Making It

Industry for Development

1st quarter 2011

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- Peter Sutherland
- Sustainable shipping
- China and Africa
- Timor-Leste

Trade: engine of development?

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A quarterly magazine. Stimulating, critical and constructive. A forum for discussion and exchange about the intersection of industry and development.

Editorial

This issue of *Making It: Industry for Development* focuses on recent developments in global trade.

In the keynote article, Peter Sutherland, a former Director-General of the World Trade Organization, argues that a conclusion of the Doha Round is essential if all countries are to share the benefits of global trade. Highlighting the link between trade growth and the growth of the world economy, he calls on world leaders to make a refreshed commitment to multilateral trade.

Xiao Ye examines the recent surge in trade between Africa and China. She notes that sub-Saharan African countries' exports to China are dominated by raw materials, and that China looks to other parts of the world to supply its growing demand for manufactured goods, transport equipment and machinery. When will Africa start to produce the value-added goods that account for more than 70% of Chinese imports? Could Chinese investment be the driver of Africa's long-awaited industrialization process?

Still on Africa, Professor Colin McCarthy questions the approach to regional integration, and reminds policymakers not to overlook the need to develop a nation's capacity to produce competitive goods and services. Elsewhere, on the issue of trade and its carbon footprint, representatives of the shipping and aviation industries give upbeat assessments of their efforts to reduce CO_2 emissions.

There are also articles on climate compatible development, on Cape Verde's graduation from Least Developed Country status, a feature on Timor-Leste, and much more.

As ever, we invite our readers to use the magazine website – www.makingitmagazine.net – to join in the debate and to share your views on the issues raised here.

In Memoriam

Ole Lundby, the driving force behind the creation and realization of *Making It* magazine, passed away on February 10, 2011. Ole imbued the magazine with a wealth of ideas drawn from his long and distinguished career as a Norwegian diplomat and trade negotiator and, more recently, as an international civil servant. He forged the publication's identity, seeing it as a key platform for bringing discussion of global industrial policy to a broad public in an accessible and engaging way. Always aware of current debates, ready to try new approaches, and crystal clear about the ultimate aim of economic development for the benefit of the world's poor, Ole was a cherished colleague and friend who will be sorely missed by all.

MakingIt
Industry for Development

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GLOBAL FORUM

The Global Forum section of *Making It* is a space for interaction and discussion, and we welcome reactions and responses from readers about any of the issues raised in the magazine. Letters for publication in *Making It* should be marked 'For publication', and sent either by email to: editor@makingitmagazine.net or by post to: The Editor, *Making It*, Room D2138, UNIDO, PO Box 300, 1400 Wien, Austria. (Letters/emails may be edited for reasons of space).

LETTERS

Green industry

As an avid reader of *Making It* since its inception, I have read with interest the series of articles in which contributors have proposed that developing countries seize the opportunities provided by recent technological advances, and avoid taking the same path of industrial development followed by Europe and North America. The act of 'leapfrogging' – making use of renewable energy and more efficient and cleaner industrial processes – will, so the argument goes, enable developing countries to establish 'green industry' and pursue sustainable development, and thereby help save the world from climate change, fuel scarcity, and deepening poverty.

All this seems eminently sensible, and even essential. I was surprised then that in the last issue, focusing on Least Developed Countries, none of the three main articles about how LDCs can progress made any reference to the leapfrogging concept at all. Neither the UNCTAD contributor, nor the UN High Representative for LDCs, nor the governor of Nigeria's Central Bank, seemed to think it worth mentioning. In fact, quite the contrary, they all seemed to suggest that all the LDCs need to do is try harder

follow the established model, building up their manufacturing capacity, producing and selling more goods – with no regard for the issues of dwindling natural resource availability, peak oil, over-consumption, pollution, climate change, etc. It seems that too many policymakers still fail to see the relevance of green industry for the world's developing countries.

● **Angela Sabas, received by email**

Biodiversity – big and small

"Biodiversity: policy challenges in a changing world" (*Making It*, issue 4) is a very interesting article, but I believe discussion of the importance of biodiversity should go beyond human survival and the conservancy of ecosystems – the huge biodiversity of our planet might be a path to economic development.

One of the best examples of this is my country, Brazil, the most biodiverse country in the world, with around 15-20% of all the planet's species – and that number might be greater due to the species that have not being cataloged yet. According to Uppsala University's Professor Kjell Aleklett, Brazil – together with Russia – is the country best prepared to face a world without oil because of its capacity to produce energy and food. In addition, our capability to research and patent, based on our biodiversity resources, is enormous. It is estimated that this could generate more than US$2 trillion a year, which is much more than our GNP. In other words, if Brazil starts to invest in these technologies, instead of being dependent on oil, it could become a leader in the areas of science and technology, improving all economic sectors and everyone's life.

● **Diêgo Lôbo, environmental blogger, Salvador, Bahia, Brazil**

This Kiribati article and interview, "Kiribati: Small country, big sacrifice" (*Making It*, issue 4), are extremely interesting, and show a unique step that this small country is taking to make a difference concerning climate change, despite its economic situation. It also seems to go against mainstream ideas of the sometimes 'resource-extracting' industrial development models proposed by some international organizations.

The president of Kiribati, Anote Tong, has laid out, very specifically, an example for the rest of the world, both developing and industrialized countries. Kiribati has set a precedent by closing access to fishing areas, in order to protect the environment and retain sea life, as a step to secure the country's existence in the future. This is commendable, especially since even the United Nations climate change conferences over the last two years seem to be unable to do much to create an accord that really changes the discourse of humanity and the effects of climate change.

● **Yves Loiseau, website comment**

For further discussion of the issues raised in *Making It*, please visit the magazine website at www.makingitmagazine.net and the social networking *Facebook* site. Readers are encouraged to surf on over to these sites to join in the online discussion and debate about industry for development.

Government and business

In "Private sector and development" (*Making It*, issue 3), Karen Ellis of the Overseas Development Institute suggests that "the time is ripe for a new kind of industrial policy," based on extensive government consultation with business.

There are however a number of flaws in this approach. First, if the nascent high-growth sector of the economy depends on a disruptive new technology, existing firms may actually have an interest in restricting market entry to these new competitors. And it is difficult to consult with firms that don't yet exist.

Second, the proposal suffers from Dani Rodrik's "camel criticism" of business surveys. If you picked a random animal in the desert to ask about environmental challenges, you might pick a camel, which wouldn't necessarily tell you about the lack of water as a key challenge. Similarly, the existing businesses are those which have figured out how to get around major operational challenges. Once again, it may be that the government should really be speaking to the businesses which don't yet exist.

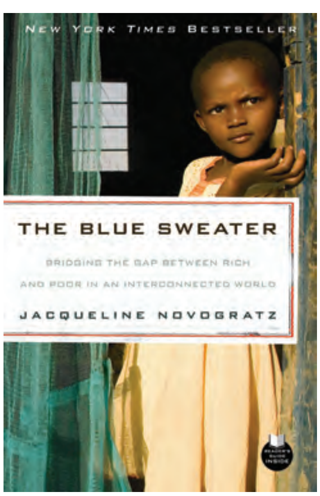
Finally, it is not even clear whether anyone, be it government, business, or hypothetical potential business, can predict which sectors are ripe for growth. Neither is it clear that an aggregation of perspectives could do this. Growth is, to a large extent, random and unpredictable.

Perhaps the best industrial policy is going back to the basics of, dare I say it, the Washington Consensus: provide a stable macroeconomic environment for all businesses and sectors, and let the market figure out where the best investments are.

● **Lee Crawfurd, RovingBandit.com**

Leadership

My book, *The Blue Sweater*, has been chosen by a number of US universities as their 'common book' read, which means that all incoming freshmen read the book and then use it as a learning tool. As a result, I've had the privilege of visiting a number of US campuses this fall. What struck me again and again is how hungry young people are to dive into more complex conversations about the kinds of solutions an interconnected world needs – and how they feel there are too few places to do so.



We are seeing too many of our leaders move from a place of ideological certainty just at the moment when we need to step back together to better understand how we as a world came to a place of such interconnectedness with a rising gap between rich and poor. Our world demands new solutions that start with defining the problems at hand and then using our many resources, including the markets, including government, and including patient capital and philanthropy, to solve them. Doing so will take a more proactive, imaginative, and moral leadership.

At Acumen Fund, our commitment to invest in entrepreneurs, as well as to invest in leaders and in ideas, is stronger than ever. In so many ways, we are just beginning. In all ways, we need you to help us use the ideas of patient capital, dignity, and interconnectedness to extend the civil rights movement to reach every human being on the planet.

This is no time to think small.

● **Jacqueline Novogratz, Acumen Fund, New York, USA**

Mexico

Having been both a Mexican entrepreneur and an employee at Mexico's Ministry of Trade (Secretaría de Economía), I very much appreciate the article, "Making it happen – An entrepreneur's perspective: Mexico" (*Making It*, issue 1). Having the voice of direct job creators like Mr. Maauad is very useful.

Becoming an entrepreneur in Mexico has become much easier than in the past, thanks especially to much easier access to credit. The interest rates though, could be better. Paperwork to start a business remains a bit more burdensome than in most other OECD countries, although, once you are set, the operation is smooth. There are several government programmes to foster competitiveness in research and development, exports and productivity. The government does push for environmentally responsible policies, which are in line with those of other OECD countries.

● **Alberto González, website comment**

Economic sense?

I'm worried that the rapid "fiscal consolidation" of deficit cutting by European governments such as Britain's will mean reduction in output and demand, thus stifling development and growth. What do your readers think?

● **Paul Miller, received by email**

Simon Maxwell on how to avoid the downsides of climate change – and how to capture the possible upsides too!

Climate compatible development

Policymakers beware! Industrialists beware! Climate change will be more disruptive than you think, more difficult to handle politically, and more challenging to long-term development. This is not for the obvious reasons – though, yes, it will be hotter and drier and/or wetter, with more extreme weather events which destroy critical infrastructure and dismantle hard-won livelihoods. The bigger challenge – the even bigger challenge – is that climate change will lead to a restructuring of the global economy, from which no one will be immune. In so doing, it will create winners and losers on an epic scale.

The disruption arises because climate change will affect the relationship between inputs and outputs, as well as the prices of both inputs and outputs. Sometimes, the effects will be harmful, for example, if agricultural productivity falls and agro-industry is undermined. Sometimes, though, the effects will be beneficial, for example, if new resources acquire value and new industries develop.

Neither private nor public development strategies can be indifferent to these changes. Businesses are adept at innovation in technology, product development and markets. They have seen the benefit of saving energy and have moved quickly into wind, solar, and other renewables. But can they adjust quickly enough? Schumpeter famously described capitalism as being driven by 'creative destruction'. Will the former outpace the latter as climate change takes hold?

Governments, too, need to ride this tiger. With industrial policy once again becoming fashionable, governments are investing in the physical and institutional infrastructure needed to enhance comparative advantage and underpin the emergence of new industrial clusters. How can they be sure their investments will lead to sustainable development?

Experience teaches us that once change starts, it can gather momentum with impressive speed. Climate change itself may be a phenomenon whose effects are seen over decades, but economic change can impact in just a few years. This is especially true when policy drivers, like subsidies or regulations, come into play. The social impacts can be dramatic, with some benefiting because they have the right resources or the right skills, others left stranded as jobs move to new industries and new locations. Globalization has had such an impact in our lifetimes.

Three steps must be taken if the downsides of climate change are to be avoided, and the possible upsides captured.

First, thinking needs to shift away from the narrow discourse of adaptation and mitigation, to a wider concept of 'climate compatible development'. This is to avoid the risk of neglecting development concerns in the debate about climate change; but, more important, because a focus on adaptation and mitigation ignores economy-wide, structural changes induced by changes in productivity or prices.

Adaptation matters, of course, in the sense that infrastructure must be strengthened and disaster preparedness improved. Ask Pakistan, or Australia, both victims of terrible floods in 2010. Mitigation matters too, in the sense that emissions must fall, in absolute terms for developed countries and proportionately for most developing countries. Ask Vietnam, growing at up to 8% a year and already emitting close to two tons of CO_2 per person per year – the maximum allowed if temperature rise is to be held to 2°C. However, in addition to action on these fronts, countries must monitor and plan for major economic shifts. Ask Bolivia, sitting on some of the world's largest reserves of lithium, a crucial ingredient for a new generation of emission-reducing batteries. Not for nothing is the country described as the 'Saudi Arabia of lithium'. A better description might be the 'Saudi Arabia of the post-petroleum age'.

Second, planning horizons need to shift from the short-term to the long-term. Much discussion about climate change focuses on immediate adaptation, inevitable no doubt when lives and livelihoods are at risk, but misleading when economies and societies are undergoing rapid change. A rural economy in 2010 may be an urban one by 2030. An agricultural economy is likely to be dominated by industry and services. An economy with few resources may, with luck, have more. Policymakers need to ask what long-term trajectory a country might be on without climate change, and what differences might be needed as a result of climate change: More development along the coastal belt or less? A greater reliance

SIMON MAXWELL is Executive Chair of CDKN, the Climate and Development Knowledge Network

on international trade or less? More investment in major hydro or less?

Uncertainties abound, and fundamental questions about development models are hard to answer. That is why scenario planning is a powerful technique in support of climate compatible development planning – a good way to begin modelling alternative futures and designing low-risk investments. South Africa is a country that has made effective use of this approach.

The third step is to think about the politics from the beginning, convening interested parties and constructing frameworks for multi-stakeholder dialogue. This is because every element of climate change, every decision taken to secure climate compatible development, will inevitably create passionate political debate. Policymaking in developed countries has often been paralyzed, as climate considerations have run into a brick wall made up of oil and coal interests, or lobbies representing traditional energy-intensive industries. Motorists and road hauliers have complained about rises in the price of fuel, even though higher prices may be necessary to curb consumption. Poverty campaigners have complained about the cost of heating in cold winters, and about rising fuel poverty. Road or rail? A new airport or airport runway? Flood protection? Subsidies for new industries or for old? Elections have been won or lost on the answers to these questions.

The policymakers' dilemma is that political systems rooted in party competition and with short-term electoral cycles are notoriously bad at delivering the stable, long-term policy frameworks needed to support innovation. That is why a big investment is needed in building a national consensus on climate compatible development – involving political leaders, but also the private sector and civil society.

Farmers at work near a cement factory in Sai Son village, outside Hanoi, Viet Nam.

Photo: Reuters/Nguyen Huy Kham

"Climate compatible development combines adaptation and mitigation with wider development concerns: it is a concept which challenges policymakers to continue delivering poverty reduction and human development, without making climate change worse and without falling victim to inevitable change."

Leaders must lead, as those in countries like Rwanda or the Maldives have shown. But leadership does not just belong in the political realm. Leaders in other sectors must play their part. Legislation can also help, backed up by independent analysis and monitoring, as the United Kingdom and Indonesia have both discovered.

The politics also need to focus on the positive opportunities, as well as the problems and constraints. Connie Hedegaard, the European Union's Climate Change Commissioner is one who does this, emphasizing the potential for growth and jobs in renewable energy, for example. As Napoleon observed, a leader is a dealer in hope. Climate compatible development is not an easy ask. But it shapes the vision of our future. ■

HOT TOPIC

Across the globe, the increasing mobility of goods and people is driving transport demand and associated carbon dioxide (CO_2) emissions. *Making It* asked representatives of the shipping and aviation industries – two forms of transport that are crucial to global trade – what they are doing to stem the rising CO_2 levels that lead to climate change.

