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The False Promise of Gleneagles

Misguided Priorities at the Heart of the New Push for African Development

by Marian L. Tupy

Executive Summary

In response to persisting poverty in Africa, representatives from the world's eight leading industrialized nations—Germany, Canada, the United States, France, Italy, Japan, the United Kingdom, and Russia—met in Gleneagles, Scotland, in 2005 and agreed on a three-pronged approach to help Africa. They would increase foreign aid to the continent, reduce Africa's debt, and open their markets to African exports. Unfortunately, aid has harmed rather than helped Africa. It has failed to stimulate growth or reform, and encouraged waste and corruption. For example, aid has financed 40 percent of military spending in Africa. Similarly, debt relief has failed to prevent African countries from falling into debt again.

Trade liberalization has the greatest potential to help Africa emerge from poverty. Yet that is where the least amount of progress has been made. Negotiations on trade liberalization have ground to a halt, and the threat of protectionism looms large as the current global economic slowdown worsens.

The Gleneagles Summit, for all its good intentions, gave rise to unrealistic expectations. The heavy emphasis on aid and debt relief made Western actions appear to be chiefly responsible for poverty alleviation in Africa. In reality, the main obstacles to economic growth in Africa rest with Africa's policies and institutions, such as onerous business regulations and weak protection of property rights.

Africa remains the poorest and least economically free region on earth. The West should do all it can to help Africa integrate with the rest of the world. It should eliminate remaining restrictions on African exports and end Western farm subsidies. Africans, however, will have to make most of the changes needed to tackle African poverty.

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Sub-Saharan Africa lags behind the rest of the world in most indicators of human well-being.

Introduction: A Brief Look at the State of Africa

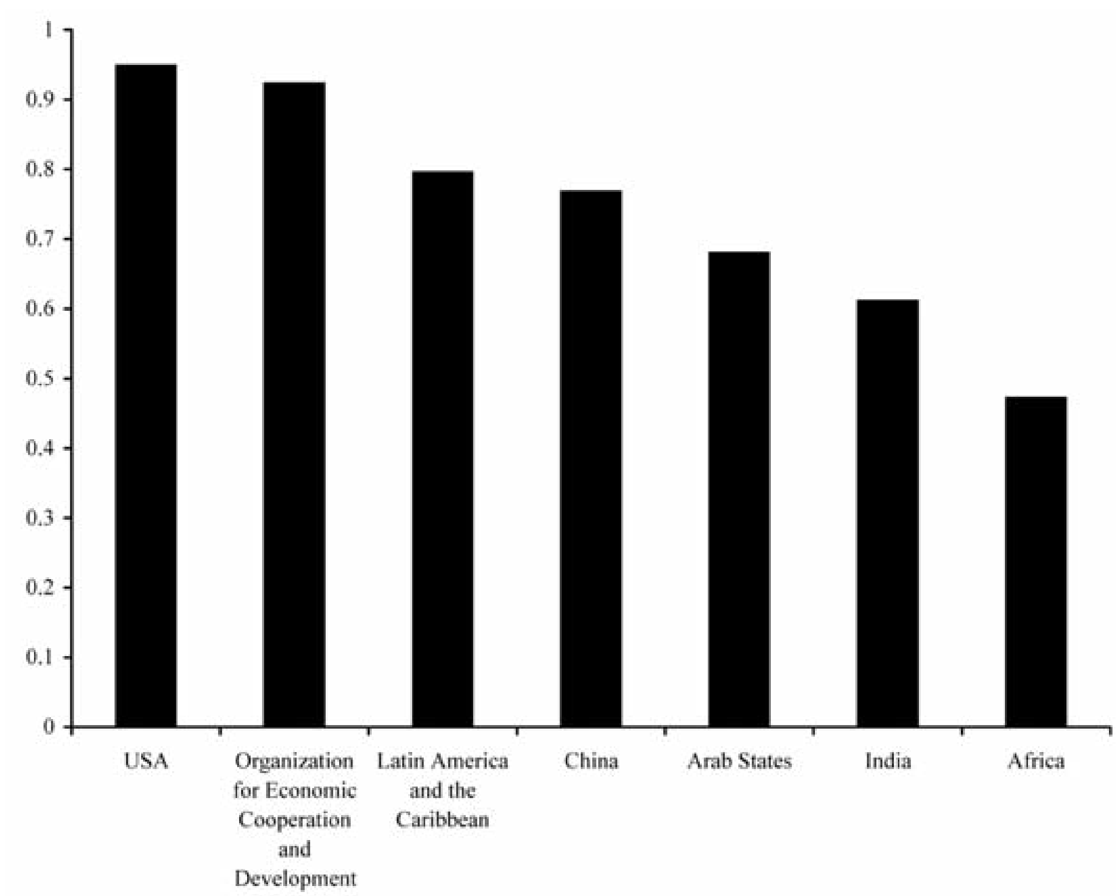
Sub-Saharan Africa (hereafter Africa) lags behind the rest of the world in most indicators of human well-being. Africans suffer from (among other afflictions) shorter life spans; higher rates of infant mortality; higher incidence of HIV/AIDS, malaria, and tuberculosis; and greater undernourishment than people do in other parts of the world.

Overall, Africa scored a mere 0.472 on the United Nations' 2006 Human Development Index, which is measured on a scale from 0 to 1, with higher values denoting higher standards of living. In comparison to Africa, the United States scored 0.948 (see Figure 1).[1]

That is not to say that there have been no improvements in Africa over the last few decades. Between 1961 and 2002, for example, daily food supplies in terms of consumed calories increased in Africa from 2,055 to 2,207. Infant mortality declined from 177 per 1,000 live births between 1950 and 1955 to 101 in 2003. Life expectancy at birth rose from 37.4 years between 1950 and 1955 to 45.6 years in 2003.[2]

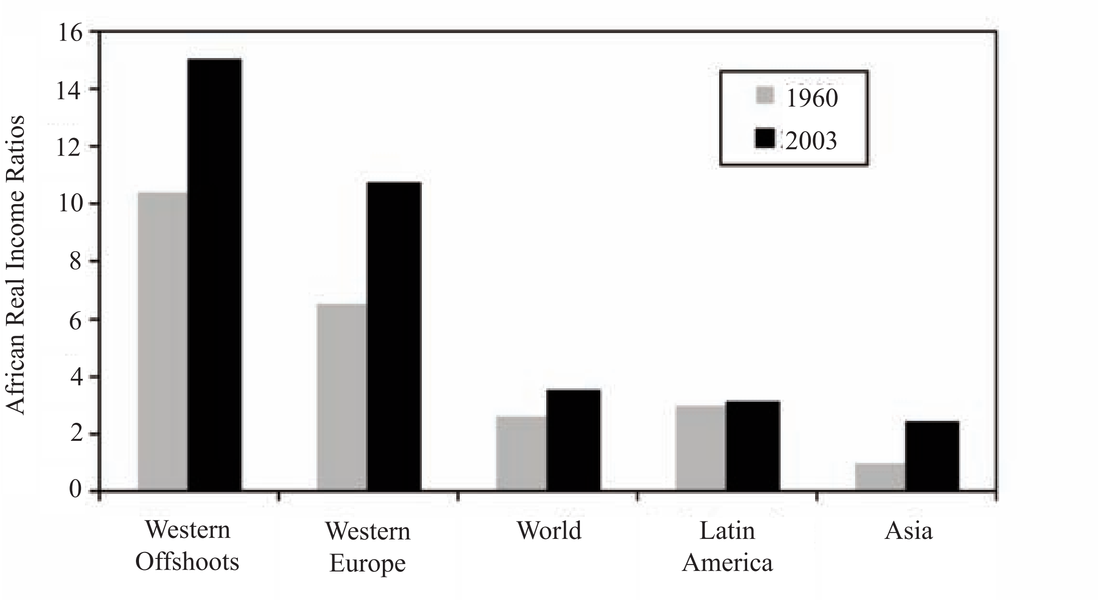
Even so, according to data compiled by Angus Maddison of the University of Groningen, the income gap between Africa and other regions rose between 1960 and 2003.[3] In 1960, an average Western European was 6.5

Figure 1
United Nations Human Development Index Values for 2004



Source: United Nations, Human Development Report 2006 (New York: United Nations, 2006), http://hdr.undp.org/hdr2006/pdfs/report/HDR_2006_Tables.pdf.

Figure 2
Real Income of the Rest of the World Relative to Africa (1960–2003)



Source: Angus Maddison, "Historical Statistics for the World Economy: 1–2003 AD," http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_03-2007.xls.

times richer than an average African. By 2003 that gap grew to 10.7 times. In 1960, an average African was slightly richer than an average inhabitant of Asia. By 2003, Asians were 2.4 times richer than Africans (see Figure 2).[4]

The poor performance of Africa is especially telling considering the progress that other formerly poor parts of the world have made in recent years. Between 1975 and 2005, for example, Chinese and Indian incomes, adjusted for inflation and purchasing power parity, rose by 888 percent and 174 percent respectively.[5] In Africa, incomes fell by 5 percent (see Figure 3).[6]

Not all countries in Africa are desperately poor, and not all of them face the same challenges. Figure 4 shows differences in the standard of living among African countries as measured by income per capita adjusted for purchasing power parity. The annual income of the inhabitants of the Seychelles, for example, was $15,105 in 2006, while that of the people of Burundi was a mere $629. On average, the Seychellois are 24 times richer than the Burundians.

Outliers aside (like the relatively well-off tourist paradise of Seychelles), there is no denying that Africa has fallen far behind the developed world and that a sizable part of its 770 million people faces existential challenges that developed countries have already consigned to history in the past couple of centuries.[7]

The Gleneagles Summit: Promises Made

Spurred by the media, Hollywood stars, musicians, and activists, the leaders from the world's eight leading industrialized nations met between July 6 and 8, 2005, in the Scottish town of Gleneagles to discuss Africa. Joined by their African counterparts, the G8 leaders expressed their desire to help build "a strong, peaceful and prosperous Africa."

