmes to address matters of social cohesion, including the comprehensive and integrated anti-poverty strategy we have mentioned, as well as address issues pertaining to national unity, value systems and identity.

All these efforts, Madame Speaker and Chairperson, must go hand in hand with a sustained drive to improve community safety and security. In this regard, government will ensure that the decisions already taken about strengthening our fight against crime are effectively implemented. The challenge that we face in addressing this issue has little to do with policies.

Rather, what is required is effective organisation, mobilisation and leadership of the mass of law-enforcement, intelligence and corrections officers, and functionaries of the justice system. The overwhelming majority of these public servants have proven over and over again in actual practice that they are prepared to put their lives on the line and to sacrifice even the little quality time they could have with their families, in defence of our freedom and our security.

In addition to the many ongoing programmes that we have been implementing, government will this year:

- continue to improve the remuneration and working conditions of the police, and start the process of further expanding the personnel of the South African Police Service to bring their total number to over 180 000 within three years, and ensure optimal utilisation of the electronic monitoring and evaluation system that has just been introduced;
- bring to full capacity the forensic laboratories which have been equipped with the latest technology, and ensure the optimum utilisation of the finger-print database - indeed, many of the recent successes in solving serious crime incidents have been facilitated by these systems;
- bring the operations of the Department of Home Affairs to full capacity, by filling vacant posts, improving systems and implementing other recommendations of the Task Team that has been working with the Minister to improve the work of this vital institution;
- implement the recommendations of the Khampepe Commission on the mandate and operations of the Directorate of Special Operations (Scorpions);
- start the process of further modernising the systems of the South African Revenue Services, especially in respect of border control, and improve the work of the inter-departmental co-ordinating structures in this regard;
- intensify intelligence work with regard to organised crime, building on the successes that have been achieved in the last few months in dealing with cash-in-transit heists, drug trafficking and poaching of game and abalone;
- utilise to maximum effect the new technology that has been provided to the justice system and generally improve management of the courts and the prosecution service, in order massively to reduce case backlogs;
- finalise remaining elements of measures to transform the judiciary and improve its functioning, in consultation with this eminent institution of our democracy;
- implement the programmes decided upon to build more corrections facilities and realise the objectives of

the White Paper on Corrections;

- continue with the processes further to capacitate our intelligence agencies, and ensure that at all times they operate within the framework of our Constitution and laws; and
- improve our analysis of crime trends to improve our performance with regard both to crime prevention and crime combating. In this regard, we must respond to the cold reality that, as in other countries, the overwhelming majority of violent crimes against the person occur in the most socio-economically deprived areas of our country and require strong and sustained community interventions focused on crime prevention.

As we have already said, these and other measures will succeed only if we build an enduring partnership in actual practice within our communities and between the communities and the police, to make life more and more difficult for the criminals.

In this regard, we are heartened by the resolve shown by leaders of the business and religious communities further to strengthen such partnerships on the ground, and to give of their time and resources to strengthen the fight against crime. Government will play its part to ensure that these partnerships actually work, and that we all act together to discharge the responsibility to protect our citizens.

I should mention in this regard that the Ministry of Safety and Security and the Police Service are working on proposals further to improve the functioning and effectiveness of the vitally important Community Police Forums.

Further to improve its service to the people, government should optimise its capacity and organisational efficiency. To achieve these objectives, we will during the course of this year:

- strengthen monitoring and evaluation capacity across all the spheres, including training of managers responsible for the implementation of this system;
- complete, within the next 18 months, legislation on a single public service and relevant norms and standards, remuneration policy and matters pertaining to medical aid and pensions;

- intensify outreach and awareness on issues of national spatial development, while increasing the number of municipalities involved in the harmonisation of planning instruments across the three spheres;
- conduct capacity assessments and implement interventions in Provincial Departments responsible for local government, as well as the Offices of the Premiers, while continuing to improve the capacity of our national departments;
- while intensifying the public sector and national anti-corruption campaign, complete by the end of the year the process further to improve the effectiveness of our anti-corruption strategies for all spheres of government;
- roll out the Batho Pele campaign at local government level, intensify outreach activities including izimbizo and set up more Multi-Purpose Community Centres beyond the 90 currently operational; and,
- further capacitate and provide more support to the institution of traditional leadership.

Improving governance also means having a sound statistical database about social dynamics within our nation. In this regard, two major surveys will be undertaken in 2007. As of two days ago 6 000 field workers from Statistics South Africa have gone out across our country to collect information on 280 000 households chosen to participate in a Community Survey, which will give government as accurate as possible a snapshot of the circumstances of citizens in every part of the country.

In October another 30 000 individuals in 8 000 households will be selected to participate in South Africa's first national panel study, the National Income Dynamics Study. These 30 000 individuals will be tracked over time, to further our understanding of such issues such as migration, labour market transitions, inter-generational mobility and household formation and dissolution. I wish to take this opportunity to call on all those selected to cooperate fully in these important undertakings.

Among the greatest achievements of the peoples of Africa in the past two-and-a-half years has been the restoration of peace in the Great Lakes Region. We are proud, as South Africans, of

the role that our people have played in helping to bring this about - from the young men and women in our National Defence Force to employees of public and private institutions who gave of their time to ensure that the African dream finds practical realisation in the homeland of Patrice Lumumba.

We will continue to work with the sister people of the DRC, as well as Burundi, the Comoros and Sudan in particular to ensure that the condition of peace and stability thus far attained translates without pause into concerted action for economic reconstruction and social development.

However, while we are fully justified in celebrating the achievements that Africa has made in her endeavour to achieve peace and development, we cannot underplay the challenges that we face in dealing with the remaining areas of conflict, particularly the general peace process in Sudan, including the situation in Darfur, Côte d'Ivoire and Somalia.

Our government will respond appropriately and as our capacity permits, to the call of the African Union for assistance to the people and government of Somalia. Critical in this regard, are the initiatives under way to ensure that the protagonists within Somalia interact with one another to find a solution that is inclusive and practicable, based on the need to achieve national reconciliation.

This year the African Peer Review Forum will complete its review of our country. I wish to take this opportunity to thank our legislators, government Ministers and departments, our civil society organisations and society at large for the contribution they made to an exercise that was as challenging as it was unique for our young democracy. We will also take the necessary steps to implement the required programme of action that will emerge as a result of the peer review process.

Similarly, we will continue to work with the rest of our continent and our development partners to speed up the implementation of the NEPAD programmes.

Just over a month ago, South Africa started its tour of duty as a non-permanent member of the United

Nations Security Council. We hereby wish to pledge, on behalf of the people of South Africa, that we will, in this most esteemed of multilateral bodies, do everything necessary further to contribute to international peace and security.

In this regard we will also continue to engage the leaders of the peoples of Palestine, Israel, Iraq, Iran and other countries in the Middle East and the Persian Gulf.

We shall also continue to strengthen our relations with other countries on the continent, our partners in India, Brazil and the People's Republic of China, other countries of the South, as well as Japan, Europe and North America.

One of the critical questions that we shall pursue in this regard is the speedy resumption of the Doha Development Round of WTO negotiations.

We are convinced that solutions to the logjams currently being experienced can be found, and that it is in the long-term interest of developed and developing countries alike that these talks should reach fruition.

Since the popular mandate of 2004, we have made welcome progress in further changing South Africa for the better. We should not and do not underplay the many difficulties we still confront.

But the message that our collective experience communicates to all of us is that, working together, we can and shall succeed in meeting the common objective we have set ourselves as a nation - to build a better life for all, in a country that no longer contains within it and represent much that is ugly and repulsive in human society.

We should today, even more confidently, speak together of freedom. We should dare to act in concert to pursue the "happiness that can come to men and women if they live in a land that is free".

We are not there yet. But no one, except ourselves, shall ensure that this dream is realised. And so, let us roll up our sleeves and get down to work, fully understanding that the task to build the South Africa for which we yearn is a common responsibility we all share. Thank you."

## BIOFUELS: THE DEBATE HEATS UP

*Following on from the previous article on ethanol as an emerging fuel in South Bulletin no. 143, **President Fidel Castro Ruz of Cuba** wrote another piece, reproduced below, showing more reasons why a major global push for biofuels will be against the interests of the South, particularly its poor. Written on 9 May, 2007, the article by President Castro acknowledges the fact that it is already an important step forward that the subject is being discussed. Also included are extracts from an earlier reflection on the subject (30 April, 2007).*

Atilio Borón, a prestigious leftist intellectual who until recently headed the Latin American Council of Social Sciences (CLACSO), wrote an article for the 6th Hemispheric Meeting of Struggle against the FTAs and for the Integration of Peoples which just wrapped up in Havana; he was kind enough to send it to me along with a letter.

The gist of what he wrote I have summarized using exact quotes of paragraphs and phrases in his article; it reads as follows:

Pre-capitalist societies already knew about oil which surfaced in shallow deposits and they used for non-commercial purposes, such as waterproofing the wooden hulls of ships or in textile products, or for torches. Its original name was 'petroleum' or stone-oil.

By the end of the 19th century – after the discovery of large oilfields in Pennsylvania, United States, and the technological developments propelled by the massive use of the internal combustion engine-- oil became the energy paradigm of the 20th century.

Energy is conceived of as just merchandise. Like Marx warned us, this is not due to the perversity or callousness of some individual capitalist or another, but rather the consequence of the logic of the accumulation process, which is prone to the ceaseless "mercantilism" that touches on all components of social life, both material and symbolic. The mercantilist process did not stop with the human being, but simultaneously extended to nature.

The land and its products, the rivers and the mountains, the jungles and the forests became the target of

its irrepressible pillage. Foodstuffs, of course, could not escape this hellish dynamic. Capitalism turns everything that crosses its path into merchandise.

Foodstuffs are transformed into fuels to make viable the irrationality of a civilization that, to sustain the wealth and privilege of a few, is brutally assaulting the environment and the ecologic conditions which made it possible for life to appear on Earth.

Transforming food into fuels is a monstrosity.

Capitalism is preparing to perpetrate a massive euthanasia on the poor, and particularly on the poor of the South, since it is there that the greatest reserves of the earth's biomass required to produce biofuels are found. Regardless of numerous official statements assuring that this is not a choice between food and fuel, reality shows that this, and no other, is exactly the alternative: either the land is used to produce food or to produce biofuels.

The main lessons taught us by FAO data on the subject of agricultural land and the consumption of fertilizers are the following:

- Agricultural land per capita in developed capitalism almost doubles that existing in the underdeveloped periphery: 3.26 acres per person in the North as opposed to 1.6 in the South; this is explained by the simple fact that close to 80 percent of the world population live in the underdeveloped periphery.
- Brazil has slightly more agricultural land per capita than the developed countries. It becomes clear that this nation will have to assign huge

tracts of its enormous land surface to meet the demands of the new energy paradigm.

- China and India have 1.05 and 0.43 acres per person respectively.
- The small nations of the Antilles, with their traditional one-crop agriculture, that is sugarcane, demonstrate eloquently its erosive effects exemplified by the extraordinary rate of consumption of fertilizers per acre needed to support this production. If in the peripheral countries the average figure is 109 kilograms of fertilizer per hectare (as opposed to 84 in developed countries), in Barbados the figure is 187.5, in Dominica 600, in Guadeloupe 1,016, in St. Lucia 1,325 and in Martinique 1,609. The use of fertilizers is tantamount to intensive oil consumption, and so the much touted advantage of agrifuels to reduce the consumption of hydrocarbons seems more an illusion than a reality.