Sustainable shipping

JACOB STERLING is head of Climate and Environment, Maersk Line, the largest liner shipping company in the world. The company's fleet comprises more than 500 container ships, and it has offices in over 125 countries. In 2010, Maersk Line made around 40,000 port calls– approximately one every 10 minutes.

Climate change is a challenge for all. Shipping is part of the problem – but certainly also part of the solution because it has the potential to provide services that can aid the development of a low-carbon economy.

Neither shipping nor aviation are part of the Kyoto Protocol, although the inclusion of shipping in a new global agreement of climate change was on the agenda at COP15, as well as COP16 in Cancun, in December 2010. With a CO_2 footprint greater than the country of Germany, shipping clearly should be covered by an international agreement on climate change.

Maersk Line has actively supported the idea that the United Nations specialized agency, the International Maritime Organization (IMO), takes the lead on developing CO_2 regulation for shipping. However, the latest meetings in the IMO's Maritime Environmental Protection Committee have not been promising. Some countries clearly feel that the pressure is no longer on to deliver an agreement, and others are waiting for the United Nations Framework Convention on Climate Change (UNFCCC) to set the overall direction, and do not want to close any deals for particular sectors, such as shipping, before this happens.

Even though the agreement reached at COP16 did not mention shipping, there is now some renewed hope that the negotiations on shipping in the IMO will move forward at a higher pace. It is important that this does happen because there is significant potential for improving the efficiency of shipping. What is more, in the absence of global CO_2 regulation for shipping, the sector risks being seen as a laggard, even though it has a real potential to facilitate the development of a low-carbon economy through its transportation services.

Some examples of the potential for improving shipping efficiency:

- Maersk Line has set a voluntary target of reducing our CO_2 emissions by 25% per container moved by 2020 (compared to 2007) – and we have already reduced emissions by more than 10% through the introduction of slow steaming and other

A Maersk Line container ship leaving the port of Hong Kong.

Photo: Maersk Line

operational measures. Slow steaming started in 2007, and has continuously helped achieve fuel savings. When speed is reduced by 20%, the fuel consumption is reduced by 40%. To compensate for the lower average speed, one or two extra vessels are added to ensure the same service frequency.

- The new vessels that we will bring into service in 2011 demonstrate a more than 20% fuel efficiency improvement compared to similar new-build vessels, which had less focus on fuel efficiency in the design phase.
- Maersk Line is now starting a project where we will analyze what new technologies can be retro-fitted to our vessels to make them more fuel-efficient and to lessen their environmental impact. This is expected to further contribute to the reduction of our CO2 emissions.

Therefore, we still strongly urge the countries participating in meetings at the IMO and the UNFCCC to remove the barriers and make a global, agreement on climate change for shipping that applies to all shipping companies regardless of the flag they fly – for example, in the form of a carbon fee on purchases of bunker fuel. Such a deal will almost surely increase the cost of operating a shipping line, but as long as the agreement is designed to ensure a level playing-field for all, we would welcome it.

A challenge and an opportunity

Addressing climate change is a huge challenge – but I believe that one of the reasons for the apparent difficulties in reaching a global agreement is the fact that too much focus is put on establishing limits and enforcing reductions. More focus should be put on the industries that need not to shrink but to grow, if the world is to succeed in reaching a prosperous low-carbon future.

Wind turbines and solar panels are clearly part of the solution. So are ➤

HOT TOPIC

➤ enzymes that can reduce the use of chemicals and energy in various production processes. And ICT solutions can help reduce the need for air transport. We believe that shipping too can develop into a solutions sector, which can help bring about a low-carbon economy.

Already today, shipping is by far the most energy-efficient way to transport goods. For example, shipping a pair of shoes from China to Northern Europe would emit the same amount of CO_2 as driving two kilometres in a regular car. And when cargo is moved by ship rather than air, CO_2 emissions are usually reduced by 90% or more.

This means that the more shipping grows at the expense of road transport and air freight in the future, the more global CO_2 emissions will be reduced. A recent report resulting from the Low-Carbon Leaders Project has outlined the huge potential for such modal switches, and specifically recommends that policymakers broaden the current narrow focus on reducing "food miles" and instead discuss how to ensure that modal switches to efficient forms of transportation are promoted.

Maersk Line is very keen on taking market shares from other modes of transportation. It is part of our business strategy, and we have numerous innovation projects to make it happen. For example, together with the company, Aqualife, we have developed a method for transporting live lobsters in special containers – normally live lobsters are transported by air, and transporting them by sea reduces the CO_2 emissions significantly.

Even the transport of cut flowers can be converted from air to shipping if flower traders are open to adjusting their businesses to the somewhat longer delivery times. Normally flowers would have to go by air to keep the flowers fresh, but we can manage to do the same with the longer transit times of maritime shipping by very precisely keeping the right, low temperature in our advanced reefer containers during the transport.

Generally, Maersk Line would like to see shipping companies compete more on their environmental performance. To push for this, we are trying to make it possible for our customers to benchmark shipping lines – not only on traditional issues such price and transit time, but also on environmental performance. In October, 2010, Maersk Line became the first shipping line to receive independent verification of our CO_2 emission data – vessel by vessel. As a result, we can now provide credible CO_2 emission data to our customers. An example of how we will put our credible CO_2 emission data to good use is our new *CO_2 Scorecard* for key customers of Maersk Line. This tool makes it possible for these customers to track their CO_2 emissions with Maersk Line and compare them to the industry average.

'Moving the sun'

Some may argue that it would still be better to stop global trade altogether, and produce goods locally to avoid the emissions from transport.

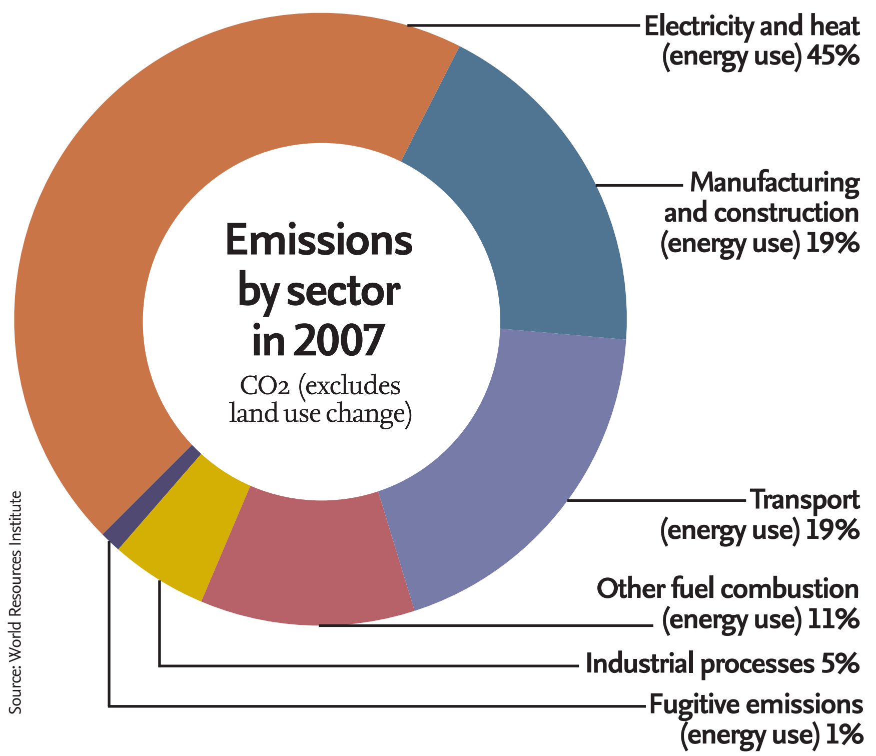
"We believe that shipping can develop into a solutions sector that can help bring about a low-carbon economy"

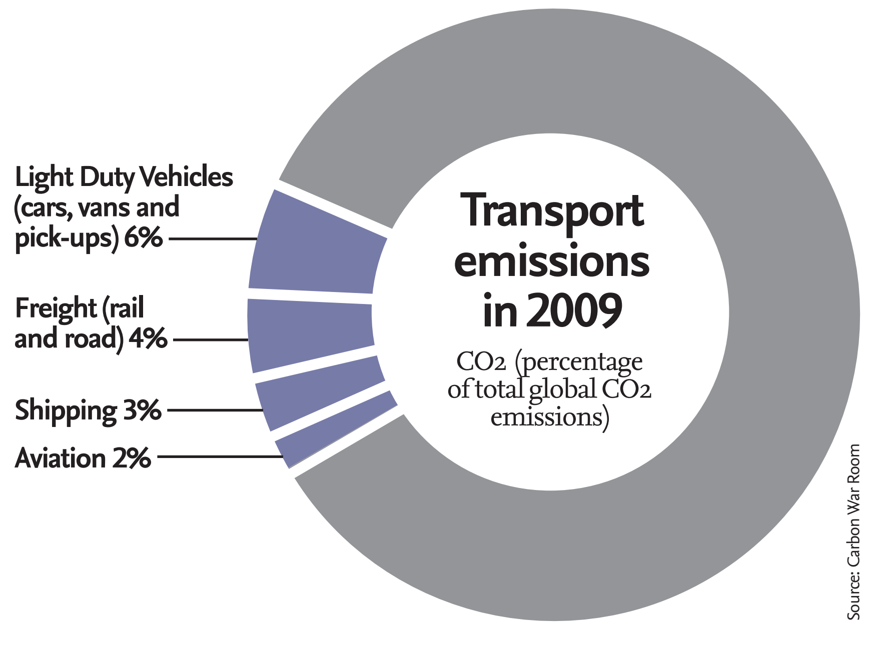
The aforementioned report, *Transformative Solution Leadership*, and the specific section entitled, *Smart Goods Transport*, takes a different view. It recommends that policymakers shift their perspective from how transport should be reduced, to a focus on how the services, which are needed by society, can be provided with the least CO_2 emissions. What does this mean in plain terms? Well, one important service that society needs is the provision of food. In 2050, it is estimated that the global population will be around nine billion people, meaning that a lot more food will have to be produced – and transported.

What the report argues is basically that since there is more solar inflow around the Equator, and thus better conditions for plant growth, it would be a good idea to increase food production in such regions where the potential is higher, and then move the food to the point of consumption in a low-carbon fashion. The report entitles this concept, 'moving the sun'. What matters is not the distance travelled by particular goods; it is the total CO_2 emitted during the production and transport of the products.

We think this makes a lot of sense, and that it creates some very interesting opportunities for developing economies in the regions around the Equator to produce food for the rest of the planet. We are also excited about the role it creates for shipping, and for Maersk Line. With our energy-efficient refrigerated containers, we are already providing transportation services for food producers around the world, and this is certainly a business that we would like to grow in the future.

We will do this regardless of the lack of global CO_2 regulation, and we hope this will bring inspiration to those policymakers working hard to reach a global agreement on climate change. ■





Aviation – meeting the climate challenge

PAUL STEELE is Executive Director of the Air Transport Action Group (ATAG), a worldwide alliance of companies and associations throughout the air transport industry that are interested in promoting economically beneficial aviation capacity and infrastructure improvements in an environmentally responsible manner.

At the third Aviation and Environment summit in April 2008, the aviation industry came together in a way that it has rarely done on issues other than maybe safety, and signed a declaration on a commitment to deal with the climate change challenge.

Although we are a key driver of economic activity, a provider of a conduit for economic development, social development, trade, and tourism, that does come with the risk of climate change and the CO_2 emissions that the aviation industry makes. If the industry continued on the same path, we would see a significant increase in CO_2 emissions in the future.

Since that declaration, the aviation industry has done a lot of analysis and we have a very deep understanding of where we need to act and how we need to act. In 2009, we adopted three very ambitious targets for addressing climate change. ➤

HOT TOPIC

➤ Three targets

The first is that, between 2010 and 2020, the aviation industry will continue to push to improve fuel efficiency by an average of 1.5% per annum. That may not sound like a lot, but it would amount to a 17% improvement over the years up to 2020.

Secondly, from 2020, we are committed to carbon-neutral growth; meaning that we want to cap our net emissions, while continuing to be able to develop and grow the industry.

And thirdly, by 2050, we aim to reduce our net emissions by 50% compared to where they were in 2005.

These are truly ambitious targets, and the industry is united behind these targets in a way that it rarely has been before. There is a very strong shared commitment to delivering on them.

But targets alone are not enough. We need to lay out a clear roadmap on where we're going in terms of trying to deliver on these targets. Because at some point, having announced them, we will be held accountable for what we said we wanted to do. We know that there are existing technological, infrastructure, and operational improvement opportunities that are already in the pipeline. But we also know that if we want to reach the carbon-neutral growth challenge from 2020, and the longer term objective of reducing emissions by half, there is a lot more that needs to be done in terms of development, both of technology and of sustainable fuels.

Each of those targets demands a huge amount of commitment, collaboration, and work on behalf of the industry.

Fuel efficiency

If we look at the short-term target of a 1.5% annual increase in fuel efficiency, what that translates into between now and 2020 is finding reductions of about 728 million tons of carbon. And it will mean that in the year 2020 alone we will have to find about 150 million tons of CO_2 reductions. Now, with all the analysis we have done, we know where those reduction opportunities may lie. And I think it's really worth noting that some of those things are purely within the remit of the industry – investments in fleet renewal, operational improvements, retrofits – all things that the industry can contribute. But there are certain things, particularly in the areas of infrastructure and airspace management and design, where governments have to play an active role.

Very often, we are asked the question, "So the industry is talking about governments spending more money on air traffic management systems?" But, of course, that's not the only answer. It's not just about money. It's also about political will. It's about making decisions about the management of airspace, the trade-offs between military and civil airspace, etc. And of course, there is the importance of sustainable alternative fuels for aviation, and particularly the promise of biofuels. Here again, we must look to governments to help and support this industry, in getting this fledgling industry off the ground, and in supplying the quantities we need for civil aviation.

That 1.5% per annum fuel-efficiency target translates into the need for 12,000 new aircraft between now and 2020. Five thousand of those will replace existing planes that are in the fleet, and 7,000 of those aircraft will supply the growth in places like China, India, Africa, Latin America, and the Middle East. And that's at a cost of US$1.3 trillion to the industry.

> "From 2020 we are committed to carbon-neutral growth; meaning that we want to cap our net emissions, while continuing to be able to develop and grow the industry"

Carbon-neutral growth

The second of our targets – carbon-neutral growth – is probably the most crucial one, is probably the most difficult one, and is certainly the most politically contentious one. Carbon-neutral growth means capping our net emissions from 2020, but we have to do that by working across the board with a combination of technology, including alternative fuels, operational efficiencies, infrastructure improvements, and economic measures, both in terms of positive incentives and the opportunity to offset some of those emissions in the medium-term.

Looking again at the emissions roadmap and looking further forward, we've identified alternative fuels, and in particular biofuels, as a big opportunity. When we signed that declaration in 2008, biofuels and alternative fuels were something of a dream. But since then they have become a reality. We've flown planes, we know that they work, and we know we can use them as drop-in fuels. The certification process is proceeding, and by the end of the first quarter of 2011 those fuels will be available for aviation. The challenge now is about commercialization and scaling up.

