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EDITORIAL: Beyond the Paris Declaration

Benjamin W. Mkapa, President of Tanzania (1995-2005)

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

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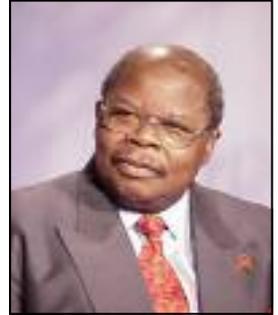
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An exit strategy from aid dependence requires a radical shift both in the mindset and in the development strategy of countries dependent on aid, and the direct involvement of people in their own development. It also requires a radical and fundamental restructuring of the institutional aid architecture at the global level.

A more immediate objective is to initiate dialogue with the OECD's Paris Declaration on Aid Effectiveness, which forms the basis of a high level meeting from 2-4 September 2008 in Accra, and to caution the developing countries against endorsing the Accra Action Agenda (AAA) offered by the OECD. If adopted, it could subject the recipients to a discipline of collective control by the donors right down to the village level. And this will especially affect the present donor-dependent countries, in particular the poorer and more vulnerable countries in Africa, Asia, Latin America and the Caribbean.

Beyond the Paris Declaration, there is still the question: What then? There has to be a strategy for ending aid dependence, to exit from it.

There are countries in the South that have more or less graduated out of aid, such as India, China, Brazil and Malaysia, and there are others which will soon self-propel themselves out of aid dependence. Aid was never a strong component in the development of either India or China. They have been reliant on their domestic savings and the development of a domestic market through the protection of local enterprises and local innovation. They have opened themselves up in recent years to the challenge of globalisation and foreign competition only after ensuring that their own markets were strong enough. Both Brazil and Malaysia have succeeded in ending their aid dependence through strong nationally oriented investment and trade policies. These included supporting and protecting the domestic market and export promotion, as well as the accompanying currency, fiscal and monetary policies.

In an earlier period, during the 1960s and 1970s, the so-called tiger economies of Korea, Singapore, Taiwan-China and Hong Kong ended their aid dependence mainly in the context of the Cold War. These countries were able to use the opportunity provided by the Cold War not only to

draw substantial capital from the West, mainly the US, but also to build their production, infrastructural facilities (banking, finance, transport, communications, etc) and export capacity. They took advantage of the

relatively open US market to export the products of their early manufacturing growth. They benefited from the fact that the US needed them to fight communism in that part of the world. This enabled them to initiate state-supported industrialisation without having to account to institutions such as the World Bank and the IMF, to import technology without having to pay huge fees for intellectual property rights, and to build strong reserve funds.

We are now living in a different period of history. There are countries that were neither able to take advantage of the Cold War period, nor had the benefit of a large domestic market and entrepreneurial class to develop an endogenous development strategy. We are talking about the hundred or so countries that fall within the classification of least developed countries (LDCs), the middle-income countries that are not LDCs but are still struggling to become economically independent from foreign aid, and the vulnerable, small and island economies.

The message of this book needs to be seriously considered by all those that are interested in the development of the countries of the South. If this means the rethinking of old concepts and methods of work, then let it be so.

** The Paris Declaration's aid effectiveness strategy was initiated by the OECD, the Northern rich countries' think tank, in association with the World Bank.*

Excerpts from President Mkapa's foreword to the book "Ending Aid Dependence" published by the South Centre, Geneva.

For more details, go to www.aidexit.org

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Behind the July Failure of the Doha Round

By Martin Khor

The failure of the “mini-ministerial” negotiations at the World Trade Organisation (WTO) on July 21-29 has sent shockwaves throughout the world. This is because there is the feeling that this time it may have spelt the final collapse of the Doha Work Programme (the official name for what is now called the Doha round). But is it really so?

Conclusive Finish?

Doha has survived many a collapse before (Cancun in 2003, the mini-ministerial in Geneva in 2006, the G-4 Potsdam meeting in 2007), only to rise again towards a new stage in the formulation of the modalities. The WTO’s director general Pascal Lamy is already making visits to India and the US in a bid to get political leaders in these countries to try one more time to reach an agreement on the few issues that remain unresolved and that prevented a deal in Geneva.

The collapse of the Geneva talks had many sources. The process was one factor. Only

30-40 ministers (of an organisation of 152 members) were invited to the so-called “green room” meetings. All members were invited to the “informal trade negotiations committee (TNC)” meetings each morning, where views could be aired. However, in the first two days, the real negotiations took place in the green room of 30-40 ministers. But as no progress was made, Lamy controversially created an inner group of seven members (the US, European Union, Brazil, India, China, Australia and Japan), which then hijacked the negotiations, while for many days after the non-G7 ministers were simply kept waiting in frustration.

The mini-ministerial of 30-40 delegations effectively became a “micro-ministerial” of seven ministers plus WTO director general Pascal Lamy.

The Lamy Draft

Progress had been made on a number of issues, but on several of the key issues in agriculture and NAMA the talks had been stuck. A draft by Lamy on July 25 to the G-7 had a fragile status. While it was presented to the green room as having emerged from the G-7, the ownership and authorship was always in doubt. It had always been understood that India had not agreed to the Lamy draft. Within a few days of the talks, it was also clear that China was not in agreement.

The meeting could not continue indefinitely. While progress was reportedly made on some issues, there were still too many unresolved after nine days. The Geneva week, which

had extended into three extra days, collapsed under its own weight.

Special Safeguard Mechanism

When the end came, the major developed country players, especially the US, pinpointed SSM in agriculture as the sticking point of the entire negotiations. This is a new safeguard that a majority of the developing countries, led by the G-33, had advocated to allow them to raise tariffs above the bound levels in the event that the volume of imports rise above a certain level, or if the prices of imports fall below a certain level.

The SSM was seen by the developing countries as essential to protect their food security and farmers’ livelihoods from cheaper import surges (often cheapened by the huge agricultural subsidies granted by developed countries) that in the past had already damaged the local agriculture sector.

