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# B U L L E T I N

**A SPECIAL ISSUE DEDICATED TO THE THIRD UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES - BRUSSELS 14-20 MAY 2001.**

## **LDCs - MORE HOPE THAN HELP**

EDITORIAL

More than 600 million people in 49 countries labelled as 'least developed' have just been delivered more hope. For the third time in 20 years, the world's poorest segment of society has been presented another 10-year plan. The 3<sup>rd</sup> UN Conference on Least Developed Countries (14-20 May) in Brussels ended, in essence, with a re-affirmation of past commitments. While no 'grandiose' schemes materialised, there were a string of 'modest' initiatives unveiled, principally by the European Union which hosted the conference, and 'deliverables' that mainly the UN agencies had prepared for.

The quest to 'label' the LDCs as a group of nations perhaps follows the same logic that was pursued while scaling down poverty eradication targets to merely reducing the numbers of those who are 'extremely' poor. According to the Millennium Summit Declaration, the number of people living in extreme poverty should be halved by the year 2015.

Seldom is failure acknowledged at the start of a conference. The Brussels conference began with the grim reality that had the earlier two conferences' commitments been implemented, there would have been no need to hold the third one. Yet, the 10-year Programme of Action approved at the end of the 3<sup>rd</sup> Conference clearly talks about a fourth UN Conference of LDCs to decide on 'subsequent action.' So the underlying assumption may be to expect no 'dramatic' changes in the current forces at play.

Only one country - Botswana - has graduated out of the LDC group, whose

ranks have swelled from 25 to 49 today. Senegal was the 49<sup>th</sup> member. But there are many criteria to fulfill to join the group, it is not automatic. In reality, many other developing countries, including some in Africa, could easily fulfil the criteria, taking their total to well above 50.

But this game of numbers is likely to be an unending process until the fundamental problems associated with poverty, underdevelopment and vulnerability in the wider context of the developing world are addressed. By fragmenting the challenge of development or treating various symptoms - like health, education, food and housing - what can be achieved at best is piecemeal progress. The war on poverty, which afflicts a good part of the humanity today, is difficult to win with the business-as-usual approach and more good intentions.

In fact, one of the nagging concerns of many non-LDC developing countries at the conference was the attempt to 'diffuse' the responsibility of helping LDCs to many more so-called development partners - so as to make the better-off developing countries share the burden. "It is both cruel and laughable to argue, as has been done, that other developing countries must share with the OECD equal responsibility as development partners for the LDCs," noted one delegation. "We trust this conference will see the last of these diversionary attempts."

The outpouring of sentiments at the Brussels conference ranged from hope  
(continued on page 20)

### **INSIDE PAGES**

Poverty Eradication: Paying Lip Service to International Cooperation.....	2
Globalisation Benefits Only After War on Poverty.....	4
Breaking the International Poverty Trap.....	9
Trade Liberalisation Accentuating Poverty in Sub-Saharan Africa.....	11
Rigged Trade and not Much Aid.....	16

## POVERTY ERADICATION: PAYING LIP SERVICE TO INTERNATIONAL COOPERATION

In his inaugural address to the 3rd UN Conference on Least Developed Countries at Brussels on 14 May, 2001, the President of the Federal Republic of Nigeria, **Olusegun Obasanjo** said that the response of the international community to poverty eradication has paled into insignificance. He hoped that the Brussels meeting would be a milestone in consolidating North-South relations and dialogue in pursuit of a fairer global economic order. He also hoped that Brussels could become a turning point, in the long search by the international community for a genuine transformation in the lives of millions of people wallowing in poverty in the developing world. The following are excerpts from President Obasanjo's address.

Few would doubt the general impression that our gathering in Brussels for a third LDCs Conference is **an admission of failure**, particularly of the past Programme of Action for the decade of the nineties. Or, how else do we regard the proliferation of extreme poverty as measured by the near hundred per cent increase in the number of countries classified as LDC's - from twenty-five in the 1980's to forty-nine at the turn of the century?

A lot has so far been said - I am sure more will still be said - to provide us here with deep understanding of poverty. Without any intention to add to the numerous views on the subject, permit me to say very quickly what poverty means for us in the developing world:

- *poverty is lack of material well being* among our citizens, expressed in terms of a daily struggle to meet the most basic needs for food, water and shelter - basic needs taken for granted in other parts of the world;

- *poverty is lack of access to healthcare delivery* by which treatment could have prevented or avoided countless deaths;

- *poverty is lack of employment* or lack of productive land or other income-earning assets;

- *poverty is the lack of power and voice* in the affairs of state by those for whom the state ideally exists;

- *poverty is the absence of infrastructure* and other social services;

- *poverty is the physical pain* that comes from too little food and long hours of work;

- *poverty is the emotional pain* stemming from the daily humiliation of dependency, *and*,

- *poverty is the moral pain* of being forced to make critical choices within severe limits of frugality.

These dimensions of poverty are daily experiences for us in the developing world. Naturally we are worried, but more importantly, we feel the pains and frustrations of helplessness to effect a change after trying all our very best to lift our countries and peoples out of the vicious grips of penury and poverty.

Of course, crises of governance in many developing countries, as well as the lack of accountability and transparency in the role of government, and general political instability, have contributed to the failure of measures hitherto aimed at combating poverty. Good governance is critical for the process of development, structural change and eradication of poverty. Good governance should be made an integral part of antipoverty measures, rather than a condition for international support for such measures.

**We are concerned that national efforts to eradicate poverty may be futile if the external environment remains unsupportive of our endeavours. In the area of trade liberalization, for example, the daunting task of harmonizing our domestic economy with commitments assumed under the various Uruguay Round of Agreements, may in fact backfire on our prospects in the multilateral trading system. The agreements are asymmetric, not only with respect to the rights and obligations inherent in membership of the World Trade Organization (WTO), but also as regards the costs of implementation. Thus far, our development partners have not yet fulfilled their commitments in the Marrakesh Declaration, as regards those provisions intended to give developing world access to markets in the industrialised world.**

The non-implementation of the special and differential measures, and the increasing protectionist measures by major trading powers against some of our exports under the seemingly innocuous guise of health, labour and other standards, are detrimental to our developmental aspirations. Implementation of the development dimensions in the various agreements, and the enhancement of market access in the areas of

agricultural trade, textiles and clothing, must precede, not follow, a new round of rule-based multilateral trade negotiation.

The debt problem is another cardinal concern. We leaders call on our citizens to make sacrifices as we move to liberalise our economies. But this option would not be successful without matching sacrifice on the part of the industrialised world, especially as regard debt reduction or cancellation. This is particularly urgent and pressing in societies in transition, such as Nigeria, where the burden of debt servicing will choke the capacity of the state to make needed investment in social and physical infrastructure, as well as human capital. Everything taken together, the time appears auspicious for the application of a human face to the debt question.

External capital flows for development, are today widely accepted and acknowledged as critical to sustained economic growth, which in turn, is necessary for the fight against poverty. In this context, the decline in the level of Official Development Assistance (ODA) to 0.24 per cent of donor countries' Gross Domestic Product (GDP), as against the internationally agreed target of 0.7 per cent, is a matter of serious concern - if not profound disappointment - to us.

The dramatic drop in ODA flows might have been bearable if it had been compensated by increase in Foreign Direct Investment [FDI] flows. Unfortunately FDI flows have been uneven and effectively bypassed LDCs. And more recently, we have witnessed a reversal in FDI flows.

Against this background, ODA must be resuscitated as an important source of capital for

investment in social infrastructure, while untying of development aid. There must be urgent political commitment to meet the internationally agreed target regarding flow of ODA to LDCs.

As regards Foreign Direct Investment (FDI), the investment climate in our countries is surely not the sole reason for the decline in FDI. Our productive base has sufficiently improved and our economies have commenced on the path of sustainable growth. We are eager to engage the private sector.

We have heard much about the potentials of **Information and Communication Technology** (ICT) in economic growth and alleviation of poverty. But how can we take advantage of the ICT revolution and share in the benefits of globalisation if the constraints of infrastructure, education, capacity building, investment and connectivity, faced by many developing countries, are not tackled?

Herein lies the role of effective and meaningful collaborative efforts which should involve governments, multilateral development institutions, the private sector, civil society and other stakeholders. All must work together to bridge the much talked about digital divide for the realisation of the promise and potentials for development inherent in the application and use of ICT. We had high hopes after the 2000 Okinawa G8 Summit and the ECOSOC Session, but hardly any progress has since been detected.

Africa must be given a special attention. Many developmental problems which have become a thing of the past, remain endemic in Africa: The continent is ravaged by conflict and poverty. Africa is home to a growing share of the world's absolute poor. Infra-

structure is at dismal level, little progress has been made in the educational sector, while child mortality is high, and generally life expectancy is low compared to other regions of the world.