Their ambitious aims included doubling the size of Africa's economy and trade by 2015, delivering increased domestic and foreign investment, lifting tens of millions of people

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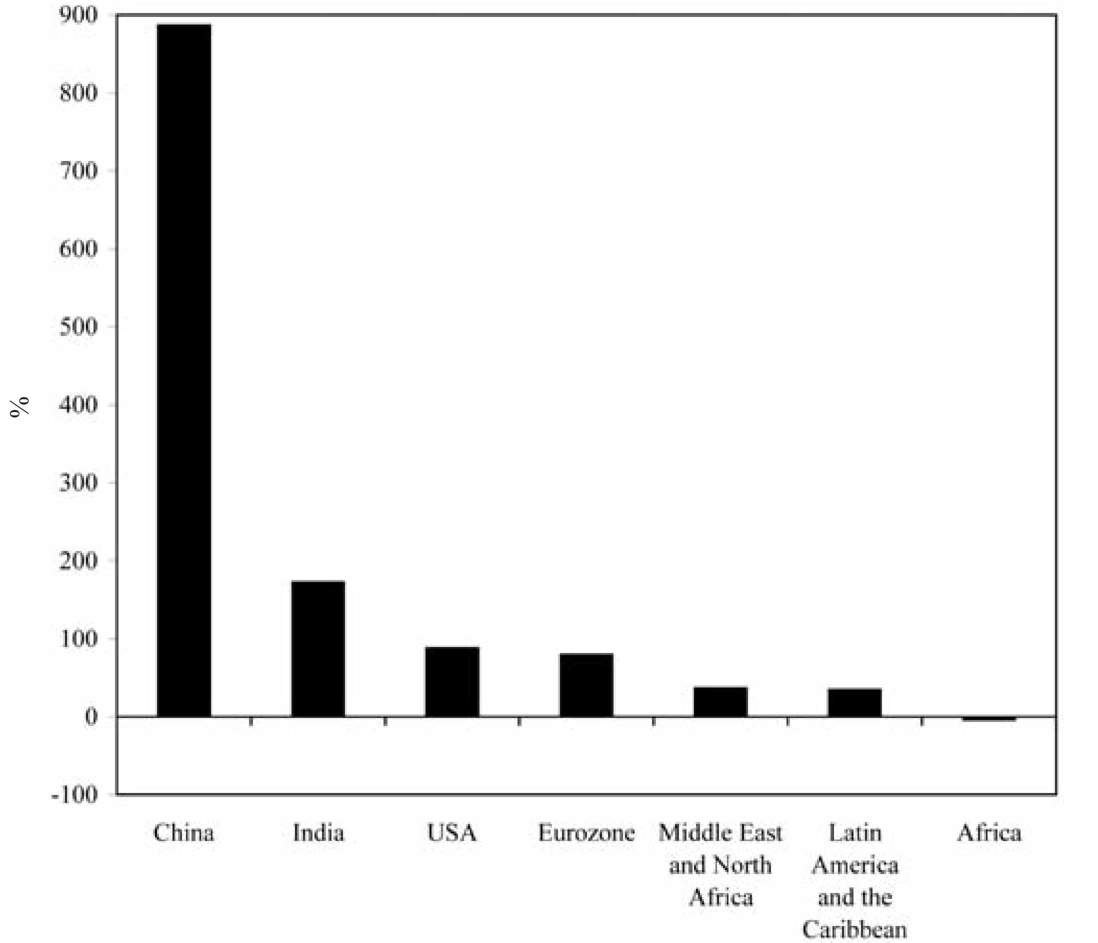
Figure 3
Percentage Increase in Per Capita GDP Adjusted for Inflation and Purchasing Power Parity (1975–2005)



Source: World Bank, "World Development Indicators Online," http://publications.worldbank.org/WDI.

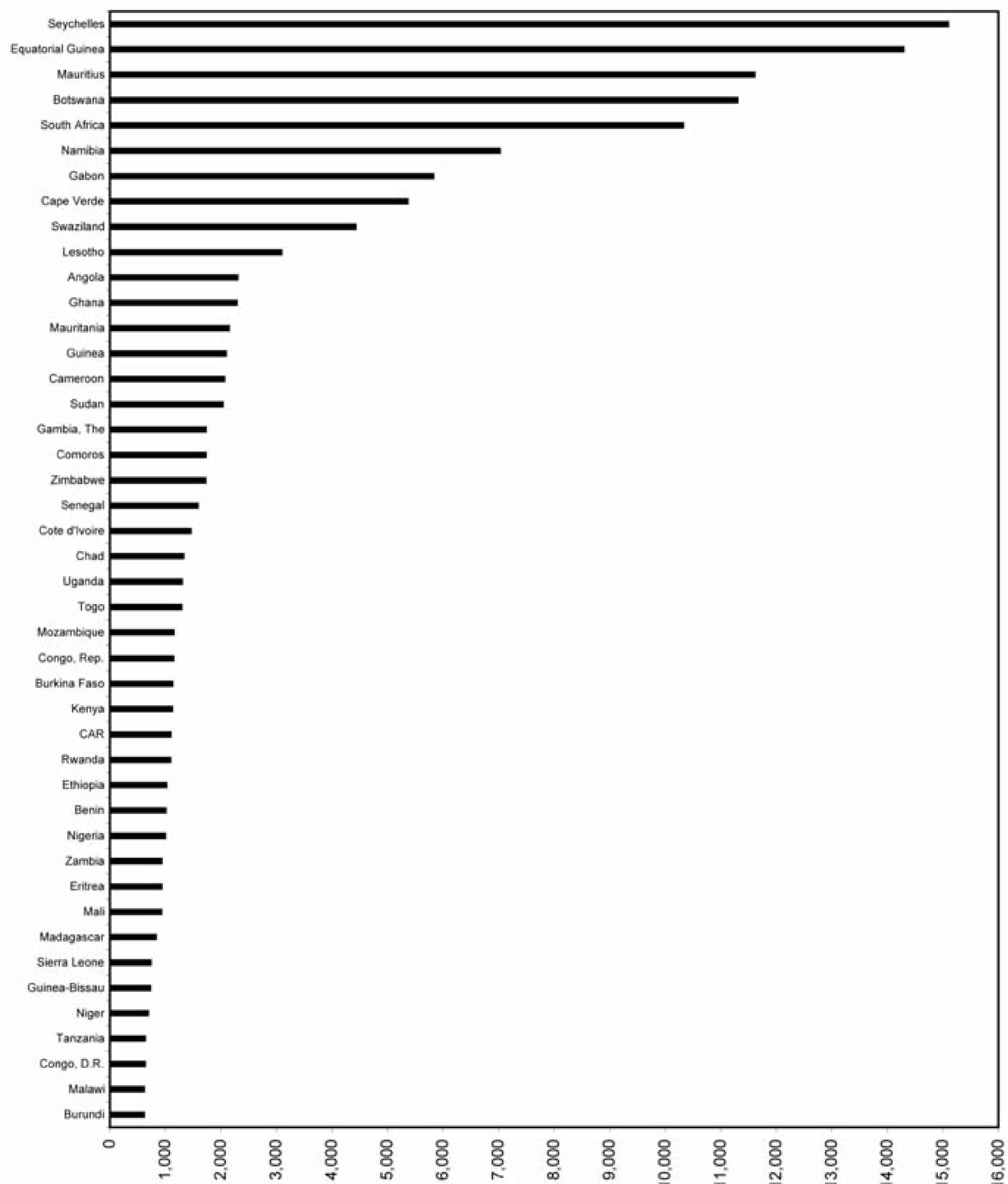
The priorities set out by the G8, which put aid and debt relief ahead of trade, are misguided.

out of poverty every year, saving millions of lives a year, getting all children into primary school, delivering free basic health care and primary education for all, providing as close as possible to universal access to treatment for AIDS by 2010, generating employment and other opportunities for young people, and bringing about an end to conflict in Africa.

For their part, African leaders agreed to "deepen transparency and good governance, strengthen democratic institutions and processes, show zero tolerance for corruption, remove all obstacles to intra-African trade, and bring about lasting peace and security across the continent."[8] In return, the G8 agreed to a number of initiatives, ranging from extra resources for Africa's peacekeepers who are tasked with preventing and resolving conflicts in Africa, to greater G8 support for the building of democracy, better governance, transparency, and the fight against corruption across the African continent. The G8 also promised "to boost investment in health and education, and to take action to combat HIV/AIDS, malaria, TB and other killer diseases."[9]

This paper will not focus on the commitments by African governments. Improvements on peace and security, government efficiency and transparency, free trade, and the rule of law in Africa would be welcome news, and to the

Figure 4
African GDP per Capita Adjusted for Purchasing Power Parity in 2006 (constant 2000 international dollars)



Source: World Bank, "World Development Indicators Online," http://publications.worldbank.org/WDI.
Note: The World Bank database does not contain 2006 data for Liberia, Mayotte, Sao Tome, or Somalia.

The importance of growth cannot be overemphasized.

extent that the G8 can play a positive role in helping Africa to achieve those goals, it should do so. Rather, this paper will focus on three commitments that the G8 made to Africa. First, the G8 "agreed to double aid for Africa by 2010." In real terms that increase would amount to $25 billion in extra aid by 2010. Second, the G8 "agreed that all of the debts owed by eligible heavily indebted poor countries to the International Development Association, the International Monetary Fund, and the African Development Fund should be cancelled." Third, the G8 agreed to redouble their "efforts to achieve a successful conclusion across the whole of the Doha Development Agenda . . . [and reaffirmed its] commitment to open markets more widely to trade in agricultural goods, industrial goods and services, and in agriculture to reduce trade-distorting domestic subsidies and eliminate all forms of export subsidies by a credible end date."[10]

The priorities set out by the G8, which put aid and debt relief ahead of trade, are misguided. Foreign aid to Africa has indeed increased and its debt was reduced, but little progress has been made on trade liberalization—the only agreement reached by the G8 that could lead to lasting economic improvements on the African continent.

Foreign Aid: Time to End It

Between 1975 and 2005, per capita aid to Africa averaged $24.60 per year. By contrast, in China it averaged $1.50 and in India $2.[11] Over the same time period, the compounded average annual GDP growth rate per capita in China was 7.9 percent and in India 3.5 percent. In Africa it was a negative 0.16 percent (see Figure 5).[12]

The importance of growth cannot be overemphasized. There is not a single example of a country emerging from widespread poverty without sustained economic growth. As University of Oxford professor Paul Collier writes, "Growth is not a cure-all, but lack of growth is a kill-all."[13] Growth cannot solve all problems in the developing world, but without growth there can be no lasting solution to the challenges faced by developing countries.

Thus, Martin Ravallion and Shaohua Chen of the World Bank write, between 1981 and 2005, the number of people with an income below $1.25 per day in China declined from 84 percent to 15.9 percent, reducing the absolute number of poor from 835.1 million to 207.7 million. In India, poverty declined from 59.8 percent to 41.6 percent. (Because of population growth, however, the number of poor rose from 420.5 million to 455.8 million.) In Africa, the poverty rate declined slightly from 53.7 percent to 51.2 percent. As in India, population growth increased the absolute number of poor from 213.7 million to 390.6 million.[14]

