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Global Partnership for Development

Contextualising Trade, Aid & Poverty Reduction

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Introduction

In 1990, more than 1.2 billion people (about 28 percent of the developing world's population) lived in extreme poverty. These were the poorest of the poor, struggling to make ends meet on less than a dollar a day. Given this, the Member States of the United Nations (UN) in 2000 committed themselves to a series of time-bound targets, most of which are to be achieved by 2015. They are known as the Millennium Development Goals (MDGs) and represent a framework for achieving human development and broadening its benefits. Numbered one to eight, each Goal covers a specific issue. The Goals have quantified targets to address extreme poverty in its varied dimensions ranging from income poverty, disease, illiteracy, lack of shelter and water. *(www.millenniumcampaign.org)*

Poverty reduction is the overarching aim of the MDGs and MDG-1 addresses income poverty and hunger. Absolute poverty is used as the main indicator for the progress of MDGs. By 2015, it targets halving the number of those living on less than a dollar a day and those suffering from hunger. This is a marked shift from the previous paradigm of poverty reduction, which was based solely on economic growth, with reliance on the trickle down effect for addressing the development needs.

In principle, the MDGs address poverty only in terms of entitlements to basic material needs. Their definition of poverty does not include deprivation in access to natural resources like land, forest, etc., and other socio-cultural rights and various forms of freedoms and choices. However, efforts to address poverty and hunger also need to take into consideration the additional historical processes and structures that cause and perpetuate hunger, poverty, exploitation and marginalisation.

The Millennium Development Goal 8

The first seven MDGs focus on the outcomes and identification of standards of well being to be achieved in the next ten years and concern both the lives that individuals lead and the environments in which they live. However, MDG 8 stresses a global partnership for development (GPD)' exhorting the need for cooperation and commitment from developed nations towards achieving the other seven MDGs. This necessitates the developed countries to provide aid, reform their trade policies and assist the developing nations in their fight against poverty.

The MDG 8 relates to the issues of debt cancellation, trade justice, equitable governance in global institutions, and political, social and economic rights for the poor for enabling sustained progress to end poverty in the South. This Goal has been included in the MDGs because the direction and priorities of trade and aid policies, the principal ways in which the North interacts with the South, are largely decided in the North, yet have profound impacts on the society, economy and stability of countries in the South.

Moreover, even though achieving the MDGs is the responsibility of the developing nations, they need external help, in achieving them, especially in the case of least developed countries (LDCs) that cannot internally raise resources needed for achieving these Goals. It is an important Goal for holding developed countries accountable in advancing the MDGs.

Linkages between Trade, Aid and Poverty

Economic growth can lead to poverty reduction and development, but in the present globalised world domestic policies can no longer suffice. This is because they are equally dependent on external factors, such as currency fluctuations, commodity prices and competition from foreign goods. Trade can play an important role in economic growth and countries with sound domestic polices are unable to perform well unless external factors, such as terms of trade, are conducive towards their growth. Foreign aid or Official Development Assistance (ODA) apart from debt relief is particularly essential for LDCs, who lack internal resources to finance MDGs and are caught in a poverty trap. Therefore, MDG 8 holds greater significance since it addresses both the issues: trade and aid.

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The present multilateral trade rules discriminate against poor countries and hinder their effective participation in the global economy. The presence of trade-distorting policies particularly in agriculture, where many LDCs have a comparative advantage, is highly discriminatory. The World Bank (WB) estimates that a repeal of rich country trade barriers and subsidies in agriculture would improve global welfare by about US$120bn and a one percent increase in the developing countries' share of world exports would lift 128mn people out of poverty. *(www.dfid.gov.uk/mdg/aid/asp)*

The European Union's (EU's) support to domestic agricultural producers leads to overproduction that effectively depresses world prices of many agricultural commodities, floods poor country markets and undermines incentives and earning opportunities for farmers in these countries. In low technology industries, developing countries are missing out an additional US$700bn in annual export earnings due to trade barriers. *(UNCTAD's Trade and Development Report, 1999)*