Let's not fool ourselves; it is a huge challenge, it is a massive challenge, but also a big opportunity. ■

Cargo plane being loaded at Hong Kong International Airport.

Photo: Uden Graham/Redlink/Corbis

trends

■ With Asia leading the way, many emerging markets have rebounded strongly from the global economic crisis. Australasia and Asia (not including Japan) are expected to continue to perform well in 2011, with GDP growth of 6.7%. However, the economic outlook is complicated by the fact that much of the region is simultaneously grappling with rising inflation and signs of a natural slowing of the recent stimulus- and export-driven recovery. The trajectory of Chinese growth remains key: the Economist Intelligence Unit envisages a relatively benign slowdown to 8.8% in 2011, but the economy could be volatile if inflation keeps rising.

Eastern Europe, the Middle East and North Africa, and sub-Saharan Africa will all see growth accelerate in 2011. In Eastern Europe, which was badly hit by the financial crisis, exports and industrial output are rebounding. However, business and consumer sentiment remains fragile, and financial markets are vulnerable both to contagion from the euro zone and a rise in risk-aversion generally.

Economic growth in the Middle East will benefit from somewhat higher oil output (despite OPEC's continued restraint), higher international oil prices and heavy government spending. In sub-Saharan Africa, meanwhile, commodity producers will continue to benefit from Chinese demand for raw materials, which will boost not only export revenue but also investment inflows. (Economist Intelligence Unit)

■ Poverty decreased in Latin America in 2010, thanks to the robust economic recovery in most of the region's countries, according to an ECLAC report. However 32.1% of the population of Latin America is expected to remain in poverty in 2010 (which represents 180 million people in total, including 72 million people in extreme poverty).

BUSINESS MATTERS

Garment assembly? No sweat!

Photo: University of Houston Students Against Sweatshops

A garment assembly factory in the Dominican Republic is acting as a model and a test case of what can happen when wages are "living" and union organizing is allowed.

The Alta Gracia manufacturing plant, located in the Free Trade Zone in the town of Villa Altagracia, pays its 130 workers a "living wage" – generally defined as the amount of money needed to adequately feed and shelter a family – in this case, three times the average pay of the country's apparel workers.

While other more worker-friendly factories and clothing companies have guaranteed above-minimum wages and decent conditions, the right to organize is one that often makes even fair-minded executives squeamish. But, at Alta Gracia, the union flourishes and takes part in meetings with management.

The factory is an experiment, a response to long-running student and activist campaigns to get the garment industry to stop using poverty-wage sweatshops. It is owned by Knights Apparel, a company based in South Carolina, USA, that is the leading supplier of college-logo apparel to universities in the United States.

The factory's biggest hurdle is self-imposed: how to compete with other apparel makers when its wages are so much higher. Joseph Bozich, the CEO of Knights, is optimistic. "We're hoping to prove that doing good can be good business. That they're not mutually exclusive," he says.

Bozich says the factory's cost will be US$4.80 a t-shirt, 80 cents or 20% more than if it paid the minimum wage. Knights will absorb a lower-than-usual profit margin, he said, without asking retailers to pay more at wholesale.

It's a risky proposition, but

Inequality in the region has been reduced thanks to the rise in the labour income of poor households, and public transfers aimed at reducing the impact of the crisis.

According to ECLAC, more equal societies tend to be those that give more backing to educational achievement and learning for all social groups. The report stresses that education is one of the main factors that can undo inequalities of origin (family or territory based) and provide equal opportunities for well-being and productivity for society as a whole. (ECLAC)

events

Gulf Environment Forum, Environmental and Sustainable Development Forum
March 6-8, Jeddah, Saudi Arabia
www.gulfenvironmentforum.com

Africa Economic Forum 2011
March 7-10, Cape Town, South Africa
http://glopac.mbendi.com/events/e7e1.htm

Energy from Waste – Avoid Wasting the Opportunities
March 30-31, Manchester, United Kingdom
www.ice-energyfromwaste.com

Green Jobs Learning Forum
April 4-22, Turin, Italy
www.ilo.org

Third Africa Carbon Forum
April 7-9, Marrakesh, Morocco
http://wbi.worldbank.org

Third International Conference on Energy and Sustainability
April 11-13, Alicante, Spain
www.wessex.ac.uk/11-conferences/energy-2011.html

World Economic Forum on Latin America 2011
27-29 April, Rio de Janeiro, Brazil
www.weforum.org

World Renewable Energy Congress 2011 (WREC 2011)
May 8-13, Linkoping, Sweden
www.wrec2011.com

Fourth UN Conference on Least Developed Countries (LDC-IV)
May 9-13, Istanbul, Turkey
www.un.org/wcm/content/site/ldc

Vienna Energy Forum 2011: Energy for All – Time for Action
June 21-23, Vienna, Austria
http://goo.gl/vQo2n

Alta Gracia already has orders to make T-shirts and sweatshirts for bookstores at 400 US universities, and campaigning groups are actively backing the project. United Students Against Sweatshops, a nationwide organization of youth and students, has distributed fliers at college bookstores urging new students to buy the Alta Gracia shirts, and the Worker Rights Consortium, a group of 186 universities that presses factories making college-logo apparel to treat workers fairly, has given the brand its endorsement.

At the ground level, the project is making a big difference. Workers are able to build bigger, sturdier houses and to properly feed themselves and their children, and other businesses in the village are flourishing as the workers spend money on necessities. (Alternet)

When CO_2 is cool

Most supermarkets use fridges and freezers that emit large quantities of greenhouse gases, as well as consuming huge amounts of electricity. But now there is a green alternative.

The 'Pick n Pay' chain in Cape Town, South Africa, has installed state-of-the-art, climate-friendly freezers in two of its outlets. Rather than relying on standard synthetic refrigerants, such as CFCs (chlorofluorocarbons) and HCFCs (hydrochloro-fluorocarbons), these use CO_2 (carbon dioxide), a far less environmentally-damaging natural refrigerant.

But hold on. As everyone knows, CO_2 is a greenhouse gas and a major contributor to global warming. So, how can this be regarded as environmentally-friendly?

It sounds paradoxical, but experts agree that CO_2 is the answer to green refrigeration in supermarkets because, as a natural gas that can be "borrowed" from the carbon cycle, it is climate-neutral. Supermarkets using CO_2 are not adding to greenhouse gases in the environment.

Standard fluorocarbons such as CFCs are molecules that are constructed to act as refrigerants, among other things, and they have made a huge contribution to the depletion of the ozone layer. So much so that almost 200 countries have signed the 1987 Montreal Protocol, agreeing to phase out the production of a number of ozone-depleting substances, such as CFCs and HCFCs. However, when the industrialized nations phased out CFCs and HCFCs, they replaced them with hydrofluorocarbons (HFCs). While these do not damage the ozone layer, they are potent greenhouse gases with significant global warming potential. Nonetheless, they remain the norm in super-market fridges and freezers.

One of the biggest problems with these refrigerants is leakage. Virtually all cooling systems leak, but because of their smaller molecular structure, HFCs are more prone to leak than CFCs. On the other hand, refrigerators relying on CO_2 can withstand a much greater gas pressure than standard refrigeration units, and therefore leak much less.

As well as requiring fewer refrigerants because they leak less, they are also more energy-efficient. The CO_2 freezers at the 'Pick n Pay' stores in Cape Town use an estimated 25% less energy than the ones they replaced.

The only downside is the higher manufacturing cost, and it seems that this is the main obstacle preventing green refrigeration from going mainstream. Too many supermarkets are put off by the relatively high investment needed to make the switch. (Deutsche Welle)

Africa-China

A path to mutual prosperity?

Photo: Matthew Ashton/AMA/Corbis

Xiao Ye examines the recent expansion in trade between sub-Saharan Africa and China, and asks how African countries can seize the new opportunities it provides to advance their own development agendas.

The explosion of commerce between emerging economies and the countries of sub-Saharan Africa is a striking hallmark of the new trend in international trade and investment. As recently as 1990, trade between lower-middle income countries and sub-Saharan African countries accounted for only 5% of total African trade. Today, it accounts for more than a quarter. If the current trend continues, it is possible that in the next 10 to 15 years, lower-middle income countries' share of African trade will equal that of high-income countries. This acceleration in commercial exchanges among developing countries is one of the most significant features of the current global economy.

China, having recently acquired lower-middle-income country status, is leading the expansion in South-South trade. Over the course of just one decade (1999-2008), trade between China and sub-Saharan Africa has increased from US$8bn to US$86bn, an average annual growth rate of 35%, which is much higher than China's overall average trade growth rate of 17%. Trade statistics can hardly keep up with the pace of trade growth between Africa and China! According to the Chinese Ministry of Commerce, total trade between China and Africa (North Africa included) was expected to reach US$110bn in 2010.

Yet, despite the dazzling growth rate, Africa's trade with China in fact now only accounts for 15% of its total trade, similar to sub-Saharan Africa's share of total trade with the United States. Chinese foreign direct investment (FDI) in Africa remains smaller still. By 2008, China's FDI stock in Africa totalled US$7.8bn, whereas the United States' FDI stock totalled US$69bn. China's high visibility in Africa seems to reflect the speed, rather than the scale of the expansion in its trade and investment activities with the countries of this continent. North-South trade and investment still dominate the African scene, although much less so than a decade ago.

XIAO YE is an economist at the World Bank. The views expressed here are the author's, and do not represent the World Bank's views. This article is an abridged and edited version of "A Path to Mutual Prosperity? The trade and investment between China and Africa" in *Setting the Agenda for Africa's Economic Recovery and Long-Term Growth*, (African Development Bank, United Nations Economic Commission for Africa, and United Nations Development Programme, forthcoming).

Export patterns

While in the 1950s, less than a handful of sub-Saharan African countries exported to China, today, almost every country on the continent does so. China's dramatic entrance onto the international stage has enabled African countries to diversify their trade partners, thus reducing vulnerability to primary commodity price shocks, and to increase the competition among importers of African exports. A good example to illustrate this point is the impact of the recent global financial crisis. Currently, Africa is experiencing a robust economic recovery, with growth rebounding from 1.7% in 2009 to 4.7% in 2010, slightly lower than its 5%-plus pre-crisis growth rate. But if African countries still relied on exports to the markets of developed economies – as they used to – the economic recovery would have been more uncertain, given the slow recovery in the US and the continuing crisis in Europe.

Vuvuzelas: made in China – capturing the World Cup spirit, and the profits. The long, plastic trumpets which aroused so much controversy during the 2010 soccer World Cup in South Africa are said to be modelled on the traditional African kudu horn used to alert neighbouring villagers. Vuvuzelas may be the 'sound of Africa', but up to 90% of them sold during the tournament were made in China. Wu Yijun, manager of Jiying Plastic Products in Zhejiang province, China, estimated that the whole vuvuzela market would exceed US$20m in 2010.

Not all sub-Saharan African countries benefit equally from Africa's booming export trade with China. Five oil-exporting countries – Angola, Congo, Equatorial Guinea, Gabon, and Sudan – account for two-thirds of the continent's exports to China. And it should be noted that crude oil exporting is capital-in- ➤

➤ tensive, and typically does not benefit the broad population of the exporting countries, especially if governments are weak in collecting tax and managing oil revenues. While there is no doubt that crude oil dominates Africa's exports to China, this concentration is not unique – Africa's exports to the rest of world exhibit a similar pattern.

Looking in more detail at sub-Saharan African exports by commodity confirms the general trend of a growing dominance of raw material exports. In the early 1990s, African countries' raw material exports (petroleum, and ores and metals) to China accounted for only 42% of its total exports, while a decade and a half later, it accounted for 87%. There was a similar trend in exports to the rest of the world, with the proportion of raw material exports increasing from 56% of total exports in the early 1990s to 67% in the late 2000s. Africa's dependency on raw material exports is most pronounced in its trade relationship with the US and China, while its exports to European Union countries are more diversified.

The pattern of China's exports to sub-Saharan Africa is also very similar to the pattern of its exports to the rest of the world. China's man-made products, namely, manufactured goods, and machinery and transport equipment, account for about 90% of its total exports, to both Africa and to the rest of world.* However, while the share of total Chinese exports to Africa represented by manufactured goods has remained high over the last decade and a half, for Chinese exports to the rest of the world, the share has diminished significantly. China is apparently moving up the production value chain in its exports to the rest of the world, with machinery and transport equipment exports increasing over the last 15 years, from a mere 20% of the total to more than 40% of the total.

> **"Why don't sub-Saharan African countries export manufactured or value-added commodities to the vast Chinese market?"**

Import patterns

The patterns of sub-Saharan Africa's imports from China and from rest of the world are similar and complementary to each other. African countries almost exclusively import value-added commodities, mostly manufactured goods, machinery and transport equipment, food, and chemicals. While the largest proportion of Africa's imports from China is manufactured goods, from rest of the world, it is machinery and transport equipment. This confirms that China is more competitive in exporting manufactured goods, probably mostly to the lower-end market, while the rest of the world is more competitive in exporting transport equipment and machinery.

The patterns of China's imports from sub-Saharan Africa and from the rest of the world, however, could not be more different. From sub-Saharan Africa, China imports mostly raw materials, while, from other countries, it imports a large proportion of manufactured goods, machinery and transport equipment, and chemicals. It is apparent that in addition to raw materials, China also needs value-added products, which account for more than 70% of total Chinese imports. But sub-Saharan Africa has not yet been able to capture this market. This indicates that the Sino-African trade pattern can only change if sub-Saharan African countries gain significant comparative advantages in value-added commodities on the international market.

Africa's comparative advantage

The question is then, why don't sub-Saharan African countries export manufactured or value-added commodities to the vast Chinese market? The simple answer is probably that sub-Saharan African countries lack competitiveness in producing manufactured goods for both domestic and international markets. For a country to be competitive, it must be able to utilize its human capital and natural resources to produce goods and services at competitive prices. Each country is endowed with different resources, whether it is human or natural resources. China is a country that

Man-made products as percentage of China's exports to Africa 90%

Raw materials as percentage of Africa's exports to China 87%

Trade between sub-Saharan Africa and China

1999: 8bn US$

2008: 86bn US$

Average annual trade growth rate between China and Africa (1999–2008):

35%

China's overall average annual trade growth rate (1999–2008):

17%

was able to turn its comparative advantage, which is a well-educated labour force and good infrastructure, to produce manufactured goods for the international market. It also avoided head-on competition with established products. For example, while it produces three-quarters of the world's shoes, it has not competed in the luxury shoe market, which is still dominated by shoemakers from developed countries. The same is true for handbags and apparel. By contrast, according to the World Economic Forum's *Global Competitiveness Index*, African countries lag behind in a global context.

It should also be noted that increasing manufactured exports is not the only answer. Any labour-intensive exports should deliver broad-based growth. Thanks to ample agricultural land and good climate, several African countries have been able to expand their labour-intensive agricultural exports – for example, Mali's mangoes, Rwanda's coffee, Ghana's cocoa, and Kenya's horticulture. Other initiatives that have turned African comparative advantages into exports include tourism in Rwanda and Cape Verde, and the transportation hub at Nairobi, Kenya.

Mutual benefit

There is no doubt that China's spectacular economic growth is benefiting from Africa's supply of raw materials, but sub-Saharan Africa's economies – thanks to China's healthy appetite for raw materials – are also benefiting from high commodity prices, and African consumers, at least in the short run, also enjoy the benefit of cheap, Chinese manufactured goods.