Practically, Africa's place in the global economy has been totally eroded with the decline in the share of export and trade, capital flight and little presence of the digital revolution sweeping across the world. Perhaps most worrisome is the ravaging impact of HIV/AIDS and other endemic diseases like Malaria and Tuberculosis which are threatening to wipe out the little that is left of the gains of the past. It is therefore not surprising that, out of a total of **49 LDCs today, 34 are in Africa**, and all are in Sub-Saharan Africa, a region whose total income is said to be just a little over that of Belgium. The Continent must be assisted to bring to reality the much talked about African renaissance.

Placing the HIV/AIDS issue on the global agenda is top priority and must receive the support of all and sundry. The Abuja Declaration and Programme of Action on HIV/AIDS and other dreaded diseases, provide a clear road map in this direction. We expect this conference to explore practical ways of supporting the implementation of the programme of action accordingly, and especially by contributing generously to the newly established Global Trust Fund for HIV/AIDS.

**In the past we have too often paid lip service to international cooperation. Today we must realise that the response of the international community has paled into insignificance. This perhaps explains why in the last three decades of global action, presumably in support of the LDCs, only one country has graduated from its ranks, while**

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**many more have crossed the thin line from erstwhile developing, to least developed countries.**

This development is instructive. It calls for serious reflection, and more importantly, urgent concrete action on the part of all of us gathered here today.

Let me conclude by expressing a genuine fear and concern that the opportunity presented by this

conference to tackle the developmental problems of the LDCs must not be allowed to slip by. We have heard of difficulties at the preparatory process. Now that the political leaders are gathered here, it is our responsibility to make those commitments with follow-up actions that will produce the desired changes. Only then shall we be sure that there will be no increase in the ranks of LDCs by the time of the mid-term review of the

**Brussels Programme of Action** in the year 2006.

Today, the international community has all it takes to reposition LDCs and indeed all developing countries in their determination to eradicate poverty. Let us, therefore, make Brussels a new beginning for genuine international cooperation. And let us say farewell to absolute poverty in the world.

## GLOBALISATION BENEFITS ONLY AFTER WAR ON POVERTY

*In his remarks to the 3<sup>rd</sup> LDC conference, Mr. Benjamin William Mkapa, President of the United Republic of Tanzania, called for a little "soul-searching" and to show that the hands that cradle our world are "warm and caring, not cold and indifferent." Reciprocal recriminations will never put food on the plate of the hungry, nor take their children to school, the President affirmed. In the following excerpts from his address, President Mkapa looks at some of the new approaches and initiatives from the LDC perspective, the role of various development actors and what is at stake in the areas of trade, debt, and ODA. He contends that it is success in the war on poverty that will pull the benefits of globalisation for LDCs.*

We need to ask ourselves three basic questions:

First, do we now know, in sufficient detail and clarity, why many earlier approaches and initiatives failed - be it the Programmes of Action of previous LDC Conferences, or all the other global summits on education, on environment, on poverty, on health, on habitat, on women, on children and others. All the targets that came out of the Conferences and Summits were noble, and at the time we agreed on them, we believed we were all committed to play our different but complementary and coordinated roles. We failed. Was the problem the goals, the approaches, the initiatives, the role players, or their co-ordination?

Secondly, if with the help of the Report of the Panel (High-Level Panel for the Review of Progress in the Implementation of the

Programme of Action for the Least Developed Countries for the 1990s) we believe we now know what went wrong, are we equally certain that the new approaches and initiatives we are launching here, and the roles we assign to the different actors, relevant to the solution needed to effectively deal with the previous problems; and, can they be relied upon to increase the speed of implementation to make up for lost time, and to produce the effectiveness and efficiency needed to attain that speed?

Thirdly, we need greater introspection by all the actors, especially governments, in both rich and poor countries, regarding sufficient commitment to these new approaches and initiatives. The report of the Panel has shown that lack of, or insufficient, political will is a major contributory factor to previous failures. Are we now **sufficiently driven** to engender

the necessary political will, among all actors, to not fail again?

How determined are we to nurture a true partnership, a partnership based on mutual trust and respect, openness and fairness, willingness to share credit for success and shared responsibility for failure? Are we ready to look forward together, to work better together? For reciprocal recriminations will never put food on the plate of the hungry, nor take their children to school.

Let me now, from the LDC perspective, look at some of the new approaches and initiatives, and how I believe they can contribute to making this Conference succeed where others have failed.

The first is **genuine local and national ownership, an ownership** that is facilitated and

strengthened through **partnership** with external development partners, and local NGOs, and involving issues such as capacity building for planning, implementation, co-ordination, monitoring and evaluation. Here I think I am uniquely suited to speak on the subject of ownership and partnership because in terms of Tanzania's relations with bilateral, but especially multilateral development partners, the pendulum of our engagement has swung from one end, of mutual suspicion and confrontation, to the present stage where national ownership of policies, goals, plans, programmes and priorities is increasingly becoming the accepted way to relate to each other. It is possible to evolve such a relationship, but it cannot happen overnight.

We understand the concerns of our development partners - whether political, technical, or administrative. Yet greater political commitment is needed, both at the bilateral and multilateral level, to cede more and more control over policy, planning and prioritisation to national governments. And within nations, more of such roles should devolve to local governments. The war on poverty is essentially ours, and we know our people and the environment obtaining locally. What we need is a favourable external environment and implementation assistance from other development actors and partners.

The second is with regard to new initiatives on the **debt burden**, which is truly a drag on whatever national efforts we take to promote growth, development and capacity for poverty reduction. It is no secret that the debt burden, in the context of the economic reforms and structural adjustment implemented by LDCs, in fulfilment of our side of the commitments made at LDC II in Paris, has contributed

significantly to reducing, stagnating or producing very low improvements in human development.

We were hopeful, when the G7 countries agreed to launch the enhanced HIPC Initiative, that this burden would soon be lifted, or at the very least, significantly lightened. Alas, few LDCs have been able to access the facility two years later, and quite a number, like Tanzania, are somewhere between something called "decision point" and "completion point," despite years of consistent reform and adjustment. It is as if the very few remaining conditions have far greater weight in determining the "completion point" than the overwhelming successful conclusion of other conditions. If this trend persists, we will still have a very long way to finding a final and sustainable solution to the debt problem. Fears also persist on whether the enhanced HIPC Initiative will ever be fully funded.

Good words are not enough. All development actors have to play their roles. Most of the LDCs have tried, under very difficult conditions, to play their part between Paris in 1990 and Brussels today. Yet the commitments from Paris on debt relief have produced little effect on the ground. Indeed, World Bank statistics show that the debt burden has actually worsened. Since Paris, the nominal value of the debt stock of LDCs as a whole rose from \$121.2 billion in 1990 to \$150.4 billion in 1998. And, although not all LDCs fully service their debt (we in Tanzania are unable to do so) the total debt service paid by LDCs rose from \$4 billion at the time we met in Paris for LDC II, to \$4.4 billion two years ago.

What is worse, even the full deployment of pre-HIPC debt relief mechanisms could not create a noticeable dent in the debt problem. Almost two thirds of all LDCs are

still faced with unsustainable levels of external indebtedness. The Programme of Action we will agree upon here will begin with a heavy debt overhang. Unless all development actors are willing to do something much more than what has already been done, something much more dramatic in scope, content and effect, ten years from today we shall be assembled somewhere else reflecting again on yet another failed **global effort; a very well intentioned effort**, but one which is flawed from the beginning, and will not fly.

I am sure that out of Brussels will come other commitments by rich industrialised countries to increase the flow of concessionary external resources needed to facilitate efforts by LDCs to reach internationally agreed development and other poverty related goals. A similar promise was made in 1990. But while it is widely acknowledged that the 1990s witnessed unprecedented commitment, in reform and practical terms, among LDCs towards creating the right domestic policy environment in terms of democratic governance; in terms of macro-economic policies, fundamentals and stability; in terms of opening up to the external world; and in terms of liberalising product and factor markets through privatisation and deregulation, no corresponding increase of concessionary external resources was evident during the period for the LDCs as a group.

As the Overview of the Least Developed Countries 2000 Report by the UNCTAD Secretary-General has shown, in practice, the share of Development Assistance Committee (DAC) member countries ODA earmarked for LDCs in relation to their GNP fell from 0.09 per cent in 1990 to 0.05 per cent in 1998, with only Denmark, Luxembourg, The Netherlands,

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Norway and Sweden meeting the targets of the Paris Programme of Action. According to the Report, net ODA to LDCs, in real per capita terms, has dropped by 45 per cent since 1990, and is now down to the levels of the early 1970s.

What is even more worrying is that even the more positive developments in ODA to all developing countries that began to reverse the trend of the early and mid-1990s has once again relapsed into another downward trend. Provisional OECD data recently released show that ODA has fallen from \$56.44 billion in 1999 to \$53.06 billion last year, a drop of \$3.38 billion in one year only. While there was a real 6.5 per cent increase in ODA from 1998 to 1999, there has been a 1.6 per cent decline from 1999 to 2000. Against the United Nations target of OECD countries contributing 0.7 per cent of their GNP to ODA, the average DAC ratio has fallen from 0.24 per cent in 1999 to 0.22 per cent last year.