The total agricultural land of the European Union is barely sufficient to cover 30 percent of their current needs for fuel but not their future needs that will probably be greater. In the United States, the satisfaction of their current demand for fossil fuels would require the use of 121 percent of all their agricultural land for agrifuels.

Consequently, the supply of agrifuels will have to come from the South, from capitalism's poor and neocolonial periphery. Mathematics does not lie: neither the United States nor the European Union have available land to support an increase in food production and an expansion of the production of agrifuels at the same time.

Deforestation of the planet would increase the land surface suitable for agriculture (but only for a while). Therefore this would be only for a few decades, at the most. These lands would then suffer desertification and the situation would be worse than ever, aggravating even further the dilemma pitting the production of food against that of ethanol or biodiesel.

The struggle against hunger – and there are some 2 billion people who suffer from hunger in the world – will be seriously impaired by the expansion of land taken over by agrifuel crops. Countries where hunger is a universal scourge will bear witness to the rapid transformation of agriculture that would feed the insatiable demand for fuels needed by a civilization based on their irrational use. The only result possible is an increase in the cost of food and thus, the worsening of the social situation in the South countries.

Moreover, the world population grows 76 million people every year who will obviously demand food that will be steadily more expensive and farther out of their reach.

In *The Globalist Perspective*, Lester Brown predicted less than a year ago that automobiles would absorb the largest part of the increase in world grain production in 2006. Of the 20 million tons added to those existing in 2005, 14 million were used in the production of fuels, and only 6 million tons were used to satisfy the needs of the hungry. This author affirms that the world appetite for automobile fuel is insatiable. Brown concluded by saying that a scenario is being prepared where a head-on confrontation will take place between the 800 million prosperous car owners and the food consumers.

The devastating impact of increased food prices, which will inexorably happen as the land is used either for food or for fuel, was demonstrated in the work of C. Ford Runge and Benjamin Senauer, two distinguished professors from the University of Minnesota, in an article published in the English language edition of the *Foreign Affairs* magazine whose title says it all: "How Biofuels Could Starve the Poor". The authors

claim that in the United States the growth of the agrifuel industry has given rise to increases not only in the price of corn, oleaginous seeds and other grains, but also in the prices of apparently unrelated crops and products.

The use of land to grow corn which will feed the fauces of ethanol is reducing the area for other crops. The food processors using crops such as peas and young corn have been forced to pay higher prices in order to ensure their supplies. This is a cost that will eventually be passed on to the consumer.

The increase in food prices is also hitting the livestock and poultry industries. The higher costs have produced an abrupt decrease in income, especially in the poultry and pork sectors. If income continues to decrease, so will production, and the prices of chicken, turkey, pork, milk and eggs will increase. They warn that the most devastating effects of increasing food prices will be felt especially in Third World countries.

Studies made by the Belgian Office of Scientific Affairs shows that biodiesel causes more health and environmental hazards because it creates a more pulverized pollution and releases more pollutants that destroy the ozone layer.

With regards to the argument claiming that the agrifuels are harmless, Victor Bronstein, a professor at the University of Buenos Aires, has demonstrated that:

- It is not true that biofuels are a renewable and constant energy source, given that the crucial factor in plant growth is not sunlight but the availability of water and suitable soil conditions. If this were not the case, we would be able to grow corn or sugarcane in the Sahara Desert. The effects of large-scale production of biofuels will be devastating.
- It is not true that they do not pollute. Even if ethanol produces less carbon emissions, the process to obtain it pollutes the surface and the water with nitrates, herbicides, pesticides and waste, and the air

is polluted with aldehydes and alcohols that are carcinogens. The presumption of a "green and clean" fuel is a fallacy.

The proposal of agrifuels is unviable, and it is ethically and politically unacceptable. But it is not enough just to reject it. It is necessary to implement a new energy revolution, but one that is at the service of the people and not at the service of the monopolies and imperialism. This is, perhaps, the most important challenge of our time, concludes Atilio Borón.

As you can see, this summary took up some space. We need space and time; practically a book. It has been said that the masterpiece which made author Gabriel García Márquez famous, *One Hundred Years of Solitude*, required him to write fifty pages for each page that was printed. How much time would my poor pen need to refute those who for a material interest, ignorance, indifference or even for all three at the same time defend the evil idea and to spread the solid and honest arguments of those who struggle for the life of the species?

Some very important opinions and points of view were discussed at the Hemispheric Meeting in Havana. We should talk about those that brought us real-life images of cutting sugarcane by hand in a documentary film that seemed a reflection of Dante's *Inferno*. A growing number of opinions are carried by the media every day and everywhere in the world, from institutions like the United Nations right up to national scientific associations. I simply perceive that the debate is heating up. The fact that the subject is being discussed is already an important step forward.

### **The Necessity of an Energy Revolution**

I hold nothing against Brazil, even thought to more than a few Brazilians continuously bombarded with the most diverse arguments, which can be confusing even for people who have traditionally been friendly to Cuba, we might sound callous and careless about hurting that country's net

income of hard currency. However, for me to keep silent would be to opt between the idea of a world tragedy and a presumed benefit for the people of that great nation.

I do not blame Lula and the Brazilians for the objective laws which have governed the history of our species. Only seven thousand years have passed since the human being has left his tangible mark on what has come to be a civilization immensely rich in culture and technical knowledge.

Advances have not been achieved at the same time or in the same geographical latitudes. It can be said that due to the apparent enormity of our planet, quite often the existence of one or another civilization was unknown. Never in thousands of years had the human being lived in cities with twenty million inhabitants such as Sao Paulo or Mexico City, or in urban communities such as Paris, Madrid, Berlin and others who see trains speeding by on rails and air cushions, at speeds of more than 250 miles an hour.

At the time of Christopher Columbus, barely 500 years ago, some of these cities did not exist or they had populations that did not exceed several tens of thousands. Nobody used one single kilowatt to light their home. Possibly, the population of the world then was not more than 500 million. We know that in 1830, world population reached the first billion mark, one hundred and thirty years later it multiplied by three, and forty-six years later the total number of inhabitants on the planet had grown to 6.5 billion; the immense majority of these were poor, having to share their food with domestic animals and from now on with biofuels.

Humanity did not then have all the advances in computers and means of communication that we have today, even though the first atomic bombs had already been detonated over two large human communities, in a brutal act of terrorism against a defenseless civilian population, for reasons that were strictly political.

Today, the world has tens of thousands of nuclear bombs that are fifty times as powerful, with carriers that are several times faster than the

speed of sound and having absolute precision; our sophisticated species could destroy itself with them. At the end of World War II, fought by the peoples against fascism, a new power emerged that took over the world and imposed the absolutist and cruel order under which we live today.

Before Bush's trip to Brazil, the leader of the empire decided that corn and other foodstuffs would be suitable raw material for the production of biofuels.

For his part, Lula stated that Brazil could supply as much biofuel as necessary from sugar cane; he saw in this formula a possibility for the future of the Third World, and the only problem left to solve would be to improve the living conditions of the sugarcane workers. He was well aware –and he said it– that the United States should in turn lift the custom tariffs and the subsidies affecting ethanol exports to that country.

Bush replied that custom tariffs and subsidies to the growers were untouchable in a country such as the United States, which is the first world producer of ethanol from corn.

The large American transnationals, which produce this biofuel investing tens of billion dollars at an accelerated pace, had demanded from the imperial leader the distribution in the American market of no less than thirty-five billions (35,000,000,000) of gallons of this fuel every year. The combination of protective tariffs and real subsidies would raise that figure to almost one hundred billion dollars each year.

Insatiable in its demand, the empire had flung into the world the slogan of producing biofuels in order to liberate the United States, the world's supreme energy consumer, from all external dependency on hydrocarbons.

History shows that sugar as a single crop was closely associated with the enslaving of Africans, forcibly uprooted from their natural communities, and brought to Cuba, Haiti and other Caribbean islands. In Brazil, the exact same thing happened in the growing of sugar cane.

Today, in that country, almost 80% of sugar cane is cut by hand. Sources and studies made by Brazilian researchers affirm that a sugarcane cutter, a piece-work laborer, must produce no less than twelve tons in order to meet basic needs. This worker needs to perform 36,630 flexing movements with his legs, make small trips 800 times carrying 15 kilos of cane in his arms and walk 8,800 meters in his chores. He loses an average of 8 liters of water every day. Only by burning cane can this productivity per man be achieved. Cane cut by hand or by machines is usually burned to protect people from nasty bites and especially to increase productivity. Even though the established norm for a working day is from 8 in the morning until 5 in the afternoon, this type of piece-work cane cutting tends to go on for a 12 hour working day. The temperature will at times rise to 45 degrees centigrade by noon.

I have cut cane myself more than once as a moral duty, as have many other comrade leaders of the country. I remember August of 1969. I chose a place close to the capital. I moved there very early every day. It was not burned cane but green cane, an early variety and high in agricultural and industrial yield. I would cut for four hours non-stop. Somebody else would be sharpening the machete. I consistently produced a minimum of 3.4 tons per day. Then I would shower, calmly have some lunch and take a break in a place nearby. I earned several coupons in the famous harvest of 1970. I had just turned 44 then. The rest of the time, until bedtime, I worked at my revolutionary duties. I stopped my personal efforts after I wounded my left foot. The sharpened machete had sliced through my protective boot. The national goal was 10 million tons of sugar and approximately 4 million tons of molasses as by-product. We never reached that goal, although we came close.

The USSR had not disappeared; that seemed impossible. The Special Period, which took us to a struggle for survival and to economic inequalities with their inherent elements of corruption, had not yet begun. Imperialism believed that the time had come to finish off the Revolution.

It is also fair to recognize that during years of bonanza we wasted resources and our idealism ran high along with the dreams accompanying our heroic process.

The great agricultural yields of the United States were achieved by rotating the gramineae (corn, wheat, oats, millet and other similar grains) with the legumes (soy, alfalfa, beans, etc.). These contribute nitrogen and organic material to the soil.

The corn crop yield in the United States in 2005, according to FAO (Food and Agriculture Organization of the United Nations) data was 9.3 tons per hectare.

In Brazil they only obtain 3 tons of this same grain in the same area. The total production registered by this sister nation that year was thirty-four million six hundred thousand tons, consumed internally as food. It cannot contribute corn to the world market.

The prices for this grain, the staple diet in numerous countries of the region, have almost doubled. What will happen when hundreds of millions of tons of corn are redirected towards the production of biofuel?

And I rather not mention the amounts of wheat, millet, oats, barley, sorghum and other cereals that industrialized countries will use as a source of fuel for its engines.

Add to this that it is very difficult for Brazil to rotate corn and legumes. Of the Brazilian states traditionally producing corn, eight are responsible for ninety percent of production: Paraná, Minas Gerais, Sao Paulo, Goiás, Mato Grosso, Rio Grande do Sul, Santa Catarina y Mato Grosso do Sul.

On the other hand, 60% of sugar cane production, a grain that cannot be rotated with other crops, takes place in four states: Sao Paulo, Paraná, Pernambuco and Alagoas.

The engines of tractors, harvesters and the heavy machinery required to mechanize the harvest would use growing amounts of hydrocarbons. The increase of mechanization would not help in the prevention of global

warming, something which has been proven by experts who have measured annual temperatures for the last 150 years.