Before China leapt onto the international stage, Africa was repeatedly subjected to commodity price shocks and had to import most of its manufactured goods from high income countries at a higher price. It might not be a pure coincidence that Africa is currently experiencing the longest uninterrupted growth since 1960s. Between 2000 and 2009 – the period when China and Africa's trade accelerated – Africa maintained an annual GDP growth above 3%. Most impressively, while GDP growth among advanced economies tumbled to 0.5% in 2008 and to -3.2% in 2009, Africa registered a GDP growth of 5.2% in 2008 and 1.7% in 2009. African countries are among the countries that are recovering fastest from the global financial crisis, and the World Bank predicts that sub-Saharan Africa will rebound quickly to an above 5% growth path in 2011 and 2012.

The question is how can sub-Saharan Africa benefit more from its association with China, especially by capturing China's market for value-added commodities? Since China endeavours to move up the value chain in the international market, it would be a 'win-win' relationship for China to collaborate with Africa by facilitating its quest for industrialization, leading to a second phase of its renaissance to the benefit of its majority population. Sub-Saharan African countries, however, must play a leading role in insisting on its rightful share of the benefit resulting from the trade relationships with China, with other emerging economies, as well as with the developed countries. ■

** Throughout the article the author uses the UN's Standard International Trade Classification.*

> **"It would be a 'win-win' relationship for China to collaborate with Africa by facilitating its quest for industrialization."**

After agriculture, the carpet industry is Afghanistan's second largest employer. Out of a population of over 25 million, around one million Afghans are involved in carpet production, and carpets vie with dried fruit as the country's most important legal export. (The cultivation of poppies for illicit heroin and opium production remains Afghanistan's most lucrative economic activity.)

Rural Afghanistan

Afghanistan's carpets are manufactured by a huge network of weavers throughout the countryside. The majority of production takes place in the northern provinces, but there is also significant production in the western province of Herat and around the capital city, Kabul.

Around 95% of production is carried out in the home on free-standing looms that are provided, along with the wool and carpet designs, by carpet dealers. During the Taliban regime (1996-2001), when women were forbidden to work, one of the only ways that they could still make a living was by weaving carpets at home.

Production times depend on the size, quality, and materials used but, for example, a $10m^2$ top quality carpet will take one family around ten months to weave. On completion, the dealer returns to purchase the carpet. The amount the weaver receives again depends on the type of carpet, with payments ranging from around US$25 for the simplest, smaller carpets, up to US$300 for most detailed, largest, and best quality ones.

Afghanistan is a landlocked and mountainous country, and carpets have traditionally been transported to market by mule, and later by truck.

George Vartian, whose father set up a carpet retail business in Vienna, Austria, in 1922, remembers his first buying trips to Afghanistan. "In the 1960s, I went with my father to the markets in Kabul. In those days, that was the export centre."

Peshawar, Pakistan

Over the last 30 years, a significant change has occurred, with the location of the cutting and washing process – an essential stage in handmade carpet production – shifting from Afghanistan to neighbouring Pakistan, particularly in and around the city of Peshawar. Today, around 80% of Afghan carpets are 'finished' in Pakistan, and then shipped abroad under a 'made in Pakistan' label.

The shift is explained by a lack of investment in the development of cutting and washing facilities in Afghanistan, which in turn is informed partly by the decades of warfare and instability, and partly by the lack of access to clear-titled land and to credit. For Afghan carpet dealers, it has become preferable to sell unfinished carpets to Pakistani wholesalers, rather than risk a long-term investment in a finishing facility in Afghanistan.

The trend means that Afghanistan's producers and dealers, and the economy as a whole, are losing out on a sizeable share of the value-added. Afghan weavers only get about 10% of the profit that the Pakistani exporters realize.

For those dealers still finishing carpets in Afghanistan, trade has been devastated by the long-running military conflict which has made international buyers reluctant to visit the country. As Vartian says, "For some time, it has been easier and safer to buy from the markets in Peshawar than to go to Afghanistan."

But recent events in the border region have put even this part of the carpet trade at risk. Connie Duckworth, the CEO of the US-based Afghan carpet wholesaler, Arzu Studio Hope, explains, "Over the past year or two, the rise in insecurity along the Pakistani border has made it increasingly difficult to import carpets from Afghanistan."

Dubai, Karachi, and beyond

The only other trade route is by air from Kabul to Dubai, and then on to destinations around the world, but few Afghan carpet producers use it. Although the dangers and difficulties of road transportation in theory make air freight the most viable option, in practice the small-scale of the Afghan carpet industry means air transport is prohibitively expensive.

As Duckworth says, "Trucking the carpets to Pakistan to be shipped by sea is by far the most cost effective route." Nearly all exported carpets are shipped to the main markets in Europe and North America from the Pakistani port of Karachi.

Despite the global recession's impact on the global carpet trade, demand for high quality Afghan carpets appears to have held up.

George Vartian says sales in Austria have remained steady, "The Russians who have come to live in Vienna in recent years are good customers, but we sell to all sorts of people."

In the US, Arzu has also enjoyed relatively healthy sales. Duckworth says, "Even though growth was slower than we would have liked, our sales were up 16% in 2009, and 11% in 2010."

The international community sees the carpet industry is one of the few areas of Afghanistan's economy with significant growth and export potential. In 2010, the US Departments of the Interior and Defence awarded a US$1m contract to a US consulting company to expand the market for Afghan carpets. After identifying reliable Afghan suppliers, and finding three commercially viable transport routes out of Afghanistan, the company will attempt to attract potential buyers who stay away from the war-torn region to a newly-established international sales hub in Istanbul, Turkey.

Back in Afghanistan

In 2009, a new carpet washing and finishing factory, funded by the US Agency for International Development, opened in the eastern Nangarhar province. In the same year, Arzu, which sources carpets directly from the weavers themselves, also began exploring ways to revive the finishing process on Afghan soil.

Duckworth explains, "As the level of violence and uncertainty increased, we began searching for local Afghan solutions to washing and finishing. It took about a year to identify and test small-scale, local finishers who could meet our strict quality criteria. Since 2010, all our carpets are finished in Afghanistan." ■

An Afghan carpet ride

For centuries, Afghanistan has been recognized as a global leader in carpet production, but years of war and political instability have damaged the country's carpet weaving industry. **Charles Arthur** traces the Afghan carpet's journey from point of production to point of sale.

Photo: Thomas Lee

Image: Istock

Trade is a vital engine of economic growth, writes **Peter Sutherland**, but a multilateral framework for trade agreements is essential if all countries are to share the benefits. In the face of a rising tide of protectionism and continuing friction over exchange rate levels, he assesses the prospects for the conclusion of a multilateral trade agreement.

A window of opportunity for world trade?

PETER SUTHERLAND serves as the non-executive chairman at Goldman Sachs International. He is also a UNIDO Goodwill Ambassador. From 1993 to 1995, he served as Director-General of the World Trade Organization, and from 1989 to 1993 he was Chairman of Allied Irish Banks. Prior to that, he served as European Commissioner for Competition Policy from 1985 to 1989, and from 1981 to 1984 was Attorney General of Ireland.

During 2010, there was a welcome recovery from the plunge in world trade resulting from the financial and economic crisis; but that recovery is now faltering. Protectionist measures and bilateral trade deals continue to be introduced around the world. With growing international tension over current account imbalances and exchange rates, 2011 offers a window of opportunity to bring the almost decade-long Doha Round trade talks to fruition.

It is an opportunity that requires the G20 and other world leaders to respond to currency tensions and continuing financial turmoil in a calm and measured way. A successful outcome to the multilateral trade talks would send a clear signal of the international community's commitment to the benefits of trade for the global economy. The multilateral mindset is also an important antidote to the growing economic nationalism that has been making the G20 debate about international imbalances and exchange rates so unproductive.

Trade and the global economic crisis

Trade is a vital engine of economic growth. Export volumes rose by an average 6% each year from 2000 to 2006, and this followed a decade of strong growth during the 1990s. A process of increasing specialization in manufacturing industry, followed increasingly by a number of service industries, drove higher productivity and growth. Globalization, reflected in the figures for trade and international investment, has been a further stage in the division of labour, identified by Adam Smith as the key to the wealth of nations. Prosperity arises from our mutual economic dependence.

The process can be disruptive, however; growth in the abstract translates into job gains, and losses, for individual companies and workers. Those of us who advocate trade liberalization are well aware that the benefits and costs of change fall differentially. We should never ignore the tensions and transitional costs that arise. But all countries can gain from trade, and a multilateral framework for trade agreements is the best way to ensure that the benefits are widely shared. An agreement under the auspices of the World Trade Organization (WTO) will be far more effective than any number of bilateral and regional deals in ensuring that the poorest countries participate in the gains.

The urgency of the need to make progress on the multilateral trade framework is made clear by the recent fragility of trade. The onset of the crisis led to a collapse of 12% in global trade volumes in 2009. This was a steeper decline than occurred in any year during the 1930s. There has, thankfully, been a bounce back to about the same level of trade as before the crisis – due in large part to strong economic expansion in Asia – but the rate of growth in import and export volumes is now slowing again.

The latest projections from the International Monetary Fund indicate that global GDP growth is weakening, and will slow into 2011. The financial crisis is clearly not at an end, as events in the Euro-zone show. In short, many developed countries cannot count on anything better than weak growth in the year ahead – not enough to significantly reduce unemployment. The fragility of the recovery in many countries has created the conditions that may promote protectionism.

The rising tide of protectionism

The march of protectionism during the past two years should not be exaggerated. The world's major trading economies are closely linked by decades' worth of cross-border investment and exchange. The WTO has concluded that only a very small proportion of G20 imports has been affected by protectionist measures.

Nevertheless, the number of new measures introduced has been disquieting, especially given the all-too-pressing political pressures in some major trading countries. As Pascal Lamy, Director-General of the WTO, said in the organization's 2010 annual report, even if the pace at which new protectionist measures are being introduced is slower now than in 2009, there is a danger that the accumulation of such measures over time will in the end distort trade and investment significantly. He urged G20 governments to make more progress in removing trade measures that were introduced as a temporary crisis response.

One careful assessment of the spread of protectionism has calculated that between November 2008 and September 2010, the G20 governments had between them introduced 395

> **"Even if the pace at which new protectionist measures are being introduced is slower now than in 2009, there is a danger that the accumulation of such measures over time will in the end distort trade and investment significantly."**

trade-restricting measures, with a pick up in the pace between the G20 summit in Toronto in June 2010, and the Seoul summit in November, although the balance had shifted from protection against imports in favour of export promotion. What makes this G20 trend all the worse is that these measures are tilted against the world's low-income exporters. And a wider range of industries is being covered. At the onset of the crisis, countries made haste to protect their financial sectors, but increasingly firms in transport equipment, agricultural products, chemicals, some types of machinery, and metals, are among those favoured.

Then there is the continuing – indeed accelerating – spread of bilateral and regional agreements. About 200 agreements had been notified to the WTO by the end of October 2010, with another 100 currently under negotiation. The most active region for these deals has been East Asia. The WTO's assessment is that although regional trade agreements on balance do liberalize trade between the parties, the liberalization is often marginal, as the agreements tend not to overcome vested protectionist interests, and often do not remove protection for specific sectors. The WTO's annual report notes that many regional agreements address issues not covered under multilateral rules, such as regulatory bottlenecks, which can have a big impact on trade. But, as it comments: "Given the economies of scale and scope in reducing regulatory barriers to trade and investment, it is time to bring these efforts into the multilateral trading system."

There are encouraging signs in the fact that many non-G20 countries have engaged in a burst of reducing tariffs on imports in recent months, with the cuts mainly affecting equipment, parts and components. Those countries – about a third of sub-Saharan African countries plus another 20 or so outside Africa – are acknowledging the benefits of trade, including imports vital for the development of domestic industries.

On the other hand, some commentators in developing countries remain sceptical about both the potential benefits of participation in a new agreement and, as they see it, the loss of an important industrial policy tool if import tariffs have an upper limit. However, market access is a key issue for developed country negotiators, if they are going to be able to recommend tariff reductions in turn. These impasses in the talks are all too familiar. Countries must be able to shift from their existing positions, if prospects for agreement in 2011 are to improve, difficult as this might be in the context of weak domestic growth in the developed countries and global trade imbalances.

Trade and 'currency wars'

The likelihood of progress in trade talks is linked to the heightened tension in international debates over global trade imbalances and exchange rate levels. Before the November 2010 G20 summit in Seoul, the phrase 'currency war' gained prominence. In weak economies like the United States and the United Kingdom, monetary policies of 'quantitative easing' aim to prevent a return to recession, but inevitably weaken their currencies. Their trading partners, on the other hand, do not accept an obligation to alter their own policies in order to correct the large imbalances between deficit and surplus countries. Domestic political pressures in every case make it difficult for politicians to shift from these positions.

Economists have long noted the existence of a 'trilemma': out of the goals of a stable exchange rate, an autonomous ➤

➤ monetary policy, and free international capital flows, it is only possible to attain two of the three. If countries will not co-ordinate their monetary policies, and do not impose capital controls, then the exchange rate will take the strain.

The choice facing emerging market countries is this: allow the exchange rate to appreciate – which China, for one, fears will slow its growth and cause unemployment; resist the appreciation but suffer asset price bubbles, as well as pressure over the size of their trade surplus; or reverse trends towards freer capital markets and the financial and economic development that these have enabled. For developed countries like the US, the 'trilemma' is: allow currency depreciation which trading partners perceive to be unfair competition; tighten monetary policy at the risk of weakening domestic growth; or accept an inevitable vulnerability to international capital flows.

But trade policy is another weapon in the armoury of international economic diplomacy. There may be, over time, a temptation to avoid the 'trilemma' by resorting to protection instead, as a direct means of reducing current account imbalances. When the US called recently for agreed 'targets' for current account balances, this implied a policy of managing trade flows directly.

Whether or not protectionism continues to advance, the environment for concluding a multilateral trade agreement will be improved if the G20 countries make progress on the coordination of macroeconomic policies. Otherwise, the outcome is likely to be, alongside the temptation to introduce trade protections, additional capital controls imposed by developing countries, exchange rate volatility, and continuing uncertainty as long as the global imbalances remain as large as they are today.

Trade finance

There has been some progress on another of the frictions affecting international trade. That is in the provision of trade finance. For companies in large developed countries, the environment for trade finance has improved steadily since the height of the crisis. However, developing countries, and small and medium enterprises affected by the credit crunch in developed countries, are often still finding it prohibitively expensive to access trade finance, especially for imports. One estimate is that, for many of the poorest countries, the cost of import finance is well over 10%, with an additional requirement for cash collateral of up to half the face value of the loan. This is as good as impossible for most importers.

The G20 statement in Seoul expressed the governments' support for the WTO and World Bank initiative to address the danger that some countries and firms are being excluded from mainstream trade finance. Progress on this front will be welcome; the evaporation of trade finance across the board in 2009 was one of the reasons for the collapse in the volume of imports and exports that year. The benefits of trade will not be shared appropriately unless businesses in developing countries have the practical means to access markets for their products.

Completing the Doha Round

The link between trade growth and the growth of the world economy, for all of the period since the adoption of a multilateral framework after the Second World War, speaks for itself. If world leaders genuinely want to see a return to growth, they will certainly hold back from all-out protectionism. But that is not enough. They must make a refreshed commitment to multilateral trade.