It is under these circumstances that we meet here in Brussels to make new commitments to fight poverty in LDCs in the next 10 years. Clearly, we in the LDC have reason to be sceptical if the targets we agree upon here stand a better chance of success than those made in Paris 10 years ago. We need more reassurances from our development partners.

Another thing that deserves mention is **the continued initiatives to improve aid coordination**, targeting and sequencing, as well as the imperative to untie aid. All these are necessary if we are to increase the efficiency and effectiveness of aid, and the new approach of comprehensive and integrated, rather than piece-meal development initiatives, and achieve more development for each unit of currency allocated to ODA. I am aware of the problems that some

governments have in fully embracing this initiative. Ultimately it is a national decision, with due regard to each country's circumstances. But I want to pay tribute to those that are determined to cross the rubicon, of which the United Kingdom played a key role in trying to generate a coherent OECD position on untying aid. Sadly, that central element in the new approaches and initiatives failed. I want to thank all those DAC member countries that have crossed that rubicon. I am encouraged to note, however, that even those countries that today have problems in untying aid to LDCs do realise and acknowledge that there are certain negative effects of their position - including in terms of raising costs of development projects, reducing competition, and the suppression of the development of the local private sector in LDCs.

It is acknowledged that trade, and the global framework we have put in place to promote and regulate it, are also important development actors. As LDCs we are, nevertheless, pleased that the term "Trade, Not Aid" is less used now. For clearly, it is unrealistic to expect that whatever benefits of trade we might get in opening up to the external world can offset the need for continued concessionary aid to LDCs. But that is not to say we are against globalisation. Far from it. We know that LDCs can benefit from globalisation and free trade, but only where circumstances are right, where the different starting points are recognised and provided for, and where special measures are taken to remove supply side constraints through partnerships that involve enhanced inflow of concessionary external resources, through human development, and through preferential access to the markets of rich countries.

Recent studies - and the UNCTAD report on LDCs is one

such study - have shown that of all developing countries, LDCs have shown the greatest commitment, in practical terms, to free trade in goods and services. We have taken the leap of faith, even as we know we are joining a game whose rules were set by old players we find already on the pitch. We have taken painful measures, against a wave of protest from our own people, to open up our economies. The vast majority of LDCs have average import tariff rates that are below 20 per cent, with little or no non-tariff barriers. UNCTAD data shows that in the 1990s only 9 out of 45 LDCs had strict controls on remittances of dividends and profits, and capital repatriation.

But what do we get in return for compliance? What is there to show our domestic development actors? Not much. The asymmetry in effective power relations between LDCs and the rich industrialised countries is such that no amount of goodwill on the part of our external development partners can offset the effect of the baggage of huge disadvantages and structural weaknesses with which LDCs enter the contest, being told that the playing field is level, when we all know it is not level in practical terms.

LDCs are not rejecting the imperative of opening up to globalisation. But the fact is that LDCs cannot benefit from globalisation before they reduce poverty significantly. For it is essentially poverty that lies at the heart of the supply side constraints that make it impossible for Tanzania to fully access the benefits of such preferential trade arrangements such as AGOA of the United States, or "Everything But Arms" offered by the European Union.

When the Uruguay Round of trade talks was coming to the end, I had the feeling that rich industrialised countries were

putting the cart before the horse. Subsequently, and even at this Conference, it seems the horse has been taken from the back to the side of the cart. Maybe some movement can take place in that position, such as movement from side to side, or shaking. But the only way we can move forward, with full speed, is when we all put the horse of poverty ahead of the cart of globalisation in terms of our priorities. It is success in the war on poverty that will pull the benefits of globalisation for LDCs.

For me, this imperative is as clear as daylight. It is only success in the war on poverty that will increase jobs and incomes in LDCs on the one hand, and create an effective demand, and a market, for all the goods and services we are asked to open our doors to, on the other. It is only a successful onslaught on poverty that will reduce environmental degradation and pollution that remains a priority in a globalising world.

It is only economic growth and broad based development that will reduce LDCs negative contributions to globalisation, such as crime, drugs and illegal immigration; and instead increase LDCs positive contribution in terms of competitive goods and services. It will also contribute to peace and stability, creating a conducive environment for the investments and capital flows we are required to open our doors to. It will also enable us to acquire the technology that is so necessary but which rich countries find so difficult to share with us unless we pay up front.

Among the development actors that help us in the LDCs to ameliorate the worst manifestations of poverty are those in the United Nations System. Many have helped us with basic issues of health, of education, of the special problems of refugees and refugee hosting

communities, and recently of the necessary focus on capacity building at central and local government, on governance, on grassroots and national ownership of the development initiative, and on building the capacity of other non-state actors in development, such as local NGOs.

Regrettably, the commitment of some developed countries to the work of the United Nations is less than what we in the LDCs consider necessary. On behalf of LDCs, I plead for more, not less, resources for these important actors in the development of our countries, and the war on poverty. New approaches must not sideline the contributory and coordinating role of the UNDP and other UN agencies.

In terms of the commitment we have to mobilise for financial resources for development, there is an urgent need to increase the mobilisation of domestic resources and the inflow of foreign direct investment. Governments in LDCs have the responsibility, and they are ready to shoulder that responsibility, to create the necessary policy environment to facilitate the accrual of both sources of development finance. But it is only realistic not to put too much hope on domestic resources in the short term, taking into account the magnitude of investments necessary to create an impact on poverty.

If we are to create the virtuous circle between increased exports, investment and savings, much more needs to be done in partnership between all development actors. As mentioned earlier, the supply side constraints we have, and which are a deterrent to private investment, can best be addressed through a combined onslaught involving LDC governments and increased ODA resources.

Otherwise, LDCs will not be competitive in attracting foreign direct investment (FDI).

It is true there have been some increases in FDI flows to LDCs in the 1990s, and Tanzania is an example of one of the few LDCs that have benefited. But a deeper analysis of the investments to LDCs shows that most are investments in exploration and exploitation of finite natural resources, such as in hydrocarbons, and in mining. And sometimes, we have to offer too generous incentives to get the attention of major investors.

But, generally speaking, long-term capital inputs into LDCs as a whole have declined by 25 per cent in nominal terms since 1990, while those to other developing countries have increased dramatically in the 1990s. As a result, the share of LDCs in long-term net capital inflows to developing countries has fallen from 18 per cent in 1987 to less than 4 per cent. The share of net FDI to LDCs has fallen from 3.6 per cent in the late 70s and early 80s to 1.4 per cent in the 1990s. So, I repeat, private capital flows are also an important actor for development, but for us to be able to access this source of capital, more concessionary financial flows are needed to address the supply side constraints, especially those related to infrastructure and capacity building.

Another positive development I want to mention is the new commitment to consultations, and to a broad-based participatory approach towards development. It is an approach we in LDCs generally support and encourage. Within countries we see more participation by non-state actors in discussing policy options and priorities, and strategies for development and poverty alleviation. It is, however, important to build the capacity of the civil society, and of NGOs, if

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such a consultative process is to bear fruit, and not become a stumbling block to faster progress in development planning, implementation and evaluation.

It is also important that a line is drawn between Governments, with legitimacy to lead, obtained through a democratic process, on the one side, and NGOs and other representatives of civil society on the other side. Governments are fully responsible and accountable to the people; NGOs are not. And while they are our very important partners, that distinction must not be allowed to blur.

In relation to our external partners, we note with satisfaction the increasing willingness to listen to LDCs by the Bretton Woods institutions. The extended joint visit by the World Bank President and IMF Managing Director to Africa, where 34 of the 49 LDCs are, has sent a powerful message of a new approach in relations and partnership between LDCs and these institutions. But the trend also manifests itself gradually in other organisations and bilateral development partnerships. Even the preparation of the present draft Programme of Action has been a bottom-up approach that enabled broader participation and consultation among the various actors nationally, regionally and globally. This is a good beginning, which we must now build upon and expand.

We have deliberated long enough on this subject and we should now have adequate understanding of what is required. I will emphasise three aspects regarding our future actions.

First, we in the LDCs have to face our responsibilities. This is our challenge; we must rise to it. We must own the process. We should continue to establish the appropriate frameworks for economic growth, poverty eradication, peace and good governance. This, we accept, is one of the prerequisites for rapid growth and sustainable development.

Secondly, in order to attain the global targets of eradicating at least 50 per cent of extreme poverty by the year 2015 we need genuine partnership and support from our development partners. We need **significant, comprehensive, and sustained support**.

- Significant support is necessary to accelerate the momentum for growth that will enable LDCs to emerge out of the vicious circle of poverty;
- Comprehensive support is necessary because piece-meal and uncoordinated interventions will only lead to internal

and external imbalances in our economies; and

- Sustained support is necessary to enable LDC economies maintain attained levels of development on a continuous basis.