“The mini-ministerial of 30-40 delegations effectively became a micro-ministerial of seven members plus WTO Director General Pascal Lamy.”

Under the normal safeguard (the WTO’s agreement on safeguards), a country has to prove serious injury or threat of serious injury before it is allowed to take action (raise the tariff above the bound level). For agriculture, this is inappropriate; once damage is done it is difficult to get farming going again, unlike industry. Thus the need for a special safeguard where action can be taken before a serious damage occurs.

There is already a special safeguard (SSG) for agriculture set up in the Uruguay round, but it is mainly used by developed countries as the condition is that it can be used only

for products that underwent a “tariffication process” in that round. The developing countries wanted the use of a special safeguard to be extended to them, through the SSM.

While all the WTO members have agreed to the principle of the SSM, most developed countries led by the US and Australia and a few agricultural-exporting developing countries have been fighting the G-33 on the terms of the SSM. The former want to impose stringent conditions for the trigger (the degree to which prices or volumes change before the SSM can be used) and the remedy (the extent to which duties can be raised), so stringent as to make the instrument ineffective. The call by the G-33 was thus for an “effective SSM”, with fair rather than absurd conditions. The G-33 proposed a set of triggers and ranges of tariff increases above the bound rates.

In their latest compromise they were even willing to set limits to the degree to which the extra tariff could exceed the bound levels of the previous round (i.e., the Uruguay round, or the levels when countries like China acceded to the WTO).

The US trade representative Susan Schwab insisted on an extra trigger to be set at an unreasonably high level of 150 per cent (of the base import volume) before the SSM could be allowed to raise duties above the pre-Doha bound levels.

To cater to the US, Lamy in his July 25 draft proposed an extra trigger, to be set at 140 per cent. This was rejected by India, China and the G-33 (and several other supporting groups of developing countries) as being far too high and indeed absurd as it would render the SSM toothless and useless in all but name.

Lamy tried to break the SSM deadlock in the G-7 (between US-Australia and India- China) by proposing a new set of principles, which threw out the SSM model and replaced it with what seemed similar to the normal safeguard (the existing WTO Agreement on Safeguards). The Lamy text required “demonstrable harm” to food security, livelihoods and rural development before the SSM could be used, which undermined the rationale of a special safeguard (that action can be taken before serious harm occurs). Its fast-track binding dispute procedure of 60 days also makes the new SSM far less attractive than the usual dispute system (which would take much longer than 60 days to complete) under which the normal safeguard operates.

Despite these major negative elements, the Indian commerce minister Kamal Nath told the media that he had accepted the Lamy text (at least as the basis for negotiations), but that the US had rejected it. On July 29, officials of the G-7 laboured for three hours to produce an alternative SSM model, which they agreed to, and presented to the G-7 ministers. According to Nath, it was Schwab again who rejected the new draft. That final rejection by the US sank the talks.

Cotton Issue

Many ministers, officials and diplomats have been speculating that the SSM was not the real issue that was irreconcilable but was rather the scapegoat picked on by a major player in an attempt to shift the blame on to another issue and on other countries. In the most widespread view, the US really did not want to face the cotton issue, which was the next item on the G-7 agenda once SSM was settled. Since the US had agreed to cut its overall trade distorting support by 70 per cent, it would have to agree to reduce cotton subsidies by more than that as the mandate is that these subsidies be cut more deeply and faster than the normal or the average rate.

The 2008 US Farm Bill having planned that cotton subsidies be maintained or increased in the next five years, it

would have been difficult politically or diplomatically for Schwab to offer a plus-70 per cent cotton subsidy cut. The failure of the Geneva talks would then have been placed squarely on the US, and it would really have been seen as a villain protecting the wealth of a few thousand cotton farms while millions of African cotton farmers would continue to languish in poverty under the continuing unfair rules of the trading system epitomised by the US Farm Bill.

Violation of NAMA Mandate

SSM and the cotton issue were by far not the only outstanding issues when the talks collapsed. In particular, the NAMA issue was far from being settled, with at least four major contentious elements still outstanding and ready to boil over. These were the coefficients in the “Swiss formula” for cutting tariffs, the flexibilities from the full application of the formula for developing countries, the “anti-concentration clause” that would further constrain the already meagre degree of flexibilities, and the “sectoral initiatives”.

Argentina, South Africa and Venezuela were the leading countries objecting to the coefficients in the Swiss formula for developed and developing countries, proposed by Lamy in his July 25 draft, which would translate into very steep tariff cuts on industrial products for developing countries while the reduction rates are milder for developed countries. This would turn the principle of “less than full reciprocity (LTFR) for developing countries” on its head, becoming a reverse special and differential treatment for the developed countries.

Another contentious issue was the “anti-concentration clause”. This issue arose very late in the negotiations, appearing only in the NAMA chair’s report of July 10. The developed countries (the US, EU, Japan) insisted that the already restricted flexibilities

for developing countries would be further limited so that developing countries could not exclude a sector or too much of a sector from the full force of the formula cut. The Lamy draft proposed that 20 per cent of tariff lines

with at least 9 per cent of the total import value in any sector or Harmonised System (HS) chapter must be subjected to the full formula cuts. Within the G-7, India and China was objecting to the figures, and outside the G-7 there was also a lot of resentment.

“Sectorals” was another controversial and unresolved NAMA issue. The developed countries have been pressing for “sectoral initiatives” in which a “critical mass” of countries agree to reduce their tariffs to zero in various sectors. It is not mandatory for developing countries to participate in these initiatives. However, the developed countries were particularly pressurising large-sized developing countries like

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China, India and Brazil to take part and thus open their markets in the auto, chemicals, electrical/electronic sectors. In the preceding months' negotiations, developed countries were pressing for the linking of participation in sectorals to the degree of flexibilities or even to extra points in the coefficients. This was objected to by India, among others. However, this linkage was maintained in the Lamy draft.