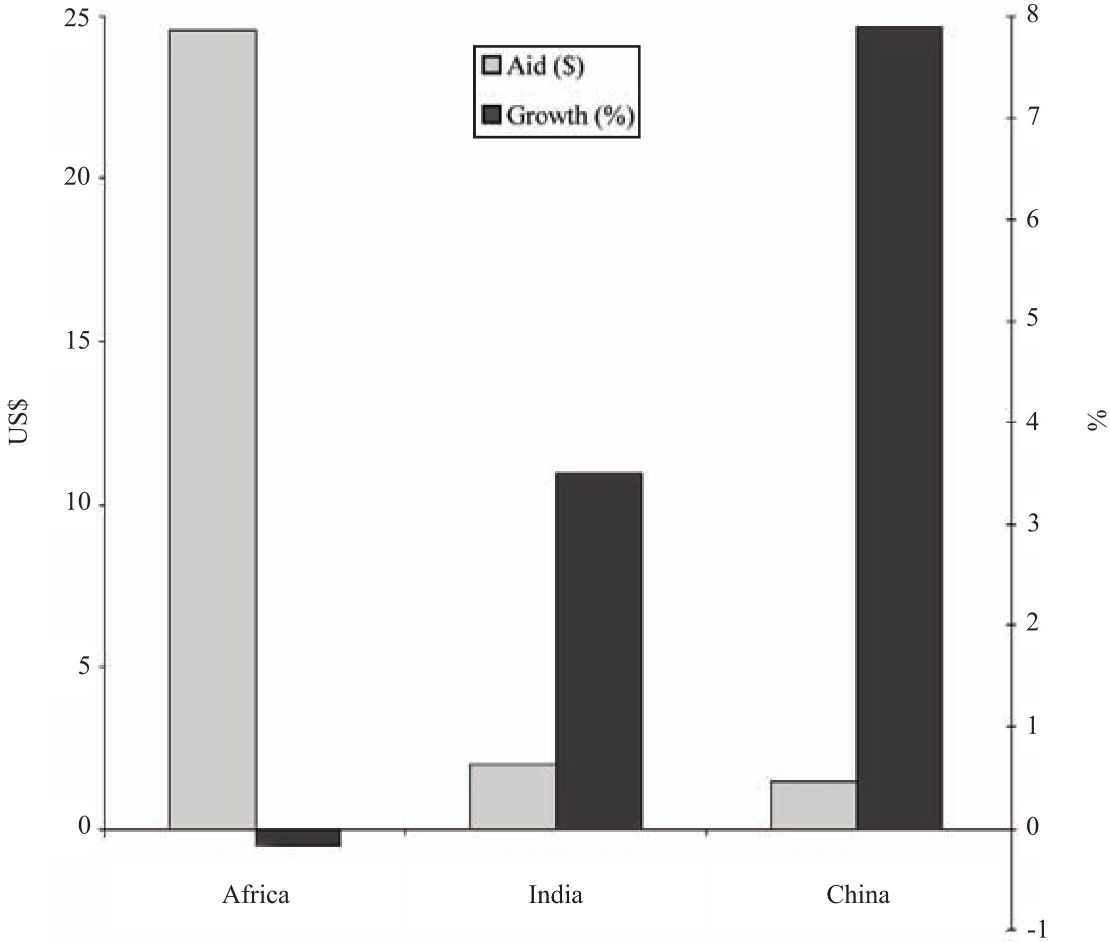
The failure of foreign aid to improve growth rates in Africa has not stood in the way of those who want to see more of it.[15] In 2005, for example, Columbia University professor Jeffrey Sachs unveiled his plan to end extreme poverty around the world by 2025. Rich countries, Sachs argued, should commit themselves to increasing annual aid to the world's poorest nations from $74 billion in 2006 to $135 billion in 2015.[16] Also in 2005, the Commission for Africa called for doubling aid to Africa to $50 billion by 2010 and tripling it to $75 billion by 2015.[17] In the end, the G8 committed itself to doubling aid to Africa to $50 billion per year.

Is There Need for Aid?

In the 1950s and 1960s, many development economists believed in the "vicious cycle of poverty" theory, which argued that poverty in the developing world prevented the accumulation of domestic savings (i.e., people in poor countries consumed all of their income and had nothing left to save and invest). Low savings resulted in low domestic investment, and low investment was seen as the main impediment to rapid economic growth. Foreign aid, therefore, was intended to fill the apparent gap between insufficient savings and the requisite investment in the economy. Today's calls for more foreign aid are based largely on the same theory.[18]

Yet experience contradicts the "vicious cycle of poverty" theory. Today, many former-

Figure 5
Average Annual per Capita Aid and Growth Rate in China, India, and Africa, 1975–2005



Source: World Bank, "World Development Indicators Online," http://publications.worldbank.org/WDI.

ly poor countries enjoy high standards of living, while others have stagnated or, in some cases, regressed. For example, the 1960 per capita income in South Korea was $1,226. In Ghana it was $1,378. By 2003 South Korea had reached $15,732, while Ghana had fallen to $1,360.[19] As New York University professor William Easterly writes, "It doesn't help the poverty trap story that 11 out of the 28 poorest countries in 1985 had not been in the poorest fifth back in 1950. They had gotten into poverty by declining from above, rather than being stuck in it from below, while others escaped. If the identity of who is in the poverty trap keeps changing, it must not be much of a trap."[20]

Countries that improve their policies and institutions—by increasing their trade openness, limiting state intervention in the economy, building a business-friendly environment, and emphasizing protection of property rights and the rule of law—tend to grow faster than others.[21] Such countries also tend to attract foreign capital, which can help to increase economic growth.[22] Improvement in policies and institutions also creates a suitable environment for growth in domestic investment. As trust in institutions such as the rule of law and protection of private property grows, people feel more confident investing in the local economy.[23]

Today, the size and the scope of global capital markets make Africa's access to capital

The failure of foreign aid to improve growth rates in Africa has not stood in the way of those who want to see more of it.

Aid has not led to economic reforms in Africa.

potentially easier than at any time in the past. Indeed, private capital flows to developing countries now dwarfs aid flows. According to Adam Lerrick of the American Enterprise Institute, "The development banks now supply a mere 2 percent of the average net [capital worth] $200 billion that the capital markets provide."[24]

The Impact of Aid on Economic Reforms in Africa

Sub-Saharan Africa is the least economically free region in the world.[25] There is a general consensus among economists that Africa needs to catch up with the rest of the world in terms of economic liberalization. Aid is often intended to promote policy reform, yet it has helped to create disincentives to liberalization for a number of reasons.

For example, aid is often driven by foreign policy considerations, not economics. For much of the Cold War, African countries were given bilateral and multilateral assistance on the basis of their geopolitical importance to the West and the Soviet Union. As recent American aid to Ethiopia and Chinese aid to Sudan show, geopolitical interests continue to influence aid decisions today.

Aid has not led to economic reforms in Africa.[26] In the 1980s, the World Bank started to promote structural adjustment loans that were meant to disburse aid to countries in exchange for their commitment to economic reforms.[27] Such conditional lending soon proved ineffective, in part because aid agencies have no enforcement mechanism, and also because they have a well-known bureaucratic incentive to lend, which undermines the credibility of their conditionality.[28]

In fact, aid may also actively retard policy reform. Between 1970 and 1993, for example, the World Bank and the IMF gave Zambia 18 adjustment loans with little or no reforms taking place, forcing World Bank researchers to conclude that "this large amount of assistance sustained a poor policy regime."[29] More generally, two World Bank researchers concluded that "higher aid slowed reform [in the developing world] over the 1980–2000 period."[30]

Even in those countries that follow sensible macroeconomic policies, aid appears to have no positive effect and may go so far as to discourage reform. Some World Bank research claimed that developing countries that follow good fiscal, monetary, and trade policies benefit from foreign aid. But that research has been difficult to independently corroborate. Scholars who used updated World Bank data found no positive correlation between foreign aid and economic growth in countries with "good policies."[31] Research suggests that when governments do decide to undertake economic reforms, they tend to do so because of domestic factors, including economic crises.[32]

Problems with Aid Delivery

Most major economies have an independent aid agency. Sometimes, countries give aid on different levels. The European Union, for example, gives aid through the European Commissioner for Development and Humanitarian Aid. So do many EU member states, including Austria, Denmark, Finland, France, Germany, Great Britain, Ireland, Holland and Sweden. Moreover, the Europeans have a strong voice on the governing boards of the World Bank and IMF. In addition to those official agencies, there has been a massive increase in the number of aid-promoting non-governmental organizations (NGOs).[33] But effective and efficient delivery of aid has, so far, proved to be an insurmountable challenge.

The "aid industry" provides employment for many thousands of people.[34] Consequently, a large percentage of the money spent on foreign aid goes to cover overhead costs, including administration, travel, accommodation, etc.[35] Michael Maren, a former aid worker, writes that the money spent on aid bureaucracies creates perverse incentives. "We have to take advantage of this famine to expand our regular program," argued one aid official that Maren encountered in Africa. She saw hunger and poverty as "a growth opportunity." "Whatever the original intentions," Maren notes, "aid programs had become an end in themselves."[36]

Moreover, dealing with a multitude of donors and aid agencies, all of whom require some degree of attention, puts an enormous strain on African bureaucracies. The time and effort spent on dealing with the needs of the foreign donors rather than dealing with the needs of the populace has further distanced African governments from their electorates.[37]

The multitude of donors sometimes also results in "duplication" of their efforts. USAID, for example, has "produced a report on corruption in Uganda in 2001, unaware that British analysts had produced a report on the same topic six months earlier." Similarly, in the early 1990s, "Tanzania was implementing 15 separate stand-alone health sector projects funded by 15 different donors."[38]

Moreover, many foreign donors have their own agendas that may be detrimental to the welfare of the African people. Like the 19th-century European missionaries who went to Africa to spread their vision of a "good life," modern day aid missionaries have found in Africa a fertile ground for social experiments that would never be accepted in their home countries. Tanzania, for example, is still recovering from an attempt to centrally plan the economy, the so-called "Ujaama" policy of collectivization that was bankrolled to the tune of $10 billion by the socialist governments in Scandinavian countries in the 1970s and 1980s.[39]

Research suggests that aid also increases government spending in the recipient countries.[40] In many cases, much of the additional spending ends up in the pockets of government bureaucrats instead of reaching the intended beneficiaries. Between 1991 and 1995, for example, schools in Uganda received only 13 percent of the school grants that Uganda was given by the donor community.[41]

Aid encourages rent-seeking in recipient countries. Special interest groups and individuals focus their efforts not on being productive, but on lobbying government officials in order to get access to aid. In that way, aid reduces potential economic output and encourages corruption and political conflict.[42]

Moreover, by transferring resources to favored projects of government officials, competition among domestic producers is undermined. As a result of government favoritism, parts of the domestic consumer base may become captive to firms that provide shoddy and expensive goods and services. Similarly, aid can undermine the international competitiveness of African exports by artificially strengthening the local currency.[43]

Finally, the aid community lacks accountability and feedback. Very few aid agencies and virtually no individuals are directly responsible for specific outcomes. Independent evaluations of the effectiveness of donor efforts to alleviate poverty or to arrest the spread of disease, for example, are very rare. Moreover, the donors often determine what they will supply without much regard for what is actually needed. This top-down approach has most spectacularly failed to alleviate poverty in Africa where government accountability is weak and institutional deficiencies extensive.[44]

Aid Undermines Democracy

Many people, including former UN secretary general Kofi Annan, have argued that aid is needed in order to promote democracy.[45] Stephen Knack of the World Bank, however, found no evidence that aid promoted democracy between 1975 and 2000.[46] (In fact, the aid agencies have repeatedly bankrolled some of the world's most unsavory regimes.[47]) Other research goes further, suggesting that aid may hurt democratic development in developing countries.[48] That may be the case for several reasons.

Aid helps to undermine democratic accountability in Africa, because African governments find themselves increasingly answerable to the donors, not to the public. Government spending proposals, for example, allocate funds in accordance with the advice of foreign experts rather than the wishes of the electorate.[49]

Aid encourages military spending. Since aid is fungible, it helps some recipient governments free up resources for military purchases that would otherwise be spent on roads and education, for example. Consider the World Bank's recent contribution of $180 million toward the building of the Chad-Cameroon oil pipeline. Fearing that the oil revenue would be misspent,

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the World Bank got the Chadian government to commit to spending it on education, health, and infrastructure. What was the result? "The first $4.5 million received as a signing bonus from the oil companies was used to buy weapons—and it is estimated that as much as $12 million may be diverted to buy arms."[50]

In fact, Paul Collier found that "something around 40 percent of Africa's military spending is inadvertently financed by aid."[51] Aid may also fuel armed competition for resources. There is some evidence, for example, that Somalia's civil war was prolonged by the competition between different factions for large amounts of food aid that the country was receiving.[52]

A growing number of Africans question the effects of foreign aid on economic growth and democracy in Africa. President Paul Kagame of Rwanda, for example, has recently urged Africans "to be honest about the consequences of aid dependence," for "what really matters most for socio-economic transformation is private capital."[53] He has called on African governments to create policy environments in which entrepreneurs can flourish. Others, like Ugandan journalist Andrew Mwenda, point to the negative political impact of aid. According to Mwenda, "foreign aid . . . is providing the government with an independent source of 'unearned' revenue. That allows the government to avoid accountability to Uganda's citizens."[54] Unfortunately, when Mwenda spoke out against further aid at the 2007 Technology, Entertainment, Design conference (TED), the enraged Irish musician Bono heckled Mwenda with shouts of "Bollocks!" and "That's bullshit."[55] In view of growing evidence that aid has failed to deliver growth and democracy to Africa, Western donors should reevaluate their commitment to further disbursements of aid to the continent.