The mix of assistance is important and should be negotiated objectively. It is, however, necessary to stress the unique importance of ODA to priority areas determined by LDCs. Other important forms of support should include deeper debt relief, including cancellation, by multilateral and bilateral creditors, as well as increases in concessionary loans and facilitation to access global markets.

Thirdly, any future programmes for the LDCs should include an effective follow-up and monitoring framework at the national, regional and global levels. This is necessary if we are to evaluate our performance objectively and periodically and take corrective measures in time. The desired framework should be able to assess the performance both of the LDCs and their development partners based on what they have been committed themselves to under-take.

#### LIST OF LEAST DEVELOPED COUNTRIES

Afghanistan, Angola,  
Bangladesh, Benin,  
Bhutan, Burkina Faso,  
Burundi, Cambodia,  
Cape Verde,  
Central African Republic,  
Chad, Comoros,  
Democratic Republic of the Congo  
Djibouti,  
Equatorial Guinea, Eritrea,  
Ethiopia, Gambia, Guinea

Guinea-Bissau, Haiti,  
Kiribati,  
Lao People's Democratic Republic  
Lesotho, Liberia,  
Madagascar, Malawi,  
Maldives, Mali,  
Mauritania, Mozambique,  
Myanmar, Nepal,  
Niger, Rwanda, Samoa,  
Sao Tome and Principe,  
Senegal

Sierra Leone  
Solomon Islands  
Somalia  
Sudan  
Togo  
Tuvalu  
Uganda  
United Republic of Tanzania  
Vanuatu  
Yemen  
Zambia

## BREAKING THE INTERNATIONAL POVERTY TRAP

During the special segment on 'The Challenge of Eradicating Poverty, International Community Response' **Rubens Ricupero, Secretary-General of UNCTAD and the Secretary-General of the Third United Nations Conference on the LDCs** spoke about what needs to be done in the coming decade for effective poverty reduction in the least developed countries. In the following article, based on his presentation, Mr. Ricupero talks about the International Poverty Trap and the much-needed policy directions.

By focusing my remarks this morning on international aspects of poverty reduction in the least developed countries, I do not wish to deny the importance of good national policies and institutions for success in reducing poverty. They are, we are all agreed, absolutely essential. However, good national policies and institutions will be insufficient unless they are complemented by a supportive international environment.

### An International Poverty Trap?

This has become particularly important as a result of globalisation. Globalisation is changing the parameters of action for governments, enterprises and households. One important implication of increasing international inter-dependence, which is the hallmark of globalisation, is that what happens within countries is increasingly dependent on what happens elsewhere. We see this, for example, in the contagion effects of financial crises which spread amongst middle-income countries.

We are, I believe, less aware of the full implications of globalisation for the least developed countries. But what we may have been witnessing over the last 20 years or so is the emergence of an *international poverty trap*.

The idea of a poverty trap is familiar to us all. It is set out with tragic immediacy in the World Bank's *Voices of the Poor* study,

which brilliantly depicts the experience of poverty and highlights how different dimensions of poverty – inadequate assets and incomes, hunger and sickness, lack of education, powerlessness, insecurity, inability to claim rights and disorganisation – interact at the individual and household level. But the interlocking causes of poverty which trap households in persistent misery also operate at higher levels, and can trap entire communities, regions of individual countries and broader geographic regions in poverty. For national economies, for example, low income leads to low savings, low investment, low productivity, high population growth, high poverty and back again to low savings. Economic underdevelopment interacts with poor governance, and in the worst cases, a depressing cycle of economic regress, social stress and internal conflict and instability emerges.

The possibility that we are witnessing the emergence of an international poverty trap is evident in the economic performance of the poorest countries in the world economy. For the least developed countries, the trend is clear. As UNCTAD's *Least Developed Countries 2000 Report* documents, real GDP per capita in the LDCs as a whole grew at only 0.9 per cent during 1990-1998, and excluding Bangladesh, at only 0.4 per cent. There were variations within the group. But there are 22 LDCs which have been either stagnant or in economic regress during the same period. Moreover, in total, two-thirds

of the LDCs have been losing ground to other developing countries and other low-income countries during the 1990s.

The causal mechanisms of the international poverty trap that seem to be emerging remain to be defined. However, focusing on those least developed countries which are getting stuck, some of the key elements seem to be present when a country has the following economic configuration. It is commodity-dependent and highly indebted; it has limited possibilities to increase domestic resource mobilisation in the short run, but is largely excluded from private international capital markets and bypassed by FDI; it is aid-dependent and the donors are also the major creditors; and finally, its domestic policies are donor-driven.

### Policy Issues

Delineating the causal mechanisms through which international and national factors can interact to engender an international poverty trap must be a major priority for defining better policies to support the least developed countries. But here I would like to highlight three policy issues which are important for establishing a better future for the least developed countries and for the translation of our common vision of poverty reduction into pragmatic and effective action. These are: (i) policy coherence at the global level; (ii) public-private partnerships in financing dev-

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elopment; and (iii) the relationships between the least developed countries and more advanced developing countries.

(i) *Global Policy Coherence*

Regarding policy coherence at the global level, it is important that the international community increases the positive synergies between actions to improve the international financial architecture and actions to improve the international trade regime. For poor countries, the breakdown of an effective international commodity policy is a key element missing from today's international system. We all know that we cannot go back to the old-style international commodity agreements. But neither aid effectiveness nor a sustainable exit from the debt problem can be envisioned if nothing is done in this area. The challenge is to develop a market-based international commodity policy that will offset the negative impact on poverty of falling and unstable commodity prices.

Greater global policy coherence can also be achieved by effective solution to the external debt problem, which is so important for two-thirds of the LDCs. The debt overhang is of pivotal importance because it dampens private domestic investment and export development, it deters private capital inflows, and it distorts and undermines aid effectiveness. From our work in *The Least Developed Countries 2000 Report*, we are not convinced that sufficient debt relief is being provided to ensure a sustainable exit to the debt problem. Too little fiscal space is being opened in the short term, and the forecasts of the future financing gap after debt relief are based on export and import projections which are simply too optimistic to be credible.

It is noteworthy that a progress report on 'The challenge of

maintaining long-term external debt sustainability' presented at the April 2001 meetings of the Development Committee of the IMF and World Bank also highlighted the issue of the forecasts within the HIPC Initiative. We must reflect and act on the implications of these findings, particularly in the light of recent commodity price trends. We must ensure that debt relief does not create false expectations, which would be very destructive for private sector activity. Moreover, we must consider how private investment can be crowded in by relief on debts to official creditors. In the end it is an improved investment climate and enhanced productive capacities which will provide the solid basis for poverty reduction.

(ii) *Public-private partnerships in development finance*

Public-private partnerships are important for financing development in the least developed countries. Indeed, there is a need for a joint approach to development finance which seeks synergies between domestic resources, private capital inflows, ODA and debt relief. But a roadmap for achieving this must be in tune with the current realities of the LDCs. In these countries, the notion of public-private partnerships needs to be considered over a much longer time horizon.

It is striking in this respect that, despite a widespread move to reach far-reaching economic liberalisation in many least developed countries, aid flows have been declining. In real per capita terms, net ODA to LDCs has dropped by 45% since 1990. Most of the LDCs are not receiving sufficient private capital inflows to offset declining aid, even after deep trade liberalisation and reform of the regulatory framework for FDI. Against this background aid flows will have to increase in the short and medium term in order to promote domestic resource

mobilisation, increased private domestic investment and private capital inflows.

Of course, more aid will not work unless measures are taken to improve aid effectiveness. This requires action on the part of both donors and recipients. OECD/DAC has useful guidelines for effective aid practices based on long experience. The introduction, alongside recipient performance monitoring, of donor performance monitoring indicators, in line with these guidelines, could be a pragmatic and practical device for promoting the effective partnerships which we are all agreed are necessary for enhancing the quality of aid.

There is also a need for innovative approaches to aid. In this regard, I am happy to report that ILO and UNCTAD have been jointly exploring the applicability of a particular Brazilian approach to poverty reduction in the context of African least developed countries. The approach, which we are calling the MISA approach, involves providing a cash transfer (minimum income) to poor families, conditional on school attendance by their children. The approach has had good results in Brazil and has also been successfully applied in Mexico. The Report of an Advisory Group commissioned jointly by the two organisations argues that it is both feasible and desirable in African LDCs and that, within the context of PRSPs and adapted in line with national contexts and priorities, it can support the achievement of International Development Goals.

I believe the MISA approach merits discussion at this conference during the interactive debates on education and human resource development. The approach reduces current poverty and future poverty, contributes to the reduction of child labour and also enhances

human capital development. It is not simply a welfare benefit but also a social investment, a 'capability' benefit, to use Amartya Sen's terminology. It is a new idea and it could presage new forms of aid, such as International Social Funds.