But an even greater sticking point was that the Lamy draft for the first time also includes the new obligation that certain countries (listed in an Annex Z) were committed to participate in negotiations in at least two sectoral tariff initiatives. This seems to contradict the "non-mandatory nature of sectoral initiative", which is also stated in the paragraph of the draft. In the G-7 meeting, India and China were being pressurised to agree to participate in key sectors in the sectoral initiatives.

Agricultural Subsidy Controversy

Another big issue was the level of commitment of the developed countries, particularly the US, to cut their agricultural domestic subsidies, and particularly their overall trade-distorting domestic support (OTDS).

At the start of the week, the US announced it would offer to cut its allowable OTDS to \$ 15 billion. This was dismissed by many developing countries including India and Brazil as being inadequate, because the actual applied OTDS of the US had already dropped to about \$ 7-8 billion in 2007. A ceiling of \$ 15 billion would allow the US the "policy space" or "water" to double its current OTDS.

Susan Schwab angered the developing countries by conditioning her "offer" of \$ 15 billion with the acceptance of the other WTO members of a kind of "peace clause", whereby the US application of its domestic support cannot

be challenged through litigation in the WTO. This appeared to be a demand not only for a revival of an earlier "peace clause" (which has expired, thus opening US subsidies to legal challenge at the WTO), but to even have an expanded scope in the new peace clause. Critics pointed out that this would have allowed the US to manipulate its subsidies and the placement of them in various boxes or categories with impunity.

Conclusions

While India, Brazil and China were in the spotlight by virtue of their membership in the exclusive G-7, other developing countries also played significant roles. Indonesia, which coordinates the G-33, held the group together as its issue, the SSM,

took centre stage. The developing country groupings – the African, Caribbean and Pacific (ACP) countries and small vulnerable economies (SVE) groups – played a pivotal role at a crucial turning point of the negotiations. As the heat increased on India and Indonesia over the SSM issue, these groupings joined the G-33 to issue a joint statement criticising the Lamy draft on SSM and providing their own proposals. With this statement of about a hundred developing countries, the Indian minister strengthened his hand in the G-7 and with the media, dispelling the portrayal of India as the only country blocking the talks.

In recent years, there has been an upsurge in the interest of these developing countries to defend and promote their food security and farmers' livelihoods. For India, as

for China, Indonesia, Kenya and many other countries, the defence of the concepts of special products and SSM, and the effective use of these mechanism, were of paramount priority.

The immediate future of the negotiations has come under a cloud. It is unlikely that there will be a suspension of all negotiations (as happened for many months after the collapse of the mini-ministerial in July 2006). But it is also unlikely that serious negotiations on key issues will take place until after the new US administration settles in. Low-intensity discussions on various issues are likely to take place in the meanwhile, until an opportunity is taken to re-start the serious negotiations.

The WTO's Doha negotiations have suffered a serious setback, but it is too early to write off the Doha round. In the meanwhile, developing countries would do well

to review the key proposals on the table. The deal, as proposed in the two chairs' texts of July 10, and in the Lamy draft of July 25, is basically imbalanced and unfair against the developing countries' interests. The rate of exchange between what the developing countries will get and what they have to give up, is unequal. There is still time to change the equation.

"The WTO's Doha negotiations have suffered a serious setback, but it is too early to write off the Doha round. In the meanwhile, developing countries would do well to review the key proposals on the table."

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(Abridged version of a longer article submitted by the author.)

Upcoming Event

2nd South Centre International Symposium on Examining IP Enforcement from a Development Perspective, Palais des Nations, Room No. XI, Geneva, 16 September 2008.

For more information, go to: <http://www.SouthCentre.org>

The Cost of Doing Nothing By Mahtab Haider

The latest round of United Nations climate change negotiations took place in Accra, Ghana, from 21-27 August 2008. This was the meeting of the Third Ad hoc Working Group on long-term cooperative action (AWG-LCA 3) and the Sixth Annex I Parties under the Kyoto Protocol (AWG-KP 6).

The following commentary was written prior to the start of the negotiations.

The Kyoto Protocol, which imposes binding cuts in greenhouse gas emissions by states that ratified it, expires in the year 2012, and current negotiations are centred on emissions reductions targets for a successor document, scheduled to be adopted in December next year. This roadmap was agreed upon at the high-profile Bali conference last year, in the wake of the fourth assessment reports by the Intergovernmental Panel on Climate Change, which for the first time unequivocally established the scientific evidence of anthropogenic climate change.

Acknowledging that that evidence of the planet warming is 'unequivocal', the Bali Roadmap recognised that 'deep cuts in global emissions will be required to achieve the ultimate objective [of] avoiding dangerous climate change'. Consequently, developed nations were to take on commitments that are 'measurable, reportable and verifiable' to mitigate global warming but the Bali Declaration allowed a major caveat in conceding that these commitments 'may or may not include quantified, binding targets for all or some'.

Seven months on, the G8 summit of the world's biggest economies in July evidently seemed to make headway in addressing the issue of binding targets when it they unanimously agreed that emissions would be cut by 50 per cent by the year 2050. According to the World Wildlife Fund, the G8 countries are responsible for 62 per cent of the carbon dioxide accumulated in the Earth's atmosphere, and a commitment by these states to cut emissions by 50 per cent could have a massive mitigation effect.

Unfortunately, the G8 reassurance is a poisoned chalice. Firstly in pledging that the G8 leaders are 'committed to avoiding the most serious consequences of climate change', and determined to stabilise greenhouse gases in the atmosphere that would avoid 'dangerous climate change,' the G8 only reiterated a declaration that was adopted as early as the 1992 Earth Summit in Brazil.