Debt Relief: A Recurrent Problem

Most African debt to the rest of the world is in the form of public debt that African governments owe to other governments, multilateral organizations such as the World Bank and IMF, or debt that is otherwise guaranteed by African governments. In 2007, Africa's long-term debt stood at $146 billion, of which $126 billion or 86 percent was public or publicly guaranteed debt (see Figure 6).

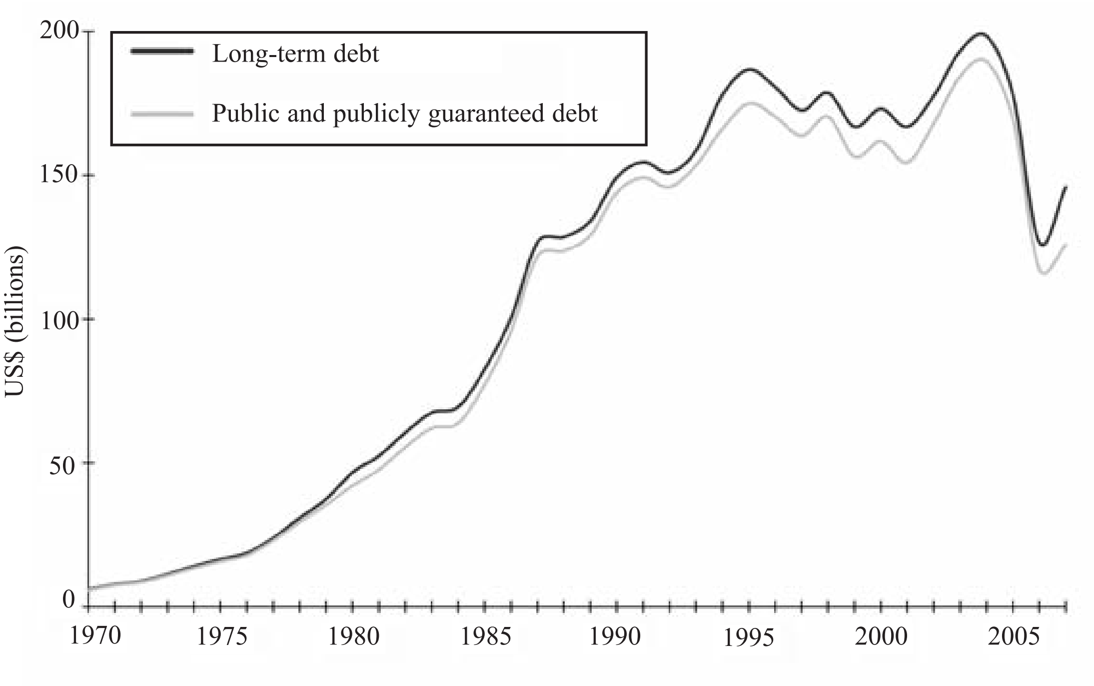
The high level of debt, widely considered to be unsustainable, shows that aid failed in its primary task. Instead of generating economic growth, aid was poorly used and often wasted on white elephant projects or stolen by Africa's corrupt political elites.[56]

Still, African politicians are not the only ones deserving blame. As the prime minister of Malaysia, Mahathir bin Mohamad, said after the Asian financial crisis in 1997, "for every bad borrower there is a bad lender."[57] Through their actions, the World Bank, the IMF, and other official donors have helped corrupt and inept regimes that engaged in gross economic mismanagement.

Were it not for official lenders, borrower governments would seek loans under market conditions. Lenders would lend to governments at rates reflecting the risk involved. The more incompetent governments would be forced to borrow at higher interest rates. Lending by the World Bank and IMF often achieves the opposite. Those institutions provide concessional loans to the poorest countries and charge those clients uniform interest rates regardless of differences in the policy environments or other factors bearing on the ability of the borrowing governments to repay.

In response to the mess that they helped to create, the World Bank and IMF began to provide debt relief to low-income developing countries, the vast majority of them in Africa, in 1996. The Debt Relief Initiative for Heavily Indebted Poor Countries was followed by the enhanced HIPC initiative in 1999 and then by the creation of the Multilateral Debt Relief Initiative in 2005. By October 2008, "debt reduction packages have been approved for 33 countries, 27 of them in Africa, providing US$51 billion (in end-2007 net present value terms) in debt-service relief over time.[58]

Figure 6
African Public Debt Relative to Long-Term Debt, 1970 to 2007



Source: World Bank, "World Development Indicators Online," http://publications.worldbank.org/WDI.

Rationalizations behind the Debt Relief

The debt relief was preceded by a global campaign spearheaded by Jubilee 2000, a British NGO, which called for cancellation of poor countries' debts because "they are unjust in terms of their origin, as well as because they worsen poverty."[59] Other organizations have echoed that call. Oxfam, for example, stated that "For the world's poorest countries to divert vitally needed resources to rich creditors rather than to spending on the health or education of their citizens is both immoral and economically irrational."[60]

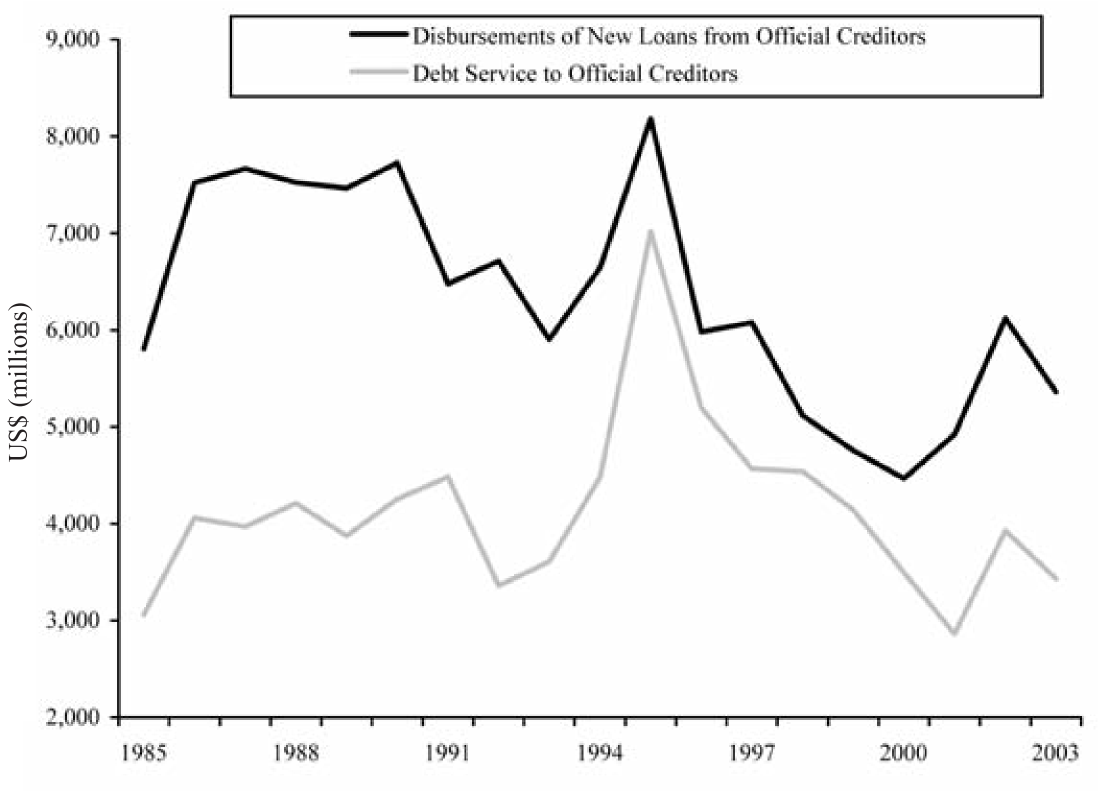
Indeed, African history after independence is peppered with examples of despotic rulers who acquired massive debts but did not benefit their respective populations in any meaningful way.[61] But contrary to Oxfam, there is no automatic link between debt relief and increased spending on public services and poverty reduction.[62] In fact, the well-intentioned advocates of debt relief have been sometimes taken for a ride by cynical politicians who call for debt relief even as they contribute to wasteful spending and debt accumulation.

Consider the former Tanzanian president Benjamin Mkapa—a member of Tony Blair's Commission for Africa, who, in addition to the tripling of aid to Africa, also called for a "100 percent cancellation of all debt service for all HIPCs and other severely indebted low-income countries." Mkapa was appointed to the Commission in spite of his 2002 purchase of a $30 million personal jet—his second. A few months earlier, his government infuriated the World Bank by spending $56 million, fully one-third of Tanzania's education budget, on a military air traffic control system that was to keep track of that country's "19 combat aircraft in various states of repair and four unarmed helicopters."[63]

Nor is it likely that the debt relief will alleviate African poverty. Adam Lerrick of Carnegie Mellon University notes, "Contrary to the plaintive appeals of the NGOs, real debt for-

The high level of debt shows that aid failed in its primary task of generating economic growth.

Figure 7
Defensive Lending by the World Bank and IMF to HIPC Countries, 1985–2003



Source: Adam Lerrick, "The Debt of the Poorest Nations: A Gold Mine for Development Aid," *International Economics Report*, Carnegie Mellon University Gailliot Center for Public Policy, June 2005, p. 8.

giveness was granted without fanfare and multilateral resources were irreversibly lost long ago. For decades, not a single African farmer has labored to pay off a burdensome debt. And for decades, the multilateral agencies have played a shell game with what they privately acknowledged were worthless developing nation loans by recirculating funding on fantasy balance sheets."[64]

Put differently, the World Bank and IMF recognized a long time ago that much of Africa's debt was uncollectable. And so they engaged in so-called "defensive lending," disbursing "new" loans to match "repayment" of old loans—thus perpetually rolling over debt that African and other HIPC countries, in practice, had already defaulted on (see Figure 7).

In addition to failing to meet its stated objectives, debt relief may have negative unintended consequences. Debt relief creates "moral hazard," in the sense that it penalizes countries that have practiced fiscal prudence and rewards countries that have engaged in fiscal imprudence. It may thus encourage bad behavior or fiscal imprudence in the future. As Lerrick put it, "if you forgive the debt of countries that have accumulated unsustainable debt burdens, you are favoring them compared to countries that have followed prudent policies and have not accumulated unsustainable debt burdens."[65]

Debt relief penalizes countries that have practiced fiscal prudence and rewards countries that have engaged in fiscal imprudence.

HIPC and MDRI: Self-Serving Initiatives

Why did the World Bank and IMF resort to accounting tricks to deal with bad African debt? Part of the reason is the reputation that the two institutions enjoy, which, they boast, was never marred by a loss, a restructuring, or a write-off.[66] Moreover, explicit admission of failure with respect to lending to the world's poorest countries, most of them in Africa, would raise serious questions about the roles that the World Bank and IMF have played in the developing world over the last few decades.

