

FACTS

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THE FAILURE OF AID



AND THE PROMISE OF TRADE

Close to three billion people live on less than \$2 a day, 840 million people do not have enough to eat, and 10 million children die before their fifth birthday from preventable illnesses. World leaders are calling for more aid to the developing world while remaining quiet on the issue of trade liberalisation. But developing nations need the free trade system to lift themselves out of poverty.

Aid and trade are not mutually exclusive and both have a role to play in the fight against poverty. In developing future aid policy, it is imperative that policy-makers learn from previous failures. Likewise, the promise of trade can only be understood by learning from the success of trade liberalisation.

YOUR GUIDE TO THE NUMBERS THAT MATTER

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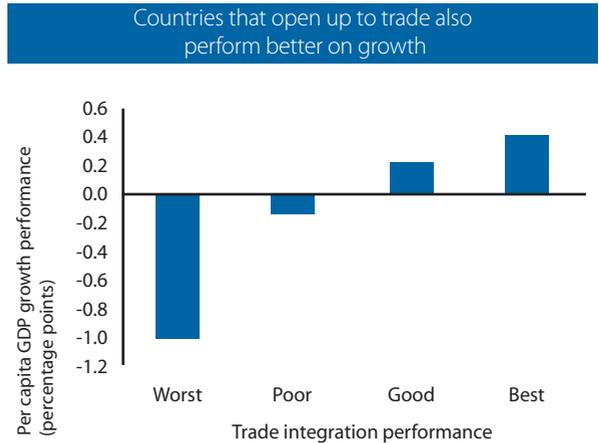
THE FREE TRADE STRUGGLE

“The effects of free trade can be seen across the developing world. Millions of poor people’s livelihoods are being threatened, and their governments are powerless to prevent it.”

Christian Aid, 2005

Opposition to trade is not new. Since Jesus expelled the merchants from the temple, there has been a moral question mark stamped across the concept of wealth creation.

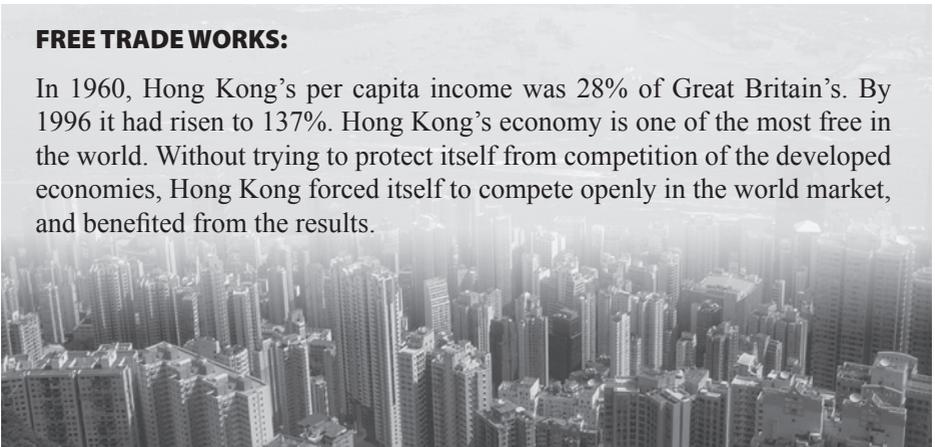
But there is nothing morally bankrupt in lifting humans out of poverty and dire circumstances, as international trade has repeatedly demonstrated.



Source: World Bank, *World Development Indicators 2007*

FREE TRADE WORKS:

In 1960, Hong Kong’s per capita income was 28% of Great Britain’s. By 1996 it had risen to 137%. Hong Kong’s economy is one of the most free in the world. Without trying to protect itself from competition of the developed economies, Hong Kong forced itself to compete openly in the world market, and benefited from the results.



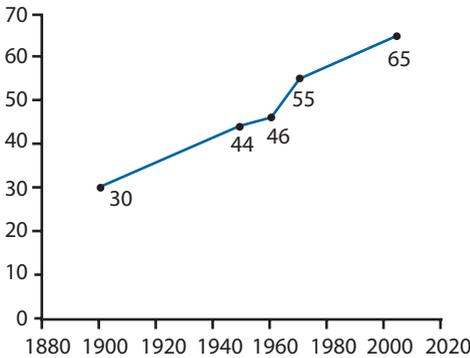
“THE FREE TRADE PRINCIPLE... DRAWING MEN TOGETHER, THRUSTING ASIDE THE ANTAGONISMS OF RACE, AND CREEDS AND LANGUAGE, AND UNITING US IN THE BONDS OF ETERNAL PEACE...