There is an opportunity in the next few months to do so, and to step back from the brink of 'currency war' and beggar-thy-neighbour protectionism. In November 2010, the British, German, Indonesian, and Turkish governments set up a working group, which I have been leading, along with Professor Jagdish Bhagwati, to look at ways global trade can be boosted. We will make our recommendations on measures to liberalize and encourage trade early in 2011.

The potential prize

The scale of the potential prize of a broad multilateral agreement was underlined by a recent workshop held at the WTO. Economists estimated that a Doha Round package addressing agricultural subsidies and market access for all goods would boost the world economy by between US$121bn and US$202bn. These figures do not give the full flavour of the importance of trade for the dynamism of the world economy, and the continuing process of specialization that drives productivity growth and raises living standards.

Apparently, there is still a political commitment to a multilateral agreement. The G20 communiqué of November 2010 expressed a commitment to resisting protectionism, and promised that any new protectionist measures would be rolled back. On the other hand, it notably failed to reach a consensus on policy coordination to address global imbalances.

Ernest Zedillo, the former President of Mexico, recently described the G20 leaders as "captive in the prison of mercantilism". He wrote: "The G20 has made confrontation more likely, not only by failing on macroeconomic policy coordination, but also by not delivering in its commitment to conclude the Doha Round in 2010. Instead of getting the job done – referring to 2011 as 'a critical window of opportunity' – the G20 leaders might have actually closed the door for a successful conclusion of the round when most needed."

The British Prime Minister, David Cameron, described it as "an international embarrassment" that the trade round has not yet been completed.

I share this disappointment that the G20 did not in the end manage to conclude the Doha Round in 2010; but the window of opportunity does remain open for a while longer. This is more than an opportunity to advance trade growth, and hence underlying economic growth and poverty reduction in developing countries. It is also an opportunity to reinvigorate the spirit of mutual benefit and cooperation in the global economy.

The economic nationalism of the mercantilist mindset may bring short-term benefits to some sectors of industry, but it undermines long-term growth prospects. It has always been the case that every country can benefit from the knowledge and resources of other countries. Trading to take advantage of these mutual gains is one of the constants of human history. In the technologically advanced, knowledge-based economies of today, our interdependence is more deep-rooted and extensive than ever. Both the trade framework and the exchange rate environment are needed to support this global production structure.

Of course, political decisions can reverse the post-war trend. But we know what the effect would be. It happened in the 1930s, a similarly fraught time for the world economy after a long period of globalization. Trade collapsed, and growth with it. Of course the G20 leaders understand the lessons of history, and remain ostensibly committed to the completion of the Doha Round in the next 12 months. But that commitment will be easier to turn into a successful outcome if they also remain committed to an orderly debate about currencies and global imbalances. Either way, 2011 is likely to prove decisive for the future of trade, and therefore the future of the global economy. ■

"This is more than an opportunity to advance trade growth, and hence underlying economic growth and poverty reduction in developing countries. It is also an opportunity to reinvigorate the spirit of mutual benefit and cooperation in the global economy."

Image: United Nations in Cape Verde

FÁTIMA FIALHO was appointed Minister of the Economy, Growth and Competitiveness in October 2008. In February 2010 this ministry was abolished, and Fialho was transferred to the newly-created Ministry of Industry, Tourism and Energy.

Cape Verde: the graduate

Fátima Fialho, Cape Verde's Minister of Tourism, Industry and Energy, tells *Making It* how her country graduated from the list of Least Developed Countries and how it plans to develop as a middle-income country.

As a small string of barren, volcanic islands, with a population of around 530,000 people, few natural resources, and suffering from chronic droughts, Cape Verde is an unlikely candidate to be in the vanguard of African development progress. Yet, that is how it is being hailed. Poverty rates are falling, and the country looks set to be one of few in Africa to meet any of the Millennium Development Goals.

Other African nations with similarly small populations, but far higher revenues – mainly from oil – have failed to use vast sums of money to benefit their populations, but Cape Verde is being heralded as a non-resource success story. During a visit to the capital, Praia, in April 2010, the African Development Bank Group President, Donald Kaberuka, said, "Rich natural resources endowment does of course help, but here is evidence that no matter how bad the initial conditions, with good governance, solid institutions, and a peaceful political and social climate, take-off is possible."

In November 2007, Cape Verde graduated from the United Nations' list of Least Developed Countries (LDCs), becoming only the second country to do so since the group was established in 1974 (Botswana graduated in 1994). Also in late 2007, the country became a member of the World Trade Organization (WTO). Over the preceding years (2000-2006), GDP had grown at an average rate of 5.4%, and the country had recorded impressive human development indicators. Fátima Fialho, Minister of Industry, Tourism and Energy, contends that these achievements were the result of a determined government policy.

According to Fialho, "Despite few natural resources, the success the country has achieved is the result of a series of measures taken by the government to improve the business environment, and to allow the private sector to thrive and actually become the country's engine of economic development."

From 1991 onwards, the country pursued market-oriented economic policies, facilitating foreign investment, fostering the private sector through privatizations, and developing tourism, light manufacturing industries, and fisheries. Cape Verde made good governance its most marketable product, using it to secure investment, loans, and improved security ratings.

This strategy paid off, as Cape Verde enjoyed a high investment rate, rising to 48% of GDP in 2008, and high levels of foreign direct investment (FDI), official development assistance (ODA), and remittances. The latter are sent home by the more than one million Cape Verdeans who live abroad.

Fialho adds, "Between 2002 and 2007, the country created a better business environment. During those five years, we saw a dynamic growth in entrepreneurship in terms of the number of enterprises, employment, and turnover. Specifically, we observed a 32% increase in the number of companies, a 60% increase in the number of staff, and an 88% increase in turnover."

Fialho is adamant that the recent reduction in poverty levels – down from 37% in 2001 to 27% in 2007 – can only be sustained by the development of a dynamic private sector.

She also extols the virtue of trade. "Trade has long been a part of the country's development strategy. Our recent accession to the

WTO will provide a large number of jobs and allow our further integration into the global economy. So, we can avoid the difficulties caused by having to rely on the domestic market. We believe that with our accession to the WTO, our companies now have access to a vast market where they can place their products without being discriminated against."

Fialho says, "From an economy dependent on remittances and external aid, we are evolving clearly into an economy whose main sources of foreign exchange will be the international trade in services and foreign direct investment targeted for exports."

Today, the economy is dominated by the services sector – mainly tourism, transport, commerce, and government services. Services' share of the economy has risen on the back of a tourism boom and moves to establish the country as an offshore financial centre.

"The government is committed to the services sector, and this sector's performance has contributed significantly to reducing the current account deficit. In the recent period, even under the effects of the global crisis, there has been a clear positive trend in the export of goods and services. The services sector has grown to the extent that it now represents 70% of the national GDP."

Ever since Italian dictator, Benito Mussolini, began building Cape Verde's first airport, on the island of Sal, in 1939, Italians have dominated tourism in Cape Verde. Today, four international airports receive charter flights from all over Europe, bringing most of the 330,000 tourists who visited in 2009 to all-inclusive beach hotels.

Fialho says that for some time the government has seen tourism as a strategic economic sector. "Since 2001, there have been significant developments in the export of services and, more recently, in the entry of foreign exchange through the export of services. Since 2006, revenues from tourism have been greater than those from remittances."

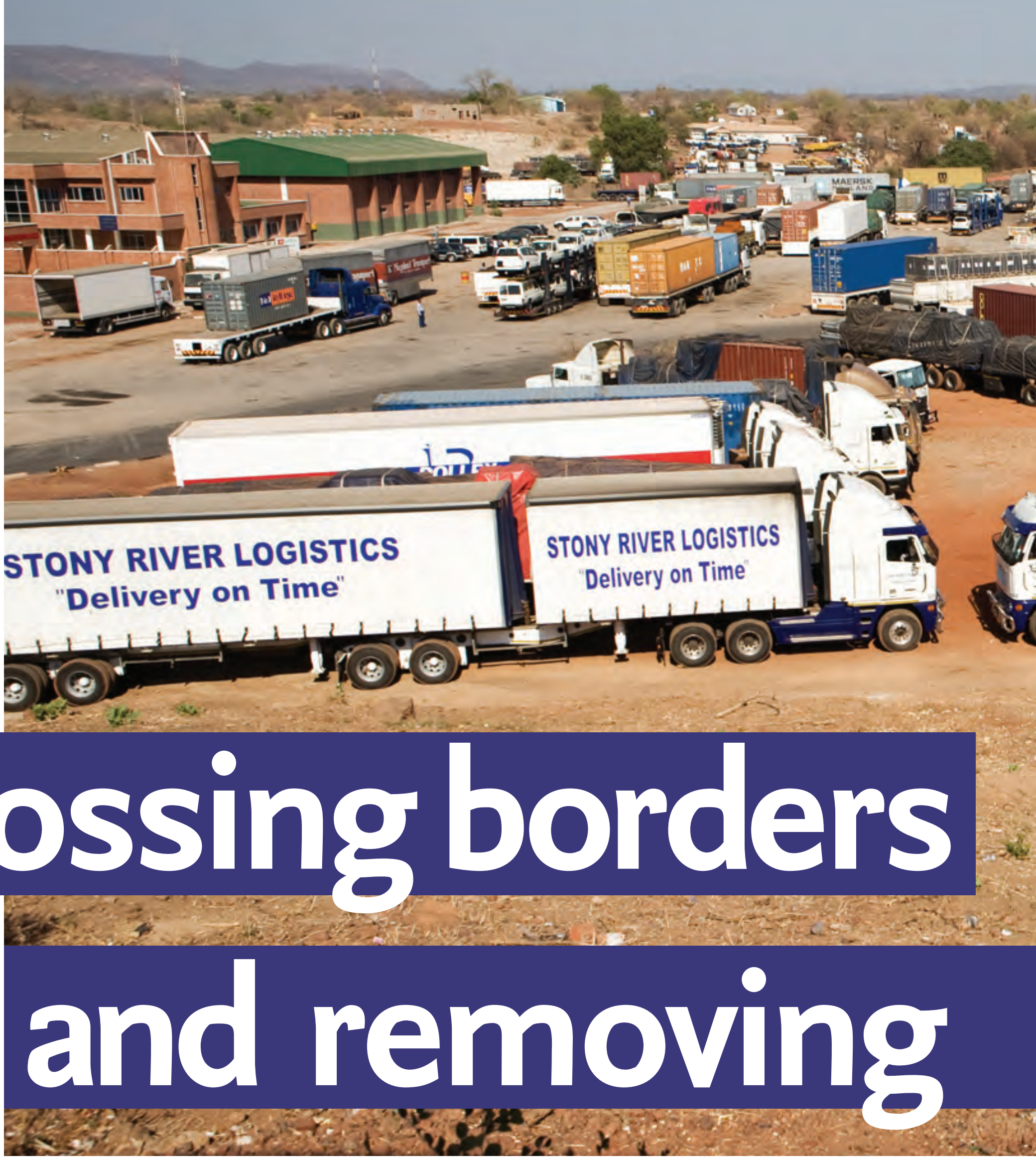
"Government investment in and strategic support for the tourism sector has allowed a continuous influx of Foreign Direct Investment, which is directed mostly to the tourism sector and to tourism-related activities. Today, this sector receives more than 90% of total FDI."

Energy is also part of Fialho's ministerial brief, and she is upbeat about extending energy access to the less developed islands of the archipelago. "A rural electrification programme has allowed the emergence of business opportunities around the country, and we have witnessed an entrepreneurship dynamic in all regions, with impacts on economic growth and poverty reduction."

Cape Verde has no known oil or gas resources – although the government has encouraged oil companies to prospect in its territorial waters – and imports all of its petroleum needs.

Fialho is keen to address this vulnerability. "Cape Verde is committed to ensuring that, by 2020, 50% of its energy requirements will come from renewables. Besides contributing to the reduction in the country's dependence on fossil fuels, this will have an important impact on the balance of payments, freeing up resources that could be invested later in infrastructure and in poverty reduction."

"The investment in renewables, and in particular in micro-generation, is an effective strategy to meet the demand for energy in small rural communities, and ensures the opportunity for employment creation and income for families in these communities." ■



Crossing borders and removing

Colin McCarthy questions the approach to regional integration in Africa

Since independence, African governments have embraced regional integration, and have concluded a large number of regional integration arrangements (RIAs). Yet, intra-regional trade remains comparatively low. Although the causes of the failure have been reviewed extensively, little attention has been given to whether the paradigm that underlies the African approach to integration is appropriate.

African governments typically pursue the linear model of regional integration, beginning with a free trade agreement and ending with an economic union with a currency union as the highlight. However, it is questionable whether this approach addresses the need for economically marginalized countries, many falling in the UN's Least Developed Country (LDC) category, to overcome the obstacles that they face in trying to catch up with the developed world.

The limitations of RIAs

An RIA in the form of a free trade agreement reduces the transaction costs of trade by removing a border barrier, namely the customs duty. The tariff is undeniably an important barrier at the border but there is abundant anecdotal evidence that the aggravation experienced at borders is perhaps more onerous. This might be because of management problems at border crossings or purely because documentation and procedures are not standardized. For landlocked African economies, the aggravation is exacerbated by the need to cross multiple borders.

Many behind-the-border trade constraints are also not addressed by formal RIAs. Given the limited availability of cheap transport on navigable inland waterways, the logistical costs of trade in goods are high. This is exacerbated by poorly developed transport systems that were designed in colonial times to transport primary products to port, resulting in poorly developed cross-country connections and some of the highest transport costs in the world.