Brazil does produce an excellent food that is especially rich in protein: soy, fifty million one hundred and fifteen thousand (50,115,000) tons. It consumes almost 23 million tons and exports twenty-seven million three hundred thousand (27,300,000). Is it perhaps that a large part of this soy will be converted to biofuel?

As it is, the producers of beef cattle are beginning to complain that grazing land is being transformed into sugarcane fields.

The former Agriculture Minister of Brazil, Roberto Rodrigues, an important advocate for the current government position, --and today a co-president of the Inter American Ethanol Commission created in 2006 following an agreement with the state of Florida and the Inter American Development Bank (IDB) to promote the use of biofuel on the American continent-- declared that the program to mechanize the sugarcane harvest does not create more jobs, but on the contrary it would produce a surplus of non-qualified manpower.

We know that the poorest workers from various states are the ones who gravitate towards cane cutting out of necessity.

Sometimes, they must spend many months away from their families.

That is what happened in Cuba until the triumph of the Revolution, when the cutting and hauling of sugarcane was done by hand, and mechanized cultivation or transportation hardly existed.

With the demise of the brutal system forced on our society the cane-cutters, massively taught to read and write, abandoned their wanderings in a few years and it became necessary to replace them with hundreds of thousands of voluntary workers.

Add to this the latest report by the United Nations about climate change, affirming what would happen in South

America with the water from the glaciers and the Amazon water basin as the temperature of the atmosphere continue to rise.

Nothing could prevent American and European capital from funding the production of biofuels. They could even send the funds as gifts to Brazil and Latin America.

The United States, Europe and the other industrialized countries would save more than one hundred and forty billion dollars each year, without having to worry about the consequences for the climate and the hunger which would affect the countries of the Third World in the first place.

They would always be left with enough money for biofuels and to acquire the little food available on the world market at any price.

It is imperative to immediately have an energy revolution that consists not only in replacing all the incandescent light bulbs, but also in massively recycling all domestic, commercial, industrial, transport and socially used electric appliances that require two and three times more energy with their previous technologies.

It hurts to think that 10 billion tons of fossil fuel is consumed every year. This means that each year we waste what it took nature a million years to create. National industries are faced with enormous challenges, including the reduction of unemployment. Thus we could gain a bit of time.

Another risk of a different nature facing the world is an economic recession in the United States. In the past few days, the dollar has broken records at losing value.

On the other hand, every country has most of its reserves in convertible currencies precisely in this paper currency and in American bonds.

Tomorrow, May Day is a good day to bring these reflections to the workers and to all the poor of the world.

## 'CONDITIONALITIES' IMPEDING DOHA ROUND DELIVERANCE

*"Though development was enunciated as the centrality of the Round, some seek to weave it in a mesh of ifs and buts," said Kamal Nath, India's Minister of Commerce and Industry at the launch of Global Trade Governance Project at University of Oxford. "The current freeze we are witnessing is because the debate is being deflected from an unconditional delivery of the development dimension to conditionalities that expose what seem to be the real intention of some." Following is the text of the special address on the Future of World Trade Talks on 3 May 2007 delivered on 3 May 2007, in which Minister Nath points out that failure to deliver on Development could spell 'social disaster and instability' in the developing world.*

"It is a privilege and an honour for me to be here, speaking to you at University College in Oxford – an institution that has been hallowed by time and history. I come from a culture that so values knowledge that it treats seats of learning as places of pilgrimage. In the century before Christ, Takshashila and Nalanda were to Asia what, a millennium later, Oxford and Cambridge became to Europe. I come to Oxford with awe, with respect and with pleasure. I come to you to speak to you of my country and how it engages with the world of commerce, how we perceive the new globalised world, how it perceives us, and how we confront the challenges of the new economic architecture.

It is not just that the world's perception of India is changing; India's own perception of herself is changing. How an ancient culture engages with the New Economy is one of the most fascinating and exciting developments of the past decade.

There are two worlds: one is the world that is viewed through 'screens' – the laptop, the TV, the mobile phone. But there is another world – the real world beyond the virtual – a world whose many realities do not succeed in seeping through the many screens that have so become part of our lives.

When we talk of the WTO negotiations and the challenges this poses for India, we need to look at the flaws, the inequities and the opportunities in the current global trading system. It is important to understand the many nuances of India and its changing economy, its changing society – its successes as well as its continuing socio-economic problems; its giant strides as well as the chains that continue to hinder its footsteps. Only

then will you be able to see India's position in the WTO negotiations in perspective.

To the generation of Europeans and Americans who grew up soon after the Second World War, India was a mystic land of snake-charmers, where tigers roamed the streets and maharajas wore fabulous jewels and rode on elephants. Then a few years after Independence, in the fifties and sixties and even up to the eighties, we were seen increasingly as a land of dire poverty, famine, disease and ignorance. Doomsayers constantly predicted that we would either fall under the Soviet yoke or break up or both. And since the nineties, and more especially in the new millennium, we started to surprise the world. Suddenly everyone seems to think that our marvelous economic progress and amazing achievements mean that India is no longer really a developing country, and so should have no problem in opening its markets, both agricultural and industrial, to the world, and that we are unnecessarily making a big fuss in the WTO.

Ladies and Gentlemen, you as scholars, learned and aware, know as well as I do that each of these three views is one-dimensional – the third, as much as the earlier two. But not everyone appreciates that no reality is one-dimensional, least of all the Indian reality. India, with one-sixth of the planet living within its boundaries. India, with a diversity greater than that which exists in all of Europe, and an underlying unity stemming from a shared history and culture, that is more fundamental than that shared by the countries of Europe. An India, that for sixty years has been, in spite of its poverty and illiteracy, a vibrant democracy. Someone said that every time India votes in a general election,

it is always the largest democratic exercise in the history of the world.

Democracy has paid rich dividends to India. A vibrant spirit of openness and transparency pervades our body politic. We have nurtured and developed rock solid public institutions: a totally independent and universally respected judiciary, a free and animated press, a sophisticated banking system, financial markets, stock exchanges – in general, a political, economic and financial network that is, if not state-of-the-art, certainly resilient and dependable.

A few years ago we sensed the dangers that rapid growth without 'inclusive' development can pose to the social polity. For the last three years we have been moulding policies such that while growth continues unhindered, indeed while it is speeded up, the fruits of growth are more evenly spread, and reach the common man – what we in India call the 'aam aadmi'.

This is not always easy, I admit. Sometimes it may seem to an outside observer that these attempts run contrary to a liberal and open free economy. But our commitment to both – inclusive growth as well as liberalization – is undiminished. I am convinced that there is no dichotomy between these, and I believe that the challenge of governance lies in reconciling them. Countries have to seek their own solutions. I agree that the problems of poverty are universal – but their social contexts differ. In India we have specific contexts, and the solutions we seek also need to be India-specific; and that is what a strategy of calibrated reforms is all about.

One measure of India's economic openness and engagement with the

world economy is her trade. Surprising as it may seem, share of trade in goods and services as a percentage of GDP is higher in India than in the US or Japan. We have recently achieved a feat unprecedented elsewhere – we have more than doubled our merchandise exports within three years. Coupled with our expanding imports, our total merchandise trade is of the order of 300 billion dollars annually. With our export and import of services each at 75 billion dollars, our engagement with the global economy is 450 billion dollars. Foreign Direct Investment last year was 19 billion dollars, and our foreign exchange reserves exceed 200 billion dollars (up from less than a billion 16 years ago). Our GDP is more than a trillion dollars in real terms – in PPP terms it is four times as much.

In the past, India has been called a caged tiger, a lumbering elephant, and various other exotic animals in the zoo. I think it would not be boastful to say that today we have moved out of the zoo – and on to the race-course. Year on year, we have recorded an economic growth rate of over 8% for the past three years. Last year it was 9.2%.

I am acutely conscious that these fine figures cannot gloss over social problems. While there still is a great deal of illiteracy in India, we have got around the hump of the problem. We now have a 70% literacy rate, and the gender imbalance and rural-urban imbalance in this is far less pronounced. Another remarkable achievement is that we have got a handle on our population growth rate; it is now 1.8%, comparable to that in some developed economies. And because this has not been the result of coercion, the drop is not sudden and sharp. This means that the age-distribution of our population is proving an advantage. Whereas greying populations are the bane of Europe, in twenty years time even China is going to face that problem. India will be reaping the population dividend for another half century, during which she will have the largest and youngest workforce on the planet.

The economic reform process in India is irreversible. A succession of governments during the last sixteen years, representing a spectrum of political alliances, have all conceded that. This is because economic reform

has found resonance with the people. There is popular support for the process. People are impatient for prosperity – not for their children or grandchildren, but for themselves.

What has all this got to do with the WTO? If India is doing so well, then why is it perceived as 'being difficult' in the negotiations? The answer is that it is precisely because we cannot afford to jeopardize what we all are seeking: a more balanced, a more just and a more development oriented outcome in the WTO; an outcome that does not perpetuate the structural flaws in global trade, but redresses them.

There are many realities that co-exist in India. Just because Indian industry has matured to the extent of aggressively pursuing acquisitions abroad, and we are witnessing an outward flow of FDI, does not mean that we have reached first world status. Sixty per cent of India's people are dependent upon agriculture for their livelihoods. Indian agriculture is characterized by small holdings of less than five acres. Ninety per cent of landowners are also tillers. Indian agriculture is predominantly 'subsistence' agriculture, not 'corporate-for-profit' agriculture. In spite of this, the Indian farmer is willing to compete with the American farmer. But he cannot compete with the US Treasury. We cannot allow what has happened to West Africa, to happen to our farmers.

The cotton issue is a bleeding sore on the conscience of the world. It is tragedy of a proportion equal to the war in Rwanda or famine in Ethiopia. Whole populations of some nations in West Africa have been reduced to abject poverty through unfair trade. And we are still 'negotiating' about it. Let us not mince words: however much we may want a world without tariffs, we must admit that tariffs are legitimate economic instruments. Subsidies, on the other hand, are not. How fair is it to 'trade off' legitimate instruments against illegitimate ones? Quid pro quos are all very well. We understand that. But when we are asked to abandon the only defence we have against illegitimate subsidies, and that too on the basis of a promise that these illegitimacies will be dismantled at some point in the future (and that too, not entirely), don't you think it's a bit rich?

Even the window of Special Products and the Special Safeguard Mechanism that was devised in the July Framework as a means of safeguarding livelihood security and rural development needs – even this is being sought to be tied up in knots so as to render it ineffective. Low-income or resource-poor rural households have little ability to absorb price fluctuations and a flood of subsidized imports of agricultural products. If developing country governments are not able to provide a safety net – a safety net for livelihoods, mind you, not for corporate profits – then it would be the surest recipe for social disaster and instability.

On the industrial front, developing countries have agreed to a non-linear Swiss formula. We have agreed to this, only in the hope that developed countries, which in spite of their seemingly low average industrial tariffs continue to maintain high tariff peaks and tariff escalations on products of export interest to developing countries, will be forced to reduce these peaks and escalations. India has not been averse to high ambition levels, provided the mandate of less than full reciprocity in percentage reduction commitments is met. Coefficients are only numbers. What is important is the outcome of those numbers: the reduction commitments. What kind of development round would this be if the formula coefficients chosen are such that developing countries end up cutting tariffs by a higher percentage than developed countries?