Other forms of distortions in trade include tariff peaks, tariff escalation and non-tariff barriers (NTBs) like anti-dumping and environmental standards. Structural imbalances in the global trading system, such as greater freedom of movement of capital is advantageous to developed nations, as opposed to restrictions on the freedom of movement of labour, which is advantageous to developing nations. *(Martin Khor, Development Policy Journal, UNDP, 2002)*

Post liberalisation, only a few developing countries have performed well, with spill over effects very varied on others. China and India have done well, while Sub-Saharan Africa has stagnated and even declined. Similarly, income growth has been unequally distributed amongst developing nations. Yet, even within well performing developing nations, such as India and China, economic growth has occurred, yet vast inequalities remain and have been exacerbated. Ethnic minorities, indigenous people, and rural hinterland continue to live in poverty. *(Nicola Bullard, Anti poverty or Anti Poor? Focus on the Global South, 2003)*

A further sign of the development crisis has been the decline of Human Development Index (HDI) in 21 countries, many from Central and Eastern Europe, the Commonwealth of Independent States (CIS) and Sub-Saharan Africa, where the levels of poverty have been exacerbated. *(Human Development Report, UNDP, 2003)*

Indiscriminate liberalisation, shedding of existing protections, ineffective domestic policies and difficulties associated with open regimes are also responsible for this exacerbation of poverty. While small farmers and small manufacturers have been shunted out due to increased foreign competition, matching alternative economic opportunities have not arisen. An increase in prices of inputs and a decline in world prices of primary commodities have added to the burden.

Thus, evidences call for the need for a selective integration into the global economy and not the 'one size fits all approach' taken in the 1990s. Under the GPD, developed nations and international financial institutions (IFIs) need to recognise and respect the exigency of developing nations to determine appropriate policies in selecting their integration into the world economy.

Unjust trade, debt payments and ineffective aid are key external factors that perpetuate poverty and global inequality. Unfair trade impinges livelihoods around the world. Yet rich countries continue to subsidise their farmers and protect their markets.

Box 1: Impact of Trade Liberalisation on Poverty

Trade Liberalisation destroyed Uganda's well-developed coffee cooperative sector, as it could not compete with the multinationals, impoverishing millions of poor farmers in the long run. Moreover, the prices of coffee, the main commodity of export, are now vulnerable to international price fluctuations. Food security has also been undermined since many farmers have switched to coffee production in the hope of export opportunities. With dwindling international prices, a severe drought and coffee plant epidemic, the future of many farmers is uncertain with no fall back options that the cooperatives formerly provided. *(TDP Uganda Background Paper, DENIVA-CUTS, 2005)*

Post-trade liberalisation, growth of imports has been far more rapid than that of the exports in Sri Lanka. Previously, the strict rationing of consumer goods led to perennial shortages, which was alleviated to a great extent by the import liberalization of consumer goods. Yet other than garments, most manufacturing industries and domestic food production have seen a steady decline due to imports. The liberalisation gains have gone disproportionately to the rich exacerbating income inequalities. Most labour intensive industries have suffered, so TL gains have gone to the capital owners instead of labour. This inequality has been cited as a contributory factor for the heightening in the social and political tensions in the latter part of the 1980s. *(TDP Sri Lanka Background Paper, IPS-CUTS, 2005)*

Despite increased average incomes post TL; poverty has increased in Kenya, with 56percent population presently under poverty line as opposed to 48percent in 1992. This has been mainly due to the rise in the prices of basic commodities, low employment growth and inflation, compromising food security and access to basic services such as education and health. Domestic agriculture and incomes of the majority poor have been severely impacted, due to falling international prices. The horticulture sector, the main beneficiary of TL has seen disproportionate gains go to a few large, foreign owned firms with access to sophisticated technology to be sanitary and Phytosanitary (SPS) compliant. *(TDP Kenya Background Paper, KI PPRA-CUTS, 2005)*

Box 2: Transform Resolve into Actions

Trade is not currently working for the poor. The world's 49 poorest countries together accounted for 0.4 percent of world trade in 1999, half of the level of 1979. One of the biggest problems poorer countries face is barrier to markets in richer countries. *(Aid, Trade, Global Partnership, MDGs, DFID, 2005)*