But the G8 declaration also included the following text: 'We seek to share with all parties to the UNFCCC the vision of, and together with them to consider and adopt in the UNFCCC

negotiations, the goal of achieving at least 50% reduction of global emissions by 2050, recognising that this global challenge can only be met by a global response, in particular, by the contributions from all major economies, consistent with the principle of common but differentiated responsibilities and respective capabilities'. As environmentalists and climate change advocacy groups have pointed out, this paragraph allows the deadlock between a US-led group which refuses binding targets and the EU – which advocates binding targets – to continue, since the promised reduction is not G8 specific but a global one. So the US and Canada can still refuse binding emissions cuts unless developing countries such as India and China also adopt such binding cuts, which they have refused to till now on the grounds that their economies must be allowed to achieve growth while the developed West cuts emissions first.

“Even if the industrialised North increases the volume of development assistance to countries like Bangladesh to help adaptations efforts, it makes economic sense for the leaders of the G8 to agree on binding emissions targets on the road to Copenhagen.”

Also, setting a 50 per cent emissions reductions target for the year 2050 is much easier than deciding on a concrete mechanism through which it will be achieved, and how the principle of 'common but differentiated responsibility' will be applied to such cuts. Moreover, there seems to have emerged considerable confusion over the issue of the baseline year to be adopted for such cuts. While the EU seems to think that the cuts will have to be on 1990-levels of emissions, Japan's prime minister has observed that this reduction will be on current levels of emission. Emissions have increased by roughly a quarter since 1990 so there is a significant difference between the total achievement if the baseline year varies.

vement if the baseline year varies.

So eight months after the Bali Roadmap was announced, the world is no closer to a consensus on how emissions of greenhouse gases will be slowed, even as a slew of countries including Bangladesh are struggling to overcome a rising frequency and intensity of extreme weather events such as floods and cyclones caused by rising global temperatures.

At the heart of the inaction is the belief that efforts to cap emissions – especially in the use of fossil fuels – could have a damaging effect on national economies in the developed and developing world, causing a tremendous knock-on effect on the global economy. The current level of greenhouse gases in the earth's atmosphere is equivalent to about 430ppm (parts per million) of CO₂, compared to the pre-industrial levels of 280ppm.

As the UK government's Stern Review, authored by econo-

Economic Partnership Agreement for Whose Benefit?

By Sir Ronald Sanders

On September 2nd, some Caribbean countries will be signing an Economic Partnership Agreement (EPA) with the European Union (EU) which is not fair and which, over time, may well return Caribbean countries to a state of “plantation economies” where the commanding heights are owned by foreign companies run by expatriate managers, and Caribbean people are merely workers.

As a fundamental point, how could trade be fair on a basis of “reciprocity” between the world’s largest economy of 350 million people and a small country like St Kitts-Nevis with a population of 50,000? And, this is an issue that has tended to be ignored by the advocates of the EPA – it is not the Caribbean countries collectively that will sign the agreement with the EU on September 2nd, it is each Caribbean country individually. Conversely, all 27 countries of the EU will sign collectively. The EU is a \$12 trillion economy, 88 times larger than all Cariforum states put together.

In any dispute that arises over the agreement, individual Caribbean countries will be up against the full force and resources of the EU as a whole. The potential for disaster is glaring.

But, the fact that settlement of any future dispute is stacked against Caribbean countries is not the only aspect of unfairness in the EPA. For all the hype about Caribbean access to the EU market for services, the EPA is replete with non-tariff restrictions on entry even if Caribbean companies had the resources to go into Europe to compete with European companies, which evidently they lack. There are 39,000 EU trans-national companies; in Caricom there are ten firms of any significance that are just barely pan-Caribbean.

Free trade is now the mantra of the EU countries that grew their economies on protectionist policies. It is their mantra because they will benefit the most from prying open markets all over the world for their goods and services.

Peter Mandelson, the EU Commissioner for Trade, says this: “In Europe we have much to gain from a further opening of global trade. We are highly competitive, knowledge-based and innovative. We are the largest economy in the world. We are the biggest exporters. Our economies – and our living standards, which depend on economic success – need open world markets”.

But while the EU wants others to open their markets for European goods and services, they protect their own markets through non-tariff barriers on the exports of other coun-

tries, and subsidies to their own producers. Anyone from outside the EU who has ever tried to establish a bank or a banking agency in Europe has quickly discovered how the bureaucracy works against them. Indigenous banks in the Caribbean that have tried to establish agencies in the UK to take advantage of the savings and investments of the Caribbean Diaspora have all failed to get over the huge hurdles.

In the 1970s, when the EU negotiated the Lome Conventions with the African, Caribbean and Pacific (ACP) group, the European objective was to ensure the supply of raw materials particularly from Africa. The concern now, as Mandelson stated, is for increase market access for EU exports.

And, in going after market access in the EPA, the EU’s objective was to enforce trade arrangements with ACP countries that the global community has not accepted in the World Trade Organisation (WTO) negotiations.

One would have imagined that Caribbean countries would have been reluctant to sign up to new arrangements with the EU when negotiations on many of these arrangements are not complete in the WTO. Yet, if the present EPA is signed without modification, that is precisely what they will be doing.

Some Caribbean countries whose economies are reliant on tourism and financial services and whose government revenues depend on tariffs on imports really do not need an EPA with the EU. Among these countries would be Antigua and Barbuda, St Kitts-Nevis, Grenada and the Bahamas.

In a recent analysis of the Bahamian situation for instance, Professor Norman Girvan states the following: “72% of the Bahamas foreign currency earnings come from services, and 85% of this is from tourism and offshore banking fees that do not need an EPA. 83% of exports of goods go to the US and Canada and only 13% to the EU, so merchandise exports to the EU provides just 4% of the Bahamas total export earnings. There are probably other people who will buy Bahamas crawfish if the EU wants to charge an 8% tariff. On the other hand Bahamas will be giving up tariff revenues on EU imports: an additional 49% to be zero-rated within 15 years and 5% in years 15-25 on top of the 32% already duty-free”.