*(iii) Least developed countries and more advanced developing countries*

One of the key changes of the 1990s which is affecting how we approach poverty reduction in the least developed countries is the increasing differentiation amongst developing countries. I believe that it is now necessary to think about the problems and prospects of the least developed countries not simply as a North-LDC relationship but also in terms of the relationship between the LDCs and more advanced developing countries and emerging markets.

One key to growth and poverty

reduction in the LDCs is economic growth and sustained industrialisation in these more advanced developing countries. But the relationship between the two groups of countries is structured by the relationship of both to the North. At the moment, various asymmetries in the international system are making it difficult for the more advanced developing countries to deepen industrialisation and move up the technological ladder, and they are also facing adverse consequences from global financial instability and the ways in which it is addressed. This is tending to make the relationship between the more advanced developing countries and the LDCs competitive rather than complementary.

A major challenge for poverty reduction is to structure the relationships of both more advanced developing countries and the LDCs with the North in a way which enables the emergence of complementary synergies between

the more advanced developing countries and the LDCs. All groups of countries can benefit. The expansion of the LDC economies can provide markets for more advanced developing countries, and the latter can avoid the adverse spillover effects which would occur if they have a stagnant or regressing economy, with a rapidly growing population, on their doorstep. Moreover, the North will also benefit from this synergetic growth-in-tandem between LDCs and more advanced developing countries in the South.

We have much to learn about the new economic relationships in the global economy. This is what we have to focus on in the coming decade for effective poverty reduction in the least developed countries. Without a global perspective we shall not succeed in achieving our common goals. International Development Goals require International Development Means.

## TRADE LIBERALISATION ACCENTUATING POVERTY IN SUB-SAHARAN AFRICA

*At the NGO Forum during the Brussels LDC conference, the voices from civil society were more critical of the present pattern of 'open' and 'unfair' trade. At one of these meetings on 16 May, participants expressed the fear that 'competition for markets' was overriding the 'concern for people.' Many of the concerns highlighted are captured in the following article by **Demba Moussa Dembele**, former Coordinator of Dakar 2000 - a conference for the cancellation of African and Third World Debt. Mr. Dembele is also a Member of the African Co-ordination of Jubilee South. His thoughts were also presented to the Workshop on Trade, Commodities and Services held at the main conference centre in the European Parliament building.*

Sub-Saharan Africa is the only region in the world in which poverty has steadily increased during the last two decades. All major reports and sources stress a continuing deterioration in the region's development indicators.

Trade liberalisation has played a major role in this deterioration. It is well known that trade liberalisation is one of the leading

conditionalities imposed by the IMF and the World Bank on developing countries, within the framework of structural adjustment programs (SAPs), and now of the poverty reduction strategy (PRS). This stems from the conviction of neo-classical trade theory, which posits that open trade is a major source of economic growth, technological and social progress. This conviction has its roots in the classical

Ricardian theory of comparative advantage, later developed and refined by neo-classical theorists, illustrated by the Heckscher-Olin and Samuelson-Stopler theorems.

So, even though the reality shows the failure of these theorems in most developed countries, the IMF and World Bank continue to believe that the problem lies more

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in the implementation than in the soundness of the theory itself. This is a direct result of what some critics call the “economic fundamentalism” of the two institutions.

This paper aims to show how this fundamentalism has led the IMF and the World Bank to advocate trade policies which, instead of spurring growth and reducing poverty in sub-Saharan Africa, have been one of the main sources of economic stagnation, unemployment and mass poverty.

### **A One-Sided Trade Liberalisation Policy**

First and foremost, the current international trade rules are fundamentally unequal and biased against developing countries. They tend to reinforce the unequal division of labour between countries of the North and those of the South. The end of the Uruguay Round and the creation of the World Trade Organisation (WTO) have accentuated this division. This explains why trade liberalisation has been a one-sided phenomenon.

Within the framework of structural adjustment policies (SAPs), developing countries have been forced to open up their economies to foreign goods and services, in the name of the “integration into the world economy”. Since the early 1980s, trade liberalisation has been one of the leading conditionalities imposed on indebted countries, by the IMF and the World Bank. The end of the Uruguay Round negotiations and the creation of the World Trade Organisation (WTO) gave a new impetus to trade and investment liberalisation in sub-Saharan Africa.

It has been documented that many African countries, including several of them classified as least

developed countries, have undertaken deep cuts in import tariffs, a result of IMF/World Bank pressure. Since 1988, many least developed countries have undertaken painful and comprehensive trade liberalisation within the Enhanced Structural Adjustment Facility (ESAF) framework. This liberalisation is one of the many conditionalities imposed by the IMF in exchange for loans. For instance, trade liberalisation is one of the conditionalities to get “debt relief” within the framework of the HIPC Initiative.

As a result, many LDCs have scrapped many trade barriers. According to UNCTAD, data available on 43 least developed countries show that these countries have drastically reduced import tariffs to less than 20 per cent and removed several non tariff barriers altogether.

However, developed countries did not match trade liberalisation by African and other developing countries. Not only did the former keep huge subsidies for their agricultural exports, but they also kept protective measures for industries in which developing countries have a comparative advantage, such as textiles, clothing and footwear. This is in violation of their commitments to grant a greater market access for developing countries’ products, commitments made in Marrakesh (Morocco), in 1994, at the birth of the WTO. Anti-dumping and safeguard rules are used as disguised non-tariff barriers against labour-intensive exports by developing countries. Several multilateral institutions, such as ECA (Economic Commission for Africa) and UNCTAD have denounced this violation.

Ingrained biases and asymmetries in the current international trading system explain

the one-sided trade liberalisation observed in the world. Unless these biases are corrected, talk of “fair” and “open” trade rules will remain an empty rhetoric. And African and other developing countries will continue to lose out, with all the economic and social costs this entails.

### **Trade Liberalisation and Unemployment**

One of the most visible impacts of trade liberalisation in sub-Saharan Africa has been the collapse of many public and small-scale private enterprises. This collapse is a direct result of the huge inflow of cheap imports, following the lowering or even lifting of tariff and non-tariff barriers. In the name of comparative advantage, the IMF and World Bank have compelled African countries to lift these barriers, without due consideration for domestic jobs.

Most domestic enterprises cannot sustain competition from more mature Western enterprises or from multinational corporations (MNCs), which are much more cost-effective. Many of these MNCs pay slave wages in special enclaves designed for exports, such as the export processing zones (EPZs). Several studies have documented that in those EPZs, women form the bulk of the labour force, working in sub-human conditions, without any protection, whatsoever, exposed to constant harassment and job insecurity.

Since the mid-1980s, many African markets have been flooded by cheap imports, which in turn led to the collapse of medium and small producers. As a result, thousands of jobs have been lost, without being offset by the creation of new jobs or higher paying jobs.

In fact, low skilled workers have been the main victims of trade

liberalisation. On the one hand, the EPZs tend to displace competing domestic industries, which employ low skilled workers. On the other hand, the stress on competitiveness leads employers to prefer labour-saving techniques to labour-intensive techniques in order to lower production costs.

In addition, almost everywhere, trade liberalisation has been accompanied by drastic changes in labour laws by host governments. These changes include labour market "flexibility", which tends to give a free hand to employers to layoff workers at will to maximise their profits.

Another aspect of labour market "flexibility" is the repealing of minimum wage laws, in several countries, which has tremendously contributed to the rise in poverty. In other words, labour market "flexibility" has meant huge job losses, declining purchasing power and weaker labour unions.

All these anti-labour policies have been taken under the urging of the IMF and World Bank, in the name of efficiency and competitiveness, to allow multinational corporations to reap huge profits by exploiting African natural resources and labour force.

### **Trade Liberalisation and Purchasing Power**

With the high unemployment level resulting from the above policies, the purchasing power of the overwhelming majority of the African people has dramatically fallen. Other factors have contributed to this fall. For instance, chronic currency devaluation to spur exports has depressed the value of domestic currencies, with a concomitant rise in the prices of many imported goods. Or, devaluation of African currencies has been one of the tenets of IMF

and World Bank economists, because these currencies are believed to be "overvalued" compared to those of their trading partners. When one knows that most of these partners are developed countries, one can understand the huge costs of devaluation.

For instance, in January 1994, the CFA franc, a currency shared by the 8 members of the West African Economic and Monetary Union, and pegged to the French franc, was devalued by 50 per cent. This led to huge price increases of imported goods and to the doubling of those countries' external debt. The end result has been the collapse of many domestic enterprises depending on imported inputs and the worsening of the financial crisis of most States.

On the other hand, deregulation of internal prices for competitive reasons leads to higher prices of many domestically produced goods and services. To make things worse, the export-oriented policy followed by African countries leads to given priority to cash crops at the expense of food production. This in turn increases dependency on imported foodstuffs, which contributes to putting many basic staples out of reach of many low-income groups. As a result, malnutrition and even hunger have dramatically risen over the last two decades, with women and children being the most affected.