Many countries particularly LDCs have not benefited from globalisation. Industrialised countries have important responsibilities in promoting sustainability initiatives by ensuring more consistent market opening, increased public and private financing of development co-operation as well as better functioning and greater stability in the international financial system. *(Communication from the European Commission to the European Parliament, 2005)*

When I took office four years ago I found out that we spent more than •60mn (US$71.5mn) in Mozambique on hundreds of projects, none of which the Minister of Finance was aware of. By the end of my term, we supported Mozambique's own development objectives through its own central budget. And so indeed, also more flexible resources – not tied to projects, but through your budgets, including for recurrent costs. *(Eveline Herfkens, Special Advisor to the UN Secretary-General for the MDG Campaign. This quote is from her address delivered to African Ministers of Finance at the 2002 meeting of the UN Economic Commission for Africa when she headed the Dutch Ministry of Development Cooperation)*

Declining international commodity prices of primary products have impoverished LDCs, for example, many Sub-Saharan Africa countries suffered a loss of income equivalent to US$56bn or 15 percent of gross domestic product (GDP) in 1987-1989. *(Human Development Report, UNDP, 2003)*

Commodity price stabilisation attempted in the 1960s and 1980s by UNCTAD stands as one of the best examples of a global partnership. Though it did not last due to withdrawal of commitments on the part of many countries, it managed to stabilise commodity prices. Therefore, as a strategy to achieve the same the producing nations should form an organisation together and rationalise commodity supply like the Organisation of the Petroleum Exporting Countries (OPEC) have done for oil or consuming and producing countries collaborate to rationalise commodity supplies. *(Martin Khor, Development Policy Journal, UNDP, 2002)*

The preferential market access provided to the LDCs under the EU's *Everything But Arms Initiative* (EBA) is another positive step. However, technical problems such as rules of origin (RoO), lack of harmonisation among various trade preferences (such as the Cotonou Agreement), and the continuing trade preference erosion makes it difficult for LDCs to benefit from them.

In addition, aid also needs to be improved in terms of quality and quantity: aid flows still fall far short of the estimated need of about US$100bn a year. Many OECD nations have faltred on their ODA investment to development programmes among poorer nations. Only Scandinavian countries achieved the target set out in the Monterrey Conference held in Mexico in 2002, where the rich countries pledged to increase aid to 0.7 percent of their gross national income.

ODA From OECD Nations

	1975	1980	1985	1990	1995	2000	2002
OECD Total US$Bn	13.9	27.0	29.4	53.4	54.5	52.3	58.3
OECD % GNP	0.35	0.37	0.36	0.34	0.30	0.24	0.23
US % GNP	0.27	0.25	0.24	0.15	0.13	0.11	0.13
UK % GNP	0.37	0.35	0.33	0.31	0.32	0.32	0.31
Canada % GNP	0.54	0.52	0.49	0.47	0.45	0.22	0.28
Denmark % GNP							0.96
Norway % GNP							0.89
Sweden % GNP							0.83
Netherlands % GNP							0.81

Source: Hulse J H, Sustainable Development: Learning from the past, 2005

While some have achieved the target, most countries need to set concrete targets and deadlines for increasing their aid to fill financing gaps estimated to be at least US$50bn. It is possible since the rich countries provide about US$240bn a year as Producer Support Estimates (PSE), under agricultural subsidies, of which about US$100bn is transferred directly to farmers. *(Agricultural Support: How is it Measured and what does it mean? Policy brief OECD, 2004)*

Not only do the donors need to increase aid, but also respect the development priorities of recipient countries. Donors should refrain from assuming the responsibility of charting the path for their development, and work together with the recipients and assist them in setting their own policies and priorities for poverty reduction. Institutions that work in one country may not work in another and any attempt to duplicate them between countries can be counter productive. Above all, aid needs to be free, untied, timely, leading to ownership, which is necessary for its effectiveness.