We must not lose sight of the fact that unrestrained tariff liberalization can have disastrous effects on a country's industrial economy. The former Trade Minister of Zambia told me that his country actually experienced de-industrialisation after its membership of the WTO. The harsh truth is that the most vulnerable in any re-adjustment are women and artisans, small scale industries run by local entrepreneurs and those that are located in geographically disadvantaged pockets of the country. Flexibilities in the application of a NAMA formula remain an inviolable essential to ensure balanced regional and sectoral development.

Does all this mean that India is aiming for a 'low ambition' outcome? Of course not. We are as ambitious as

any one else. But ambition can mean different things to different people. I believe that the only way to qualify ambition is to measure it against the goals we have set for ourselves. The goal of this round of negotiations is development, and so our ambition ought to be oriented towards achieving it.

Ladies and gentlemen: I believe that the mandate and the principles of a Development Round hold the promise of the most ambitious interface between national economies and the international environment ever undertaken by governments across the globe. Though development was enunciated as the centrality of the Round, some seek to weave it in a mesh of ifs and buts. The current

freeze we are witnessing is because the debate is being deflected from an unconditional delivery of the development dimension to conditionalities that expose what seem to be the real intention of some. We have engaged in this Round in the belief that it is a Development Round. And we shall continue to proceed on that premise.

The need for delivering on the development dimension rests not merely on fairness and equity and justice – though that would be reason enough. But healthy economics itself demands it. Where would Europe and America sell their goods if Asia and Latin America and Africa were sick and poor and floundering? An economically healthy developing world is important

to the continued prosperity of the North, as it is also the only guarantor of international peace.

Over three billion people on this planet continue in the clutches of poverty. Yet they are imbued with a vision of hope. They do not know what International Economics is, they have not heard of the WTO or the Doha round. But what they do know is that there is a world out there in which a privileged few consume twenty times more oil, fifty times more energy and a hundred times more electricity than they do. That is the 'virtual' world. The WTO negotiations are relevant only insofar as they can answer the question: How and when will the virtual and real converge?"

### G-33: CHAIRMAN'S CHALLENGE PAPER PERPETUATES EXISTING FLAWS

*The Group of 33 (G-33) developing countries has expressed concern at the imbalance in the 'Challenge Paper' issued by Ambassador Crawford Falconer, chairperson of the agriculture negotiations. Circulated on 30 April, the paper contains a first set of his ideas on where members' positions might converge. "...It takes on board, the concerns of only the developed countries and leaves effectively unaddressed, the sensitivities of developing countries," said the G-33 in a statement on 7 May, 2007. "This would only lead to perpetuate the existing structural flaws and distortions in agriculture trade and, in the process, would negate the Doha Mandate, which is essentially a Development mandate." Reproduced below are the G-33 views at a special session on Agriculture at the WTO.*

"Speaking on behalf of the G-33, allow me to express our appreciation to you Mr. Chairman for convening this meeting. The G-33 also expresses its support to the multilateral approach that you are undertaking. We view this current process of engaging all members as being the most favourable approach to ensuring a truly multilateral result. In this context, we would like to, once again, encourage you to continue with this process.

The Group would also like to thank you for the challenge paper. We view that while this paper may help members to better focus the discussions, it does not, however, provide a good starting point because of severe imbalance in the treatment of developed countries and developing countries' issues. The G-33 is concerned at the imbalance in the Challenge Paper as it takes on board, the concerns of only the developed countries and leaves effectively unaddressed, the sensitivities of developing countries. This would only lead to perpetuate the

existing structural flaws and distortions in agriculture trade and, in the process, would negate the Doha Mandate, which is essentially a Development mandate

Mr. Chairman, the imbalance is not only among different pillars of agriculture negotiations, but also, within the market access pillar, where there is a clear imbalance between market access for developed countries and that for the developing countries. A higher degree of expectation from developing countries whether in terms of thresholds or overall average cuts, does not match with that from the developed countries to meet the level of ambition in the Market Access pillar.

The Group would like to examine the paper in detail and give its specific comments after due consultation with the respective Capitals. However, as preliminary comments, I would like to express a few concerns of the Group which merit further and urgent attention from you.

First, it is our understanding from your Paper, Mr Chairman, that, it, in effect, proposes that the OTDS (overall trade distorting support) of one of the major agricultural subsidizers could remain much higher than the current levels of subsidies and goes on to suggest that the market access commitments of major developed countries could remain at the same levels that were proposed by them in July, 2006 at the time of the breakdown of negotiations.

On the other hand, it suggests rather stringent norms and low numbers for the Special Products for developing countries and LDCs, which are required to protect their food security, livelihood security and rural development needs. This only adds to the imbalance I was referring to above.

Second, in arriving at the appropriate number of SPs, you seem to suggest that at this stage, focusing on the number would constitute the most pragmatic and simplest approach.

However, we view that a combination of number and indicator based approach in discussing the designation of SPs would be the most appropriate way. In line with this, the G-33 Ministers in Jakarta have recently approved a streamlined list of indicators for the selection of Special Products in a manner that is faithful to the development mandate while assuring our trading partners transparency and fairness. As the revised indicators have also been supported by the African Group, ACP and SVEs, and so, almost the entire developing world, we suggest that they be recognised as the basis of any further discussion on designation of Special products.

Third, on the number of Special products, you have explicitly made a direct link between the number of sensitive products for developed countries and the number of special products. This proposal seems to be inconsistent with the fact that according

to negotiating mandate, no conceptual relationship exists between sensitive products and special products, because their very rationale is different. In this connection, we would also like to seek your clarification on the number of Sensitive products for developing countries.

As clearly stated in paragraph 39 of July Framework, special differential treatment for developing countries should be an integral part of all elements of the negotiations, including the tariff reduction formula, the number and treatment of sensitive products.

Fourth, with regard to the treatment of SPs, you propose that all SPs have to be subject to tariff reduction and goes on to suggest that minimum for SPs are between 10-20%. We view that this proposal is very restrictive compared to various flexibilities that you have

offered on sensitive products as well as domestic support.

We believe that the graded approach which the G-33 proposed is the most appropriate way, as it would accommodate the concern of most of developing country members, including the member of the Small and Vulnerable Economies.

Lastly, in paragraph 139, you seem to refer to the SSG and not Special Safeguard Mechanism (SSM). In this connection, I would urge you that SSM be covered in the second instalment. For the G-33, SSM together with SPs which are of particular importance as food security, livelihood security, and rural development is the core of the development dimension of these negotiations. And as the G-33's proposal remains on the table, we believe that our proposal should be the basis for further negotiations. Thank you Mr. Chairman."

## G-20: THE DOHA MANDATE SHOULD GUIDE 'BALANCE'

*"Balance should be ascertained based on our commitment to make this Round a development Round. As a development Round, its results should be development-oriented and should correct the imbalances present in the multilateral trading system." That was the reaction of the Group of 20 developing countries (G-20) to the first installment ('Challenge' paper) issued by the Chair of the WTO Agriculture negotiations on 30 April, 2007. "This is specially important, where the objective is abolition or at least substantial reduction in trade-distorting policies that are largely employed by developed countries," the G-20 said. Reproduced below is the G-20 statement to the special session of the Committee on Agriculture on 7 May, 2007.*

"Mr. Chairman,

It is with satisfaction that the G-20 welcomes the full resumption of the multilateral process in Geneva. We look forward to intensifying our discussions having in mind the conclusion of the Doha Round this year.

The membership at large and the G-20 and other developing countries groups in particular have made it clear that we are committed to the Round and to the multilateral process. Accordingly, we will respond to your paper constructively and engage with a positive spirit.

You have delivered, Mr. Chairman, what you have promised. A challenging, provocative and thought-provoking

paper to collect Members' views and reactions, to promote discussions and to generate momentum.

We note that certain issues have not been tackled in the paper, including some of particular interest to developing countries, but we understand that another paper is forthcoming. Among the issues of particular interest to us, I would highlight Green Box, Monitoring and Surveillance, Tropical Products, Preference Erosion. It is important to avoid accommodating trade-distorting support in the Green Box and its disciplines should be linked to an effective mechanism of monitoring and surveillance.

Nevertheless, we have before us enough elements for a fruitful initial

discussion. Indeed, your paper is very dense and technically complex and in this initial discussion we intend to provide a preliminary reaction to it touching upon some of its central aspects rather than going into the details. The G-20 is of the view that further discussions in as large a setting as possible should be scheduled in the next few weeks to allow for a comprehensive and detailed consideration of all aspects of the paper. We need your second installment to have a complete picture and to deal with the linkages between topics.

Mr. Chairman,

My initial comments are addressed to the question of balance. Balance should be ascertained based on our commitment to make this Round a de-

velopment Round. As a development Round, its results should be development-oriented and should correct the imbalances present in the multilateral trading system. This is specially important, where the objective is abolition or at least substantial reduction in trade-distorting policies that are largely employed by developed countries. A second element is that any outcome must be based on agreements reached so far. Those agreements incorporate the balances achieved so far in the negotiations. Those balances will have to be reflected in the final text. They are the best possible guarantee of a successful outcome. The mandates contained in the Doha Declaration, the July 2004 Framework and the Hong Kong Declaration are the basis of our deliberations. Let me also point out that unbalanced results in the central area of agriculture would undermine the prospects for a successful negotiation in other areas. Let us recall that in Hong Kong we agreed in Paragraph 24 to a comparatively high level of ambition, to be achieved in a balanced and proportionate manner, in market access for agriculture and NAMA.

Your text indicates your perception of the centers of gravity on various issues. We understand that the notion of centers of gravity reflect also a negotiating environment. But the center of gravity does not necessarily correspond to balance. Balance will not be found by averaging negotiating positions; balance can only be found by reference to the mandate and to the outcome in other areas of the negotiation.

Let me now refer to some more specific points in the text that would

merit, from the G-20's point of view, further reflection. The center of gravity in Domestic Support should reflect the commitment to effective cuts. This is especially so in relation to the OTDS (overall trade distorting support), a number that, beyond its technical significance, also has a political dimension. We believe, in this respect, that what should be discarded are the "high teens" and that the "lower teens" actually reflect the only possible center of gravity. In addition to that, there are certain tiers and cuts that would not even achieve consolidation of current applied levels and therefore could not constitute a center of gravity.

A center of gravity in Domestic Support must also incorporate, as you rightly point out, a combination of cuts and disciplines. Both are important, but at lower levels of cuts, disciplines become even more essential. We feel that perhaps in your text there is a need to strike a better balance between the two. Disciplines must be credible in avoiding product-shifting or box-shifting. This is especially so in the case of the blue box where, for instance, a mere anti-concentration discipline will not be effective to avoid increasing volumes of support in most commodities.

The center of gravity in Market Access is of particular sensitivity due to the completely different characteristics of agriculture in developed and developing countries. In defining a center of gravity, proportionality is essential, as mandated by the July Framework.

We should also recall that a center of gravity in Market Access requires an appropriate combination of tariff cuts and flexibilities. In the case of

developed countries, a combination that would include less than 50% cut in the higher band with a large number of sensitive products, subject to a large deviation and a reduced TRQ expansion in terms of domestic consumption does not seem to provide a good center of gravity for a Round that should deliver substantial improvements in Market Access.

The G-20 proposal remains the center of gravity in this pillar. It is the middle ground that is achieved by the combination of the tariff cut formula structure and the benchmarks for average cuts in developed and developing countries, respectively, at least 54% for the former and at the maximum 36% for the latter.

Mr. Chairman,

We take note of your paragraph 145 suggesting an alternative road for the treatment of market access in developing countries. We will examine its implications and react at a later stage, taking also into account the reactions of other Members to this suggestion. At this point, however, I would like to highlight that this suggestion could have major implications and therefore it should be cautiously considered.