I BELIEVE THE DESIRE AND THE MOTIVE FOR LARGE AND MIGHTY EMPIRES AND GIGANTIC ARMIES AND GREAT NAVIES... WILL DIE AWAY... WHEN MAN BECOMES ONE FAMILY, AND FREELY EXCHANGES THE FRUITS OF HIS LABOUR WITH HIS BROTHER MAN”

RICHARD COBDEN, 1846

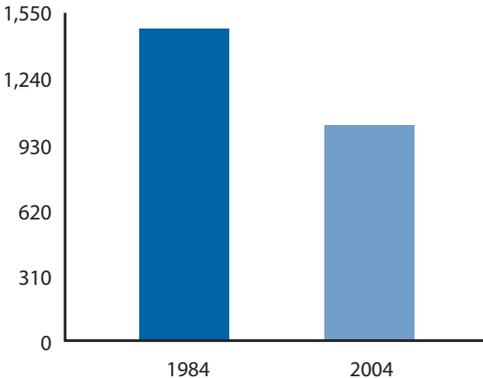
GROWTH GETS RESULTS

Life expectancy in developing countries



Source: United Nations Development Programme, Human Development Report, 2000

Millions of people living below \$1 a day



Source: World Bank 2004 (at 1993 purchasing power parity)

WHAT ABOUT 'FAIR' TRADE?

- By purchasing from collectives, fair trade rules work against enterprising individuals
- Suppliers are restricted to small farms, punishing business growth
- Fair trade fixes prices, punishing competitive innovators
- Fair trade certification costs producers US\$2,000-\$4,000

Source: Tim Wilson, “Macchiato Myths: The dubious benefits of fair trade coffee” *IPA Review*, July 2006.

Available at www.ipa.org.au

“Fair trade bears a suspicious likeness to our old friend protection. Protection was dead and buried 30 years ago, but he has come out of the grave and is walking around in the broad light of day. But after long experience underground, he endeavours to look more attractive...”

William Gladstone, former UK Prime Minister, 1881

THE FAILURE OF AID

"Poverty never has been ended and never will be ended by foreign experts or foreign aid. Poverty will end as it has ended everywhere else, by home grown political, economic, and social reformers and entrepreneurs that unleash the power of democracy and free markets."

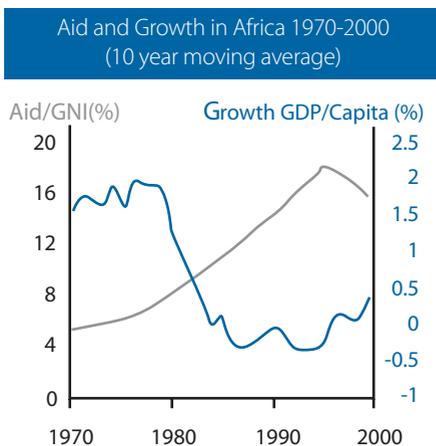
William Easterly, *New York Review of Books*, v54 n1, 2007

Economist Jeffrey Sachs calls for a 'big push' that will finally lift millions out of poverty. The 'big push' involves substantial increases in aid to developing countries and the cancellation of their foreign debt.

But this idea is not new, dating back to the now-famous article in 1943 by economist Paul Rosenstein-Roden, who called for a similar big push that would bring about 'industrialisation in international depressed areas.' Since then however, \$2.3 trillion has been spent by the West in foreign aid, with very little to show for it.

The \$409 billion that Africa has received from 1960-1997 hasn't come close in achieving its intended goals.

Aid can be made to work, but aid agencies must be held accountable, helping individuals rather than bureaucrats.



Source: BBC News

WE'VE HEARD IT ALL BEFORE

1951: "An increase in the per capita national incomes cannot be brought about without... a sum of money... of about \$3 billion a year" (UN Expert Group, 1951)

1973: "the current flow of [Official Development Assistance]... is only half the modest target prescribed by the internationally accepted United Nations Strategy" (World Bank President, Robert McNamara)

2001: "If we are serious about... meeting multilateral development goals we have all signed on to, we must double ODA from its current level of about \$50 billion a year" (World Bank President James Wolfensohn, 2001)

THE AFRICAN CHALLENGE

Though improvements in living conditions have occurred throughout most of the world, extreme poverty in Sub-Sahara Africa has continued to rise, leading many public figures to call for more aid. British Treasury Chief Gordon Brown has gone as far as to call for a “**modern Marshall Plan.**”

This would in fact be Africa’s seventh ‘Marshall Plan’, having received the equivalent of 6 Marshall Plans since 1960.