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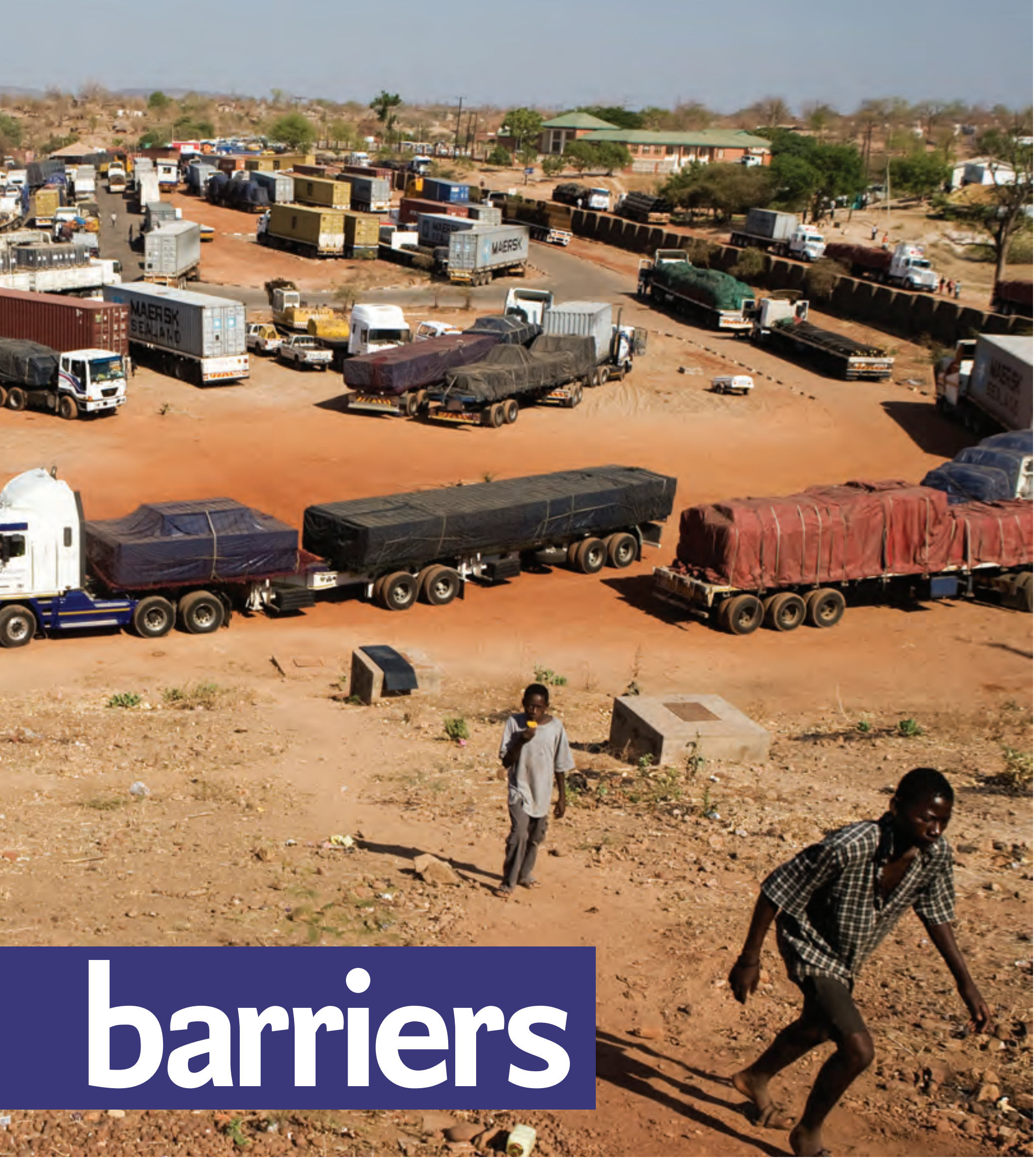
Furthermore, business contracts, even those as simple as orders to purchase or decisions to sell, require information on comparative prices and depend on fast and low-cost access to reliable market information, including information on the credit worthiness of potential clients. Yet, most sub-Saharan African (SSA) countries lack the skills and capital to establish and operate sophisticated modern communication systems, and don't have the market size that will allow viable business publications as a source of market information. These barriers obstruct trade with the rest of the world, but their impact on regional trade is particularly pernicious. Paradoxically, information on industrialized markets is more readily available than information on business opportunities in the region. The consequence is that businesses are discouraged from expanding beyond maintaining established business relations with suppliers and buyers in developed economies.

Relevance of regional integration

A regional free trade agreement removes the tariff, the first formal, World Trade Organization-compliant step that launches a process of regional integration. But experience has revealed that even this step is a difficult and often time-consuming process.

Taking the next step of the linear model, by establishing a customs union, brings forth new problems. Negotiating and implementing a common external tariff (CET) is complex, and further complicated by the need to design and establish the supranational institutions and management practices required to manage the CET. If the planned tariff structure is simple in design, for example a four-band tariff, and the categories of tariff lines per tariff band are sensibly demarcated, the management of the customs union tariff might not raise many problems. However, in SSA, trade taxes are an important source of revenue and consequently the collection and distribution of customs revenue could prove



barriers

Photo: Gideon Mendel/Corbis

The customs yard near the border post at Chirundu on the border between Zambia and Zimbabwe. Every day hundreds of trucks try to cross this border, but drivers often have to spend days, even weeks, waiting for customs clearance.

problematic. Difficult changes have to be made, without a commensurate benefit from lower trade barriers.

Another limitation derives from the fact that Africa's RIAs deal with trade in goods and, as such, do not cater to services. Trade in services has become a substantial component of international trade, and for many developing countries, an important source of foreign exchange earnings. But services also facilitate trade in goods, which cannot take place without supporting commercial, financial, professional, and transport and communication services.

The relevance of an RIA and a formal commitment to the linear model become even more questionable considering the weak capacity of the typical African economy to produce goods and services that can be traded in the region. Moving a region through successive stages of deeper regional integration without developing the capacity in participating countries to produce tradable products will be of little benefit. This seems to be the proverbial elephant in the room of African regional integration.

Re-thinking the RIA approach

To question the process of regional integration in Africa is not to deny the importance of the regional factor in economic development. Resources in the widest sense of the word are too scarce and the economic challenges facing the large number of small and/or landlocked nations too serious to ignore the necessity of a regional perspective. But concern needs to be expressed about the architecture of African RIAs that is noted for poor implementation of ambitious roadmaps of deeper integration.

In time, lack of progress becomes its own constraint. All the talk and planning cannot prevent the development of an underlying sense of cynicism which itself impedes progress. It is not surprising that after more than 40 years of rhetoric on grand integration schemes and ambitious roadmaps along the linear route to economic union, real integration remains an evanescent goal.

Cultivating a commitment to regional integration, based on schemes that will contribute to the development of competitiveness and capacities on the supply-side of economies, requires a more realistic approach, characterized by incrementalism, coordination and sound national development efforts and policies. A first step would be the removal of the barriers to intraregional trade, but in full recognition of the fact that tariffs may be a minor constraint to regional trade. The development of transport links through coordinated investment in infrastructure, investment in communication services, and the standardization and simplification of customs procedures at borders, should complement tariff liberalization in encouraging trade by lowering transaction costs.

But, in considering the removal of barriers to trade, it is necessary to adopt a broad approach that includes trade in both goods and in services. With due recognition given to the national need to regulate financial and professional services, cross-border growth of service flows is not only important in itself, but also for facilitating trade in goods.

Finally, a country can only trade in the region, and globally, if it has the capacity to produce goods and services that can be sold at competitive prices. Growing trade, therefore, requires a focus on the principal factors that contribute to an expansion of the supply-side of economic activity.

Surely, almost all governments would claim that they are pursuing these "motherhood and apple pie" goals, but in the real world of practical politics and administration many SSA states do little to achieve them. Taking the first sensible steps in developing the supply-side capacity of the economy and complementing these with a removal of barriers to regional trade is important. Regional coordination and formal integration arrangements can contribute in this regard, but these should be modest in design, and strong on commitment and implementation. Most important of all is the recognition that development starts at home. Expanding the production frontier of an economy must, in the first place, be seen as a national effort, independent of any regional integration arrangement. Regional integration exercises cannot be a substitute for sound national development initiatives. ■

COUNTRY FEATURE
Timor-Leste

From aid dependence

Photo: Beawiharta Beawiharta/Reuters

"The main development challenge is to use the revenue generated from oil and gas production to develop human and physical capital."

Above: Supporters of José Ramos-Horta shout slogans during the 2007 presidential election campaign.

to resource revenue

Photo: Bazuki Muhammad/Reuters

When Timor-Leste became independent in May 2002, the country faced enormous social and economic development challenges. In late 1999, between the referendum for independence and the arrival of international peacekeepers, an estimated 75% of the population was displaced and nearly 70% of all buildings, homes, and schools were destroyed by an orchestrated campaign of violence carried out by militia groups.

The fledgling country struggled to rebuild infrastructure, stabilize the economy, and establish strong government institutions, and Gross Domestic Product (GDP) per capita was among the lowest in the world. However, since 2005, Timor-Leste has gone from aid dependence to resource-derived wealth, with the production of petroleum in the Timor Sea between Timor-Leste and Australia providing the government with much needed revenue to drive economic recovery and address pressing needs.

In 2005, there were the first signs of a modest economic recovery, with real GDP growing by 2.3%, but in 2006 the economy contracted again following widespread social and political unrest. The economy then bounced back strongly, reaching 7% GDP growth in 2007 and 12.8% in 2008. Petroleum-related revenue nearly doubled in 2008 to US$2.4bn (compared to total non-oil GDP of US$499m) and represented about 95% of total government income. Thanks to booming oil and gas revenues, Timor-Leste was relatively untroubled by the 2008-09 global economic crisis. High levels of public spending meant that the economy was insulated from the worst of the crisis – GDP grew by 7.5% in 2009, and by 8% in 2010.

One of the government's main policy achievements has been the establishment of a petroleum fund, set up in 2005 with the aim of helping to safeguard the country's economic prospects when oil and gas reserves run out. The fund, an "international best practice" savings programme, is integrated into the budget, with inflows and outflows subject to parliamentary approval. At the end of September 2010, the Petroleum Fund's balance stood at US$6.6bn.

Timor-Leste is primarily a low-productivity agricultural economy. Agriculture accounts for about a third of the economy, and also provides the vast majority of jobs – around 90% of the one million-strong population rely on agriculture and the subsistence economy for their livelihoods. According to the *Economist Intelligence Unit*, the agricultural sector is in dire need of substantial new investment, particularly in the coffee industry, which is the country's leading non-oil and gas export earner, and is likely to remain so for some time. Investment in replanting, infrastructure, transport, and marketing is needed to increase yields and reduce costs. Only around one-third of the 10,000 tons of coffee produced each year is suitably processed for sale in the niche market for high-quality organic coffee. Only around one-third again of that fraction is actually sold, owing to a paucity of buyers. While the most important cash crop is coffee, there is potential to develop other crops, such as cocoa, cashew nuts, and vanilla.

Industry remains undeveloped, with manufacturing making a very small contribution to GDP. The potential for development in the near future is limited by low skill levels and poor transport links. Most manufacturing is small-scale, with the most active areas being cloth-weaving and furniture-making.

There is some potential for the country to develop as a tourist destination, particularly in terms of the niche market of ecotourism. The landscape retains areas of unspoilt natural beauty, and there are pristine beaches and extensive marine life. There are only a few hotels and resorts, but there is interest in developing tourism facilities. However, prices in the tourism sector are relatively high, and concerns about security endure.

Timor-Leste's main development challenge is to use the revenue generated from oil and gas production to develop the human and physical capital needed to promote and sustain growth in the non-oil economy, and thereby help absorb a rapidly growing labour force. Despite substantial reconstruction and real GDP growth over recent years, Timor-Leste is still the poorest country in Asia, and half of the population lives below the poverty line. ■

"We are working to diversify our economy"

Timor-Leste has come a long way since achieving independence in 2002, and has made great strides in terms of establishing itself and providing for its citizens. Recent economic data suggests that, in many ways, the economy is continuing to perform well. How has Timor-Leste succeeded in making this progress?

The robust economic growth that Timor-Leste has posted since 2007-8 stems primarily from heavy investments on the part of the government in public infrastructure, but also in cash transfers to the poorest, the elderly, widows, the handicapped, and veterans of the resistance struggle. We have also invested significantly in the purchase of tractors and other equipment for the agricultural sector, and we are trying to improve seedlings, expand areas of farmland, and improve productivity per hectare. So, as a result, the economy has expanded, and we have had double-digit growth for the past three to four years.

What can other countries learn from Timor-Leste's development experience?

Unfortunately, I cannot say that we stand as a model of development for other countries because we still have numerous challenges facing us. We have had setbacks in the past. And we are uniquely privileged in that we have a significant cash flow from oil and gas revenues. So, we are able to finance 100% of our budget needs on our own. We are not dependent on external budgetary support. In this regard, we are very fortunate. We are in a unique situation in that, soon after independence in 2002, we began to receive significant revenues from oil and gas.

What are the main challenges facing the country as it strives to achieve sustainable development?

In order to achieve the Millennium Development Goals, and lift off towards a different level of development of our country – from Least Developed Country to middle-income country status – we have a long way to go, and we will have to invest hundreds of millions of dollars in building infrastructure, and invest more in education and health care over the next 20 years. The difficulties and challenges that we face are in terms of human resources – we do not have enough qualified people or well-functioning institutions that deliver services or execute the budget in a just, efficient manner.

Central to the future prosperity of Timor-Leste will be its success in maximizing the long-term benefits from the exploitation of its natural resources. In the context of the oft-remarked upon 'resource curse', what can other developing countries with significant natural resources learn from Timor-Leste's experience?

Timor-Leste is a member of the Extractive Industries Transparency Initiative – the EITI – which brings together mineral-rich countries, oil and other resource companies, as well as civil society. We are very proud and pleased that Timor-Leste has been classified by the EITI as number one in Asia – with the best performance, the best record in terms of the management of our petroleum resources – and is only the third country in the world to have been granted EITI compliance. So, we will continue our prudent and transparent use of our oil and gas revenues in order to support the sustainable development of the country with absolute integrity and transparency.

Are there moves to try and diversify the economy, and in particular to strengthen the country's productive capacity?

We are certainly very aware of the risks of Timor-Leste, or any country, being dependent on a single export commodity – in our case, oil and gas, although it provides us with considerable revenues. Our Petroleum Fund account is now over US$7bn, making Timor-Leste, in nominal per capita terms, way above the Least Developed Country level. We are working to diversify our economy, firstly by greater investment in agriculture to ensure food security in the next five to ten years. We are also investing heavily in infrastructure, such as a better road network, and a new port and airport, as well as in power and telecommunica-

"Before we have a proper tourism industry, we first have to resolve issues of public health,

Photos: José H. Meirelles

tions. These are the foundations for a modern, diversified economy.

If we want to seriously explore the tourism industry, we first have to be able to address the problems of transportation and communications, as well as problems of public health, such as reducing the level of malaria, dengue fever, and other illnesses. It would not be wise, and it could be even politically incorrect, to develop tourism that would coexist, side-by-side, with extreme poverty, malaria and dengue fever. These things are simply irreconcilable. So, as much as we want to develop tourism – and some efforts are already underway – before we have a proper tourism industry, we first have to resolve issues of public health, such as cleaning up our cities, and reducing the instances of malaria and dengue fever. And we have to address the problem of a clean water supply, as well as the more obvious issue of reliable and cheap energy for the whole country.

Like many other LDCs, Timor-Leste has a young and fast-growing population. What future can this segment of the population expect in terms of economic opportunities?

One of the greatest challenges facing the government – and one of its top priorities – is investing in education. The current government has already shown its commitment to the youth and their education by increasing support in terms of scholarships in the areas of science and technology, public administration, and business management, so that our youth can pursue their studies in Timor-Leste or overseas. We are providing dozens of scholarships to our students to study in Australia and elsewhere. We have more than 100 students in the Philippines, and close to 800 students studying medicine in Cuba and Timor-Leste itself. These are the guarantee that, in the future, Timor-Leste will have a highly-educated young population that will be able to compete regionally and internationally.

The Fourth United Nations Conference on Least Developed Countries (LDC-IV) will take place in Turkey in May. As a Least Developed Country itself, what outcomes will Timor-Leste be pressing for?

I attended the Millennium Development Goals Summit in New York in September 2010, and I have to say that I was thoroughly disappointed with the outcome because no real, concrete, specific commitments came out of that summit on the part of the developed countries and multilateral institutions by way of living up to, or catching up with, the past pledges by the rich to provide development assistance to poorer countries. In New York, all the leaders of the industrialized countries acknowledged their failure in not delivering the aid that they had pledged. I heard many of them acknowledge this failure on their part, and I also heard that, in spite of the international financial crisis, the rich countries would not penalize the poorer countries by reducing development assistance. This is what we heard. We all heard it in New York, as far as their pledges were concerned. However, soon after the spotlights of the media were turned off, almost every developed country began to reduce overseas development assistance!

