Millennium Development Goals of Poverty Reduction in relation to Trade Distorting Policies of the Rich Countries

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Summary

Understanding poverty

Who the poor are? where they live? and how they earn?. These are the three fundamental questions to understand the meaning of poverty. Poverty is multi-dimensional, and extends from low levels of income and consumption to poor health and lack of education to other 'non-material' dimensions of well being, including gender disparities, insecurity, powerlessness and social exclusion. A good understanding of the nature of poverty enables a comprehensive exploration of poverty determinants.

Millennium Development Goals (MDGs)

The Millennium Development Goals (MDGs) is an agreement signed by the UN member states, the UN and international financial organizations, according to the rules of the games of international cooperation. In this context the world member states agreed for the first time on concrete numerically expressed objectives. These objectives are divided into eight parts. **The most important element is the eradication of extreme poverty. Other objectives for 2015** are universal primary education, promotion of gender equality, reduction of child and maternal mortality, ensuring environmental sustainability and global partnership for development.

Poverty situation—a global view

Poverty and hunger are age-old human conditions. In spite of great technological advances and decades of post-independence, post-colonial experiments in development, the gap between the rich and poor continues to grow wider and widespread hunger and poverty continue to be among the most critical problems confronting mankind. Available statistical data indicates that the rich North grows ever more overfed and overweight,

while the poor South becomes mired deeper into the swamps of want, hunger and malnourishment. Despite the economic boom in the western world, notably the United States, global poverty remains a serious problem. Across the globe 1 person in 5 lives on less than $1 a day – and 1 in 7 suffers from chronic hunger. Between 1960 and the early 1990s, the richest 20 percent of the world's population have increased their share of gross world product from 70.2 percent to 82.7 percent. In contrast, the share of the poorest 20 percent has decreased from 2.3 percent to 1.1 percent. The worldwide number of people scraping a living on less than a US$370 yearly income now stands at about 1.3 billion, some 25 percent of the total world population, most of whom live in Southern (third world) countries. Around a billion are illiterate and another 840 million suffer from outright hunger or under-nourishment (UN, Human Development Report, 2000).

The 23 poorest countries in the world have an unsustainable debt burden. Servicing the debt swallows up foreign aid which therefore cannot be used for development. The study calculates that 307 million people live on a dollar a day and this number is set to rise to 420m over the next 15 years. In Africa, 65% of the population lives on less than $1 a day, in Asia (mostly South Asia) 23%. In 1998, the major capitalist countries had a average income of $27,400 per head, in all developing countries, this was $1260 and in the poorest it was $287 (The World Bank, 2001—table 1)

Table 1. **People in Extreme Poverty (Millions)**

Region	1999	2015
East Asia	279	80
South Asia	488	264
Africa	315	404
Latin America	57	47

Note: Income below $1 per day
Source: World Bank

Trade and growth

The trade is an engine of growth. Expanded international and domestic trade can enhance gross output of a country. It also improves economic growth, increase in income and its distribution and combat poverty. In order to streamline international trade the General Agreement on Trade and Tariffs (GATT) was set up in 1947. In 1995, World Trade Organization (WTO) was set up to institutionalize the GATT. When the Uruguay Round was being negotiated it was estimated that such an Organization would generate an extra sum of money to the tune of $210 to $270 billion at the world level. The share of poor countries was estimated to be one third. The WTO negotiations are supposed to be focused on how to lower the trade barriers that prevent the world's poorest countries from increasing their incomes and enjoying the benefits of globalization. One key to achieving this goal would be cutting domestic agricultural subsidies and export subsidies.