HOW AFRICA HEMORRHAGES MONEY

| | |
|----------------------|---------------|
| Corruption | \$148 billion |
| Capital flight | \$20 billion |
| Military and arms | \$15 billion |
| Civil war damage | \$15 billion |
| Food imports | \$18 billion |
| Total other leakages | \$216 billion |

Source: George Ayittey, *Africa Unchained*, 2005

CORRUPTION is perhaps foreign aid’s chief enemy. Despite Africa receiving **\$409 billion** between 1960 and 1997 (adjusted for inflation), an report conducted by the African Union in 2004 claimed that Africa loses an estimated **\$148 billion** annually to corrupt practices. *The Economist* wrote that same year:

‘For every dollar that foolish northerners lent Africa between 1970 and 1996, 80 cents flowed out as capital flight in the same year, typically into Swiss bank accounts or to buy mansions on the Cote D’Azur’ (Jan 17,2004)

PROTECTIONISM in Africa discourages competitiveness and productivity.

BUT DESPITE PROTECTIONISM’S WELL-KNOWN, REPEATED

FAILURES, Western anti-poverty advocates like **Oxfam** and the **Make Poverty History** coalition argue that protectionism will drag Africa out of poverty.

But in Africa, protectionism has already caused much suffering. In Africa, free trade is an ‘innovative’ solution to poverty, not restricted trade.

CORRUPTION IS AFRICA'S BIGGEST PROBLEM, NOT LACK OF AID

The Corruption Perceptions Index ranks countries according to perceived corruption that is, seen by business people and country analysts. The score ranges from 0 (highly corrupt) to 10 (highly clean).

Many Sub-Saharan countries rank well below the average, with some even falling over the past 5 years.



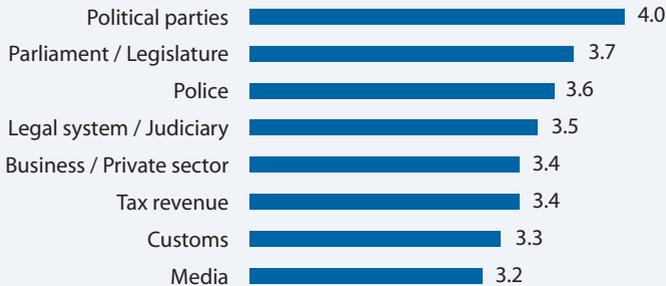
Sani Abacha, Nigerian dictator from 1993-1998, was found after his death to have stolen \$2 billion of government money (more than a million dollars a day while in office), as well as award \$1 billion in contracts to front companies, and accepting \$1 billion in bribes from foreign contractors. His surviving relatives remain influential.

Corruption Perceptions index 2006

| | |
|------------------|------------|
| HAITI | 1.8 |
| SUDAN | 2.0 |
| TURKMENISTAN | 2.2 |
| ETHIOPIA | 2.4 |
| RUSSIA | 2.5 |
| ITALY | 4.9 |
| AUSTRALIA | 8.7 |

Source: Transparency International Corruption Perceptions Index 2006

Sectors and institutions most affected by corruption (1 - not at all corrupt ... 5 - extremely corrupt)



Source: Transparency International Global Corruption Barometer 2005

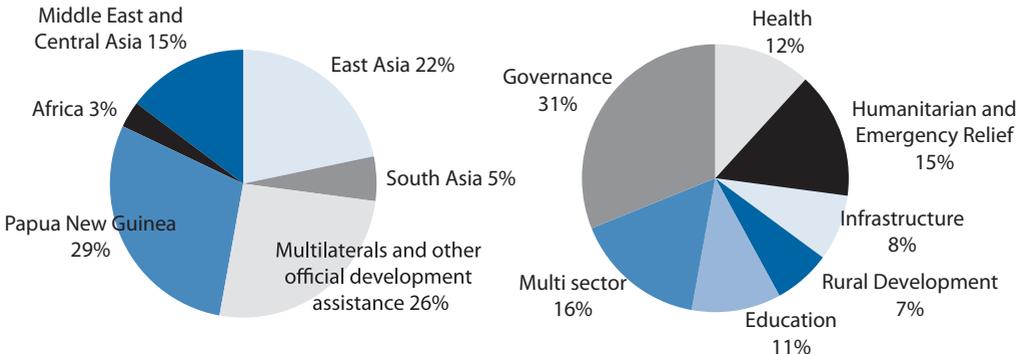


Source: William Easterly, *White Man's Burden*, 2006

AUSTRALIAN AID

In 2006-2007 Australia will provide \$2.946 billion worth of official development assistance.

Estimated total Overseas Development Assistance by Region and Sector



Source: AUSaid, <http://www.ausaid.gov.au>

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