Girvan makes the further point that the US, Canada, Japan, and China will not accept that the EU can export duty free to the Bahamas while they can not. In other words, eventually it is not only the revenues on tariffs from EU imports that

“As a fundamental point, how could trade be fair on a basis of reciprocity between the worlds largest economy of 350mn people and a small country like St. Kitts-Nevis with a population of 50,000?”

will be lost, but tariffs on all imports. He notes that a significant portion of government revenues come from tariffs and other duties and asks the pertinent question: "How will the Government recoup these tax revenues? Which other taxes will go up? What will be the cost of the change-over to the Government? To businesses? If the government does not recoup all the revenue what expenditure will be cut: Education, Health or Security?"

The EPA will bring no new investment to the Caribbean. Caribbean incentives to foreign direct investment are already overly generous; European firms do not need an EPA to invest in the region. What the Caribbean needs is the capacity

to foster its indigenous businesses even as it encourages foreign investment. This means that Caribbean countries should reserve the right to help local companies. But under the EPA, any conditions given to local companies will also have to be accorded to EU firms.

Who exactly is being satisfied by the EPA, with the exception of the EU itself?

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The Cost of Doing Nothing (continued from Page 5)

mist Nicholas Stern, pointed out last year, 'even if the annual flow of emissions did not increase beyond today's rate, the stock of greenhouse gases in the atmosphere would reach double of pre-industrial levels - that is 550ppm CO₂ - by the year 2050'. In fact, given the rate at which developing economies are progressing, emission levels of 550ppm CO₂e could be reached as early as 2035, and given that such high emission levels are associated with up to a 99 per cent chance that global average temperatures could rise by 2°C or more, the outcome could be apocalyptic. For perspective on the kind of effect a 2°C change in average global temperatures could have, it is important to consider that the world is now only 5°C warmer than it was in the last ice age. 'Rising sea levels and other climate-driven changes could drive millions of people to migrate: more than a fifth of Bangladesh could be under water with a 1m rise in sea levels, which is a possibility by the end of the century,' the Stern Report observed.

For the G8 economies and their leaders it is also important to recognise that while the worst excesses of global warming and climate change will, in fact, be visited upon the poorest, most vulnerable communities across the world, and typically in the third world, this will mostly be because of their lack of coping capacity. Sooner or later a warmer earth and the extreme weather events this will cause will outstrip the capacity of G8 economies to cope. A 5-10 per cent increase in hurricane wind speeds, associated with

rising sea surface temperatures, could approximately double the annual damage costs in the US. In the UK, annual losses from floods could quadruple if average global temperatures rise as much as 3-4°C. In fact, in a worst case scenario, as predicted by Stern, the global economy could shrink by as much as 20 per cent - measured as a fall in global GDP - whilst immediate action, global action, will cost roughly 1 per cent of the global gross domestic product.

Even if the industrialised North increases the volume of development assistance to countries like Bangladesh to help adaptations efforts, it makes economic sense for the leaders of the G8 to agree on binding emissions targets on the road to Copenhagen. In the long run even a few years of inaction could take decades of strong action to undo, and as the possibility of stabilising emissions at 450ppm CO₂e gradually drifts out of reach, it becomes terrifyingly apparent that the pace of negotiations could put stabilisation at 550ppm CO₂e also out of reach, and that level is already associated with environmental cataclysms of unprecedented scale.

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Bernaditas Muller, Special Advisor (Climate Change), South Centre, speaking for the G-77/China proposed a financial mechanism, which would provide direct access to funding and ensure predictability, without additional conditionalities, based on the principle of common but differentiated responsibilities and funded primarily by the private sector.

For more information on South Centre's work on climate change, contact:

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The Destruction of African Agriculture

By Walden Bello

Biofuel production is certainly one of the culprits in the current global food crisis. But while the diversion of corn from food to biofuel feedstock has been a factor in food prices shooting up, the more primordial problem has been the conversion of economies that are largely food-self-sufficient into chronic food importers. Here the World Bank, International Monetary Fund (IMF), and the World Trade Organization (WTO) figure as much more important villains.

Whether in Latin America, Asia, or Africa, the story has been the same: the destabilization of peasant producers by a one-two punch of IMF-World Bank structural adjustment programs that gutted government investment in the countryside followed by the massive influx of subsidized U.S. and European Union agricultural imports after the WTO's Agreement on Agriculture pried open markets.

African agriculture is a case study of how doctrinaire economics serving corporate interests can destroy a whole continent's productive base.

From Exporter to Importer

At the time of decolonization in the 1960s, Africa was not just self-sufficient in food but was actually a net food exporter, its exports averaging 1.3 million tons a year between 1966-70. Today, the continent imports 25% of its food, with almost every country being a net food importer. Hunger and famine have become recurrent phenomena, with the last three years alone seeing food emergencies break out in the Horn of Africa, the Sahel, Southern Africa, and Central Africa.

Agriculture is in deep crisis, and the causes are many, including civil wars and the spread of HIV-AIDS. However, a very important part of the explanation was the phasing out of government controls and support mechanisms under the structural adjustment programs to which most African countries were subjected as the price for getting IMF and World Bank assistance to service their external debt.

Instead of triggering a virtuous spiral of growth and prosperity, structural adjustment saddled Africa with low investment, increased unemployment, reduced social spending, reduced consumption, and low output, all combining to create a vicious cycle of stagnation and decline.

Lifting price controls on fertilizers while simultaneously cutting back on agricultural credit systems simply led to reduced applications, lower yields, and lower investment. One

would have expected the non-economist to predict this outcome, which was screened out by the Bank and Fund's free-market paradigm. Moreover, reality refused to conform to the doctrinal expectation that the withdrawal of the state would pave the way for the market and private sector to dynamize agriculture. Instead, the private sector believed that reducing state expenditures created more risk and failed to step into the breach. In country after country, the predictions of neoliberal doctrine yielded precisely the opposite: the departure of the state "crowded out" rather than "crowded in" private investment. In those instances where private traders did come in to replace the state, an Oxfam report noted, "they have sometimes done so on highly unfavorable terms for poor farmers," leaving "farmers more food

insecure, and governments reliant on unpredictable aid flows." The usually pro-private sector Economist agreed, admitting that "many of the private firms brought in to replace state researchers turned out to be rent-seeking monopolists."

