

Presentation # 23

Eradication of Poverty Via International Trade

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Table 1a: Population living on less than \$1 per day in developing and transition economies

Region	Number of people (millions)				Share of population (%)			
	1987		1998		1987		1998	
	A	B	A	B	A	B	A	B
East Asia and Pacific:	418	278	183	72	26.6	15.3	9.2	3.6
Excluding China	114	65	58	18	23.9	11.3	9.2	2.9
South Asia	474	522	465	206	44.9	40.0	31.0	13.7
Eastern Europe and Central Asia	1	24	46	7	0.2	5.1	9.6	1.6
Latin America and the Caribbean	64	78	131	75	15.3	15.6	22.9	13.1
Middle East and North Africa	9	6	11	5	4.3	1.9	3.3	1.4
Sub-Saharan Africa	217	291	406	330	46.6	46.3	51.5	41.8
Total	1183	1199	1242	695	28.3	24.0	21.9	12.3
Excluding China	880	886	1117	641	28.5	26.2	25.9	14.9

Source: World Bank (2000), table 1.8a and 1.10a.

Box 1: Development goals for 2015

Economic well-being

- Reduce extreme poverty by half.

Social development

- Ensure universal primary education.
- Eliminate gender disparity in education (2005).
- Reduce infant and child mortality by two thirds.
- Reduce maternal mortality by three fourths.

Environmental sustainability and regeneration

- Implement a national strategy for sustainable development in every country by 2005, so as to:
- Reverse trends in the loss of environmental resources by 2015.

Source: The Joint Development Committee of the World Bank and the IMF (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on Transfer of Real resources to Developing Countries): "Trade, Development and Poverty Reduction", DC/2000-05, March 31, 2000

Dynamics of LDCs

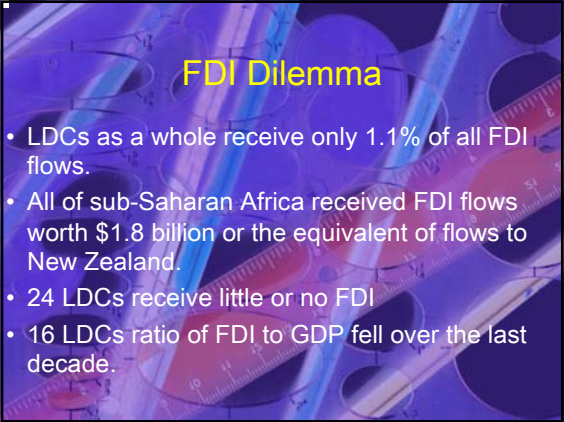
- 25% of the countries in the world are LDCs.
- 48 poorest countries in the world have not benefited from trade liberalization.
- Examples are:
 - Laos
 - Cambodia
 - Nepal
 - Tanzania
 - Ethiopia

Dismal Trade Scenario

- LDCs stand to lose up to \$600 million per year in trade advantages.
- Preferential access to EU markets under the Lome's convention will be eroded or lost.
- Whereas OECD member countries unanimously endorse liberalization as an economic ideology, their trade practices point in the opposite direction.
- \$182 in producer subsidies provided by the OECD, a sum representing 40 percent of the value of output, is unlikely to decline.
- 1995 subsidy figure is some 15 percent higher than that at the start of the Uruguay Round.
- Bangladesh and Nepal will lose MFA quota access and face increasing competition from other developing countries.

Economic Mess in LDCs

- Falling commodity prices
- Smaller share of GDP devoted to exports
- Precarious financial situation of LDCs
- Drop in the levels of foreign assistance
- High levels of debt, that absorb 20% or more of export revenues.



