Plugging the Dyke with a Plaster: Debt Relief in a Skewed International Trade System

by Duncan Bonnett

The recent clamour to remove the debt burden of the poorest nations and simultaneously provide more development assistance to those nations, obscures the fact that removing trade barriers to developing nation exports offers the best long-term solution to reducing poverty.

Current events in Africa and involving Africa have been instructive. The African Union (replacing the toothless Organisation of African Unity) is in the process of being launched in South Africa as a more serious attempt to take stewardship of African affairs. The New Partnership for African Development (NEPAD) has been launched and promoted to the leaders of the group of eight industrial nations (G-8) as Africas blueprint for Africas renewal. The leaders of the G-8 have, in anticipation, announced increases in development assistance to African countries along with a redoubling of efforts to scrap outstanding debt. These all seem like positive developments on the face of it, but they need to be seen against a backdrop of increasingly protectionist trade policy in the developed world.

That debt should be scrapped, is largely beyond debate. According to the World Bank in its Global Development Finance 2001 report, African countries spent $23m every day servicing debt in 1999. That amounts to roughly $8,4bn annually - which is a couple of billion dollars more than the continent receives in aid every year. This from a continent where nearly 300 million people live on less than a dollar a day. In addition, the number of people in Africa living below the poverty line has increased by 25% over the last decade according to the World Bank.

Countries that have qualified for debt relief under the Highly Indebted Poor Countries (HIPC) scheme such as Mozambique and Uganda have been able to divert much of the savings to the provision of services such as education, healthcare, water and sanitation projects and other social service spending. This is in line with the stipulations set out in the HIPC guidelines. However, in order to qualify for this debt relief, countries are also obliged to reform their domestic political and economic structures, liberalising economies and ending subsidies to companies through privatisation and deregulation initiatives.

On the face of it there is nothing wrong with this theory, as most

African countries do not have the finance or wherewithal to support inefficient utilities and industries. Furthermore, the argument goes, governments in the region will earn much needed foreign exchange in the process of privatising state-run companies, and market efficiencies will ensure their sustainability. This is probably workable when one looks at African utilities such as ports, power and water providers and telecommunications companies, as these vital organs in the competitiveness of nations have stagnated over the years under government control to point of collapse in many cases. In addition, Public-Private Partnerships (PPP) and build-operate-transfer (BOT) schemes and their many derivative acronyms are beginning to become a vital cog in the maintenance of existing infrastructure and construction of new infrastructure - particularly in the transport sector. There is thus room for these initiatives, and handled properly, they can play a vital role in the rehabilitation of the continent at many levels.

A note of caution does need to be introduced however. Debt relief for the sake of debt relief is dangerous. It risks rewarding some of the more unsavoury actions on the continent without providing tangible benefits for the poorest citizens. Scrapping Swazilands debt when the King is reported to be buying a private jet at twice the cost of the national health budget serves only to encourage further profligacy. Scrapping Zimbabwes debt with that regimes policies is tantamount to rewarding the ruling elite for the destruction of the economy. Chad recently embarrassed the donor community by spending proceeds from the new oil pipeline on military equipment. Tanzania - a current darling of the donor community - is embroiled in a controversial plan to purchase military radar equipment at great cost to one of the worlds poorest countries. Debt relief to governments that will not use the extra proceeds for the benefit of their citizens should therefore quite correctly be withheld and any relief offered stringently monitored. Self-regulation is still in its infancy in many African countries.

What is the solution to this dilemma then? On the one hand there is clearly a need to prioritise the development of the continent and the alleviation of the appalling living conditions of the poorest citizens, whilst on the other hand not pandering to insincere political Zlites. The answer, in a nutshell, is trade liberalisation - not from Africas side, but from the richest nations. Subsidies, restrictions and quotas imposed on competitive industries in the developing world by the worlds richest countries are contrary to most provisions within the WTO, apart from the fact that they are largely immoral.

The problem with the conditional debt relief imposed by the rich on the poor is that of liberalising the economies of countries. The disastrous World Bank initiative in Mozambiques cashew industry, in the name of deregulation and increased competitiveness almost destroyed that industry. Ghanas (enforced) dismantling of protective measures in the agricultural sector resulted in the country moving from a position of rice exporter to rice importer in a matter of years - and importing subsidised US rice at that! There has also been a trend towards de-industrialisation in many liberalised African economies as weak, nascent manufacturing industries buckle under competition from regional and global competitors - Zambias tyre and battery manufacturing sectors being examples.