Concluding these preliminary observations, Mr Chairman, let me stress that the G-20 is prepared to engage fully in exploring all the implications and technical dimensions of your document with a view to arriving at full modalities before the Summer break.

Thank you."

## CONTRIBUTIONS BY MEMBER STATES

The South Centre would like to express its sincere thanks to the following member governments for their financial contributions paid since 1 January 2007.

Member States	Amount	Purpose
Angola	US\$40,000	Operations
Cuba	US\$25,000	Operations
Egypt	US\$55,000	Operations
India	US\$1,000,000	Capital Fund
Jamaica	US\$5,059	Operations
Malaysia	US\$55,000	Operations
Mozambique	US\$40,000	Operations
South Africa	CHF81,000	Operations

## NO FAST TRACK TO GLOBAL POVERTY REDUCTION

*The proposed Doha Round policies are likely to be damaging for the world's poorest nations, according to a report by the Global Development and Environment Institute (GDAE) at Tufts University. "The WTO proposals currently under negotiation will do little or nothing to reduce global poverty," says Timothy A. Wise, the Institute's deputy director and co-author of the report. "Some of the world's poorest countries could end up worse off." Dr. Kevin P. Gallagher, the other co-author, is a senior researcher at the Institute and a professor of international relations at Boston University. The study, released on 7 May, 2007 is reproduced below.*

The March 31 deadline for the Bush Administration to submit a World Trade Organization agreement to Congress under its current "fast track" trade promotion authority has passed, with talks still stalled over agricultural issues. Yet hope is not lost, to listen to trade negotiators and congressional sources.

Congressional Democrats have been quietly negotiating with the Bush Administration to achieve a bipartisan consensus on trade, one that can move forward not only the Doha negotiations but the range of bilateral trade deals- Colombia, Peru, Panama, and now South Korea. Some in the new Democratic majority have urged the Bush Administration to incorporate worker protections, environmental provisions, and greater flexibility on intellectual property, particularly in the case of pharmaceuticals. Like the trade negotiators, they report progress toward such a consensus, but the details remain somewhat of a mystery.

Meanwhile, to read some of the public pronouncements, WTO negotiations are picking up momentum, with ongoing formal and informal talks among the four countries that have emerged as lead negotiators – the United States, European Union, Brazil, and India. Though little concrete progress is reported on the many issues that have prevented agreement up to now, U.S. Trade Representative Susan Schwab and her counterparts urge us not to lower the Doha flags to half-mast just yet.

The WTO's Doha negotiations remain the big prize, and even some congressional Democrats skeptical of the bilateral agreements seem willing to consider extending fast track authority beyond its current June 30, 2007,

deadline if it will get a Doha deal done. They cite the importance of fostering multilateral initiatives, and they recall the Doha mandate to make this a "development round" of negotiations that fosters economic development for the world's poorest countries and contributes to reducing global poverty. When the round was launched in 2001, a new trade deal was considered crucial to achieving the international community's Millennium Development Goal of halving poverty by 2015.

Congress should think twice before extending fast track authority to achieve a new WTO agreement. Most evidence suggests that the emerging set of tariff and subsidy reductions will have little impact on global poverty; according to the World Bank, the number of people living on less than a dollar-a-day will decline by less than one-half of one percent with a Doha deal. More worrisome, some the world's poorest nations may end up worse off, while some of the poorest

people – small farmers – lose ground even in countries the World Bank predicts will gain from an agreement. Finally, the costs of liberalization to poor countries, particularly in lost tariff revenue on which they depend for key government services, make the new WTO agreement anything but friendly to development and poverty reduction.

### The Poverty of the Doha Round

Given the proliferation of lofty rhetoric about Doha and poverty reduction, the public can be excused for thinking this agreement is all about poverty. As recently as 2003, at the Cancún, Mexico, WTO negotiations, former World Bank executive Eveline Herfkens stated, "A pro-poor Doha Round could increase global income by as much as \$520 billion and lift an additional 144 million people out of poverty. This is why so many hundreds of us come together today." [1]

**Table 1**  
**Doha's Limited Poverty Impact**  
**Projected Drop in \$1/day Poverty from "Likely Doha" Deal**

	Baseline millions	Decrease millions	Decrease %
<b>East Asia &amp; Pacific</b>	<b>19</b>	<b>0.3</b>	<b>1.6%</b>
<b>Latin Am. &amp; Caribbean</b>	<b>43</b>	<b>0.4</b>	<b>0.9%</b>
<b>South Asia</b>	<b>216</b>	<b>1.4</b>	<b>0.6%</b>
<b>Sub-Saharan Africa</b>	<b>340</b>	<b>0.5</b>	<b>0.1%</b>
<b>All Developing Countries</b>	<b>622</b>	<b>2.5</b>	<b>0.4%</b>

*Source: World Bank, Agricultural Trade Reform and the Doha Development Agenda, chapter 12, Table 12.19, p. 382, column 5, Doha scenario 7 for 2015.*

It turns out Ms. Herfkens was using World Bank projections that, by the Hong Kong ministerial meeting of December 2005, would be considered exaggerated and obsolete. Based on old data and the entirely unrealistic assumption of full global liberalization – the elimination of all tariffs, subsidies, and other trade distorting measures by all countries – the Bank got a very large number.

Just two years later, though, the data and modeling had gotten much better, and the poverty-reduction numbers had not. In fact, these more realistic estimates had shrunk to near-insignificance.

With better data and a policy scenario more closely aligned to the kinds of partial reforms actually being considered by negotiators, Bank researchers projected that the current round of negotiations promised to lift not 144 million of the world's 622 million poorest people out of poverty, but just 2.5 million. [2]

That is a reduction of less than one-half of one percent in the number of people living on less than one dollar per day. In Sub-Saharan Africa, just 500,000 people out of 340 million poor would move out of extreme poverty with a successful negotiation, barely one-tenth of one percent. Moreover, as many have pointed out, moving from \$1.00/day to \$1.10/day might get you above the world's current standard for extreme poverty, but it certainly doesn't get you out of poverty.

### **Gains from Trade: Shrinking and Unequal**

What happened to the WTO's promise to help halve global poverty by 2015? The poverty projections declined along with the projected "welfare gains" from the economic models used to predict the outcomes of trade-policy changes. The new projections from the World Bank highlighted the shrinking gains from trade for poor countries.

With their new data and improved modeling, the projected global gains from full trade liberalization fell from \$832 billion to just \$287 billion. The developing country share dropped from \$539 to \$90 billion, underscoring the ways in which the so-called

Development Round was shaping up to be anything but. [3] Most useful, though, was the Bank's modeling of partial reform under a "likely Doha scenario." Based on assumed cuts to agricultural subsidies and tariffs as well as industrial tariff reductions – reforms that now seem ambitious – Bank researchers projected income improvements of just \$96 billion for the world community in 2015. Of that, \$80 billion would go to rich countries, leaving just \$16 billion in gains for the large majority who live in the developing world.

Billions always sound like a lot of money, but these are paltry sums by any reasonable measure. The developing-country share is less than the annual U.S. food stamp budget. It amounts to less than a penny-a-day per person. It is a 0.16 percent one-time gain that would marginally boost income a decade from now.

How small is that?

If you were a typical poverty-level farmer or worker in the developing world making \$100 per month (roughly \$4 per day to support your family), your gains from a successful WTO negotiation would be a raise of sixteen cents a month – \$100.16. It is no wonder the World Bank finds such meager reductions in poverty.

Following negotiations supposedly focused on developing country needs, rich countries are projected to receive an embarrassing 25 times the per-capita gains of developing countries. That's right: we get \$79 each a year, they get \$3.

And that is just the average. A small number of large countries – Brazil, Argentina, China, India, and a few others – capture the bulk of the projected gains for developing countries. Sub-Saharan Africa would get almost nothing. Bangladesh would end up worse off.

Not surprisingly, those projected to lose under Doha are some of the poorest parts of the world outside of China and India. The World Bank's "likely Doha scenario" counts among the "losers" Bangladesh, Vietnam, the Middle East and North Africa, and Sub-Saharan Africa (not counting South Africa).

And unfortunately even in those countries projected by the Bank to be winners under the agreement, many poor segments of society will lose. India, for example, may see modest gains in some manufacturing and service industries, but its poorest farmers stand to lose.

Subsequent studies have predicted even more dire impacts for the poorest countries. The Carnegie Endowment for International Peace, using more realistic modeling assumptions, released a report shortly after the 2005 Hong Kong ministerial that projected even worse prospects for Bangladesh, East Africa, and Sub-Saharan Africa. [4] They project China to be by far the biggest developing-country winner from a Doha deal, capturing nearly half of the still-small gains from a Doha agreement. That could lead to poverty reductions in China, where many of the world's poor live, but the authors point out that these losing countries are home to more of the world's desperately poor (267 million) and nearly as many of the "very poor," with 486 million living on less than \$2/day.

### **Hidden Costs**

Much of the discussion of the Doha Round's development impact has centered on the potential benefits of the round, but less attention has been paid to the costs. Important costs are, in effect, assumed away in the economic modeling.

In particular, tariff losses for developing countries could outweigh the benefits by a factor of four. Many developing countries rely on tariffs for more than one quarter of their tax revenue. For smaller nations with little diversification in their economies, tariff revenues provide the core of government budgets, sometimes accounting for more than 40 percent of all government revenue.

Using the same model as the World Bank, UNCTAD projected tariff revenue losses under the proposed reduction levels in the ongoing negotiations over industrial tariffs (NAMA). [5] These tariff revenue losses for the world and selected regions and countries are shown in Table 2 compared to the World Bank benefit projections. [6]

**Table 2**  
**Doha's Hidden Price Tag**  
**Doha Benefits vs. NAMA Tariff Losses**  
*(billions of 2001 US dollars)*

	<sup>6</sup> WB "likely" Scenario*	NAMA Tariff Losses**
<b>Developed Countries</b>	<b>79.9</b>	<b>38.0</b>
<b>Developing Countries</b>	<b>16.1</b>	<b>63.4</b>
<b>Selected developing regions</b>		
Middle East and North Africa	-0.6	7.0
Sub-Saharan Africa	0.4	1.7
Latin Am. and the Caribbean	7.9	10.7
<b>Selected countries</b>		
Brazil	3.6	3.1
India	2.2	7.9
Mexico	-0.9	0.4
Bangladesh	-0.1	0.04

\* Anderson and Martin (2005), *Agricultural Trade Reform and the Doha Development Agenda*. Table 12.14; scenario 7.

\*\* De Cordoba and Vanzetti (2005). *Coping with Trade Reforms*. UNCTAD. Table 11

Total tariff losses for developing countries under the NAMA could be \$63.4 billion, four times the World Bank's projected gains from Doha. Africa, the Middle East, and Bangladesh - areas with large informal economies and where tariffs are key for government revenues - are projected to suffer additional losses from tariff revenues. It is unrealistic to think that these cash-strapped governments could make up those losses with new taxes.

These losses are not reported in discussions of the gains from trade because they are assumed away in the eling exercises. A key assumption in most models is that governments' fiscal balances are fixed - in other words any losses in tariff revenue are offset by lump sum taxes. In the real world such taxation costs political capital and in some cases may not even be possible.