What support the government was allowed to muster was channeled by the Bank to export agriculture – to generate the foreign exchange earnings that the state needed to service its debt to the Bank and the Fund. But, as in Ethiopia during the famine of the early 1980s, this led to the dedication of good land to export crops, with food crops forced into more and more unsuitable soil, thus exacerbating food insecurity. Moreover, the Bank's encouraging several economies undergoing adjust-

ment to focus on export production of the same crops simultaneously often led to overproduction that then triggered a price collapse in international markets. For instance, the very success of Ghana's program to expand cocoa production triggered a 48% drop in the international price of cocoa between 1986 and 1989, threatening, as one account put it, "to increase the vulnerability of the entire economy to the vagaries of the cocoa market." In 2002-2003, a collapse in coffee prices contributed to another food emergency in Ethiopia.

As in many other regions, structural adjustment in Africa was not simply underinvestment but state divestment. But there was one major difference. In Latin America and Asia, the Bank and Fund confined themselves for the most part to macro management, or supervising the dismantling of the state's economic role from above. These institutions left the dirty details of implementation to the state bureaucracies. In Africa, where they dealt with much weaker governments, the Bank and Fund micromanaged such decisions

"...reality refused to conform to the doctrinal expectation that the withdrawal of the State would pave the way for the market and private sector to dynamise agriculture."

as how fast subsidies should be phased out, how many civil servants had to be fired, or even, as in the case of Malawi, how much of the country's grain reserve should be sold and to whom. In other words, Bank and IMF resident proconsuls reached into the very innards of the state's involvement in the agricultural economy to rip it up.

The Role of Trade

Compounding the negative impact of adjustment were unfair trade practices on the part of the EU and the United States. Trade liberalization allowed low-priced subsidized EU beef to enter and drive many West African and South African cattle raisers to ruin. With their subsidies legitimized by the WTO's Agreement on Agriculture, U.S. cotton growers offloaded their cotton on world markets at 20-55% of the cost of production, bankrupting West African and Central African cotton farmers in the process.

These dismal outcomes were not accidental. As then-U.S. Agriculture Secretary John Block put it at the start of the Uruguay Round of trade negotiations in 1986, "the idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure their food security by relying on U.S. agricultural products, which are available, in most cases at lower cost."

What Block did not say was that the lower cost of U.S. products stemmed from subsidies that were becoming more massive each year, despite the fact that the WTO was supposed to phase out all forms of subsidy. From \$367 billion in 1995, the first year of the WTO, the total amount of agricultural subsidies provided by developed country governments rose to \$388 billion in 2004. Subsidies now account for 40% of the value of agricultural production in the European Union (EU) and 25% in the United States.

The social consequences of structural adjustment cum agricultural dumping were predictable. According to Oxfam, the number of Africans living on less than a dollar a day more than doubled to 313 million people between 1981 and 2001 – or 46% of the whole continent. What was especially disturbing was that, as Oxford University political economist Ngaire Woods pointed out, the "seeming blindness of the Fund and Bank to the failure of their approach to sub-Saharan Africa persisted even as the studies of the IMF and the World Bank themselves failed to elicit positive investment effects."

The Case of Malawi

This stubbornness led to tragedy in Malawi. It was a tragedy preceded by success. In 1998 and 1999, the government initiated a program to give each smallholder family a "starter pack" of free fertilizers and seeds. This followed several years of successful experimentation in which the packs were provided only to the poorest families. The result was a national surplus of corn. What came after, however, is a story that will be enshrined as a classic case study in a future book on the 10 greatest blunders of neoliberal economics.

The World Bank and other aid donors forced the drastic scaling down and eventual scrapping of the program, arguing that the subsidy distorted trade. Without the free packs, food output plummeted. In the meantime, the IMF insisted that the government sell off a large portion of its strategic grain reserves to enable the food reserve agency to settle its commercial debts. The government complied. When the crisis in food production turned into a famine in 2001-2002, there were hardly any reserves left to rush to the countryside. About 1,500 people perished. The IMF, however, was unrepentant; in fact, it suspended its disbursements on an adjustment program with the government on the grounds that "the parastatal sector will continue to pose risks to the successful implementation of the 2002/03 budget. Government interventions in the food and other agricultural markets... crowd out more productive spending."

When an even worse food crisis developed in 2005, the government finally had enough of the Bank and IMF's institutionalized stupidity. A new president reintroduced the fertilizer subsidy program, enabling two million households to buy fertilizer at a third of the retail price and seeds at a discount. The results: bumper harvests for two years in a row, a surplus of one million tons of maize, and the country transformed into a supplier of corn to other countries in Southern Africa.

Fleeing Failure

Malawi's defiance of the World Bank would probably have been an act of heroic but futile resistance a decade ago. The environment is different today. Owing to the absence of any clear case of success, structural adjustment has been widely discredited throughout Africa.

Even some donor governments that once subscribed to it have distanced themselves from the Bank, the most prominent case being the official British aid agency that co-funded the latest subsidized fertilizer program in Malawi. Perhaps the motivation of these institutions is to prevent the further erosion of their diminishing influence in the continent through association with a failed approach and unpopular institutions. At the same time, they are certainly aware that Chinese aid is emerging as an alternative to the conditionalities of the World Bank, IMF, and Western government aid programs.