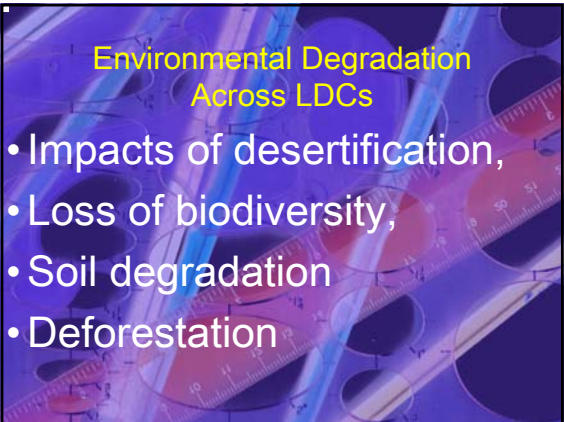
FDI Dilemma

- LDCs as a whole receive only 1.1% of all FDI flows.
- All of sub-Saharan Africa received FDI flows worth \$1.8 billion or the equivalent of flows to New Zealand.
- 24 LDCs receive little or no FDI
- 16 LDCs ratio of FDI to GDP fell over the last decade.



Food Nightmare

- Per capita food production fell in 33 of the LDCs
- Gained very little in most of the remaining 15
- Dwindling supplies of foreign exchange are being used for food imports.
- With debt repayments absorbing similar amounts and export receipts under threat because of deteriorating terms of commodity trade, little remains to create a favorable balance of payments and finance the costs of development.



Environmental Degradation Across LDCs

- Impacts of desertification,
- Loss of biodiversity,
- Soil degradation
- Deforestation



Trade Policy

- To support a new generation of export-oriented firms will depend on government's capacity to develop in collaboration with the private sector and other civil society leaders, an overall development strategy that places trade at its very center.
- Supply of policy-makers and business operators skilled in understanding how integrated economies work,
- Formulation of strong trade policies,
- Supply of export-oriented entrepreneurs and institutions to support these new entrepreneurs to assist in the implementation of the new strong trade policies.



Debt Relief

- Debt relief will free up resources for investment in export growth,
- It would help LDCs to improve their credit ratings, a key ingredient where export financing is concerned.
- Debt relief to heavily indebted 20 countries such as Tanzania and Ethiopia, would cost only \$5.5 and \$7.7 billions.



Greater Market Access

- Eliminating tariff escalation for semi-processed tropical agricultural products and natural resources.
- Deeper tariff cuts and eliminating duties which are still subject to high tariff peaks under preferential schemes.
- Exempting textile imports from small producers from restrictions, even if these countries are not WTO members.

Heavy Reliance on Natural Capital – African Tragedy

- Virtually all LDCs are heavily dependent upon their natural resource base.
- The natural capital is rapidly deteriorating under the pressures of desertification and population growth.
- African soils are comparatively poor and suffer from chronic lack of phosphorous.
- Overgrazing and erosion has reduced their productivity even further.
- Soils have lost up to 20% of their productivity.
- Africa depends almost exclusively upon rainfed agriculture, and has the lowest percentage of irrigated land of any continent in the developing world.

Dynamics of Poverty

- Poverty is both a cause and a result of environmental degradation.
- It leads to land degradation, deforestation and loss of biological diversity.
- Removal of fuel subsidies results in the use of fuel-wood and charcoal with resulting increases in deforestation and desertification.

Export Nightmare

- Increase in unsustainable timber exports as countries seek to increase their earnings of foreign exchange.
- Poaching has increased including endangered species, as rural people seek to supplement their incomes.
- Case Study: export of elephant meat across central Africa.

Export Solution

- Export diversification like Bangladesh
- Case Study: Bangladesh
- Liberalization could be one of the keys to diversification.
- Note: Increasing commodity prices through international action have failed.

Niche Marketing

- 20-25% Higher prices for organic products.
- A compensation fund ought to be created from financial contributions from the importing countries.
- Their annual contribution would be based upon their import volume of the commodity and their per capita income levels.
- Exporting countries would be able to draw on the fund to finance new technologies, and better environmental management of the commodities involved.