Even a relatively sophisticated African country such as South Africa has not been immune to the effects of trade liberalisation. The ending of export subsidies and import quotas by the government in terms of WTO commitments resulted in South Africas largest canned fruits and vegetables producer slashing 2000 seasonal and 400 permanent jobs in a country with an unemployment rate estimated at anywhere between 30% and 40% depending on the definition used. Most of these people would probably not find alternative employment in this environment. Possibly the most galling point in this is that South Africa was obliged to undertake these liberalisations in terms of WTO commitments - in order to negotiate a free trade agreement with the EU whose subsidised production largely caused the closures.

This then is the rub: the OECD* countries spend US$1bn every day subsidising farmers unable to compete in a free system according to the World Trade Organisation. This is 50% more than Africas total external debt. These farmers constitute roughly 34% of the workforce, whilst in Africa roughly three-quarters of the population relies on agriculture for survival. In the US and EU, the two worst offenders, around 80% of the support goes to 20% of the farmers - the largest 20%. Agricultural subsidies thus have nothing to do with the retention of traditional lifestyles as espoused by supporters of farm subsidies, and everything to do with the retention of support at the ballot box from powerful farm lobby groups. This fact is reinforced by the USs latest bout of agricultural indulgence which will increase subsidies to farmers by between 70% and 80% over the next decade depending on whose figures are used. This from a free trade president. Support for the cumbersome US steel sector reinforces this. In addition, South African canned pears are threatened with additional duties because, along with exports from several other nations, they threaten to take 5% of the US domestic market.

It has been estimated by the World Bank that full trade liberalisation will put an extra $200$500bn in the coffers of developing nations, whilst a 40% liberalisation of trade in agricultural products will result in an extra $70bn flowing to developing countries. According to WTO Director General Mike Moore, agricultural trade liberalisation would result in flows to the least developed of more than eight times the level of official development aid that they receive.

This point is further reinforced by the effects of subsidies in OECD countries. The effect is not only to exclude developing nations from those lucrative markets - and the much needed foreign exchange it would bring - it actually diminishes the returns available to farmers. Overproduction of cotton (with $5bn in annual OECD subsidies), has resulted in prices dropping by 67% over the last six years - costing West African producers $250m in additional annual income. Overproduction of commodities thus diminishes the returns available to the most needy, and discourages expanded production in the parts of the world that are able to produce commodities most cost-effectively. It also discourages, effectively, the expansion of associated or downstream industries, and the establishment of a broader economic base. This reinforces the cycle of dependence on primary commodities and narrow economic bases in many developing countries, which in turn reinforces the social conditions the poorest of the poor are subject to.

In conclusion, debt relief and increases in aid will not fundamentally alter the appalling status quo imposed on millions of Africans through protectionist trade policies in wealthy nations. Eastern Germany, with around $650bn thrown at it over the decade since reunification, continues to lag far behind the old West Germany. This is despite a relatively well educated population and enviable infrastructure by African standards. In addition, the misuse of funding and relief by too many African states sadly should preclude them from relief until proper levels of accountability are established. The best solution to empowering Africans at the very edge of existence is for the G-8 and OECD to come clean and practice what they preach - free trade. Not only will this re-dress the growing and unsustainable trade gap between rich and poor, but it will have a far more direct impact on the lives of poor Africans than any amount aid money used to buy time in reforming the international system.

Some Interesting Facts and Figures:

- OECD countries spend roughly $360bn a year on agricultural subsidies alone.
- Africas GDP comes in at around $330bn a year.
- The OECD spent a total of $51,4bn on Official Development Assistance in 2001 - or 14% of the amount spent on agricultural subsidies.
- The EU subsidises each head of cattle to the tune of US$1 per day.
- 300 million Africans live on less than $1 a day.
- The US spent $117bn directly and indirectly combating obesity in 2000 - thats $1,17 per person per day.
- Africas entire external debt in 2000 was roughly $230bn.
- 28 million Africans are living with HIV/AIDS.
- The IDA of the World Bank spends around $180m annually directly on agricultural projects in Africa - or 18% of the daily subsidy rich farmers get.
- The EU is committed to subsidising farmers in ten countries in Central Europe slated to join the EU in the next year, increasing subsidies over ten years to parity with current members. The EU spends almost 50% of its budget on farm subsidies already.
- The US is giving farmers an additional $180bn over the next ten years in subsidies.

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