Structural adjustment in the 1980's dismantled the elaborate system of public agencies that provided farmers with access to land, credit, insurance inputs, and cooperative organization. The expectation was that removing the state would free the market for private actors to take over these functions—reducing their costs, improving their quality, and eliminating their regressive bias. Too often, that didn't happen. In some places, the state's withdrawal was tentative at best, limiting private entry. Elsewhere, the private sector emerged only slowly and partially—mainly serving commercial farmers but leaving smallholders exposed to extensive

(Continued on page 11)

Book Review: Ending Aid Dependence (Yash Tandon)

By Thomas Lines

A reappraisal of so-called development aid is long overdue, and Professor Tandon is to be congratulated for initiating this debate in such an incisive manner. This very readable book does not merely ask what 'aid' is and what role it plays, but places it in the context of a wider question, 'What is development?' That also needs to be urgently reconsidered in the rapidly changing circumstances of our time.

Writing in an influential country in the North, I am encouraged to see that global poverty and development are more prominent in my nation's media and politics than they were five or ten years ago. NGOs have galvanised people to raise development issues with our politicians. However, all too often the political answer to their questions is simply 'aid'. The deficiencies of the global economy and international relations, which inhibit development as this book rightly points out, are scarcely considered. The development debate receives more attention in the North than it did, but its content has taken a few steps backwards. The dogmatic slogans of the 1980s, 'The market is always right' and 'There is no alternative', still frame the discussion.

Meanwhile a 'development industry' has mushroomed, but too many of its practitioners are beholden to aid donors. The NGOs retain some autonomy where they are funded by public donations. But outside of them, nearly all 'development' people in the North derive some if not all of their income from donor aid. As a result, there has been no serious debate about the nature of aid, as Professor Tandon calls for.

I too have worked in that capacity. How many complaints did I hear from other consultants and consultancy firms about the absurdities of the aid system! Yet almost no one would voice open criticism, however mild, for fear of losing the next contract: a pernicious consequence of the commercialisation of aid projects. Even monitoring and evaluation, as I experienced them, were rendered incapable of taking deficient aid programmes seriously to task. Having witnessed countless technical assistance projects and read their terms of reference while working in programme management and M&E, I find it hard to recall even one which actually achieved what it was designed to do. What a waste of the North's public money; what a deception played on the people of developing and transition countries alike.

How many countries have ever bridged the development gap as a consequence of donor aid? Perhaps one or two. It could be argued that Botswana's management of its diamonds sector derives from well-made donor advice. But even that required in the first place the relatively open nature of Botswana politics and the unusually light touch of British colonial rule there before 1966. So even in Botswana the critical factors were indigenous, above all the nature of the state and its relationship with the people.

It is the developmental state – or what this book calls the 'national project' – that really counts. Look at the most salient historical cases of economic catch-up: Germany, the United States, the USSR, Japan, China, India. None of them achieved what they did because of foreign aid. Among them, only India has been a major recipient of aid; and it would be hard to argue that aid has played a big role in that country's economic advance. In all six cases, the reasons for success lay in policies

which promoted and protected domestic capital accumulation (or its equivalent under central planning), with selective state support for parts of the economy. Sadly, many of the policy tools required for this purpose were ruled out by the World Trade Organisation in measures such as TRIPS and TRIMS.

The present 'architecture' of foreign aid is a product of the post-World War Two settlement. The determinant power was the United States, the world's major creditor 60 years ago, which made sure that the United Nations, the World Bank and the International Monetary Fund were placed within its borders. The system persisted after the collapse of the USSR, under the illusion that the unipolar world of 1991 was here to stay. Few then noticed how weak the US' economic base had become. Less than 20 years later, the system is crumbling before our eyes. The World Bank and IMF are breaking down, as Professor Tandon relates, while the United States has become the biggest debtor nation, many of its famous banks desperately seeking foreign capital just to stay in business. The dollar's basis as a reserve currency is wilting, and the countries with big economic surpluses are now China, Russia and the Arabian oil states.

In these circumstances, the whole system of international relations faces fundamental change. The world will no longer be dominated by 'Anglo-Saxon' countries or Western Europe, reversing 500 years of history. The US and its allies will not have the economic muscle to impose their will through the aid conditions which Professor Tandon condemns in this book as Red Aid.

One can already sense a change of spirit among developing countries. There have been 20 years of subjugation since the 1980s Debt Crisis, but this has been gradually altering since the failure of the WTO conference in Seattle in 1999. Bit by bit, the South has regained its collective self-confidence in the struggle to avoid further losses of policy space at the WTO. We are not yet back to the situation which led to the creation of UNCTAD in 1964 and the demands for a New International Economic Order a decade later, but the direction of the wind has changed, especially since the credit crisis of 2007.

The world order needs to be shaken up so that the South can pursue the policies advocated in this timely book. Aid based on the Bretton Woods organisations and the OECD countries will become anachronistic, and the opportunity will arise to create arrangements that are more appropriate to development needs. However, it could take many years before a new settlement appears. The confrontation between the United States and Russia over Georgia scarcely presages a consensual or even peaceful transition to new arrangements. But the case must be made now for new aid instruments to be available on the basis of need, as determined within developing countries themselves. This should be coordinated internationally on a democratic basis, perhaps at the UN or the Group of 77, rather than by donors or in a new caucus of aid-giving states.

Thomas Lines is a development consultant and the author of Making Poverty: A History, just published by Zed Books.

For more information, go to: <http://www.zedbooks.co.uk/book.asp?bookdetail=4247>

Conceptual Traps of an Outdated Aid Vocabulary (continued from the back cover)

Development aid is placed along a continuum from Purple Aid (based on solidarity) on the extreme left and Red Aid (ideological aid) on the extreme right. In between are Orange Aid (which is really not aid at all, and should simply be called commercial transactions); Yellow Aid (military and political aid as explained above); and Green/Blue Aid whose three components – the provision of global public goods (GPGs), non-tied humanitarian and emergency aid, and compensatory finance – are segments of the totality of financial and technical and technological assistance that are genuinely developmental. These are part of the global good not only from the national (recipient) country's perspective, but also from the global perspective. One implication of this classification, for example, is that global civil society in the North as well in the South might find they have more affinity with Purple Aid, and perhaps also with Green/Blue Aid.