ZERI Project of the UN University – Case Study

- Producing ecological byproducts from the waste of palm oil [biomass].
- 90% of what is now considered waste could be recovered and transformed into marketable products sold at competitive prices, i.e., by extracting vitamins, anti-oxidants, and beta carotene.
- Waste lignin, some 30% of the waste biomass, can be recovered as a clean fuel.
- Waste fibers could also be used in the production of fiberboard.



Agriculture

- 88 low income food deficit countries spend half of their foreign exchange on food imports.
- Many of these countries could become food self sufficient if they adopt policies aimed at stimulating small-holder agriculture.
- The foreign exchange earnings arising from increased exports of cash crops could be eclipsed by the increased cost of food imports.



EU's Hypocrisy

- Sugar is a crop perfectly suited to the tropics of Africa.
- EU was a net importer of sugar 20 years ago.
- Today, it is the world's largest single exporter of sugar, thanks to the 40% subsidy of the value of crops.
- These subsidies have helped to reduce the developing countries' share of world agricultural trade from 50% in the post war period to about 25% today.
- France and UK are very large exporter of sugar to Nigeria and Egypt.



Impact of Food Aid

- Food aid has helped to depress local food prices in many LDCs, thus robbing farmers of the incentives to grow food.
- In many parts of Africa, it has led to the substitution of wheat and rice in contrast to more traditional cassava, sorghum, and millet, thus aggravating balance of payments problems.

Africa's Traditional Farming Systems

- Farming systems are complex, diverse.
- Agricultural yields are low, and rural livelihoods are often dependent upon wild resources as well as agricultural produce.
- They are removed from markets, and infrastructure.
- They are located on fragile or problem soils.
- They are less likely to be visited by agricultural scientists and extension workers or studied at research institutions.
- Most of the food production in Africa comes from these low external input systems of agriculture.
- 30-35% of the world's population, about 2 billion people, are directly supported by this forgotten agriculture.

Assisting Traditional Farming

- Enhancing the Use of resource conserving technologies such as integrated pest management, soil and water conservation, nutrient recycling, multiple cropping, water harvesting, waste recycling.

Future R&D

- Next round of international agricultural research should be directed at small farmers practicing rain-fed agriculture on marginal lands, rather than the emphasis on irrigated agriculture.
- A global plan is needed to increase the level of phosphorous across Africa.
- Biodiversity and agriculture should go hand in hand.

Global Initiative

- Canadian Standards Association, European Union and the Forest Stewardship Council are now in the process of certifying up to 10 million hectares of sustainable harvested forest to provide the supply to these groups.
- If successful, the FSC and other sustainable harvesting labels could provide an interesting market niche for timber producers in some of the LDCs.

Blood Diamonds

- Congo
- Ivory Coast
- Liberia
- Angola

FDI Case Study: Man Made Disaster in Zimbabwe

- White farmers' eviction
- Confiscation of their lands
- Damage of image
- Famine
- Next exporter of food has become net importer of food
- Devaluation of currency
- Starvation and death caused by greed and lust

Mauritania – Case Study

- Successful development of dairy industries using milk from camels in Mauritania.
- Generation of energy from wind has been very successful in Mauritania.
- Solar energy project has been very successful in Mauritania.

Eritrea – Case Study

- Photovoltaic village pumps for drinking water has been very successful.

Electricity Nightmare

- Many sugar refineries, for example, are able through advanced technologies, to generate enough electricity through the use of bagasse, a byproduct, not only to run their own operations, but also to generate a surplus for sale.

Rats Nightmare

- Poor storage
- Rats Menace

Ag R&D for LDCs

- Second green revolution should aim at environmental sustainability, low cost inputs, and higher returns for small scale holdings and at minimizing the risk for poor farmers.
- It should focus less on crops and more on systems, on finding ways to diversify production and use the range of natural resources available.
- It should focus on tree crops, agro-forestry, and mixed livestock, pasture and crops.
- The revolution must learn from indigenous systems of developed over centuries that have enabled people to survive in the most hostile and fragile environments.