Through the various debt relief initiatives, the World Bank and IMF succeeded in persuading developed countries to assume much of the bad debts of African states. Thus, over the next 40 years or so, American and European taxpayers will pay down Africa's bad debts by refilling the coffers of the World Bank and IMF, leaving both the reputation and the account books of the two international financial institutions in seemingly pristine shape.[67]

As a result of the developed world's commitment to take on Africa's debt burden and to replenish the World Bank's and IMF's coffers, the two institutions will now have more money to spend on aid disbursements. In the absence of meaningful political and economic reforms in Africa, the new aid is likely to lead to more debt in the future. That has happened before. Between 1989 and 1997, the HIPC countries received some $33 billion in debt relief.[68] Yet many HIPC countries kept on borrowing—with some of them ending up in deeper debt *after* the debt relief than before.

Ethiopia: A Case Study

Ethiopia has been a major recipient of foreign aid over the last six decades. Between 1950 and 2007, the country received 111 grants from the World Bank totaling $5.4 billion. In 2008, there were 28 active World Bank projects in Ethiopia worth $2.7 billion.[69] In addition to the aid disbursed by the World Bank, Ethiopia has received much aid from bilateral donors. U.S. government assistance, for example, amounted to $2.3 billion between 1991 and 2003.[70] Other aid poured in from European countries as well as the former Soviet bloc.

By 1998, Ethiopia's total external debt stood at $9.6 billion, or 124 percent of the nation's GDP. One hundred percent of Ethiopia's long-term debt was (and remains) public debt owed to foreign governments and international financial institutions.[71] That May, a territorial war broke out between Ethiopia and Eritrea. The conflict lasted for two years and cost the lives of some 70,000 people; up to 50,000 of the dead combatants were Ethiopians.[72]

The objective of the war was to capture Badme, a small town with a population of about 1,500 people on the border between the two countries.[73] According to the International Institute for Strategic Studies, the Ethiopian government spent $467 million on its military in 1999 and Meles Zenawi, the Ethiopian prime minister, admitted that the war cost Ethiopia $1 million a day.[74] The annual per capita income in Ethiopia stood at $119 in 1999.[75]

Remarkably, six months after the outbreak of the Badme conflict, the IMF and the World Bank, sighting much progress in Ethiopia, agreed that the country should be eligible for debt reduction under the HIPC initiative.[76] A year later, Russia wrote off $4 billion of Ethiopian debt.[77] But by 2001, Ethiopian debt was on an upward trajectory again. Then, in 2004, Ethiopia finally started receiving $1.3 billion in HIPC debt relief.[78]

The year 2005 marked the tenth anniversary of Meles Zenawi's election as Ethiopia's prime minister. Zenawi's rule started in a promising way. When he met with the regional leaders in Kampala, Uganda, during his African trip in 1998, U.S. president Bill Clinton called the Ethiopian prime minister one of Africa's "new generation" of leaders.[79] Clinton's implication was that the "new generation" of African leaders would stay clear of the corruption and despotism that marked many regimes in post-independence Africa. As an acknowledgement of his status as one of Africa's great and good, Zenawi was asked to be a member of Tony Blair's Commission on Africa in 2004.

In May 2005, some two months after Blair's commission published its findings, Zenawi presided over rigged parliamentary and regional elections. On the eve of the elections, with early returns predicting a clear victory for the opposition Coalition for Unity and Democracy and United Ethiopian Democratic Forces, Zenawi went on national television and declared a state of emergency. With final results unannounced for three weeks after the polls and amidst reports of massive fraud, the Ethiopian opposition took to the streets. In the days that fol-

Aid and debt relief have been largely divorced from economic and political reforms in Ethiopia over the last decade.

Table 1
Ethiopia's Long-Term Debt and Foreign Aid, 1997–2006 (current US$ in billions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Long Term Debt	9.4	9.6	5.4	5.3	5.6	6.3	7	6.3	5.9	2.2
Foreign Aid	0.6	0.7	0.6	0.7	1.1	1.3	1.6	1.8	1.9	2

Source: World Bank, "World Development Indicators Online," http://publications.worldbank.org/WDI.
Note: Foreign aid consists of Official Development Assistance and Official Aid. For definitions of Official Development Assistance and Official Aid see http://www.oecd.org/glossary/0,3414,fr_2649_33721_1965693_1_1_1_1,00.html #1965580.

When it comes to trade protectionism, Africa is far from blameless and is one of the world's most protectionist regions.

lowed, 193 protesters were shot dead and 763 were wounded in Addis Ababa alone. Some 50,000 people were imprisoned, including many of the leaders of the opposition.[80]

As Michela Wrong, former Africa correspondent for the BBC and *Financial Times*, wrote at the time, "In the Ethiopian capital, a regime that has been hailed by Tony Blair as an example of progressive African government has shot women and children in the streets, detained thousands, and rounded up the opposition leaders who accuse it, with ample justification, of rigging elections in May. Embarrassingly, the forces involved in these abuses were trained by British police officers, at British taxpayers' expense."[81]

Following the 2005 crackdown, the World Bank suspended new loans to the Zenawi government—for awhile. A mere 12 months later, the World Bank was lending again. To silence those critical voices who argued against aid disbursements to African dictators, the World Bank claimed that instead of directly supporting the federal budget, it would merely finance "the delivery of basic services to the population through grants to local governments."[82] In practical terms, of course, there is little substantive difference between funding of the nine local governments and subsidizing the federal budget that financed the local governments in the first place. Indeed, the aid money frees up resources for the federal budget.

The World Bank's lending amounted to 9 percent of the federal budget in 2008, though in 2005 it amounted to as much as 15 percent.[83] In addition to benefiting from aid disbursed by the World Bank and a consortium of European countries, Zenawi has also gained from the financial and political backing that the Ethiopian government received from the Bush administration as America's valued friend in the war on terror.[84]

Berhanu Nega, the deputy chairman of the Coalition for Unity and Democracy who was elected mayor of Addis Ababa in the 2005 elections, but who was subsequently jailed for almost two years, believes that without foreign aid, the Zenawi government would not be able to survive for long. What is more, without foreign aid, Zenawi would find himself without an important source of foreign exchange that has enabled the Ethiopian government to arm its police and military. In the meantime, Nega contends, foreign aid has helped to facilitate political repression in Ethiopia and undermine democratic evolution in the country. Since Zenawi has closed off all avenues of dissent, an increasing number of Ethiopians have been taking up arms against the government. Currently, there are civil conflicts of varying intensity in eight out of nine Ethiopian provinces.[85]

Political repression aside, Ethiopia has not made much economic progress either. In 2007, for example, the World Bank acknowledged that "the past 15 years witnessed stability, significant expansion in schooling, health services, roads and other services—from an extraordinarily low base." "Nevertheless," the Bank was forced to admit, "there has been little overall growth in productivity. Lack of productivity growth was a particular disappointment in the agricultural sector, which still accounts for 85 percent of employment, and forms the centre of the Government's development strategy. Primarily because of this, income poverty has failed to show significant declines over time."[86]

As ever, the World Bank's and IMF's answer to the political and economic situation in Ethiopia was more aid and more debt relief. Thus, when Ethiopia became eligible for debt relief under the terms of the G8's Multilateral Debt Relief Initiative in 2006, her debt was slashed by an additional $2.3 billion.[87]

Predictably, Ethiopia's representative at the United Nations said that the most recent round of debt reductions "was not enough to make significant inroads towards attaining the Millennium Development Goals." (Ostensibly, the MDRI debt relief is supposed to help facilitate the fulfillment of the Millennium Development Goals in the world's poorest countries.) "Ethiopia," he claimed, will make "more progress towards achieving the Goals if more resources had been made available through the international development cooperation framework." Put differently, debt reduction to Ethiopia should be accompanied by more aid.[88] All indications are that the donor community will, once again, oblige the aid requests from Addis Ababa despite the fact that foreign aid to Ethiopia has already risen from $643 million in 1999 to $2 billion in 2006—a nominal increase of 211 percent.

Aid and debt relief have been largely divorced from economic and political reforms in Ethiopia over the last decade. If anything, they seemed to have followed serious transgressions on the part of the Ethiopian ruling elite. Today, Ethiopian debt is down to the levels last seen in the early 1980s, while aid is reaching historical highs.

Trade Liberalization: A Key to Development

The G8 has agreed to a three-pronged approach that is supposed to help Africa escape poverty. Increased aid and debt relief will be of limited benefit and may prove to have deleterious consequences for economic growth. But trade liberalization could prove to be a stimulus for African economies. That is why a successful conclusion of the Doha round of negotiations on trade liberalization was an integral part of the G8's plan for Africa. That is also why the destructive role that the African delegates played in Doha's collapse was so self-defeating.

The Benefits of Trade Liberalization

The theoretical benefits of trade are well known. Trade improves global efficiency in resource allocation or, to put it differently, it provides a superior way of delivering goods and services to those who value them most. An expanded market allows traders to gain from specializing in the production of those goods and services that they do best (i.e., the law of comparative advantage). Trade allows consumers to benefit from more-efficient methods of production. Without large markets for goods and services, it would not be economical to separate production into specific operations and plan large production runs. Large production runs, in turn, are instrumental to reducing the cost of a product. The reduction of the cost of production leads to cheaper goods and services, which increases the real standard of living.

But what does research say about actual benefits to Africa from trade liberalization? In a much-cited 2005 paper, World Bank researchers estimated African benefits from trade liberalization. According to the World Bank, "The results suggest moving to free global merchandise trade would boost real incomes in Sub-Saharan Africa proportionately more than in other developing countries or in high-income countries, despite a terms of trade loss in parts of the region. Farm employment and output, the real value of agricultural and food exports, the real returns to farm land and unskilled labor, and real net farm incomes would all rise in the region, thereby alleviating poverty."[89]

In real terms, annual welfare in Africa would be $4.8 billion greater in 2015 than would be the case had no liberalization taken place.[90] There would be growth in agricultural incomes and in employment.[91] Moreover,

Doha's failure is a tragedy for Africa. Trade liberalization is most advantageous to the most protectionist countries.

Regional trade in Africa is significantly smaller as a percentage of African exports than is the case in Western Europe and North America.

Africa stands to gain much from internal trade liberalization. Denis Medvedev of the World Bank has estimated that by 2015, annual welfare gains from intra-African trade liberalization would amount to 36 percent of all the welfare gains that Africa stands to receive from global trade liberalization.[92]

Developed Countries Need to End Their Protectionist Policies

The case against developed world protectionism against products from developing countries, including Africa, is well known. Seventy-three percent of poor people in developing countries live in rural areas and 60 percent of the labor force in low-income countries derives its income from agriculture. Agriculture and agro-related services generate 25 percent of low-income countries' GDP.[93]

Yet, the developed world's protection against the developing world's agricultural exports is four to seven times higher than that on the developing world's manufacturing exports.[94] Many agricultural goods from Africa and other developing countries face tariff escalation.[95] Tariffs of up to 500 percent are sometimes applied by the United States, European Union, Japan, and Canada on products that include beef, dairy products, vegetables, fresh fruit, cereals, sugar, prepared fruit and vegetables, wine, spirits, and tobacco.[96]

Rich countries' support for agriculture undercuts competition from cheaper products originating in the developing world.[97] In 2007, agricultural support in the countries of the Organization for Economic Cooperation and Development came to about $365 billion.[98] Agricultural subsidies in rich countries also cause overproduction of certain farm products. That agricultural surplus is often dumped on the world markets, which depresses prices and undermines farmers in poor countries.[99] Agricultural dumping is an especially serious problem for many developing countries, where agricultural production enjoys a comparative advantage over the developed world. The European Union's Common Agricultural Policy alone is estimated to cause $20 billion worth of annual losses in poor countries.[100]

In short, because agriculture is such an important part of developing countries' economies, and because it receives extensive protection in developed countries, such protectionism undermines markets and makes the developed world's proclamations in favor of free trade sound hollow and hypocritical.