The body of the book consists of seven steps that the developing countries need to take in order to exit aid dependence. The most difficult is the first step – to get over the psychology of aid dependence. The dependence psychology has not only occupied the minds of leaders in many (if not most) developing countries, but it has also taken roots in mass psychology. Much more can be written on the subject than is contained in the monograph. The important point is that the process has to begin somewhere and very soon. It is an agenda that has to be captured by the people themselves at community and grassroots level. However, it also requires an enlightened and visionary leadership at national, regional, and continental levels.

It is argued in the book that the present aid and development architecture at the international level is an obstacle to the realisation of the national project. Three power asymmetries – economic power, political power and knowledge power – are deeply embedded in the existing structures. It is a continuing battle for the developing countries to try and secure policy space within the constraints imposed by these asymmetrical structures.

The present debate on the Paris Declaration on Aid Effectiveness (PDAE) is located in this larger context to explain the circumstance in which the OECD's DAC and the World Bank and IMF are trying to retain their relevancy and legitimacy that have been severely eroded by the failure of their "development" policies, and the changing geopolitical and economic realities of the last decade or so. If the OECD, the World Bank and the IMF do not achieve what they hope for at the Accra conference on aid effectiveness (September 2008) and the Doha Monterrey Review Process (November–December 2008), then they could face oblivion within the next decade. *For the DAC its oblivion is a historical necessity in any event.* At best, it should remain as a body to coordinate policies for OECD member countries. As for the World Bank and the IMF, they can salvage themselves if they pull out of Red Aid, withdraw to their original missions (retract from "mission creep"), and give voice to those who have suffered most from the developmental failure of their policies and the financial volatility of the last two decades.

In this broad historical and political perspective, the Development Cooperation Forum (DCF) of the UN and the fast evolving South–South relationship can play a very positive role. However, the DCF faces many challenges, and its future is still largely uncertain.

At the end of the day, we need a truly heterogeneous, pluralistic global society that is based on the shared values of our civilisation, and the shared fruits of the historical development of the productive forces of science, technology and human ingenuity. Only on this basis can we build a global society that is free from want, exploitation, insecurity and injustice.

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The Destruction of African Agriculture (continued from Page 9)

market failures, high transaction costs and risks, and service gaps. Incomplete markets and institutional gaps impose huge costs in forgone growth and welfare losses for smallholders, threatening their competitiveness and, in many cases, their survival.

In sum, biofuel production did not create but only exacerbated the global food crisis. The crisis had been building up for years, as policies promoted by the World Bank, IMF, and WTO systematically discouraged food self-sufficiency and encouraged food importation by destroying the local productive base of smallholder agriculture. Throughout Africa and the global South, these institutions and the policies they promoted are

today thoroughly discredited. But whether the damage they have caused can be undone in time to avert more catastrophic consequences than we are now experiencing remains to be seen.

Walden Bello is a senior analyst at Focus on the Global South, Bangkok and a columnist for Foreign Policy In Focus where this article first appeared under the title, "Destroying African Agriculture."



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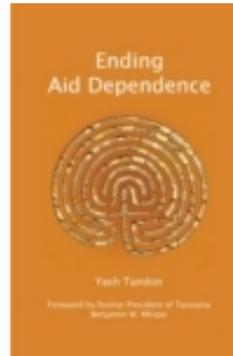


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Ending Aid Dependence: Conceptual Traps of an Outdated Aid Vocabulary

by Yash Tandon

For far too long the debate on development aid has been constrained by conceptual traps and the limitations of the definitions provided by the donors. If the recipients or beneficiaries of aid are to own the process, as present trends in the development literature suggest, then the conceptual reframing of the issues must itself change its location from the donors to the recipients.



The conceptual starting point is not aid but development. Growth, admittedly, is an important aspect of development, and indeed there is no need to labour the point. But growth is not the same as development. Following in the footsteps of Julius Nyerere, the founding president of Tanzania and the first chairman of the South Centre, we define development as a long democratic process, that starts “from within”, whereby people participate in the decisions that affect their lives, without imperial interference from outside, and aimed at improving the lives of the people and realisation of the potential for self support, free from fear of want and political, economic and social exploitation. As a formula it can be expressed as: Development = SF + DF – IF, where SF is the social factor (the essential well-being of the people); plus DF, the democratic factor (i.e. the right of the people to participate in decision-making that affects their lives); minus IF the imperial factor (i.e. the right of nations to self-determination and liberation from imperial domination).

This is in sharp contrast to the mainstream orthodox economists’ definition of Development as Growth + Wealth accumulation, where Growth = Open markets + Foreign investments + Good governance (as defined by the West), and the wealth accumulation by the rich assumed to ‘filter through’ to the poor by market-driven forces.

Some of them the so-called emerging economies of the South have indeed succeeded or partly succeeded, but the bulk of the developing countries are still trapped in the shackles of history. Africa, especially, is identified as a continent that has not fared well. From this trap, Africa and others can liberate themselves only if they take matters of development into their own hands – and not leave it to aid and its delimiting and colonising conditionalities, such as the structural adjustment programmes of the IMF and the World Bank, and now the Paris Declaration on Aid Effectiveness.

In other words, the national project, the project for self-determination, is still on the agenda of political action for developing countries. Its counter, the imperial project, is also still alive, but gradually weakening. Its ideology – the Washington Consensus and globalisation – crafted after the dominant paradigm of free market liberalism and Western systems of governance, democracy and the rule of law, has lost credibility and legitimacy. This is not to undervalue the importance of democracy or the rule of law. Without these there would be anarchy and oppression. But these values cannot be imposed on the developing countries from outside.

“Ending Aid Dependence” authored by this writer (see www.AidExit.org), provides a new and comprehensive taxonomy for development aid – in five rainbow colors.

(Continued on the inside back cover)

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