So, I am not having any illusions that, at the Fourth LDC conference in Turkey, we will see anything different from past United Nations-sponsored meetings. I am not even planning to attend because we have attended dozens of international conferences, all over the world. We pay a lot of money for travel, expenses, and hotels – then, what is the real outcome? I don't believe that, in Turkey, we will have a better outcome than in previous international conferences on international development. ■

cleaning up our cities, reducing malaria... and address the problem of clean water supply..."

JOSÉ RAMOS-HORTA was elected President of Timor-Leste in 2007. Previously he had served as Prime Minister and Minister of Defence between July 2006 and May 2007, and as Minister of Foreign Affairs from 2002 to 2006. In 1996, he was awarded the Nobel Peace Prize, together with Bishop Carlos Belo, for their work towards a just and peaceful solution to the conflict in Timor-Leste.

The *poverty* footprint

Mary Arnesen, Business and Markets Project Manager at Oxfam GB, introduces a new way to help companies understand how their operations affect the people in their value chains and the communities and countries where they operate.

The social impact of corporations is moving up the agenda. With companies outsourcing a wide range of activities, and increasingly moving manufacturing to developing countries, their supply chains have been subjected to growing scrutiny by the media and consumers. In addition, developing countries themselves are now seen as attractive markets, and, as in developed markets, a company's licence to operate in developing countries is closely tied to its impact and how it is perceived. Companies have a strong interest in better understanding their social impact, and are more aware of the risks they run if this impact is not understood and improved.

Over the last few years, the mainstreaming of sustainability issues has led to a lot of detailed work to develop sophisticated "footprint" models of carbon and water usage. But social analysis, particularly in the area of poverty and development, still lags behind in terms of robust methodologies and metrics. According to Gerry Boyle, Oxfam GB's Head of Business Relations, "The impact that large companies have on development is often a mystery to companies and stakeholders alike."

As a leading civil society organization dedicated to reducing poverty, Oxfam believes that consistent metrics and frameworks are sorely needed, and that these represent the next step in companies understanding their impact. Many companies already track and try to alleviate the impact of specific business decisions, such as building a factory or a mine. However, given the multi-dimensional nature of both poverty and modern multinational operations, it is significantly more complex to track and manage the wider effects of a company and its global value chain on poverty.

The business impact

Oxfam has therefore developed its Poverty Footprint methodology to map out key issues related to poverty, to create a rigorous framework against which a company can understand its business impact, positive and negative, and to provide a structure for transparency and reporting of this impact. It is a collaborative research process, built around the premise that the findings will not only help businesses to improve their impact on people, but at the same time can improve operations and generate opportunities for innovative business solutions.

"We need to dig beneath the surface of what makes people poor. Sometimes companies have no idea that certain activities are impacting significantly on poor people. And if you aren't aware of, or don't understand why and how these impacts are occurring, you won't be managing them! Our methodology uses a series of quantitative and qualitative tools which address both the idea of what poverty is, and what corporate activities need to be assessed," explains Boyle.

Key aspects of the methodology are that:

- it is people-centric – looking at issues from the perspective of people living in poverty;
- it is based around a particular value proposition (an area of interest to both the company and community stakeholders) which allows the study to focus on strategic impact areas; and
- it provides a composite picture of poverty – looking at how different layers of activities add up to a broader picture.

At the core of the methodology is the development of a matrix that helps to set the scope of subsequent research. This matrix overlays five business-related dimensions, with five key parameters of poverty, to help structure the broad range of questions that need to be answered to understand the multi-dimensional picture of poverty.

Research questions

Within the matrix subject areas, research questions are developed that look not only at how corporate activities enable development, but also how they may create barriers to develop-

- Value chains (the process through which a product or service is produced and delivered, including labour conditions, supplier relationships, and distribution networks, etc.)
- Macro-economy (taxes, public and private investment, and shareholder dividend distribution)
- Institutions and policy (impact of practices on trade rules and regulations, corporate policies, lobbying, and advocacy)
- Product development and marketing (impact on culture and cultural institutions)
- Social implications of environmental policies (health impacts, disaster risk reduction, and climate change)

- Diversity and gender equality (access to equal rights, and protection of cultural identify)
- Livelihoods (access to jobs, markets, and credit)
- Health and well-being (access to health care and education)
- Empowerment (the right to organize and unionize)
- Stability and security (the ability to deal with personal and natural disasters, crime, and violence)

ment. Kyle Cahilll, Oxfam America's Poverty Footprint Senior Programme Officer, comments, "We find ourselves asking questions ranging from 'How could markets increase opportunities for women, and improve their involvement and overall benefits from trade?' to 'How are revenues distributed and shared throughout the value chain?' From 'How does the company contribute towards the delivery of essential services in the region, and how does this affect public delivery of such services?' to 'How are product development and marketing initiatives impacting on the cultural environment and health of communities?'"

The research is carried out with the close involvement of company personnel, and thereby provides both Oxfam and the company with a unique opportunity to learn from each other's views, and build on these, to create new insights into how activities affect both individuals and communities around a business operation. Involving company personnel also ensures that those closest to the business can assist in identifying the most practical solutions.

Unilever

In 2005, global consumer goods company, Unilever, worked with Oxfam to pilot the footprint methodology within the company's Indonesian supply chain. The research included work with local farmers and traders, factory workers and management, and communities. These communities included those dependent on Unilever for employment (directly or indirectly), those targeted by advertising, and those who received Unilever's philanthropic support. One thing that the study revealed was that the company was using twice as many people for distribution as for production, and more of them were part-timers than the company had assumed. This discovery allowed Unilever to identify critical levers, like labour engagement and unionization, and increased access to credit, as ways to increase financial stability among this population and, by doing so, to improve productivity.

It also highlighted the complexity of tackling poverty. Thomas Lingard, Unilever's Global External Affairs Director said, "By examining the jobs and the value created at each point in this chain, we learned a great deal about where companies can have the most positive and negative impact on poverty reduction. But participation in value chains alone does not guarantee improvements in the lives of people living in poverty; other social institutions and resources are needed."

The footprint process can also help companies identify issues and constraints which have relatively simple solutions. If implemented, these solutions would benefit both the corporation and those with whom it interacts. For example, in a study with a domestic Indian company, Oxfam's research found that while the company's smallholder farmers valued information and capacity-building services in general, only 8% of them were aware of and made use of the information services that the company had developed to benefit them. By linking their information services more directly with the procurement function, the company could more easily reach its farmers to provide information to ensure that the crops being grown were those most in demand by the market and to boost smallholder productivity.

Poverty footprints, by combining a focus on the key dimensions of poverty and the key business areas likely to affect them, have helped companies to understand the scope and different ways in which their activities impact on people living in poverty. Companies can also gain insights into how their corporate policies and practices can be adapted to maximize their overall contribution to poverty reduction. ■

Andy Wales, co-author of the recently published book, *Big Business, Big Responsibilities*, argues that many major companies are now viewing issues such as corporate social responsibility, philanthropy, and environmental compliance as increasingly important to business strategy.

The story of big business as the 'villain' grew through the 1980s and 90s as non-governmental organizations (NGOs) highlighted cases of environmental damage, such as oil spills, human rights abuses, and child labour in Asian supply chains. Of course, we still have oil spills, including BP's recent disaster in the Gulf of Mexico, and in the last few months we have seen further allegations of British retailers buying from companies which use child labour. If you just read those media stories – as most of the public do – then you might assume that in the last twenty years not much has changed.

But actually a great deal has changed, especially in the last ten years. *Big Business, Big Responsibilities* tells the story of five new realities which mean that some major global businesses are now more likely to be leading calls for environmental protection rather than lagging behind them; to be promoting human rights rather than ignoring them; and to be working with NGOs in partnership rather than always in response to campaigns.

Shared risks mean shared responsibilities

Companies are moving beyond a philosophy of enlightened self-interest to recognize that they are but one institution that faces shared risks, and therefore shared responsibilities. The 2030 Water Resources Group, bringing together the International Finance Corporation, McKinsey, Coca-Cola, Nestlé, SABMiller, Standard Chartered, and others, is a good example of a public/private partnership that aims high to tackle the clear shared risk of global water scarcity. These businesses are involved because they can foresee the impact of widespread water scarcity across the world on their medium and long-term growth prospects. What the businesses bring is a different angle on the challenge, helping governments understand that water scarcity is not just a development or an ecological challenge, but also an economic growth challenge. Currently, the companies are working with the World Economic Forum and national and regional governments in key countries, such as India and South Africa, to help improve water resource management locally, for the benefit of communities, companies, and the environment.

Challenges addressed through collaboration

Company/NGO philanthropic partnerships have existed for a long time, and there are also some long-standing supply chain standards collaborations.

Yet, now a much more widespread and systematic approach to partnerships is developing, in which a whole range of companies, NGOs, and governments are involved. For example, when the potential role of Internet companies in restricting freedom of expression and privacy first generated public interest, the issue was presented in typically simplistic terms: large and powerful companies were putting their own commercial self-interests ahead of the needs, rights and interests of their users. Internet companies such as Google, Yahoo! and Microsoft were no longer portrayed as the purveyors of freedom; they were now the major villains in freedom's demise. Yet these very same companies have joined together with major human rights NGOs, investors, and academics to launch a new coalition, the Global Network Initiative (GNI), designed to take a collaborative approach to the protection of freedom of expression and privacy online. The GNI's Principles and Implementation Guidelines offer valuable direction to companies across the whole communications industry on what to do when faced with difficult demands from governments that may lead to violations of user rights to privacy and freedom of expression.

From villains to visionaries

ANDY WALES is Global Head of Sustainable Development at SABMiller. *Big Business, Big Responsibilities: from 'villains' to 'visionaries'*, by Andy Wales, Matthew Gorman, and Dunstan Hope, is published by Palgrave Macmillan.

Being trusted has never been so important

When companies are exposed as being linked to human rights abuses or attacked for undermining environmental standards, nowhere is it more keenly felt than internally. Social and environmental performance matters a great deal to employees of major companies. It also matters for their future employees. Surveys of recent university graduates regularly cite the perception of the social responsibility of a company as a major reason for choosing a particular business to work for. Consumers are also becoming more sophisticated about their views of big companies and their brands, with some companies such as Unilever and Nike accelerating this by making more sustainable or ethical products a key focus for innovation. Brought together, these drivers mean that proactive communication of performance is important, and suffering a loss of trust when things go wrong becomes more critical for the business and the brand.

Public policy changes

Changes in public policy to address sustainability challenges will increasingly shape the business operating environment. Action from governments to address global challenges is beginning to re-shape the regulatory and market context within which business operates, and despite some of the current delays in climate policy, this trend will likely accelerate as the urgency for action grows. Leading businesses are increasingly recognizing that while there is often a strong business case for companies to take action on sustainability, in many cases, public policy intervention is also needed. The Corporate Leaders Group on Climate Change provides one example of how companies are helping to support that government action, and to define the kind of policies that will be both environmentally credible and economically efficient.

Sustainability as opportunity

The successful companies of tomorrow are treating sustainability as an opportunity for innovation, not as a risk to be mitigated. A decade ago, addressing social and environmental challenges was frequently viewed by big business as solely an exercise in risk management. The contrast between this risk mitigation approach and the innovative approach taken by the leading businesses of today is stark. An intriguing example is provided by China Mobile, the world's largest telecommunications company by number of customers (over 500 million), size of their network, and market capitalization. When the Chinese government prioritized economic development in rural areas and the modernization of agricultural techniques, China Mobile set about finding ways to meet these public policy goals through the provision of new products and services. The company set up a rural information network to be a primary source of agricultural, market, and business information in rural communities, established new pricing structures that were affordable in rural communities, and expanded its network to the most remote areas of China. During this time, around 50% of its new customers came from rural areas, and other global telecoms companies are following its lead.

Big business still has a way to go. Yet the cases presented above show an approach and commitment from big businesses to resolving some of these challenges that was not evident ten years ago. We need a healthy dose of scepticism at all times, but given how much difference big business can make once it understands why corporate strategy and environmental and social challenges align, an accompanying sense of optimism wouldn't go awry either. ■

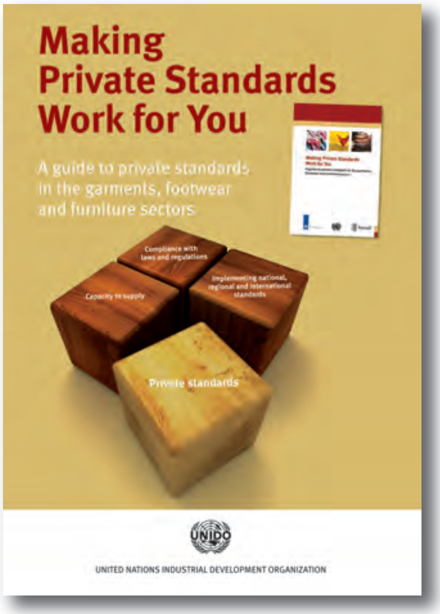
Illustration: Images.com/Corbis

Making private standards work for you

By **MÜGE DOLUN BORA**, Industrial Development Officer, UNIDO

Today, more and more companies in developing countries and emerging economies are becoming global producers. The liberalization of consumer markets provides these companies with opportunities for exporting their products to global markets, where they are increasingly required to comply with 'private standards', a phenomenon on the rise. In the broader context of (business) values, norms, ethics, codes, practices, guidelines, principles or morals, private standards are considered to be one way of promoting social development and environmental sustainability.

It is important to stress that private standards are something other than the technical regulations and national, regional or international voluntary standards, such as might be encountered in trading with any partner. Private standards focus on social, safety and environmental issues, and are required by brand producers and retailers when they source their products. These standards come in various shapes and sizes. For example, not all private standards have the same focus, and not all are of equal importance; labour issues seem more prevalent in the leather and garments sector, while requirements for compliance to certain environmental concerns are more common in the furniture sector. In addition, standards may be applicable to the production site and/or the product itself. Buyer codes of conduct usually refer primarily to production sites, while certificates and product labels most often imply compliance with requirements related to both the production site and the product itself.



"The enterprise will benefit from increased competitive advantage, improved efficiency, and a wider client base."

The growing importance and influence of private standards has some clear causes. Consumers in developed economies, as well as civil society organizations in those parts of the world, are showing growing concerns about the social and environmental conditions prevailing in countries participating in the supply chains of products that are sold into their markets. As cases of severe breaches of workers' rights, human rights violations and environmental degradation caused by corporate activity reach the public, consumer confidence in the responsible conduct of the major brands and retailers decreases. At the same time, these cases of misconduct indicate that national governments in developing countries often fail to enforce national and international norms and regulations. Consequently, globally operating companies find themselves faced with the challenge of responding to this governance gap.

Furthermore, as consumer awareness of production and consumption patterns grows, the desirability of differentiation in the market place in relation to social and environmental production criteria also increases.

These developments have contributed to the response from large brands and retailers who are setting stricter standards within their supply chains with the aim of improving the social and ecological performance of developing country producers along the whole length of these chains. In essence, many multinationals use private standards as an instrument of supply chain management, and as a mechanism to gain marketing advantage over rivals.