Africa Is One of the World's Most Protectionist Regions

Unfortunately, when it comes to trade protectionism, Africa is far from blameless. In fact, Africa is one of the world's most protectionist regions. Average applied tariff rates in Africa, for example, remain comparatively high.[101] Whereas average applied tariffs in high-income Organisation for Economic Co-operation and Development countries fell from 9.5 percent to 2.9 percent between 1988 and 2007 (a 70 percent reduction), average applied tariffs in Africa only fell from 26.6 percent to 13.1 percent between 1987 and 2007 (a 50 percent reduction).[102]

In addition to tariffs, there is a plethora of nontariff barriers to trade that African countries employ.[103] According to the Commission for Africa, "the costs and difficulty of moving goods across, between, in and out of some African countries can be far higher than in richer countries, undermining Africa's competitiveness. . . . In the 1990s, it cost about the same to clear a 20-foot container through ports of Abidjan or Dakar as it did to ship the same container all the way to a north-European port. Sub-Saharan Africa suffers from the highest average customs delays in the world: for example, Estonia and Lithuania require only one day for customs clearance—versus 30 days on average for Ethiopia."[104]

African countries also impose significantly higher tariffs on one another than rich countries impose on Africa. The World Bank data show that African countries levy an average applied tariff of 34 percent on agricultural exports from other African countries. Industrial countries, by contrast, levy an average applied tariff of 24 percent on African agricultural exports. Similarly, African countries maintain an average applied tariff of 21 percent on non-agricultural exports from other African countries. Industrial countries maintain an average applied tariff of 4 percent on African non-agricultural exports.[105]

Not surprisingly, African intraregional trade covered only 10 percent of African exports.[106] In contrast, 68 percent of exports from countries in Western Europe were exported to other Western European countries. Similarly, 40 percent of North American exports were to other countries in North America.[107]

The Failure of Doha

At the conclusion of the Gleneagles summit, Tony Blair described the successful conclusion of the Doha Round of negotiations on trade as "a necessary element of our [G8] work to reduce global poverty."[108] The negotiations launched in Qatar in 2001 were dubbed the "Doha Development Agenda," so as to highlight that the greatest beneficiaries of future trade liberalization would be developing countries, including African countries. Unfortunately, Doha became the first round of negotiations on trade liberalization in the post–World War II era that ended in failure.

Many countries deserve blame for the failure of the Doha round. The Europeans failed to agree to deeper cuts in agricultural tariffs. Americans failed to agree to real cuts in farm subsidies. The Indians and the Brazilians failed to move sufficiently on liberalization of their manufacturing sectors. But one of the most destructive and certainly the most self-defeating roles in bringing about the collapse of negotiations was played by the African delegates.

The Doha round of negotiations on trade liberalization ran into trouble during the 2003 ministerial meeting in Cancun. Egged on by Oxfam, African and other developing countries demanded that they be exempted from further commitments to trade liberalization.[109] As far as the African countries were concerned, trade liberalization was a one-way street: the developed world would open its markets to African goods, while Africa would continue to shut goods made in the developed world out of African markets.

Economic theory and empirical evidence shows that there is much wisdom in unilateral liberalization, and developing countries gain enormously from opening their markets to foreign imports irrespective of what other countries do. But unilateral liberalization was not on the table in Cancun. Global negotiations on trade liberalization happen along long-established mercantilist lines, where countries trade "concessions" on "market access" with one another.

At the heart of this mercantilist view of trade is a deep misunderstanding of the role that foreign competition plays in stimulating domestic production. Mercantilists see imports as a threat, which is why, at Cancun, African trade ministers emphasized exports and access to developed world markets, as opposed to opening their own countries to foreign goods. In reality, imports increase competition and specialization, and increased specialization leads to increased productivity. In a competitive market, reduction of the cost of production then leads to cheaper goods and services, which in turn increases the real standard of living. That is a major reason why people living in more open economies tend to be richer.

The Cancun meeting collapsed around a minor issue of trade facilitation. The refusal of developing countries, including African states, to negotiate about the streamlining of the paperwork needed to clear imports at the border convinced the Mexican chairman of the conference that there was no point in discussing the much more contentious issue of tariff reductions. With the battle lines drawn at Cancun, all sides were determined to hold out for the best possible deal—which was supposed to be struck at the next ministerial meeting in Hong Kong in December of 2005. But that deal was never struck, as the meeting in Hong Kong made little headway.

Doha's failure is a tragedy for Africa. Trade liberalization is, after all, most advantageous to the most protectionist countries and Africa remains one of the most protectionist regions in the world. True, Africans were never going to get everything that they wanted. It is also true that the Doha round exposed the basic hy-

As more countries and regions grow prosperous, absolute poverty is increasingly an African, rather than a global, problem.

pocrisy of the developed countries that preach free trade, but continue to insist on protecting the "sensitive" sectors of their economies, like agriculture.

Reaching an agreement would have been a step in the right direction. Not only would it allow Africans greater access to developed world markets than they currently enjoy, but it would also allow Africans to "lock in" those new market access "gains" without the fear of backsliding by some WTO member states. Similarly, it would lock in Africa's own commitments, making a return to protectionism more difficult. Importantly, it would allow the African states to use the WTO adjudication mechanisms to hold other member states, including other African countries, true to their trade liberalization commitments. The WTO's dispute resolution process has already proven to be a very effective mechanism for small developing countries to force change in the trade policies of large developed nations. The above considerations are especially important now that the world economy has entered a slowdown and fears of protectionism abound.[110]

Trade Liberalization Is Not Enough

Trade liberalization is necessary, but not sufficient, for economic development. As Arvind Panagariya of Columbia University observes, "There are complementary conditions [to trade openness] such as macroeconomic stability, credibility of policy and enforcement of contracts without which the benefits of openness may fail to materialize."[111] Similarly, membership in the WTO does not automatically lead to prosperity. According to Alan Oxley, the former head of the General Agreement on Tariffs and Trade, the WTO "is a self-help organization. It lays down rules; it is up to members to work within them if they want increases in trade and growth."[112]

The heavy emphasis on aid and debt relief made Western actions appear to be chiefly responsible for poverty alleviation in Africa.

How can Africa maximize the benefits from future trade liberalization? The Commission for Africa put it best when it argued that a "major problem [that] Africa faces is its weak capacity to trade—driven by its low productivity and poor competitiveness."[113] Put differently, in addition to greater market access, Africa needs to expand the portfolio of goods and services that the rest of the world may wish to buy. In order to achieve that, African countries will have to undertake major policy changes. Among other reforms,

- Africa has to improve the stability and integrity of its legal systems. Without a functioning court system, investors cannot be sure their contracts will be enforced. For example, Africa has few lawyers, many of whom are subject to bribes and intimidation by the political elite.[114]
- Africa has to tackle the problem of poor governance, inefficient bureaucracies, and corruption. African governments tend to be unaccountable to the people over whom they rule. Instead, they often function in order to further the objectives of the political elites.[115] The constitutional structures, legal systems, and civil societies are not strong enough to insist on the transparency of the budgetary process, which leads to corruption and embezzlement by government officials.[116]
- Africa has to reduce the regulatory burden that stifles private sector growth. The World Bank's *Doing Business* reports show that improvement in the regulatory environment, including cutting of red tape, can result in significantly greater private sector investment and lead to higher economic growth.[117]
- Africa suffers from a lack of good infrastructure, with dilapidated roads, railways, ports, and airports increasing transport costs and reducing economic activity.[118] Fixing Africa's infrastructure is a massive task that will take much money and many years to complete, but privatization of inefficient government monopolies, including ports and railways, can be done relatively easily.
- Africa has to address the lack of regional economic integration. Regional trade in Africa is significantly smaller as a percentage of African exports than is the case in,

for example, Western Europe and North America.[119] Unfortunately, many regional free-trade initiatives remain little more than ambitious commitments.[120]

Despite the collapse of the Doha round, free trade (combined with domestic policy reforms) remains the most effective way for Africa to escape poverty. African countries should not wait for other countries to move ahead with liberalization. It is, therefore, encouraging to see some African politicians call for more trade liberalization. South African finance minister Trevor Manuel, for example, has "called for a return to the aggressive approach to trade liberalization of the 1990s, urging that South Africa buck the slow pace of multilateral trade negotiations and introduce unilateral trade reforms to boost growth."[121]

Conclusion

Before the United Nations' Earth Summit that took place in Johannesburg in August 2002, the former South African president Thabo Mbeki called on the rich countries to end what he called a system of "global apartheid." As Mbeki said, "A global human society based on poverty for many and prosperity for a few, characterized by islands of wealth, surrounded by a sea of poverty, is unsustainable."[122]

Mbeki was wide off the mark. As more countries and regions grow prosperous, absolute poverty is increasingly an African, rather than a global, problem. The extent of the problem has, understandably, caught the attention of many well-meaning people around the world. Partly in response to public pressure, the G8 countries have committed vast resources in an attempt to alleviate African suffering.

Unfortunately, two out of three initiatives that the G8 agreed to at Gleneagles—more foreign aid and debt relief—are approaches that have not succeeded in spurring African growth or alleviating the continent's poverty. They are unlikely to succeed in the future. The third initiative—greater trade liberalization—has failed along with the Doha round of negotiations on trade. Along with ending agricultural protectionism and subsidies, politicians, movie stars, and other celebrities should promote the cause of trade liberalization, which has a proven record of stimulating growth.

Lastly, well-meaning people in the West must recognize that most African problems cannot be solved in Western capitals. African poverty is primarily caused by flawed domestic policies and institutions. As such, poverty can only be overcome by changes made by Africans themselves. It is African governments that must ultimately embrace the kinds of reforms that made other regions in the world prosper.

The main obstacles to economic growth in Africa rest with Africa's policies and institutions.

Notes

I would like to thank Tanja Stumberger for her invaluable help in producing this paper.

1. Other UN Human Development Index values were 0.923 for the Organization for Economic Cooperation and Development countries, 0.795 for Latin America and the Caribbean, 0.768 for China, 0.68 for the Arab states, and 0.611 for India.

2. Indur M. Goklany, *The Improving State of the World: Why We're Living Longer, Healthier, More Comfortable Lives on a Cleaner Planet* (Washington: Cato Institute, 2007), pp. 22, 28, 36.

3. The figures are in 1990 international Geary-Khamis dollars. Angus Maddison, "Historical Statistics for the World Economy: 1–2003 AD," http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_03-2007.xls. (The start date of 1960 was chosen, since it is generally considered to mark the start of the African "Independence" period.)

4. The gap also grew between Africa and Western offshoots, such as Australia, Canada, New Zealand, and the United States, from 10.4 in 1960 to 15 in 2003. It grew between Africa and the world average from 2.6 to 3.5, and between Africa and Latin America from 3 to 3.1.