FDI Case Study – Rape of Congo: A Case Study in Contractual Rip-Offs

- Plundering of Congo's mineral wealth
- Foreign armies have networks of mining concessions and joint ventures and trained local militia.
- Rwandan army has drawn up to 80% of its budget from the activities of its "Congo Desk", particularly in diamonds and a mineral called, "Coltan" used in mobile telephones.
- Ugandans have helped themselves to tax revenues and trained local militia to act as their proxies.
- Zimbabwe army helped the government and itself. Some \$5 billion in state assets have been moved over the past three years into private Zimbabwean-Congo joint ventures.

Export of Human Capital – A Case Study

- Export of Maids
- Export of Construction Workers
- Export of Taxi Drivers
- Export of Salespersons
- Export of Skilled Professionals
- Power and Impact of Remittances
- Case Study of Sudan

FDI Case Study – Dismal Scenario in Africa

- AIDS Epidemic
- Civil Wars
- Drought
- Famine
- Corruption
- Political Crises
- Plundering of national wealth
- Exploitation

FDI Case Study – African Tragedy

- Africa still depends on commodities for 80% of its export earnings [a passport for poverty].
- Price of Copper [Zambia] recorded a double-digit decrease in 2001 to a seven year low.
- Coffee prices [Kenya] slumped by nearly 30% reaching their lowest level in 30 years.
- Cotton prices trembled by nearly 20%, adversely affecting the overall export earnings of Benin, Chad, Mali and Burkina Faso.

FDI Case Study – African Nightmare

Overseas Chinese transformed PRC, and Overseas Africans could not transform Africa;

Why not ?????

Successful FDI Case Study – Golden Rose – An Ethiopian Successful Case Study

- Bureaucratic inertia, uncertainty over political stability and slow liberalization are proving a hard cocktail to swallow in Ethiopia.
- Ryaz Shamji, a Ugandan Asian by origin, first flew from UK to Addis in 1997 to help out with a trading deal that was in trouble.
- Endless forms, long waiting for officials, acquiring land and securing financial backing, a process that took more than a year in a country with no foreign banks.
- No one knew how to evaluate a rose project in Ethiopia. Hence, Shamji had to provide 60% of the project's financial resources by himself.

Successful FDI Case Study – Golden Rose – An Ethiopian Successful Case Study

- Shamji then had to train a workforce from scratch, bringing in expatriates from India, and since there was almost no local market in place, he had to find importers for the necessary chemicals.
- You can't just pick up the phone to a local supplier if you want 100 kg. You have to order 20 tones.
- Four years later, Golden Rose is exporting roses of different colors for about \$3 million of roses a year to EU and the Middle East.

Successful FDI Case Study – Kenya Vs. Ethiopia in Rose Production

- Product's high quality and a relative lack of interference once everything was in place, has provided Ethiopia to be far more attractive than neighboring Kenya.
- Labor [less than a dollar a day], power, and transport are cheaper in Ethiopia than Kenya.
- Freight to Frankfurt costs \$110/kg, as opposed to \$170 from Nairobi, crucial for an industry, where transport is the single largest cost.
- Ethiopia's warm days and cold nights appear to be ideal for the roses leading to longer production cycles – 55 to 45 in Kenya. It also contributes to thicker stems, better color and longer vase life [enhancing its quality on the global stage].

Successful FDI Case Study -- Kenya Vs. Ethiopia – Government Officials

- Ethiopian authorities have been helpful in finding clients.
- Shamji has a four year tax break and customs are eased by two dedicated and honest officers stationed at the farm.
- Shamji has increased the plot from seven hectares to 15, and plans are in place to add another 10 hectares in the foreseeable future.