In a recent issue of *Foreign Affairs*, pro-free-trade economist Jagdish Bhagwati commented that more attention needed to be paid to this issue:

"If poor countries that are dependent on tariff revenues for social spending risk losing those revenues

by cutting tariffs, international agencies such as the World Bank should stand ready to make up the difference until their tax systems can be fixed to raise revenues in other, more appropriate, ways."

At present even the most ambitious "aid for trade" packages come nowhere near filling this gap in lost tariff revenue.

### The Need for Special Treatment

The Doha mandate was explicit in its call for "special and differentiated treatment" for developing countries, recognizing that the rich countries that have benefited the most under the current trade rules must offer significantly greater concessions, while allowing flexibility to developing countries. Thus far, this commitment has taken the form primarily of exempting the so-called "least developed" countries from any tariff cuts and allowing slightly lower tariff reductions from other developing countries. [7]

Agriculture negotiations now present the greatest source of conflict and concern for developing countries. The United States and European

Union have balked at calls to reduce significantly their "trade-distorting" agricultural supports. At the same time, U.S. negotiators have taken an aggressive stance toward one of Doha's most significant pro-development planks - the right to protect rural livelihoods and food security by designating key food crops as "special products" exempt from most liberalization.

For countries with large numbers of small farmers, liberalization could flood their markets with cheap, subsidized imports, rapidly displacing farmers at a time when alternative employment in other parts of the economy has not been created. Mexico experienced precisely this problem under NAFTA, provoking a surge in both legal and illegal migration to the United States, the one market where jobs - not mostly good jobs by U.S. standards - were being created.

Despite tacit agreement early in the negotiations that developing countries would be able to designate at least four percent - and perhaps as much as 20 percent - of their hundreds of agricultural tariff lines as special products, based on a set of agreed indicators, U.S. negotiators shocked the WTO membership by proposing an SP limit of just five tariff lines.

Indonesia, which leads a group of over 40 countries with large numbers of subsistence farmers, has pointed out that such a limit would not even cover all types of rice - an important and sensitive product for many developing countries - let alone all crops crucial to the livelihoods of small farmers. The so-called G33 has countered with a proposal to allow 20 percent SP exemption, as long as products meet the criteria, such as the percentage of employment in a given crop, significant dependence of the poor on its consumption, or its sensitivity to import competition from subsidized crops from rich countries.

World Bank modelers caused a stir when they released a report claiming to show that such protections in these countries would make the poor worse off, principally by raising food prices for non-farmers. [8] The study's methodology was immediately called into question, and the G-33 issued a rebuttal, saying Bank researchers were trying to undercut legitimate and agreed-upon

claims for special and differentiated treatment. [9]

In fact, some evidence suggests that the costs of extending special product protection to developing countries would be very small. The Carnegie Endowment projected that even exempting 100 percent of developing country agricultural products from tariff cuts caused projected losses to other countries of under \$1 billion. Failure to protect sensitive food sectors, on the other hand, can have very high costs. Again, Mexico's unbridled liberalization of its maize sector stands as a warning to any developing country with a large number of small farmers producing staple food crops for domestic consumption.

### The Fast Track to Underdevelopment

The Doha agreement currently being negotiated fails to make good on the commitment to, as the Doha Declaration states, place developing countries' "needs and interests at the heart of the Work Programme adopted in this declaration." That would mean recognizing in practice the need for "special and differentiated treatment" for developing countries, to leave them the policy tools to industrialize and develop. It would mean accepting developing-country proposals to let countries exempt sensitive food crops such as rice, maize, and wheat from liberalization. In the Doha negotiations, developing countries have put

forward many creative proposals to address these problems; they have been routinely ignored. [10]

Extending the President's trade promotion authority to complete an agreement so hostile to true economic development and so ineffectual in reducing global poverty would be a sad mistake. New global trade rules are needed to better regulate an increasingly integrated world economy dominated by large multinational firms. The United States would be better served by a full debate over its approach to trade and the WTO, and ultimately by policies that strengthen the U.S. economy by increasing the buying power – and welfare – of the world's poorest residents.

### Notes

[1] "A Doha Scorecard: Will Rich Countries Once Again Leave Developing Countries as Beggars at the Feast?" Speech by Eveline Herfkens, WTO Ministerial Cancun 2003.

[2] Anderson, Martin, and van der Mensbrugghe, "Market and Welfare Implications of Doha Reform Scenarios," in *Agricultural Trade Reform and the Doha Development Agenda*, Anderson and Martin, World Bank 2005. The principal improvements in the more recent modeling include: an updating of the base year from 1997 to 2001; China's liberalization as an accomplished fact rather than a prospective gain from the negotiations; incorporating existing trade preferences; and using applied rather than bound tariff rates. Many still question the usefulness of such models for policy analysis; for a critical review, see Ackerman, Frank, "The Shrinking Gains from Trade: A Critical Assessment of the Doha Round Projections," GDAE Working Paper No. 05-01, October 2005.

[3] Even projections that include services liberalization yield only an additional \$6.9 billion for the developing world in a likely scenario of fifty percent reduction in services trade barriers. See Francois, J., H. van Meijl and F. van Tongeren (2003). "Trade Liberalization and Developing Countries Under the Doha Round." Tinbergen Institute Discussion Paper 2003-060/2. Rotterdam and Amsterdam, Tinbergen Institute.

[4] Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries*, CEIP 2006.

[5] UNCTAD uses the so-called Swiss Formula with approximate coefficient of 10.

[6] While the projected gains from Doha are not directly comparable to the loss of tariff revenues, both are relevant to developing country policy-makers as they evaluate a proposed agreement. We highlight the lost tariff revenues because the losses are obscured in the modeling exercise.

[7] The value of this exemption has been called into question. See, for example, "The WTO's Empty Hong Kong 'Development Package': How the World Trade Organization's 97% Duty-Free Proposal Could Leave Poor Countries Worse Off," ActionAid and Public Citizen, June 2006. <http://www.citizen.org/publications/release.cfm?ID=7471&secID=1185&catID=126>

[8] Maros Ivanic and Will Martin, "Potential Implications of Agricultural Special Products for Poverty in Low-Income Countries," World Bank, 2006. See also "Why Isn't the Doha Development Agenda More Poverty-Friendly," Thomas Hertel et al., GTAP Working Paper No. 37, February 18, 2007.

[9] The G33 rebuttal is available at: <http://www.tradeobservatory.org/library.cfm?refID=96511>. Some researchers (e.g. Ackerman, see note above) argue that the models used for such analyses have a built-in bias that exaggerates the consumer gains from trade liberalization compared to producer losses.

[10] For a good summary of those proposals, see: Gibbon, Peter. (2007), "Africa, Tropical Commodity Policy and the WTO Doha Round," *Development Policy Review*, 25(1), 43-70.

### Additional GDAE Resources:

Doha Round Projections Analysis:

- "The Hong Kong Ministerial: What's at Stake for the Poor?" By Timothy A. Wise and Kevin P. Gallagher, *Bridges Trade Monthly*, December 2005. <http://www.ase.tufts.edu/gdae/Pubs/rp/BRIDGES9-10.pdf>
  - "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections," by Frank Ackerman, GDAE Working Paper No. 05-01, October 2005. <http://www.ase.tufts.edu/gdae/Pubs/wp/05-01ShrinkingGains.pdf>
  - "Doha Round and Developing Countries: Will the Doha deal do more harm than good?" by Timothy A. Wise and Kevin P. Gallagher, *RIS Policy Brief #22*, April 2006. <http://www.ase.tufts.edu/gdae/Pubs/rp/DohaRIS2Apr06.pdf>
- "Measuring the Cost of Lost Policy Space at the WTO," Americas Program, International Relations Center, March 20, 2007. [http://www.ase.tufts.edu/gdae/policy\\_research/AmerProgWTOMar07.pdf](http://www.ase.tufts.edu/gdae/policy_research/AmerProgWTOMar07.pdf)
- Putting Development First: The Importance of Policy Space in the WTO and IFIs, edited by Kevin P. Gallagher, Zed Books, 2005. [http://www.ase.tufts.edu/gdae/policy\\_research/PuttingDevelopmentFirst.htm](http://www.ase.tufts.edu/gdae/policy_research/PuttingDevelopmentFirst.htm)

## LINKING GLOBALIZATION TO POVERTY

*Policymakers need to design and implement an active development strategy not only to benefit from, but also to help counteract the negative effects of the immutable forces of globalization, says a new study just published by the UNU-WIDER (United Nations University – World Institute for Development Economics Research). Written by Machiko Nissanke, Professor of Economics at the School of Oriental and African Studies, University of London and Erik Thorbecke, the H.E. Babcock Professor of Economics, Emeritus, Graduate School Professor and former Director of the Program on Comparative Economic Development at Cornell University. This Policy Brief summarizes and examines the various channels and transmission mechanisms linking globalization to poverty in the developing world.*

Globalization provides a strong potential for a major reduction in poverty in the developing world because it creates an environment conducive to faster economic growth and transmission of knowledge. However, structural factors and policies within the world economy and national economies have impeded the full transmission of the benefits of the various channels of globalization for poverty reduction.

World income distribution continues to be very unequal and many poor countries particularly in Africa are stagnating. Moreover, there is much empirical evidence that openness contributes to more within-country inequality. China is a good example with coastal provinces as opposed to inland provinces reaping the major benefits of globalization.

Progress on poverty reduction has also been uneven. Although the share of the population of developing countries living below US\$1 per day declined from 40 per cent to 21 per cent between 1981 and 2001, this was mainly achieved by the substantial reduction of the poor in Asia, in particular in China. Notwithstanding the drop in relative poverty, the total number of people living under US\$2 per day actually increased worldwide. In particular, poverty has increased significantly in Africa in both absolute and relative terms.

The risks and costs brought about by globalization can be significant for fragile developing economies and the world's poor. The downside of globalization is most vividly epitomized at times of global financial and economic crises. The costs of the repeated crises associated with economic and financial globalization appear to have been borne overwhelmingly by the develop-

ing world, and often disproportionately so by the poor who are the most vulnerable. On the other hand, benefits from globalization in booming times are not necessarily shared widely and equally in the global community.

Though any trend in poverty and income inequality observed so far cannot be exclusively or even mainly attributed to globalization without rigorous analyses, even the most optimistic estimates cannot dismiss concerns that the globalization process, as it has proceeded to date, may have had some adverse effects on poverty and income distribution. These concerns have generated a passionate debate worldwide as well as a powerful anti-globalization movement.

### Channels Linking Globalization to Poverty

What are the transmission mechanisms through which the process of globalization affects poverty directly and indirectly? The first and most important of these mechanisms is the growth–inequality–poverty channel. Other channels operate, respectively, through changes in relative prices of factors of production (labour and capital) and commodities, movements of capital and labour migration across borders, the nature of technological change and technological diffusion, the impact of globalization on volatility and vulnerability, the worldwide flow of information, global disinflation, and institutions.

### The Globalization–Growth– Inequality–Poverty Causal Chain

To analyze and understand the impact of openness on poverty, the *globali-*

*zation–openness–growth– inequality–poverty* causal chain has to be scrutinized link by link. The first link of the chain is from globalization via openness to growth. The main manifestation of openness is through trade and capital movement liberalization, which in turn is presumed to affect growth directly through increased exports, imports, and capital inflows:

- Trade liberalization policies encourage exports, which benefit export industries and contribute directly to GDP growth.
- Switching from import substitution to opening up the domestic economy to imports leads over time to more efficient resource allocation and a higher growth path.
- Foreign direct investment raises the productive capacity of the receiving countries, and is often the conveyor belt for transferring technology and know-how.