### **Trade Liberalisation and State Revenues**

Trade liberalisation means revenue losses from import taxation. Most African countries depend on these taxes for up to 90 per cent of their fiscal revenues. Or, even the so-called least developed countries, the poorest countries, which are exempted from undertaking such policies, have lowered their import

taxes, following heavy pressure from the IMF and the World Bank. This entails huge losses in revenues from import taxes.

In addition, all countries tend to grant huge tax breaks and subsidies for local inputs to exporting industries. This in turn has lowered government revenues from income taxes. The combination of these two phenomena has resulted in a dramatic decline of government revenues. This has been compounded by steady terms of trade losses of all African countries. All this has exacerbated the state fiscal situation.

To make up for these revenue shortfalls, many African countries have been forced by the IMF and the World Bank to resort to indirect taxes. Among these is the famous value-added tax (VAT), which is a tax on consumption. Or this tax falls more heavily on low-income families who tend to spend most of their income on consumption, compared to high-income groups. In UEMOA (Union Economique et Monetaire Ouest Africaine) countries - comprising Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger and Togo - the rate of the value-added tax is a uniform rate of 18 per cent. This means that poor families pay the same tax as do better off groups. The imposition of the value-added tax has been denounced by many critics as yet another policy which tends to aggravate poverty by further cutting in the already low purchasing power of the most vulnerable groups.

Furthermore, the financial squeeze with which African governments are confronted leads them to cut back on public spending, which mostly falls on the social sector (health, education, water, public transportation, etc.).

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All this shows that trade liberalisation is not only a source of income disparity, but also a determining factor in the aggravation of poverty in SSA.

### **Trade Liberalisation and Debt Burden**

Another negative impact of trade and investment liberalisation is the aggravation of the debt burden of African countries. In fact, chronic external deficits, as a result of steady terms of trade losses and tax breaks for foreign investors, push African countries to become ever more dependent on external loans and credits to meet minimal imports and other basic needs.

Over the last 20 years, sub-Saharan Africa has sustained steady terms of trade losses. These losses are due to a combination of factors, among them, fluctuations in commodity prices, which are the bulk of African exports. These prices were at a historically low level in the late 1980s and early 1990s.

Sub-Saharan Africa's real commodity prices fell by 45 per cent between 1980 and 1991. During the same period, the purchasing power of the region's commodity exports over its manufactured imports declined by 37 per cent.

Another contributing factor to Africa's external deficits is the disguised or open protectionism of OECD countries, which hurts many non-traditional African exports. And the glut of goods in already saturated markets of industrialised countries has pushed the prices of these exports further down.

All these factors have translated into heavy terms of trade losses. It is estimated that sub-Saharan Africa has been losing an average of \$20 billion a year, since the mid-1980s. Actually, the continent has experienced terms of trade losses

almost every year since 1977. It has been estimated that since the early 1970s, the cumulative terms of trade losses of non-oil producing African countries amounted to 120 per cent of their GDP, expressed at 1990 prices.

These losses have been compounded by huge capital flights. Indeed, trade and investment liberalisation, by lifting capital controls and allowing a freer movement of capital between African countries and the developed world, has encouraged and increased capital flights out of the continent. According to various estimates, between the early 1970s and 1990, the cumulative value of this capital flight ranges from 39 per cent of all private wealth to 80 per cent of the continent's GDP, at 1990 prices. This flight is higher than in any other region of the world.

These losses are far from being offset by official development assistance (ODA) or private investments. On the contrary, ODA has steadily declined over the last decade. It is estimated at around \$15 billion a year, less than the amount of annual trade losses. ODA for the least developed countries is even lower, with an average of \$12 billion. In comparison, the region transfers annually more than \$14 billion, as debt service payments. It seems that what is "given" by one hand is taken away by the other!

In addition, sub-Saharan Africa receives less than 5 per cent of foreign direct investments (FDIs) going to developing countries. And these FDIs are concentrated in a handful of oil and mine-rich countries. This makes the financial crisis, which besets African countries, even more acute. And it has further weakened the African States' ability to provide basic services to their citizens. No wonder the region's human development indicators have continued to deteriorate.

### **The Spread of Poverty**

One of the most visible signs of this deterioration is the spread of poverty all over the continent since the mid-1980s. According to the latest African Development Indicators, the number of people living on less than a dollar a day is over 300 million. Actually, they live on 65 cents a day! This number is up from 218 million in 1987 and up from 290 million in 1990, according to World Bank's President.

This means that between 1987 and 2000, the number of people living under the absolute poverty line has increased by more than 80 million, in sub-Saharan Africa. This explains, *inter alia*, why today, in the region, the only agenda for governments and multilateral institutions is "poverty reduction".

The IMF and World Bank, which are largely responsible for this unprecedented tragedy, have come up with a so-called Poverty Reduction Strategy (PRS), in connection with the Highly Indebted Poor Countries Initiative (HIPCs). But the PRS, which has been dubbed the new "Washington Consensus", bears a striking similarity to its predecessor, now completely discredited around the world.

The PRS is a distraction. It aims to prevent Africans from focusing on the search for alternatives to past and current failed policies of the two institutions. As long as the basic macroeconomic framework that underpins PRS remains "non negotiable", there will be neither "African ownership" nor poverty "reduction".

The PRS and the HIPC Initiative won't work. M. Wolfensohn, in his address before UNCTAD X in Bangkok, in February, 2000, indicated that even under the most optimistic growth scenario, poverty will continue to increase in sub-Saharan Africa during the next

decade. This assessment was made six months after the adoption of the HIPC Initiative and the poverty reduction strategy, by the IMF and the World Bank. Obviously this shows that M. Wolfensohn himself does not believe in his institution's strategy! As for HIPC Initiative, UNCTAD has raised serious doubts about its effectiveness.

### The Way Forward

It is clear that trade liberalisation cannot be an instrument to spur growth and reduce poverty in sub-Saharan Africa. In fact, the actual record indicates that it has entailed heavy costs for the region, most dramatically illustrated by an unprecedented level of poverty. Trade liberalisation has entailed profound changes in domestic consumption, with a rising demand for imported goods, which tends to penalise domestic producers. Trade liberalisation has led to massive losses in fiscal revenues, compounded by a huge capital flight and heavy terms of trade losses. As a result, social spending has been sacrificed in the name of fiscal balance.

Despite this sad reality, the IMF, the World Bank, the WTO and the major powers that control them are pushing for more trade liberalisation in Africa. The US African Growth and Opportunity Act (AGOA) and the European Union's future Economic Partnership Agreements (EPAs) are even proposing the signing of free trade agreements with sub-Saharan Africa. But both proposals aim to create the conditions for a total control of African economies by western multinational corporations. Both are a threat to African economic integration, therefore against the fundamental interests of the continent, despite the American and European propaganda machines, hailing these initiatives as being instruments of growth and development for Africa.

Therefore, to eradicate poverty and spur growth and create conditions for a sustainable human development, sub-Saharan Africa must look at other options. First, African countries must be granted a greater access to OECD markets for their traditional and non-traditional goods. This is particularly important for agricultural products, textiles, footwear and clothing, in which Africa has a comparative advantage. Which means continuing to put a heavy pressure on G-7 countries to live up to their commitments.

A second alternative is to push for a special treatment in international trade for African and other developing countries. This would spare them the huge and painful costs of implementing WTO rules, most of which are against African countries' fundamental interests. In this perspective, these countries must postpone indefinitely the implementation of such rules, as TRIPS, TRIMS, etc., as long as they have not undergone structural changes to meet developing countries' demands.

African and other developing countries should push for new international agreements to support commodity prices, which are the bulk of their exports. In this case, they should use the expertise and advice of UNCTAD. Another area in which UNCTAD can help is the necessity for African countries to use the infant industry argument to protect some of their most vulnerable domestic industries, particularly those that are labour-intensive and producing for the local market.

However important these trade concessions may be, it is even more vital that African countries move towards creating sub-regional and regional markets through their greater economic co-operation and regional integration. This would not only give them a greater bargaining power in

international fora, but more importantly, provide the economies of scale needed to set up more viable and competitive industries.

In addition, sub-Saharan Africa should exploit all opportunities for a greater South-South co-operation. The non-aligned movement, the G-15 and G-77 frameworks offer several possibilities of co-operation that could strengthen the South-South solidarity with regard to the North and multilateral institutions.

On the other hand, sub-Saharan Africa must seek the co-operation of developed countries and multilateral institutions to help track down and return the money embezzled by African leaders and stashed in Western banks. International co-operation could also help enact measures to limit capital flight in the future.

Finally, all these policies should be combined with a vigorous campaign for an unconditional debt cancellation. Debt in itself has been paid many times over. Since 1987, there are more financial resources flowing out of sub-Saharan Africa, than those going into the region. The external debt has become illegitimate, fraudulent and immoral.

In light of the failure of all previous conventional "solutions" and of the lack of credibility of the HIPC Initiative, cancellation is the only sensible solution to the unbearable burden and the devastating economic and social costs of African and other developing countries' external debt.