The most common form of tied aid, namely technical assistance, has accounted for more than a billion dollars of grant to Africa, yet not much of it is demand-driven. It perpetuates aid dependency, undermines institutional capacity and a sense of ownership. Recipient countries need to know how much aid they will get and by when. Aid needs to be regular, for long-term and communication gaps between donors and recipients should be eliminated. *(Eveline Herfkens, Development Policy Journal, UNDP, 2002)*

Aid also needs to be more focused. LDCs must receive more than 50 percent of ODA to help them out of the poverty trap. It should target sectors such as infrastructure, services and human capital, particularly areas such as health and education need priority. The rules of global finance being tilted against the LDCs, tightening fiscal and monetary policies in the face of external shocks can have adverse impacts on achieving the MDGs if the country is already in austerity.

Only when aid takes into account all these factors will it be effective in reducing poverty and promoting development as envisioned by the MDGs. However, GPD is also needed to make aid relations ultimately redundant and in increasing the capacity and capability of the poor countries.

Conclusion & Recommendations

The MDGs envision entitling each person in the world a basic standard of life, but the definition is narrow in its outlook towards poverty. Historical processes and structures such as caste and gender discrimination, marginalisation of ethnic minorities tend to perpetuate poverty. Unless these issues are addressed, through simultaneous institutional reforms, there will be a failure in decreasing impoverishment.

For instance, Vietnam has been successful in slashing poverty with trade liberalisation. But this is to be attributed to sweeping domestic land reforms and an equitable social structure that has translated economic growth into increased income. Yet, the country is still not free from inequalities, which have increased especially within the ethnic minorities living in far-flung areas. *(TDP Vietnam Background Paper, CDI-CUTS, 2005)*

The onus for achieving the MDGs lies on the developing nations, yet the need for a global partnership under MDG 8 arises from the fact that unless rich countries cooperate and take proactive steps they cannot be achieved. However, the MDG-8 indicators, particularly for measuring trade and market access, are weak and need further refinement. Target 12 for 'developing an open, rule-based, predictable, non-discriminatory trading and financial system' is ambiguous, as it does not specify what is 'rules-based' or what are those 'rules' or how much of 'openness' is *open*. It is also not time bound and specific as a target.

The word 'equitable' has been omitted from it, even though it figures in the Millennium Declaration. The UN needs to play a strong role in monitoring the progress of donors in achieving MDG 8 and there is a need for a revision of the framework for their reporting on the MDGs to include indicators on global governance and participation.

The developed nations need to make the IFIs such as the WB and the International Monetary Fund (IMF) and institutions such as the World Trade Organisation (WTO) more transparent, democratic and accountable. The WTO in particular has put the 'development first' on its agenda with the declaration set out in the Doha Ministerial 2001, but it must fulfil this mandate in an effective manner. Policies should be evaluated on the basis of 'development distorting' instead of 'trade distorting'.

GPD must address the issues of trade barriers and improved market access, aid, debt relief, reform of policies in rich country and international economic structures. All trade-distorting practices, especially in agriculture and commodities of export interest to developing nations need to be abolished.

Trade rules need to be harmonised and simplified and made LDC-friendly to benefit them. For example, the US African Growth and Opportunity Act (AGOA) extended benefits to African LDCs, but it is full of conditions and restrictions making it difficult for them to take advantage of it. Such conditions need to be removed immediately. LDCs need to obligate rich countries to provide their products duty-free and quota-free market access to all exports. In addition, global efforts have to be made to stabilise international commodity prices, as UNCTAD attempted.

GPD must make efforts in building scientific and technological capacities in the LDCs, to help drive economic development. However, partnerships should not be limited only with the rich countries but middle-income countries having the expertise must pitch in. For instance, China can help develop a steady flow of artemisinin-based anti-malaria medicines for Africa. The developing nations also need to respond adequately as partners. *(Mehta S Pradeep and Nanda Nitya, Trilateral Development Cooperation: An Emerging Trend, CUTS, 2005)*

Above all, donor countries need to provide more data so that concrete results as an attribute to response to funding are displayed, enabling better accountability. Aid should be demand-driven and untied. There is also a need for better management of public expenditure and better budgeting systems to absorb aid.

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