The second link in the causal chain from openness to poverty is the interrelationship between growth and inequality. While it is most likely that the poor will benefit from growth, the ultimate poverty-reduction effects will depend on how the growth pattern affects income distribution. If growth leads to an increase in income inequality, the poor may benefit only slightly or, in some instances, actually be hurt by the globalization process. Indeed, the growth–inequality link is much more complicated than what the classical approach postulated with its emphasis on the growth-enhancing effects of inequality (the rich save a larger proportion of their incomes than the poor so that the impoverishment of the masses is a precondition to higher investment and growth). Inequality is responsible for many consequences

of and phenomena that, at least potentially, could reduce future growth and hence future poverty alleviation, notably the diffusion of social and political instability and conflict that could dampen investment because of greater uncertainty.

The final link in the globalization–poverty nexus captures the combined net effect of growth and a change in income inequality on poverty. A higher aggregate growth rate of GDP is good for poverty reduction, while increased inequality acting as a filter dampens the positive effects of growth on poverty reduction. Consequently, policy-makers should focus on the pattern (structure) of growth and development rather than the rate of growth *per se*. In short, poverty reduction requires a combination of higher growth and a more pro-poor distribution of the gains from growth.

### Empirical Evidence

*The Impact of Globalization on the World's Poor* provides empirical evidence regarding the crucial importance of the pattern of growth on the extent of poverty reduction. In terms of economic sectors, evidence shows that in early development stages the growth of agriculture has a far greater impact on poverty than the growth of other sectors. For example, the bulk of the poverty reduction in China occurred during the phase of agricultural de-collectivization and increases in food prices procurement before 1980, rather than in the subsequent tradeopening phase. Regional characteristics also play a dominant role on how inequality and poverty are affected by different globalization components. And inequality in the initial income distribution affects poverty indirectly and diminishes prospects for pro-poor growth.

The great majority of the poor live in rural areas.

- As consumers, whether the rural poor gain or lose from openness depends on whether they are net buyers of tradable goods (such as rice). It also depends on the extent to which the retail market structure is monopolistic, blocking the pass-through from border prices to domestic prices.

- As recipients of public services, globalization can affect the poor in two ways, first, through budget cuts mandated by international agencies to reduce budget deficits and achieve macroeconomic stabilization, and second, through falls in tariff revenues following trade liberalization. Governments often find it politically more expedient to cut public expenditures for the voiceless poor. At the same time it is easy to blame the globalization process for domestic institutional failures that could at least partially be remedied through an attack on corruption and insisting on greater accountability by domestic institutions.
- As users of common property resources, the rural poor can potentially be hurt if trade liberalization encourages overexploitation (such as massive deforestation) of fragile environmental resources. The dilemma is that it may be difficult and even counter-productive for a country to adopt environmental regulations while its competitors do not adopt them at the same time and thereby are able to undercut the former in world markets. The policy recommendation that suggests itself is greater coordination of environmental regulations on an international scale.

In addition, many small farmers are heavily dependent on multinational marketing chains for establishing a foothold in global markets, as these products require new storage and transport infrastructure, large setup costs, and marketing connections. Such circumstances require protecting the poor through new legal rules and institutional structures that facilitate contract farming and agro-processing without exposing small producers to exploitation by large marketing chains. More energetic international attempts might be called for to certify codes against international restrictive business practices and to establish an international anti-trust investigation agency, possibly under WTO auspices.

The investigation of global value chains—horticulture, garments, and textiles—in Bangladesh, Kenya, South Africa, and Vietnam provides evidence on the impact of globalization on employment and economic oppor-

tunities for poor people. This analysis makes a clear conceptual distinction between ‘non-globalizer’ and ‘unsuccessful globalizer’ countries.

Kenya is categorized as an unsuccessful globalizer, while Vietnam is considered to have been successful in integrating into the world economy in terms of outcome though remaining relatively closed in terms of policy. Further, the impact of increased exports on employment has been much more significant in Bangladesh and Vietnam, where unskilled labour intensive industries accounted for 90 per cent and 60 per cent of manufactured exports in the late 1990s, respectively, than in Kenya and South Africa, where the corresponding figures were 16 per cent and 10 per cent respectively. In these two African countries, skilled workers (as proxied by education levels) benefited from globalization while unskilled workers were adversely affected.

The value chains of horticulture exports in Kenya and garment exports in Bangladesh and Vietnam show that the growth of labour intensive exports does create employment opportunities, particularly for low income women and migrants from rural areas. However, the requirements of global value chains mean that these jobs often demand a high degree of labour flexibility, long hours of work, and poor working conditions, making workers vulnerable both in terms of employment security and income. Opening up to global competition has also led to job losses and deterioration in working and employment conditions, as the case of textile industries in South Africa illustrates. Another relevant finding is that the gains from globalization are likely to be more widely distributed where the initial structure of assets and entitlements is more equitable. In any case since only a minority of the poor are engaged in global production, integration with the global economy can help but is not a substitute for an antipoverty strategy.

### The Globalization–Capital and Labour Mobility–Poverty Channel

According to economic theory, the impact of globalization on developing countries well endowed with unskilled labour should lead to a decline in income inequality through an increased

demand for unskilled labour, while unskilled labour in developed countries would lose out with an adverse effect on equity. However, the empirical evidence reveals that wage gaps between skilled and unskilled labour have been increasing in many developing countries, particularly in Latin America and Africa.

Several specific features associated with the current phase of globalization explain why the theoretical prediction does not hold. For example, the nature of technical progress and new technology is heavily biased in favour of skilled and educated labour, as technical change emanates from R&D activities in the developed (industrialized) countries in response to local conditions. Hence, technical change tends to be labour-saving and skill-biased, and new technology is complementary to capital and skilled labour, while it is a substitute for unskilled labour and tends to increase inequalities in both developed and developing countries. Furthermore, technological diffusion and access to new technology is not universal and spontaneous, while intensified privatization of research (e.g. in biotechnology) may have adverse effects on access to new technology by developing countries and the poor. The resulting widened productivity differences explain cross-country wage/income inequality.

'Perverse' factor movements could provide another explanation. Capital and skilled labour do not migrate to poor countries as much as among developed countries. Rather, there is a tendency for skilled labour to migrate from developing countries to developed countries, as the massive migration of African nurses and Philippine and other Asian medical doctors to the US and Europe testifies, while unskilled labour migration tends to be strictly controlled. With capital market liberalization, there is a propensity for capital flight from developing to developed countries, particularly during periods of instability and crisis.

Income convergence among the globalizing countries during the first wave of modern globalization was driven primarily by migration. Sixty million people, including largely unskilled workers, migrated from Europe to North America and other parts of the new world between 1870 and 1914.

In contrast, the extent of cross-border mobility differs significantly between skilled and unskilled labour in the current phase of globalization. Unskilled workers from developing countries face increasing obstacles in their attempts to migrate to developed countries. In consequence, wage equalization does not take place through labour migration, as was the case in the previous globalization era. Some workers lose out as de facto labour mobility takes place through the increasingly free cross-border capital mobility as well as to transnational corporations' ability to re-locate production sites in response to changes in relative labour costs. In fear of driving away these corporations, governments of developing countries are less likely to enact regulations to protect and enhance labour rights.

### **The Globalization–Technology–Poverty Channel**

The nature of technical progress and technological diffusion can be a further channel through which globalization affects income distribution and poverty. As indicated, technological change tends to be highly capital and skill-intensive and unskilled labour-saving, as befits the resource endowment of the rich industrialized countries where most innovations originate.

Even though much of the new technology does not conform to the resource endowment of poor countries, the potential exists for globalization to confer significantly higher food productivity and rural incomes on developing countries via the mechanism of North–South technology transfer. For example, to realize the potential positive effects of biotechnology on poverty reduction, the public and private sectors must:

- establish institutions with local capacity for technology innovation and adaptation,
- reduce transaction costs in the process of international transfer of technology, and
- provide standardization, transparency, and access to information for property rights over technologies.

In addition to significant investment in higher education and research capac-

ity in low-income countries, a new type of institution (namely the Intellectual Property Rights Clearinghouse) might be capable of overcoming the lack of access to intellectual property rights and the burden of high royalty payments for small and poor farmers in the developing world.

Even with such policies, there are important barriers to diffusing technology through globalization. Even if a new technology can potentially increase the income level of small farmers, its diffusion may be slow due to sunk costs of adoption and uncertainties about net payoffs of the technology in question. The lack of capital, credit, and risk-sharing possibilities as well as limited access to information about new technologies hinders technology adoption and diffusion. Adoption of new technologies can be slowed by uncertainties about their efficiency. For example, without independent external information sources, farmers in developing countries have to rely heavily on their neighbours ('leaders' who have already adopted the technologies) to obtain vital information about new methods.

### **Other Channels: Vulnerability, Information Diffusion, and Institutions**

Beyond increasing aggregate income, globalization increases uncertainty via greater variation in income and expenditure caused by global shocks, such as the various financial crises that have hit Latin America and Asia in the last two decades. It was found that the extremely high volatility of consumption observed in Central and East Europe since the early 1990s is strongly related to trade shocks encouraged by trade liberalization. Consequently trade liberalization, as implemented in the 1990s, may have actually worsened growth and welfare performance in Eastern Europe. Furthermore, the analysis indicates that the per capita income of the poorest population quintile is most vulnerable to these trade shocks. These results point to the need for emerging and transition economies to adopt forward-looking national policies to support trade liberalization, that is, policies to mitigate the impact of trade shocks, and enhance coping mechanisms. A new 'culture of prevention' with mechanisms for limiting the size and frequency of shocks

at the international level might also be called for.

The 'economics of happiness' is a way to address the noticeable differences observed between standard measures of poverty and inequality and people's subjective assessments. That is, it can help explain discrepancies between economists' assessments of the benefits of globalization for the poor and individuals' real and perceived welfare outcomes—such as vulnerability to falling into poverty among the near poor; distributional shifts at the local, cohort, and sector level—and changes in the provision and distribution of public services. The latter factors play a major role in determining public perceptions about the benefits and fairness of the globalization process.

It can be argued that while globalization is a major engine for growth in aggregate, it introduces or exacerbates other trends that affect people's well-being as much as if not more than income, for example, through the increasing flow of information about the living standards of others, both within and beyond country borders. This flow of information can result in changing reference norms and increased frustration with relative income differences, even among respondents whose own income is rising. For example, individuals in a given developing country compare their incomes increasingly with those of relatively similar individuals in developed countries rather than within their own country. Increased insecurity, and the very real threat of falling into poverty for the near poor and lower middle classes, contributes to negative perceptions of the globalization process, particularly in countries where social insurance systems are weak or where existing systems are eroding.

Many social and collective measures should be in place for globalization to have positive effects on poverty. These include measures such as:

- public investments in health,
- institutions that can ensure adherence to basic norms of equity and fairness, and
- collective investments in social insurance to protect workers from the volatility that often accompany integration into global markets.

In the absence of these measures, the process of globalization may only create opportunities for those that are best positioned to take advantage of them, leaving behind large sectors of poor and vulnerable individuals.