## RIGGED TRADE & NOT MUCH AID: HOW RICH COUNTRIES HELP KEEP LDCs POOR

*Perhaps the most biting criticism of the industrialised countries during the Brussels conference came from Oxfam. Nowhere is the failure of international co-operation more apparent than in trade, says Oxfam. 'Having pledged to improve market access, the industrialised countries have operated a policy of highway robbery masquerading as preferential treatment.' The removal of trade barriers has left highly vulnerable food producers facing competition from industrialised countries, which spend one billion dollars each day on production and export subsidies. The performance of the industrialised countries on aid to the LDCs has been completely inadequate, adds Oxfam. The Heavily Indebted Poor Countries (HIPC) Initiative has failed to provide the LDCs with debt relief on anything like the scale required. The following are extracts from the Oxfam report "Rigged Trade and Not Much Aid: How Rich Countries Help to Keep the Least Developed Countries Poor."*

In areas such as textiles, footwear, and agriculture, where production is relatively labour intensive, production for export has the potential to generate more equitable patterns of economic growth, creating employment and livelihood opportunities for highly vulnerable populations. There are potentially powerful inter-linkages between exports and poverty reduction in many LDCs. The problem is that trade policies in industrialised countries are carefully designed to prevent LDCs from taking advantage of export opportunities.

### Tariff peaks and quotas

Industrialised countries make much of the trade preferences provided to the LDCs under various schemes. These preferences typically take the form of lower tariffs on LDC imports. However, contrary to the impression created by trade ministries in rich countries, the advantages of these preferences are wildly exaggerated. They are concentrated on products where tariffs are already low (and preferences therefore minimal), and conspicuous by their absence in areas where they might yield real benefits, such as textiles, footwear, and agriculture. Moreover, the capacity of LDCs to take advantage of trade preferences is undermined by quota and other restrictions, as well as by the byzantine procedures

associated with Rules of Origin restrictions. These require exporters to use raw materials originating in the country providing preferential market access. The result is that, in areas where they have the potential to penetrate markets, LDCs often face trade barriers which are higher than those faced by their competitors.

Industrialised-country policies on tariffs illustrate the problem. Average tariffs in the EU, the United States, Canada, and Japan – the so-called 'Quad' countries – are relatively low, at approximately five per cent. However, the average obscures very high tariffs in sectors of most relevance to poor countries. Tariffs on some agricultural commodities are more than 300 per cent in the EU and, as in the case of groundnuts, over 100 per cent in the USA.

One way of measuring the real effect of tariffs on LDCs is to focus on tariff 'peaks', or products for which import duties exceed 15 per cent. Taking the Quad countries as a group, less than four per cent of total imports attract tariffs at this level. However, 11 per cent of imports from the LDCs are affected. **In other words, the incidence of tariff peaks on imports from the LDCs is some three times higher than the average, despite the fact that this group of countries accounts for such a small share**

**of world trade.** Tariff peaks are especially pronounced in the USA and Canada, where they affect 15 per cent and 30 per cent respectively of all imports from the LDCs. The average level of duty faced by the LDCs on products covered by tariff peaks is 28 per cent – almost six times the average OECD tariff.

Because of these tariff peaks, the LDCs are losing significant potential export revenues. Providing duty-free and quota-free access for all products exported by LDCs currently affected by tariff peaks could generate an estimated additional US\$2.5bn in increased export earnings. Putting this figure in context, it represents less than 0.1 per cent of total imports into the Quad countries. Most of these gains would be concentrated in the USA and Canada, with exports rising by approximately US\$1bn to each market. Exports to Japan would increase by approximately US\$400m. In Europe, duty-free access would increase exports from LDCs by US\$185m, with sugar accounting for over 60 per cent of the gain.

The main beneficiary of duty-free access in the Quad countries would be Bangladesh. The country's export revenues would be increased by an estimated 45 per cent, with exports of textiles and apparel to the United States

and Canada increasing by over US\$700m in each case. The implied financial losses resulting from existing trade barriers have important implications for poverty reduction efforts. There are currently over one million women employed in the textile sector in Bangladesh. This sector is the engine of growth in manufacturing, and because production is labour intensive it generates a wide dispersion of benefits. Increasing exports to the USA and Canada through the withdrawal of tariff peak and other restrictions would not only generate a substantial increase in employment, it would also help to generate the investment resources that the industry needs to prepare for more intensive competition in the future.

Other countries, such as Cambodia, Nepal, and Haiti, would also benefit, with their overall export earnings increasing by over 20 per cent in each case. Once again, there would be important social benefits. In Cambodia the textile industry has grown rapidly in recent years, and now provides employment for more than 200,000 women. Remittances from these workers to families in rural areas have helped to reduce rural poverty. Since increased export opportunities would translate into wages and employment for relatively poor people in Cambodia, they could be expected to contribute to poverty reduction in the country.

The financial losses associated with the trade policies of industrialised countries cast a less favourable light on their claims to generosity in aid. The Quad countries provided LDCs with approximately US\$9.6bn in aid in 1999. But for every US\$4 provided in aid, the same countries confiscated US\$1 through unfair trade practices. This is a graphic illustration of the lack of consistency between trade policies on the one

hand, and development co-operation policies on the other.

In some cases this lack of consistency reaches epic dimensions:

- **Trade restrictions in Canada cost LDCs an estimated US\$1.6bn – approximately five times aid flows to the LDCs.**

- **Trade restrictions in the USA cost LDCs approximately US\$1.1bn – slightly less than US aid to LDCs in 1999.**

For individual countries, financial losses caused by trade restrictions can dwarf the amount of aid provided, especially by the USA and Canada:

- **For every US\$1 that Bangladesh receives from Canada in aid, it loses another US\$36 through trade restrictions. For every US\$1 it receives from the USA, it loses another US\$7.**

- **For every US\$1 that Cambodia receives from the USA, trade restrictions cost the country another US\$4. Duty-free access for Cambodian exports to the USA would increase foreign exchange earnings by US\$58m.**

- **Japanese trade restrictions cost Bangladesh more than double the amount provided in aid.**

- **Canadian trade restrictions cost Haiti an estimated US\$49m per annum, or double the amount provided in aid.**

In addition to tariff peaks, LDCs face problems related to tariff escalation, or duties which increase with the scale of processing undergone. Process-

ing before export is important to the development of LDC economies, since it increases the share of the final value of the product captured locally, with attendant benefits for foreign exchange earnings, investment, and employment. Escalating tariffs create disincentives for processing in precisely those areas where LDCs and other developing countries might be expected to develop a strong comparative advantage. For example, fully-processed manufactured food products face tariffs twice as high as products in the first stage of processing in both the EU and Japan, rising to 12 times as high in Canada. The effect of such tariffs is to transfer earnings from poor countries to the politically powerful food processing industry of the industrialised countries.

With the possible exception of the EU's 'Everything but Arms' proposal, initiatives aimed at improving market access have failed to address the real problems facing LDCs. Most have been carefully designed to maximise the public relations benefits for industrialised-country governments, and to minimise the real trade benefits for the LDCs.

The 'Africa Growth and Opportunity Act', passed by the US Congress last year, is a case in point. Unveiled as a radical move to grant completely unrestricted access to US markets for all sub-Saharan African exports, it offers almost nothing, since the US market is already quite open. The areas in which it is not open, such as textiles, are of limited interest to Africa because the region is not competitive. Just to ensure that the textile sector was protected, the recent US-Africa-Caribbean trade bill stipulates that exporters of apparel from Africa are required to

(continued on next page)

use yarn and fabrics imported from the USA to benefit from duty-free access. Similarly, the Japanese government's offer of free market access focussed on industrial products which are not exported from LDCs, while explicitly excluding sensitive agricultural products in which LDCs might have a competitive edge with some preferences.

### **The EU's 'Everything but Arms' proposal – and the 'Everything but Farms' policy**

The EU has special responsibilities towards the LDCs. It is their largest market, accounting for over 40 per cent of export earnings. Moreover, the EU is linked to 39 of the LDCs through the Cotonou Convention – a trade and development pact focussed on the Africa, Caribbean, and Pacific (ACP) group of countries.

Alone among the industrialised countries, the EU provides relatively generous preferences on products covered by tariff peaks. However, market access, especially in agriculture, is constrained by quotas and seasonal marketing arrangements.

In October 2000, the Commission of the EU put forward a proposal to enhance market access for the LDCs. In brief, the proposal advocated duty- and quota-free access on all products exported from the LDCs, except armaments. The effect of the proposal would have been to improve the position of the LDCs in EU markets, enhancing their preferences relative to those of other suppliers.

Symbolically, the 'Everything but Arms' proposal was important. Had it been adopted in full it would have sent a strong signal to other industrialised countries, enabling

the EU to play a more effective role in championing LDC interests. In financial terms, the benefits would have been more modest. Most LDC exports already receive duty-free access to the EU. Moreover, the supply capacity of LDCs is very limited. Projections by the World Bank suggest that implementation of the 'Everything but Arms' proposal would have increased export revenues for the LDCs by approximately US\$185m, an increase in the region of one per cent. The benefits would have been concentrated in a handful of products, with sugar accounting for over 60 per cent of the total, and rice, bananas, and beef the bulk of the remainder.