East African Gourmet Coffee – Niche Marketing

- Every coffee-producing country is affected, through high quality, higher-cost producers of washed mild arabicas.
- If consumers are assured about the excellent quality of gourmet coffee, they would be willing to pay for it.
- Global Branding is an issue here.
- Washed mild arabicas are grown at altitude, making them difficult and costly to harvest.
- They require careful husbandry to ensure quality, including an expensive washing process to bring out the best in each bean.
- There can be no shortcuts to enhance and maintain gourmet quality.

East African Gourmet Coffee – Niche Marketing

- If farmers do not look after the beans at every stage of the process, consumers will not get their excellent cup of gourmet coffee.
- Farmers now receive barely 50% of their production costs. This situation cannot continue.
- IMF, WB, WTO, Oxfam, Nestle, farmers, traders, roasters, traders and retailers ought to figure out a solution in a collaborative manner.
- International Coffee Organization should hammer out a sustainable policy on production and prices that will allow all coffee farmers to live their lives with dignity and financial security so that they can provide the gourmet consumers an excellent cup of the world's most popular beverage: coffee.

Malaysian Model for LDCs

- Malaysia has had great success in dramatically expanding its exports and in reducing poverty since the 1970s.
- Its growth strategies expanded economic opportunities for poor people, with relatively equitable distribution of financial and physical capital, including land.
- Resources generated by economic growth were heavily channeled into human development, especially into improving health, education and skills.
- In 1970s, about 60% of the population of Malaysia lived below the poverty line, as compared to only 7% in 2001.

Successful FDI Case Study – Mauritius: A Beacon of Hope in Africa

- Diversification of its economy
- Adding manufactured goods
- Political stability
- Social stability
- Economic stability
- Good relationship with Hong-Kong Chinese

LDCs Need

- Privatization of state assets
- Market liberalization
- Removal of limitations on foreign ownership
- Enhancing the ability of their governments to negotiate with WTO.
- Developing a capacity to analyze international trade trends,
- Enhancing information flows about trade and investment
- Strengthening the capacity of NGO's
- Strengthening private sector organizations
- Increasing the awareness of LDCs wishing to negotiate their accession to the WTO.

LDCs Need

- WTO membership,
- Structural adjustment,
- Development of export capacity,
- Access to Northern and Southern markets
- Access to sources of export finance,
- Development of private sector
- Need relief from their high levels of debt,
- Need higher prices for their commodity exports.

Case Study of Bangladesh: An LDC

- Diversification of Economy from Jute to Garment
- Garment Industry is the Largest Employer
- Export of Surplus Labor. Remittances is the Largest Earner of Foreign Exchange
- Friendly Relations With All from US to India. Result:
 - Bangladesh Soldiers Deployed on Peacekeeping Missions Across the World,
 - Millions of Illegal Bangladeshi Workers Being Ignored by India
 - Percentage of Population Living Below the Poverty Line Dropped from 28% to 25%

African Growth and Opportunity Act

- US Trade with Africa -- \$24 Billion, \$6 Export and \$18 Import
- US Imports Under AGOA Valued at \$9 Billion
- US FDI in Africa, \$10 Billion in 2006
- 38 Out of 48 African Countries are Now Eligible Under AGOA
- 19 Countries are Eligible to Receive Textile and Apparel Benefits
- US has Provided \$345 Million Trade Capacity Development Assistance
- US Would Provide \$15 Billion for AIDS/HIV in 5 Years

Conclusion

- 80% of the trade problems stem from inappropriate policies.
- In many countries, there is little dialogue with the private sector and excessive regulation and intervention do not stimulate trade expansion and innovation.
- An educated labor force is one of the key factors in a country's ability to climb the value added chain.
- Uruguay Round agreements do not require the LDCs to open up their economies immediately or completely.
- Privatization and cutbacks in public expenditures reduce both the size and the reach of the government.
- Governments must develop pro-poor, and pro-environment policies such as incentives for micro-enterprise and micro-credit.