Institutions mediate the various channels and mechanisms through which the globalization process affects poverty. Institutions act as a filter intensifying or hindering the positive and negative pass-through between globalization and poverty and can help explain the diversity, heterogeneity, and non-linearity of outcomes. For example, on the one hand, the impact of globalization on the poor is mediated by domestic political economy structures and institutions such as social polarization, oligarchic structures, and predatory regimes, which may bias, confiscate or nullify the gains from globalization for particular groups of poor. On the other hand, the positive effects of globalization on growth and poverty can be found when institutional conditions are characterized by such features as political participation, social cohesion and management of social conflict arising directly from globalization effects. Consequently, safety nets and appropriate social protection schemes that shelter the assets of poor households (and particularly the

erosion of their human capital) during crises triggered by globalization should be given high priority.

### **Proactive Development Policies to Benefit from Globalization**

The outcomes of globalization processes are highly context-specific, dependent both on the institutional framework and government policies that mediate global processes. To benefit from globalization's dynamic forces, developing countries need to take strategic steps with a long-term vision for upgrading their comparative advantages towards high-value added activities by climbing the technology ladder. This can be realized by developing technological capabilities through learning and adaptation. To succeed, developing country governments should consciously engage in building institutional capacities for integration, including a capable nation-state that is ready to take on the enormous challenges posed by globalization. These institutional structures should be specific to and consistent with each country's initial conditions.

In short, policymakers need to design and implement an active development strategy not only to benefit from, but also to help counteract the negative effects of the immutable forces of globalization. Globalization should not be viewed as a reliable substitute for a domestic development strategy.

Governments cannot passively wait for the fruits of the Washington Consensus and the market forces of globalization to pull them on a fast track to development. Instead, governments of developing countries need to pursue both a process of strategic integration and active domestic pro-poor development policies.

## **SOUTH CENTRE NEWS\***

### **Executive Director**

The Executive Director of the South Centre, Prof. Yash Tandon gave the opening address at a joint workshop on Intellectual Property, Economic Partnership Agreements, and Sustainable Development that the South

Centre organised along with with CIEL and Oxfam on 12–13 May in Brussels for ACP negotiators.

### **Trade for Development Programme**

- *Recent research and publications*

• **Fact Sheet 1: Understanding the Economic Partnership Agreements (EPAs) (May 2007).** This Fact Sheet consists of an overall introduction to the EPA negotiations and describes their nature and structure, their objectives, and their timelines ...

\* For a chart on latest contributions to the South Centre by its member States, please see page 224

• **Fact sheet 2: The Value of EU Preferences for the ACP and EPA contribution to Market Access** (May 2007). This Fact Sheet analyzes the impact of the expiry of Cotonou preferences for ACP exporters and assesses the extent to which the end of such preferences should constitute an element motivating or justifying the conclusion of EPAs with the EU ...

• **Fact Sheet 3: Trade liberalisation and the difficult shift towards reciprocity in the EPAs** (May 2007) This Fact Sheet focuses on the implications of tariff liberalisation under the EPAs, particularly on government revenue, industrial development, and food security

• **Fact Sheet 4: Regional Integration and the EPAs** (May 2007) This Fact Sheet analyzes the impact of EPA negotiations on efforts to strengthen regional integration between ACP countries.

• **Research Papers 11- Development at Crossroads: The Economic Partnership Agreement Negotiations with Eastern and Southern African Countries on Trade in Services.** (May 2007) This paper analyses interfaces between multilateral rules and WTO negotiations on trade in services and negotiations on trade in services in the context of an Economic Partnership Agreement between the European Union and the East South Africa (ESA) region. It delivers recommendations on how to ensure a balance between commercial interests and other development-oriented plans.

• **Trade Negotiations in the Eastern and Southern African Region: Issues for Consideration** (May 2007). This Note explores some of the main challenges that the countries of the EPA Eastern and Southern African region (ESA) face both in the WTO and in the EPA negotiating processes. It highlights the region's interests in both settings and aims at increasing negotiators' understanding about developmental implications that result from some of the interfaces between both processes ... May 2007

- *Program of work with delegations in Geneva*

- Agriculture project staff assisted developing country delegations in their analysis and discussions of the Communication from the Chairman of the Committee on Agriculture Special Session of 30 April 2007.
- The TDP has continued to monitor progress in the WTO negotiations on NAMA and has provided assistance to the Group of Small and Vulnerable Economies with respect to defining an approach to tariff reductions.

- *Participation in conferences and in meetings outside the centre*

- On 2<sup>nd</sup> May, agriculture project staff delivered a presentation on rules and negotiations on agriculture in the WTO in an event organized by Oxfam to train staff from its regional offices following up on WTO accession processes.
- A TDP staff has participated in the "Global Initiative on Commodities" which took place in Brasilia, Brazil, on 7-11 May. The initiative was organized by the Common Fund for Commodities in collaboration with UNDP, UNCTAD and ACP and hosted by the Brazilian Government. The initiative aimed at re-launching the commodities agenda from a poverty reduction and development perspective, raise awareness on the commodities problematique, and identify international strategy. The initiative has resulted in a draft plan of actions on commodities.

#### **Innovation and Access to Knowledge Programme**

- *Recent Publications*

The South Centre and CIEL IP Quarterly Update for the First Quarter of 2007 was released on 4 May 2007. The main focus piece in this issue introduces a background discussion on Open Access Models for increased access to educational resources and research and links open access initiatives to multilateral debates. The Update is available on the South Centre website at:

<http://www.southcentre.org/info/sccielipquarterly/ipdev2007q1.pdf>.

- *Recent activities*

The Programme staff:

- Organized a meeting on 4 May 2007 at the South Centre among the Co-Sponsors of the Proposal for Amendment of the TRIPS Agreement to Introduce a Disclosure Requirement on Genetic Resources and Associated Traditional Knowledge. This meeting was a follow-up to the working lunch meetings held on 2<sup>nd</sup> and 30 April 2007.
- Attended the Oxfam training on WTO accession on 2 May 2007 and made a presentation on accession to the WTO, intellectual property rights and the development dimension.
- Jointly organized a workshop on Intellectual Property, Economic Partnership Agreements, and Sustainable Development with CIEL and Oxfam on 12 – 13 May in Brussels for ACP negotiators. Prof. Carlos Correa, Special Advisor of IAKP Programme, made a presentation on Enforcement of the TRIPS Agreement. Xuan Li, Lead Economist and Acting Coordinator, made a presentation on "Proposed IP Standard in EPAs and TK, GR and TCE". Ermias Biadgleng, Programme Officer, made an introduction on "The Role of Article 46 of the Cotonou Agreement" and chaired a session on "The State of Play in IP negotiations in EPAs". The main conclusion of the workshop was that the inclusion of intellectual property is not required to make the EPAs WTO-compliant and demands by the EC for higher intellectual property standards in EPAs are contrary to the objectives of the EPAs. More detailed information is available on the South Centre website at: [http://www.southcentre.org/Events/2007May\\_Brussels\\_Multi\\_Stakeholder\\_Workshop.htm](http://www.southcentre.org/Events/2007May_Brussels_Multi_Stakeholder_Workshop.htm).
- Participated in the ICTSD dialogue titled: "Improving Intellectual Property Technical Cooperation for Least Developed Countries to Facilitate the Implementation of the TRIPS Agreement" held in Geneva on 3 May 2007.

## THE TRAGEDY THREATENING OUR SPECIES

*The following reflections were penned by Cuba's President Fidel Castro Ruz on 7 May, 2007.*

I cannot speak as an economist or a scientist. I simply speak as a politician who wishes to unravel the economists' and scientists' arguments one way or another. I also try to sense the motivations of each one of those who make statements on these matters. Just twenty-two years ago, here in Havana, we had a great number of meetings with political, union, peasant and student leaders invited to our country as representatives of these sectors. They all agreed that the most important problem at that time was the enormous foreign debt accumulated by the nations of Latin America in 1985. That debt amounted to 350 billion dollars. The dollar then had a higher purchasing power than it does today.

A copy of the outcome of those meetings was sent to all the world governments, of course with some exceptions, because it might have seemed insulting. At that time, the petrodollars had flooded the market and the large transnational banks were virtually demanding that the countries accept high loans. Needless to say, the people responsible for the economy had taken on those commitments without consulting anybody. That period coincided with the presence of the most repressive and bloody governments this continent has ever suffered, installed by imperialism. Large sums were spent on weapons, luxuries and consumer goods. The subsequent debt grew to 800 billion dollars while today's catastrophic dangers

were being hatched, the dangers that weigh upon a population that doubled in just two decades and along with it, the number of those condemned to a life of extreme poverty. Today, in the Latin American region, the difference between the most favoured population and the one with the lowest income is the greatest in the world.

Many years before the subjects of today's debates were center stage, the struggles of the Third World focused on equally agonizing problems like the unequal exchange. Year after year it was discovered that the price of the industrialized nations' exports, usually manufactured with our raw materials, would unilaterally grow while our basic exports remained unchanged. The price of coffee and cacao, just to mention two examples, was approximately 2,000 dollars a ton. A cup of coffee or a chocolate milkshake could be bought in cities like New York for a few cents; today, these cost several dollars, perhaps 30 or 40 times what they cost back then. Today, the purchase of a tractor, a truck or medical equipment require several times the volume of products that was needed to import them back then; jute, henequen and other Third World produced fibres that were substituted by synthetic ones succumbed to the same fate. In the meantime, tanned hides, rubber and natural fibres used in many textiles were being replaced by synthetic materials derived from the sophisticated petrochemical industry while sugar prices hit rock bottom, crushed by the large subsidies granted by the industrialized countries to their agricultural sector.

The former colonies or neocolonies that had been promised a glowing future after World War II had not yet awakened from the Bretton Woods dream. From top to bottom, the system had been designed for exploitation and plundering.

When consciousness was beginning to be roused, the other extremely adverse factors had not yet surfaced, such as the undreamed-of squandering of energy that industrialized countries had fallen prey to. They were paying less than two dollars a barrel of oil. The source of fuel, with the exception of the United States where it was very

abundant, was basically in Third World countries, chiefly in the Middle East but also in Mexico, Venezuela, and later in Africa. But not all of the countries that by virtue of yet another white lie classified as "developing countries" were oil producers, since 82 of them are among the poorest and as a rule they must import oil. A terrible situation awaits them if food stuffs are to be transformed into biofuels or agrifuels, as the peasant and native movements in our region prefer to call them.

Thirty years ago, the idea of global warming hanging over our species' life like a sword of Damocles was not even known by the immense majority of the inhabitants of our planet; even today there is great ignorance and confusion about these issues. If we listen to the spokesmen of the transnationals and their media, we are living in the best of all possible worlds: an economy ruled by the market, plus transnational capital, plus sophisticated technology equals a constant growth of productivity, higher GDP, higher living standards and every dream of the human species come true; the state should not interfere with anything, it should not even exist, other than as an instrument of the large financial capital.

But reality is hard-headed. Germany, one of the most highly industrialized countries in the world, loses sleep over its 10 percent unemployment. The toughest and least attractive jobs are taken by immigrants who, desperate in their growing poverty, break into industrialized Europe through any possible chink. Apparently, nobody is taking note of the number of inhabitants on our planet, growing precisely in the undeveloped countries.

More than 700 representatives of social organizations have just been meeting in Havana to discuss various issues raised in this reflection. Many of them set out their points of view and left indelible impressions on us. There is plenty of material to reflect upon as well as new events happening every day. Meanwhile, the impressive international meeting that just concluded in Havana reaffirmed my personal conviction: every evil idea must be submitted to devastating criticism, avoiding any concession.

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