Faced with the requirement to comply with private standards, a supplier can react in one of two ways – by adopting either a reactive, or a proactive approach. The reactive approach implies that the supplier will comply with a new set of buyer demands each time it enters into a new business relationship. The proactive approach implies that suppliers adopt a more ambitious trajectory. This latter process starts by developing a vision and commitment, is followed by the introduction of and compliance with a set of serious social and environmental standards, and ends with external verification in order to authenticate the new improved standards attained. By doing this, the enterprise will benefit from increased competitive advantage, improved efficiency, and a wider client base, to name just some of the benefits involved.

UNIDO's guide, *Making Private Standards Work for You*, provides those producers in the garments, footwear, and furniture sectors who wish to sell to major retailers and brands with information on the complex landscape of private standards. It provides some strategic guidance to enable suppliers in developing countries to make sure that private standards operate to their advantage. It should also be helpful for exporters in other sectors. ■

A new approach to export-led growth

By **XAVIER CIRERA**, research fellow in the Globalization Team at the Institute of Development Studies, United Kingdom

In September 2010, the United Nations Conference on Trade and Development (UNCTAD) published the *Trade and Development Report 2010: Globalization and Development Strategies*. The report warns developing countries that rely heavily on expanding exports to rethink their current strategies for achieving growth, and argues that they need to give greater attention to strengthening domestic demand.

The report points out that not all countries can succeed with export-led strategies at the same time – some nations, after all, have to be net consumers of exported goods. Secondly, global export markets are likely to grow much more slowly than during the years preceding the global recession, making the pursuit of such strategies increasingly difficult. And thirdly, competing for export success by keeping labour costs low leads to a "race to the bottom" in wages that is counterproductive for reducing poverty and creating jobs.

While there is merit in these points, I would argue that – for small and very poor countries, including most Least Developed Countries (LDCs) – export-led growth is unavoidable. For larger developing countries, with enough potential domestic demand, avoiding deflationary policies may be a good solution. But poor countries are constrained by very small domestic demand. With such small internal markets, these countries require external export markets to sustain and expand production, achieve economies of scale, improve quality upgrading, and diversify exports away from natural resources and primary commodities.

The main challenge for poorer economies, given the current economic context, is how to sustain export increases, and more importantly, how to diversify exports towards other commodities, manufactured goods, and services, in order to reduce economic vulnerability and enhance economic growth.

Currently, export diversification, and the degree of sophistication and technological content in exports, are very limited in developing countries. The export expansion observed in the last decade has been mainly concentrated in existing exports, rather than new products. Existing export-led growth strategies are not sufficient to upgrade to higher value-added activities and to diversify into new products.

The problem of diversification into new activities is compounded by the high level of commodity prices, which gives investors the financial incentive to continue expanding production in these sectors. Despite slower demand growth in industrialized economies, some commodity prices are likely to remain high, driven by China's growth.

Since the 1960s, developed countries have attempted to boost exports from LDCS by offering unilateral trade preferences, such as the Generalized System of Preferences (GSP); and, more recently, Everything but Arms (EBA) and the African Growth and Opportunity ➤

➤ Act (AGOA). However, the effectiveness of these schemes appears to be limited, and, in terms of the impact on export diversification, even negligible. In addition, low preference margins on key export products, and especially the erosion of existing preferences, limit any potential positive impact of these schemes in the future.

Despite most developing countries being members of one or more Preferential Trade Agreements (PTAs), in reality, economic integration among these countries remains low, mainly because of the poor implementation of existing agreements and the existence of high non-tariff barriers. Increasing South-South integration can exploit preferential margins and proximity and will provide significant opportunities for expanding the range of exports beyond traditional commodities. This will, however, require a renewed effort to implement existing agreements.

Trade in services can also provide new opportunities for LDCs. While most of the focus so far has been on protecting domestic sectors from foreign services competitors, an effort to liberalize services in existing PTAs can significantly enhance the competitiveness of other sectors of the economy, and, at the same time, provide new export opportunities in key labour-intensive activities.

Finally, there is a need for better integration of domestic industrial policies with existing Aid for Trade assistance programmes, with a clearer focus on helping firms to diversify exports into new activities.

In conclusion, rather than adopting more inward-looking policies, as the UNCTAD report suggests, LDCs instead require a different export-led growth policy. This new strategy should prioritize South-South trade, trade in services, and policies to help firms break into new product segments and markets. ■

Industrial policy takes centre stage

By **MICHELE CLARA**, Programme Management Officer, UNIDO

On October 28, 2010, Antonio Tajani, the European Commissioner for Industry and Enterpreneurship, unveiled a bold and comprehensive flagship strategy to boost growth and jobs in Europe based on a strong, diversified, and competitive industrial base in the 27-countries of the European Union. Published under the title, *An Integrated Industrial Policy for the Globalization Era*, the document is an uncompromising pledge to the central role that industry can play in tackling the problems faced by humanity in this new century.

The policy is a component of a wider programme, *Europe 2020 – A Strategy for Smart, Sustainable and Inclusive Growth*, that aims to ensure a rapid exit of European economies from short-term stagnation and a return to a path of sustained and sustainable growth in an ever more competitive and globalized world economy. If these objectives sound familiar, it is perhaps because they were already at the core of an equally ambitious proposal by the Commission in the year 2000, namely the "Lisbon Strategy": a policy that certainly had many merits but that, as the Commission itself admitted, failed to achieve its objectives.

In a welcome sign of a readiness to learn from past mistakes, both the 2020 *Strategy* and the related *An Integrated Industrial Policy for the Globalization Era* take such shortcomings head on, and put forward remedial measures to address them. This is a timely reminder that effective policymaking, especially in the field of economic development, can only emerge from a transparent process of monitoring and evaluation of results against specified milestones, and subject to public scrutiny.

In many ways, the industrial policy proposed by Commissioner Tajani breaks new ground.

For a start, the policy dwells on a topic, the survival and growth of industry, which is of prime, strategic importance for every national government. Yet, it is a policy released by a supranational entity, the European Union. For this reason, the reader may want to get cracking on this 33-page document with the very last section, "A New EU Governance for Industrial Policy", which contains provocative ideas on how different levels of government must come together for the success of any development initiative.

A second, very interesting feature is the attempt to define the domain of any industrial policy. Apart from a few rabid opponents, most economic commentators would nowadays agree that the State has a role to play on issues such as infrastructure or education which have a strong bearing on economic development. Furthermore, and as brought out vividly in the work of economists such Ha-Joon Chang and Dani Rodrik, even the staunchest supporters of market-led innovation have comfortably lived with lavish public funding for innovation, and research and development (R&D) projects. Other aspects of policymaking are admittedly more controversial. Be that as it may, Commissioner Tajani lined them all up, as

European Commission Vice-President Antonio Tajani, Commissioner for Industry and Entrepreneurship.

Photo: European Union

can be gathered from a glimpse at the Table of Contents where competition and innovation policy sit together with measures to tackle structural excess capacities, attaining carbon efficiency, and enhancing corporate social responsibility. The document does not shy away from what is usually the hottest theme, sector-specific policies, and provides inspiring thinking on the relevance of industry to tackle big societal challenges such as climate change, the growing costs of health in aging populations, over-crowding in urban areas, and access to energy.

Finally, it is worth pointing out the policy's commendable format. For every theme, the document puts forward, in a very succinct manner, both a description of the rationale for the policy and its main objectives, followed by a clear set of commitments, with timeline, of what the Commission, and often the Member States and other European bodies, are expected to do. Going forward, the Commission pledges an equally comprehensive mandate in terms of knowledge management, especially as an information broker vis-à-vis the Member States on good practice, but also on lessons learned.

All in all, the European Commission has produced a document of great relevance for the citizens of the European Union, but also for practitioners of development economics. As always, its merit will have to be assessed if, and once, its expected outcomes are achieved. Only time will tell if that is the case. But for those who believe that great achievements start by asking the right questions and learning from one's own mistakes, *An Integrated Industrial Policy for the Globalization Era* is recommended reading. ■

"Competition and innovation policy sit together with measures to tackle structural excess capacities, attaining carbon efficiency, and enhancing corporate social responsibility."

Agribusiness in Africa

As an appetizer for the next issue that will look at agribusiness, *Making It* spoke to **LUCY MUCHOKI**, CEO of the Pan African Agribusiness and Agro-Industry Consortium.

Lucy Muchoki, CEO of the Pan African Agribusiness and Agro-Industry Consortium (PanAAC).

Why is the development of agribusiness important for Africa?
Agriculture is a dominant sector in Africa, and is essential for economic development. It employs over 60% Africa's labour force, contributes 17 % of aggregate GDP, and accounts for 40% of total economic output. Furthermore, the GDP growth generated by agriculture has been shown to be at least twice as effective in reducing poverty as GDP growth in other sectors. Accelerated agricultural growth is crucial for reducing hunger and poverty, empowering youth and women, and achieving a global partnership for development – the Millennium Development Goals, one, three, and eight.

In the context of growing global food demand, the Food and Agriculture Organization of the United Nations (FAO) estimates that an extra six million hectares need to be brought under cultivation every year for the next 30 years. Africa is estimated to hold up to 60% of the world's remaining uncultivated land suitable for farming. Also, the global market for agricultural products is expanding, opening up new opportunities for African produce. The potential for Africa's agriculture is definitely looking good, but there is an urgent need to focus investment in agriculture as a *business*.

The rural population of sub-Saharan Africa will never be able to farm its way out of poverty, nor act as an engine for broader economic growth, in the absence of dynamic, growth-oriented agribusiness. Yet today, the majority of Africa is still dominated by small-scale agriculture, by farmers who practice subsistence farming. Ninety per cent of agricultural output in sub-Saharan Africa comes from smallholdings. A shift from subsistence to commercial agribusiness is more crucial than ever before.

Does agribusiness have a particular relevance for young people in Africa?
Sixty per cent of the rural population is made up of young men and women between 15 and 24 years of age. Depending on which way you look at it, this is either a potential opportunity for tomorrow's food producer or a time-bomb waiting to explode in urban areas. The rural youth are busy migrating to the urban areas in search of jobs which are not available, and – perhaps not surprisingly – there's an accelerating crime rate in the urban areas.

At the same time, according to a FAO report, the average age of the African farmer is approximately 60. This means, there's a big generation gap that needs to be addressed immediately. Investing in rural youth is an investment in the future of African agribusiness. New technologies – getting away from the old-fashioned methods that rely on manual labour and exhaust the soil – these can only be brought in by way of the young, modern generation! Clearly a lot of jobs can be generated from the development of agribusiness.

What are the main challenges facing African agribusiness?
Well, there are many, starting with low productivity in the agriculture sector due to the lack of farm inputs, such as chemicals, equipment, feed, seed, and

energy, inadequate technology, and poor storage for produce. Agribusiness itself suffers from a lack of affordable finance and of access to credit, and from underinvestment in infrastructure. There needs to be more investment in water sustainability, food storage, IT, new sciences, and relevant education.

While globalization opens up new markets for African produce, it also poses a potential threat to agribusiness in Africa in the form of competition from foreign markets which are usually highly protected and subsidized – for example, the European Union and United States. Competition under such conditions can be very difficult for small and developing agribusinesses in Africa. China will also pose a huge potential market threat for the region's agricultural products as evidenced by the influx of many Chinese agricultural product exports into Africa, especially into Angola and, to a lesser extent, Mozambique.

We also lack the ability to deliver food solutions all year round, which could be achieved by the adoption of advanced global sourcing and logistics methodologies. And we need a better understanding of future needs and requirements concerning product presentation, sustainability, and traceability, so that we can deliver these in advance of competitors and lock in price premiums.

Finally, African governments are not implementing viable policies that would make agribusiness attractive to investors. There's a lack of emphasis on the importance of agribusiness, inadequate budgetary allocations to agriculture, and inappropriate legal and regulatory frameworks that lead to multiple taxes on agricultural inputs and farm produce.

It must also be noted that since independence, African countries have, as a matter of policy, continued to pursue liberalization programmes under which they have reduced their support to agriculture. This was predicated on the erroneous assumption that market forces would pick up the incentives thereby created. The expectation that market forces would lead to agricultural efficiency should not have arisen. This, to me, has remained a big challenge because the private sector, which was supposed to fill the gap left by government, was not ready.

What should be done to develop an efficient and competitive private agribusiness sector?

Governments need to prioritize good policies and to improve the climate for investment in agribusiness. Private investors must have the right environment within which to operate – transparent, robust institutions, and an efficient and clear business regulatory environment. We need investment in, and construction of, the infrastructure that will prepare African agribusiness for a future where it can compete in low price, commodity markets with producers from other countries that have increasingly got a significant low cost advantage over our producers.

New partnerships with other parts of the world would enable African agribusiness to access and adopt new technology, and to find new markets and much-needed financial investment.

The agribusiness sector also needs to unlock the full potential of the small and medium enterprises which are the bedrock of the African private sector. Realizing the full potential of the SMEs is critical to maximizing private sector output and to job creation. ■

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FURTHER READING

Bernstein, Ann – The Case for Business in Developing Economies
Bowes, John (ed.) – The Fair Trade Revolution
Cramer, Aron, and Karabell, Zachary – Sustainable Excellence: The Future of Business in a Fast-Changing World
Halle, Mark – Crossing the Bridge to a carbon-neutral Society
Hutchens, Anna – Changing Big Business: The Globalisation of the Fair Trade Movement
Ocampo, José Antonio – Global Economic Prospects and the Developing World
Oxfam International – Better Jobs in Better Supply Chains
Reinert, Erik – How Rich Countries Got Rich… and Why Poor Countries Stay Poor
Rodrik, Dani – The Globalization Paradox: Democracy and the Future of the World Economy
Ryan, Orla – Chocolate Nations. Living and Dying for Cocoa in West Africa
Stiglitz, Joseph and Charlton, Andrew – Fair Trade for All: How Trade Can Promote Development
Traidcraft – Material Concerns: How responsible sourcing can deliver the goods for business and workers in the garment industry
Wales, Andy, Gorman, Matthew and Hope, Dunstan – Big Business, Big Responsibilities: From Villains to Visionaries: How Companies are Tackling the World's Greatest Challenges

FURTHER SURFING

http://ictsd.org – The International Centre for Trade and Sustainable Development aims to influence the international trade system such that it advances the goal of sustainable development.
http://sustainablecommodities.org – Discovering ways to ensure that sustainable practices are adopted into commodity production and trade to enhance social, environmental and economic welfare on a global scale.
www.acici.org/aitic – The Agency for International Trade and Cooperation assists less-advantaged countries to effectively participate in the World Trade Organization (WTO) and in the multilateral trading system.
www.cdkn.org – The Climate and Development Knowledge Network supports developing countries in tackling the challenges posed by climate change.
www.dw-world.de/dw/0,,13279,00.html – Deutsche Welle's Ideas for a Cooler World
www.intracen.org – The International Trade Centre helps developing and transition countries achieve sustainable human development through exports.
www.maxhavelaar.ch/en – Fair trade with the Max Havelaar Foundation.
www.panaac.org – A private sector platform promoting sustainable agribusiness and agro-industry in Africa through enhanced productivity and competitiveness at national, regional and global levels.
www.shippingefficiency.org – A free-access, beta data-hub designed for ship owners, operators, ports, insurance companies, shipbrokers and other stakeholders, to factor in vessel efficiency information when making business decisions.
www.southsouth.info – A community of professionals dedicated to South-South cooperation, knowledge exchange and learning for development.
www.unido.org/index.php?id=o51261 – Trade capacity building with UNIDO

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