5. Over the same time period, incomes rose by 89 percent in the United States, 81 percent in the eurozone, 38 percent in the Middle East and North Africa, and 36 percent in Latin America

and the Caribbean. (The figures are in constant 2000 international dollars.) World Bank, "World Development Indicators Online," October 2007, http://publications.worldbank.org/WDI.

6. Technological improvements in the agricultural and health care sectors have driven down the prices of food and basic medicine in recent decades. As such, many African indicators of well-being, such as child mortality and longevity, have improved despite falling incomes.

7. Equatorial Guinea should not qualify as an African success story because much of its oil wealth is in the hands of its ruler and the elite that surround him. Equatorial Guinea is the 127th most unequal country out of the 177 countries surveyed in the 2007/2008 United Nations' *Human Development Report 2007/2008* (New York: United Nations, 2007), http: //hdrstats.undp.org/indicators/147.html.

8. G8 Gleneagles 2005, "Chair's Summary, Gleneagles Summit," July 8, 2005, http://www.g8.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1119518698846.

9. Ibid.

10. Ibid.

11. Figures are in current dollars. World Bank, "World Development Indicators Online," http://publications.worldbank.org/WDI.

12. Ibid.

13. Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (Oxford, UK: Oxford University Press, 2007), p. 190.

14. Ravallion and Chen define poor as those who live below 1.25 dollars per person per day in 2005 dollars adjusted for purchasing power parity. See Martin Ravallion and Shaohua Chen, "The Developing World Is Poorer Than We Thought, But No Less Successful in the Fight Against Poverty," Policy Research Working Paper no. 4703, The World Bank Development Research Group, August 2008, pp. 33, 35.

15. As William Easterly writes, "Indeed, if any single objective has characterized the aid community since its inception, it is an obsession with increasing the total aid money mobilized. . . . In 1951, the UN Group of Experts calculated exactly how much aid poor countries needed to achieve an annual growth rate of 2 percent per capita, coming up with an amount that would equal $20 billion in today's dollars. Similarly, the economist Walt Rostow calculated in 1960 the aid increase (roughly double the aid levels at the time) that would lift Asia, Africa, and Latin America into self-sustaining growth . . . ('Self-sustaining' meant that aid would no longer be necessary 10 to 15 years after the increase.) Despite the looming expiration of the 15-year aid window, then World Bank president Robert McNamara called for a doubling of aid in 1973, which was repeated at the World Bank in its 1990 *World Development Report*. Not to be outdone, current World Bank president James Wolfensohn is now advocating a doubling of aid." William Easterly, "The Cartel of Good Intentions," *Foreign Policy* (July/August 2002): 44.

16. Jeffrey Sachs, *The End of Poverty: Economic Possibilities of Our Time* (New York: Penguin Press, 2005), p. 296.

17. Commission for Africa, *Our Common Interest: Report of the Commission for Africa* (London, UK: Commission for Africa, March 2005), p. 327.

18. As Sachs writes in *The End of Poverty*, "When people are . . . utterly destitute, they need their entire income, or more, just to survive. There is no margin of income above survival that can be invested for the future. This is the main reason why the poorest of the poor are most prone to becoming trapped with low or negative economic growth rates. They are too poor to save for the future and thereby accumulate the capital that could pull them out of their current misery." See Sachs, pp. 56–57.

19. The figures are in 1990 international Geary-Khamis dollars. Angus Maddison, "Historical Statistics for the World Economy: 1–2003 AD," http: //www.ggdc.net/maddison/Historical_Statistics/horizontal-file_03-2007.xls.

20. William Easterly, "Planners vs. Searchers in Foreign Aid," Asian Development Bank Distinguished Speakers Program, January 18, 2006, http://www.adb.org/economics/speakers_program/easterly.pdf. See also William Easterly, "Freedom versus Collectivism in Foreign Aid," in James Gwartney and Robert Lawson, *Economic Freedom of the World: 2006 Annual Report* (Vancouver, BC: Fraser Institute, 2006).

21. James Gwartney and Robert Lawson, *Economic Freedom of the World: 2008 Annual Report* (Vancouver, BC: Fraser Institute, 2008), p. 18.

22. Ibid. Hong Kong and Singapore are good examples of economies that liberalized and have benefited from foreign direct investment. They continue to be among the world's freest economies and sought-after destinations for foreign capital. Even China, which needs further liberalization, has progressed much since the start of its economic reforms in the late 1970s and has received substantial

foreign direct investment. In 2006, for example, China received $53.3 billion in FDI—more than all of the foreign aid that will go to Africa in 2010. For Chinese investment figures, see United Nations Conference on Trade and Development, "World Investment Report 2007," October 16, 2007, http://www.unctad.org/Templates/WebFlyer.asp?intItemID=4361&lang=1.

23. Again, China may be used as an example. Though China still has a long way to go with regard to institutional reform, protection of property has much improved since the era of Maoism. Partly because of those improvements, gross domestic investment as a percentage of the gross domestic product was 43 percent in 2005. In Africa, by comparison, it was only 19 percent. (It should be mentioned that domestic investment rates reflect, at least to some extent, capital controls that are in place in China and Africa.) For definition of gross domestic investment, see World Bank, "Key Development Data and Statistics: 2006," www.worldbank.org/.

24. Adam Lerrick, "Good Intentions at the Expense of the Poor," *Financial Times*, August 1, 2006.

25. There are many ways in which economic freedom in Africa is restricted. Many African countries, for example, lack functioning legal systems that protect private property. Africa also remains one of the least integrated regions in the global economy and its private sector is hobbled by some of the most restrictive business regulations in the world. See James Gwartney and Robert Lawson, *Economic Freedom of the World: 2008 Annual Report* (Vancouver, BC: Fraser Institute, 2008).

26. The World Bank's own research was forced to admit as much. According to Craig Burnside and David Dollar, there has been "no systematic effect of aid on policy." See Craig Burnside and David Dollar, "Aid, Policies and Growth," World Bank, Policy Research Working Paper 1777, 1997, p. 4.

27. Grants are even less effective in stimulating economic reforms. See Simeon Djankov, Jose G. Montalvo, and Marta Reynal-Querol, "Does Foreign Aid Help?" *Cato Journal* 26, no. 1 (Winter 2006): 17.

28. Mobutu Sese Seko of Zaire, for example, obtained nine structural adjustment loans from the aid agencies even though he was personally corrupt and even though he pursued destructive economic policies. See William Easterly, "What did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans," Center for Global Development, Working Paper 11, October 2002, http://www.cgdev.org/content/publications/detail/2779. As Ian Vásquez of the Cato Institute notes, aid agencies in some cases temporarily cut off spending, but later resume it. They are "in the awkward position of trying to discourage bad policy and encourage policy change through loan cut-offs and, at the same time, trying to encourage policy change through the release of more aid if a country promises such change. Yet releasing that aid would once again jeopardize reforms. Not releasing that aid, on the other hand, would mean that policy change would occur without aid and thus run the risk that the agencies would be viewed as irrelevant. From an institutional perspective, lending agencies simply cannot afford to let developing countries reform on their own. Both the aid institutions and the recipient governments know this, thus further reducing the credibility of so-called conditionality." See Ian Vásquez, "Official Assistance, Economic Freedom, and Policy Change: Is Foreign Aid Like Champagne?" *Cato Journal* 18, no. 2 (Fall 1998): 282.

29. David Dollar and William Easterly, "The Search for the Key: Aid, Investment, and Policies in Africa," Development Research Group, World Bank, 2000, http://www.worldbank.org/html/dec/Publications/Workpapers/wps2000series/wps2070/wps2070.pdf. See also Danny Rodrik, "Understanding Economic Policy Reform," *Journal of Economic Literature* 34 (March 1996): 9–41.

30. Jac Heckelman and Stephen Knack, "Foreign Aid and Market-Liberalizing Reform," World Bank Policy Research Working Paper 3557, April 2005, p. ii.

31. William Easterly, Ross Levine, and David Rodman, "Aid, Policies and Growth: Comment," *American Economic Review* 94, no. 3 (2004): 774–80. Moreover, Harold Brumm of the United States General Accountability Office concluded that foreign aid retards growth even in countries that follow sensible policies. Harold J. Brumm, "Aid, Policies, and Growth: Bauer Was Right," *Cato Journal* 23, no. 2 (Fall 2003). Similarly, in a comprehensive review of foreign aid, Raghuram Rajan and Arvind Subramanian of the IMF found "no evidence that aid works better in better policy [environments]." Raghuram G. Rajan and Arvind Subramanian, "Aid and Growth: What Does the Cross-Country Evidence Really Show?" International Monetary Fund Working Paper WP/05/127, June 2005, http://www.imf.org/external/pubs/ ft/wp/2005/wp05127.pdf.

32. Anne Krueger, *The Political Economy of Policy Reform in Developing Countries* (Cambridge, MA: MIT Press, 1993), and Deepak Lal, "The Political Economy of Economic Liberalization," *World Bank Review* 1, no. 2 (1987), have analyzed the circumstances under which past liberalization in the developing world took place. In Africa, for example,

Mauritius liberalized its economy because of domestic considerations and not because of the urging of aid agencies. In the 1960s, the economy of Mauritius was heavily dependant on sugar exports. The falling revenues from sugar exports and booming population resulted in falling incomes that led to riots in 1967. As a result of those riots, the government undertook a number of economic liberalization measures that included the establishment of Export Processing Zones in 1970.

33. In 2006, there were some 40,000 NGOs worldwide. Three thousand NGOs had a consultative status at the United Nations—three times more than in 1995. See Lerrick, "Good Intentions at the Expense of the Poor." Also, the United Nations Online Network in Public Administration and Finance contains information on 2,500 aid-promoting NGOs, dealing with African problems ranging from agriculture, health and education, to micro-credit and HIV/AIDS. See United Nations Online Network in Public Administration and Finance, "Directory of African NGOs: 2006," http://www.unpan.org/NGO-Africa-Directory/index.htm.

34. The World Bank alone saw its staff expand from 657 people in 1960 to 10,000 people in 2002. See Easterly, "The Cartel of Good Intentions," p. 44.

35. The U.S. Government Accountability Office, for example, found that 65 percent of the U.S. food aid budget went to overhead. See "Feasting on Famine," *Investor's Business Daily*, May 15, 2007, http://www.ibdeditorials.com/IBDArticles.aspx?id=264123350777343.

36. Michael Maren, *The Road to Hell* (New York: Free Press, 1997), p. 9.

37. The Tanzanian government, for example, churns out 2,400 donor reports and deals with about 1,000 donor missions per annum. As a consequence, some governments have in the past declared "donor holiday," when the donors' access to government officials is restricted. See Easterly, "The Cartel of Good Intentions," p. 43.

38. Ibid.

39. George Ayittey, *Africa Unchained: The Blueprint for Africa's Future* (New York: Palgrave Macmillan, 2005), p. 202. Similarly, some Western NGOs, like Oxfam, have urged African countries not to liberalize their trade regimes even though there is a general consensus among academics that free trade is an important source of economic growth and prosperity.

40. For a review of the literature, see James Njeru, "The Impact of Foreign Aid on Public Expenditure: The Case of Kenya," AERC Research Paper 135 (presented at the African Economic Research Consortium, Nairobi, November 2003), http://www.aercafrica.org/documents/rp135.pdf.