In the event, the 'Everything but Arms' proposal was amended following intensive lobbying by powerful vested interests in the European food and agricultural sector, and opposition from countries such as France and Spain. The British sugar beet lobby, a group embracing large farmers and the processing industry, and one of the most vociferous, made wildly exaggerated claims regarding the supply capacity of the LDCs, claiming that sugar exports to the EU would rise by almost three million tons over five years. Figures from the UN's Food and Agricultural Organisation (FAO) suggested a potential capacity to increase exports by approximately 100,000 tons.

Notwithstanding the implausible arguments of lobby groups, the EU's Council of Ministers delayed the inclusion of sugar and rice in the 'Everything but Arms' proposal, prompting critics to rename it 'Everything but Farms'. Full liberalisation of sugar and rice was deferred until 2009. In the interim, although limited increases in the size of quotas will be made available to LDC exporters, these will be

accompanied by safeguard measures aimed at 'preventing serious disturbances to EU markets'. This allows the Commission to withdraw the preferences if LDCs actually succeed in substantially increasing their level of exports to the EU.

The real failure of the EU has been its conscious decision to put powerful domestic vested interests before Europe's responsibilities to the world's poorest countries.

### **Unequal Trade Liberalisation**

In stark contrast to the industrialised countries, many LDCs have been implementing far-reaching trade liberalisation programmes, opening their economies to external competition. The World Bank and the IMF have played an important role in promoting trade liberalisation through conditions associated with adjustment loans. As a consequence, the LDCs have been locked into a highly unequal liberalisation process. Trade restrictions in the industrialised world continue to limit the opportunities for export from the LDCs, while imports have imposed considerable adjustment costs on local producers. This is especially true in agriculture, where the industrialised countries which dominate global markets continue to provide heavy subsidies to their own producers.

Trade liberalisation has dramatically changed the policy environment in many LDCs over the past decade. Approximately two-thirds now have average import tariffs of less than 20 per cent, with moderate or negligible non-tariff barriers. While it is true that these average tariffs exceed the average in the industrialised world, they are less than the tariffs applied by industrialised countries to LDC products covered by tariff peaks.

Moreover, the rate of liberalisation in many LDCs dramatically exceeds that in industrialised countries. For example, Haiti now has one of the most liberal trade regimes in the world with no quotas, a mere five per cent average tariff, and 800 tariff lines that are zero-rated. Similarly, Cambodia is halving its average tariff from 30 per cent to 15 per cent over the next year. Other LDCs – including Uganda and Bangladesh – have implemented similarly ambitious trade liberalisation programmes.

The contrast with the failure of industrialised countries to liberalise in areas of interest to LDCs is striking. At present, the OECD countries are spending approximately US\$1bn per day in agricultural subsidies, equivalent to 40 per cent of the value of farm output. **Expressed in another way, annual spending on farm subsidies by OECD countries is roughly equivalent to the combined GDP of the LDCs.** Both the EU and the USA spend more on agricultural subsidies today than they were spending at the start of the Uruguay Round of world trade talks, graphically illustrating their limited commitment to liberalisation.

The combination of trade liberalisation in agriculture on the part of the LDCs and continued subsidisation by the industrialised countries has left some of the world's most vulnerable rural producers competing against the treasuries of Europe and North America, with heavily subsidised imports driving down local prices and destroying markets.

The experience of rice farmers in Haiti illustrates the problem. In 1995, the Haitian government accelerated its liberalisation programmes by reducing import tariffs on rice from over 50 per cent

to less than 3 per cent. There immediately followed a surge in subsidised rice imports from the USA, which depressed local market prices. By 1998/99 domestic rice production had fallen to 105,000 tons, compared with around 180,000 tons per year in the second half of the 1980s. The import surge dramatically changed consumption patterns, to the detriment of locally grown basic grains. From a position of near self-sufficiency in 1990, Haiti's imports now account for over half of national consumption.

Food security in Haiti has suffered in two respects as result of market liberalisation. First, the loss of rural incomes caused by declining prices has had a devastating social impact in the countryside, where more than 80 per cent of farmers live below the poverty line. Large numbers of households have migrated either to seek employment in urban centres, or to the USA. Second, rice is now becoming less affordable. While the initial surge in imports reduced prices in urban centres, thus generating income gains for net food-consuming households, rapid depreciation of the national currency has now driven up import prices. Buying local rice would now be cheaper, but it is no longer available between harvests due to the slump in production.

Similar, if less dramatic, experiences have been seen elsewhere. In West Africa, for example, heavily subsidised imports of wheat and rice from Europe and the USA have undermined markets for local food staples, contributing to a decline in per capita production of millet and sorghum. Apart from the damage inflicted on local livelihoods, growing dependence on food imports poses acute food security

risks in countries lacking the foreign exchange resources needed to guarantee supplies from the world market. In the case of Haiti, foreign exchange reserves represent only five months of imports. Reserves will decrease in the near future due to a slump in coffee prices and recession in the USA, which constitutes Haiti's main export market and source of remittances.

Two clear policy lessons emerge from the experience of unequal liberalisation. **First, loan conditions under IMF and World Bank programmes should not be used to promote trade liberalisation in the LDCs.** Liberalisation under these programmes has frequently been inappropriate and badly sequenced. Moreover, when compared with liberalisation under the auspices of the World Trade Organisation (WTO), liberalisation under adjustment programmes is not reciprocated by the industrialised countries, thus reinforcing a one-sided bargain.

**Second, there are good reasons for LDCs to protect their agricultural markets on food security grounds, and because of the continued use of heavy production and export subsidies by the industrialised countries.** The agricultural trade agreement in the WTO should be reformed to include a food security clause or 'development box' allowing food-deficit countries to protect their agricultural markets. It should also establish a prohibition on the use of export subsidies by the OECD countries.

## LDCs - MORE HOPE THAN HELP (continued from Page 1)

to helplessness, with a lot of frustration in between. In the accompanying articles of this issue of the South Bulletin, a range of those concerns is reflected.

The European Commissioner for Development and Humanitarian Affairs, Poul Nielson, described the conference as a 'constructive meeting between North and South.' He said it was a 'turning point' because governments had moved from a phase of 'confrontation' to one of 'constructive dialogue.' He thought the mood had been 'sensible and realistic.' Mr. Nielson added that what had been achieved in the texts adopted was really something that the world has been needing and waiting for.

The 60-page Programme of Action for the 49 LDCs and the 3-page Political Declaration, in essence, reaffirm the 'commitment' of the international community to improving the plight of the 600 million-plus inhabitants in LDCs. The Programme of Action contains 7 specific commitments grouped under a 'Framework for Partnership.' These commitments are :

- Fostering a people-centred policy Framework;
- Good governance at national and international levels;
- Building human and institutional capacities;
- Building productive capacities to make globalisation work for LDCs;
- Enhancing the role of trade in development;
- Reducing vulnerability and protecting the environment; and
- Mobilising financial resources.

Action on each of these commitments has been delineated at two levels - first, what the LDCs themselves ought to do and then, followed by the kind of action that 'development partners' must pursue. The final part of the Programme of Action outlines the arrangements for implementation, follow-up, monitoring and review at the national, regional and global levels.

The most notable achievement, it was pointed out, were the European

initiatives on market access - to grant duty free and quota free access to all LDC exports except arms, and the untying of aid by the DAC (Development Assistance Committee) members of the OECD. These would not have happened without the pressure of the Brussels conference. The EU also decided to forego payments on all outstanding LDC obligations arising from special loans provided under earlier Lomé Convention.

In his closing plenary address, Mr. Rubens Ricupero, UNCTAD Secretary-General and Secretary-General of the Conference, said some important progress had already been made possible in vital areas. This was in an apparent reference to useful interactions that took place on many concrete issues with a view to finding practical solutions and involving many more partners from society. The "deliverables", even if modest, were useful as they created a momentum for those who no longer had hope. But overall, Mr. Ricupero said there were no 'major breakthroughs' in critical areas such as debt relief, trade or ODA.

## NEWS BRIEFS

**IPU** - The first Parliamentary Meeting on International Trade on 8-9 June 2001 at the Geneva International Conference Centre (CICG).

**UN** celebrated International Day for Biological Diversity - 22 May by highlighting threat of invasive alien species.

**UNEP** - More than a 100 countries put their signature to the Convention on Persistent Organic Pollutants (POPs) in Stockholm on 22 May. UNEP and the World Bank have signed an agreement to strengthen the treaty.

**OAU**: The Chairman of the Organisation for African Unity, Ambassador P. J. Ayewoh of Nigeria announced in Geneva on 21 May the candidature of Mr. Ablasse Ouedraogo for the post of the Director General of UNIDO. Mr. Ouedraogo is currently Deputy Director General of the WTO.



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