41. Djankov et al., p. 11.

42. Ibid., pp. 9, 11.

43. As researchers at the IMF found, "aid inflows have systematic adverse effects on a [recipient] country's competitiveness, as reflected in a decline in the share of labor intensive and tradable industries in the manufacturing sector. We . . . [found] evidence suggesting that these effects stem from the real exchange rate overvaluation caused by aid inflows." See Raghuram G. Rajan and Arvind Subramanian, "What Undermines Aid's Impact on Growth?" IMF Working Paper, International Monetary Fund, June 2005, http://www.imf.org/external/pubs/ft/wp/2005/wp05126.pdf.

44. As Easterly reminds us, when it comes to aid delivery, it is useful to distinguish between the Planners and the Searchers. He writes, "With free markets and democracy, economic and political searchers find products and public services that satisfy the customers and voters. In autocratic, centrally planned societies, planners produce shoddy goods consumers don't want, and heavily rationed and inferior public services that satisfy no-one. . . . What is the counterpart in foreign aid? Here, Planners announce good intentions but don't motivate anyone to carry them out; Searchers find things that work and get some reward. Planners raise expectations but take no responsibility for meeting them; Searchers accept responsibility for their actions. Planners determine what to supply; Searchers find out what is in demand. Planners apply global blueprints; Searchers adapt to local conditions. Planners at the Top lack knowledge of the Bottom; Searchers find out what the reality is at the Bottom. Planners never hear whether the Planned got what they needed; Searchers find out if the customer is satisfied. A Planner thinks he already knows the answers; he thinks of poverty as a technical engineering problem that his answers will solve. A Searcher admits he doesn't know the answers in advance. . . . A Searcher only hopes to find answers to individual problems by trial-and-error experimentation. A Planner believes outsiders know enough to impose solutions. A Searcher believes only insiders have enough knowledge to find solutions, and that most solutions must be homegrown." Easterly, "Planners vs. Searchers in Foreign Aid," pp. 2–3.

45. Boutros Boutros-Ghali, "Human Rights and Democratization," United Nations Educational, Scientific and Cultural Organization, http://www.unesco.org/opi2/human-rights/Pages/English/BoutrosGhaliE.html.

46. Stephen Knack, "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48 (2004): 251–66.

47. According to Easterly, "The world's 25 most-undemocratic government rulers (out of 199 countries the World Bank rated on democracy) got a sum of $9 billion in foreign aid in 2002. Similarly, the world's 25 most-corrupt countries got $9.4 billion in foreign aid in 2002." Easterly, "Planners vs. Searchers in Foreign Aid," p. 18.

48. See Djankov et al.

49. Commission for Africa, p. 35.

50. Djankov et al., p. 7.

51. Collier, p. 103.

52. Maren, pp. 103–104.

53. Paul Kagame, "Time for Africa to Insist on Defining Its Own Future," *Business Day*, October 3, 2007, http://www.businessday.co.za/articles/opinion.aspx?ID=BD4A577756.

54. Andrew Mwenda, "Foreign Aid and the Weakening of Democratic Accountability in Uganda."

55. Jason Pontin, "TED Day 1: Bono Heckles the Stage," *Technology Review*, June 5, 2007, http://www.technologyreview.com/blog/pontin/17618/.

56. The Commission on Africa, for example, estimates that stolen African assets held in overseas bank accounts are equivalent to more than half of the continent's external debt. Commission for Africa, p. 151.

57. Mahathir bin Mohamad quoted by Ian Vasquez, "Debt Relief for Poor Countries: Are the World Bank and IMF Doing the Right Things?" Cato Institute Policy Forum, July 16, 2001.

58. Net present value compares the value of money now with the value of money in the future. A unit of currency today is worth more than a unit of currency in the future because of, among other factors, inflation. International Monetary Fund, "Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative," October 2008, http://www.imf.org/external/np/exr/facts/hipc.htm.

59. Jubilee Debt Campaign, "The Basics about Debt," October 2007, http://www.jubileedebtcampaign.org.uk/?lid=98.

60. Oxfam International, "Debt Relief: Still Failing the Poor," April 2001, http://www.oxfamamerica.org/newsandpublications/publications/research_reports/art923.html/OA-Debt_Relief_Failing_for_Poor.pdf.

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65. Adam Lerrick, "Debt Relief for Poor Countries: Are the World Bank and IMF Doing the Right Things?" Cato Institute Policy Forum, July 16, 2001.

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68. William Easterly, "Debt Relief," *Foreign Policy* 127 (November–December 2001): 20–26.

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90. Ibid. The value of net exports would rise from $6 billion in 2001 to $27 billion in 2015, and the volume of trade would increase by 23 percent. (The study assumes 2001 to be the baseline year.)

91. Arvind Panagariya has questioned the positive effect of trade liberalization on African countries. He argued that some African countries may be worse off as a result of trade opening. Kym Anderson, Will Martin and Dominique Van Der Mensbrugghe provide empirical evidence countering Panagariya's thesis in "Would Multilateral Trade Reforms Benefit Sub-Saharan Africa?"

92. Personal communication with Denis Medvedev, August 18, 2005.

93. World Bank, *Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda* (Washington: World Bank, 2003), p. 103, http://www.worldbank.org/prospects/gep2004/full.pdf.

94. Ibid., pp. xvi–xvii.

95. Tariff escalation implies higher import duties on semi-processed products than on raw materials and even higher tariffs on finished goods. Tariff escalation protects domestic processing industries and discourages the development of processing industries in the countries where raw materials originate.

96. Christopher Stevens, "Food Trade and Food Policy in Sub-Saharan Africa: Old Myths and New Challenges," *Development Policy Review* 21, no. 5

(2003): 669–81. See also World Bank, *Global Economic Prospects 2004*, p. 104.

97. Subsidies may take the form of production subsidies aimed at increasing output or export subsidies aimed at making exports more competitive in the global market. In addition, countries may choose to employ taxes known as countervailing duties to counteract subsidies provided to foreign producers. Subsidies are harmful domestically because they require financial transfers from more productive to less productive sectors of the economy in the form of taxes. They are also harmful internationally because they depress prices and unfairly undercut competition.

98. The total agricultural support in the EU came to $153 billion in 2007. In the United States it came to $100 billion. Other major subsidizers of the agricultural sector in 2007 included Japan, with $45 billion; South Korea, with $29 billion; Turkey, with $14 billion; and Canada, with $9.8 billion. Organization for Economic Cooperation and Development, *Agricultural Policies in OECD Countries at a Glance* (Paris: OECD, 2008), p. 93, http://titania.sourceoecd.org/vl=2718222/cl=13/nw=1/rpsv/cgi-bin/fulltextew.pl?prpsv=/ij/oecdthemes/99980002/v2008n10/s1/p1l.idx.

99. According to Thomas Beierle of Resources for the Future, overproduction in the developed world depresses world commodity prices by 12 percent. Developed countries are also responsible for 80 percent of the global price distortions in agricultural commodities. Thomas C. Beierle, *From Uruguay to Doha: Agricultural Trade Negotiations at the World Trade Organization* (Washington: Resources for the Future, March 2002), p. 9, http://www.rff.org/Documents/RFF-DP-02-13.pdf.

100. Johan Norberg, *In Defense of Global Capitalism* (Washington: Cato Institute, 2003), p. 159.

101. An applied tariff is a tariff that is levied on an imported item. It is often lower than the bound tariff. A bound tariff is the maximum tariff rate that parties to GATT/WTO negotiations agreed to apply. Bound rates are enforceable under GATT/WTO rules. If a GATT/WTO contracting party raises a tariff above the bound rate, the affected countries have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs on other products they export to the offending country.

102. Though average applied tariffs in South Asia remain as high as average applied tariffs in Africa, South Asia reduced its average applied tariffs at a more rapid pace. India, for example, reduced its tariff from 99 percent to 14 percent between 1987 and 2007 (a reduction of 86 percent). The economic growth experienced by South Asia—India in particular—over the past decade and a half, can partly be attributed to the upsurge of productivity that was a result of trade liberalization. See Francis Ng, "Trends in Average Applied Tariff Rates in Developing and Industrial Countries, 1981–2007," Data on Trade and Import Barriers, November 2008, http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/tar2007.xls.

103. Nontariff barriers include administrative pricing and minimum import prices, variable levies or charges, anti-dumping measures, countervailing measures, advance payment requirements, multiple exchange rates, restrictive foreign exchange allocation, regulations for terms of payment, non-automatic licensing, bilateral and seasonal quotas, various prohibitions, "voluntary" export restraints, orderly marketing arrangements, enterprise specific restrictions, state trading, technical regulations, pre-shipment inspection, special customs formalities, and so on.

104. Commission for Africa, p. 265. The United Nations Conference on Trade and Development has compiled a "frequency ratio" that shows the percentage of tariff lines, or import items, subjected to nontariff protection. Unfortunately, much of the data are old (going back to 1993), sparse (only 24 out of 48 African countries are represented), and unreliable (it is provided by local governments, rather than independent evaluators). As a result, the "frequency ratio" for Africa averages only 9.35 percent. Francis Ng, who works on nontariff barriers at the World Bank, told me that there is little doubt that in reality the "frequency ratio" is much higher. See Francis Ng, "Frequency Coverage Ratio of Non-Tariff Barriers (NTBs) by Country," Data on Trade and Import Barriers, November 2008, http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/tar2006d.xls.

105. World Bank, *Global Economic Prospects 2004*, p. 82.

106. In this particular case, "Africa" refers to the whole continent and not just to the sub-Saharan African countries, as is the case elsewhere throughout this paper.

107. World Trade Organization, *Intra- and Inter-regional Merchandise Trade: 2003* (Geneva: World Trade Organization, 2004), Table III.3.

108. Tony Blair, "Gleneagles 2005: Chairman's Summary," November 2008, http://www.unmillenniumproject.org/documents/Gleneagles2005_ChairmanSum.pdf.

109. Alan Oxley, "Make Trade Free," World Growth,

November 2005, http://www.worldgrowth.org/assets/File/make_trade_free.pdf.

110. Edward J. Cody, "WTO Panel Warned of Protectionism Threat," *Washington Post*, February 10, 2009, p. D07.

111. Arvind Panagariya, "Miracles and Debacles: Do Free-Trade Skeptics Have a Case?" p. 2, http://www.columbia.edu/~ap2231/Policy%20Papers/miracles%20and%20debacles-panagariya-rev-March_04.pdf.

112. Oxley, "Make Trade Free."

113. Commission for Africa, p. 259.

114. Ibid, p. 144. Sierra Leone, for example, has 6 million people but only 125 lawyers, and cases take three to four years to come to court.

115. See Moeletsi Mbeki, "Underdevelopment in Sub-Saharan Africa: The Role of the Private Sector and Political Elites," Cato Institute, Foreign Policy Briefing Paper no. 85, April 15, 2005.

116. Commission for Africa, pp. 143–45.

117. See, for example, World Bank, *Doing Business 2008* report.

118. For example, shipping a car from Japan to Abidjan costs $1,500, but shipping the same car from Abidjan to Addis Ababa costs $5,000. Commission for Africa, p. 260.

119. World Trade Organization, Table III.3.

120. Ibid., p. 261.

121. Linda Ensor and Mathabo Le Roux, "Manuel Says SA Should Go It Alone on Free Trade," *Business Day*, October 31, 2007, http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A601115.

122. "Mbeki: End 'Global Apartheid'," CNN, August 28, 2002, http://edition.cnn.com/2002/WORLD/africa/08/26/summit.opening.glb/.

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