Trade barriers imposed by rich countries

Farmers in rich countries receive about $1 billion a day in subsidies. For example take the action taken by rich countries; viz. Europe, the United States and Japan. By rigging the global trade game against farmers in developing nations, Europe, the United States and Japan are essentially kicking aside the development ladder for some of the world's most desperate people. On the other hand the efforts of poor and Least Developed Countries (LDCs) to combat poverty have been undermined by the policies of North (Rich) countries. The governments of rich countries constantly stress their commitment to poverty reduction. For example, USA and Canada are said to cause Bangladesh losing $7 from trade restrictions for every $1 it receives in US aid and five times that for every dollar it receives from Canada. Trade restrictions imposed by rich countries are costing the poor countries $2.5 billion a year in lost foreign exchange earnings (Oxfam, 2001). There are very high tariffs in sectors of most relevance to poor countries. Tariffs on some agricultural products are more than 300% in the EU and, in the case of groundnuts, over 100% in the US. The Oxfam reported that the rich countries' performance on aid has been discouraging. In the farm sector the rich OECD countries spend $1 billion per day on farm subsidies - roughly equivalent to the gross domestic product (GDP) of all the LDCs combined. The resulting surpluses are dumped on world markets, undermining the livelihoods of millions of smallholder farmers in poor countries. Furthermore, many LDCs are eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative still many will emerge in an unsustainable debt position. Preliminary studies by Oxfam show that at least 13 LDCs - including Zambia, Niger and Senegal - will emerge from the HIPC Initiative spending more than 10% of government revenue on debt. A mere 1% increase in share of world exports by Africa, East Asia, South Asia, and Latin America would result in income rise that could lift 128 million people out of poverty. In Africa alone, this would generate $70bn - approximately five times what the continent receives in aid. The poorest countries are being left behind: as western trade barriers shut out lucrative markets. The internationally agreed goal; Millennium Development Goal (MDG) of halving poverty between 2000 and 2015 is attainable if rich countries drop trade barriers and give more foreign aid and if poor countries invest more in health and education. If worldwide economic growth stays on track, global poverty rates will fall to less than half their 1990 level in 2015, pulling some 360 million people out of grinding poverty, says the World Development Indicators (WDI, 2003). But the driving force behind this progress -- rapid growth in Asia and improvements in Eastern Europe -- will do little to reduce the crushing poverty in Africa, where the number of poor is likely to climb from 315 million in 1999 to 404 million in 2015, and in the Middle East where poverty is also on the rise.

Yet the global geography of poverty has been shaped by the workings of a number of international forces. Foremost among the mechanisms aggravating the grossly inequitable global distribution of wealth is free trade. The problem is that when poor countries finally threw away the yoke of decades, and in some cases centuries, of colonialism, they found that their economies depended upon exporting very few products to the western developed countries. Within such a scheme of things, these economies became vulnerable to the decline or fluctuation in the prices of commodities and a

continuous deterioration in the terms of trade that favored the rich. Nearly 70 percent of the worlds' poor live in rural areas and depend on agriculture, two thirds of global agricultural trade originates in rich countries. These processes resulted in the incidence of a net flow of resources from the poor to rich countries. Moreover, and despite all the western claptrap about free trade, the rich countries have managed to effectively undermine the poor countries' quest for fairer free trade. For instance, agricultural protection by the United States and the European Community has taken a heavy toll on the poor countries' economies as it not only shuts their farm imports out of these important markets but also allows the rich to dump their own subsidized surpluses on the world market, thus blocking their poorer competitors. Free trade in manufactured goods is similarly frustrated by the rich through an elaborate system of tariffs, quotas and tight restrictions on imports from developing countries. The World Bank, for instance, estimates that the quota system established by the Multi-Fiber Agreement costs developing countries about US$75 billion in potential exports of textiles annually. On the other hand, trade with the rich nations, whether in raw materials or manufactured goods, tends to further aggravate inequalities within poor countries. The fruits of this trade accrue mainly to the owners of capital in the export sector or to local industrialists who cooperate with the multinational companies. The processes dominating the contemporary international labor market provide another mechanism that accentuates global inequality. Curiously enough, there is a very narrow space, if any, for the free movement of labor across national borders in the currently dominant capitalist ideology of free trade, free enterprise and free movement of capital. As millions of people are becoming uprooted and suffer from the dislocations occasioned by the increasing globalization and interdependence of the world economy, rich countries are moving in the direction of imposing more restrictive immigration controls. Even in such quintessential nations of immigrants as America, Australia and Canada, an unmerciful backlash against new arrivals, especially unskilled workers from poor countries, has been on the rise. While rich countries are becoming more selective in admitting foreign workers, preferring those with useful skills, the economies of the poor countries are disrupted as they lose a disproportionate number of those they most need.

Rich countries policies

The WTO negotiations in Cancun are supposed to be focused on how to lower the trade barriers that prevent the world's poorest countries from increasing their incomes and enjoying the benefits of globalization. One key to achieving this goal would be cutting domestic agricultural subsidies and export subsidies paid to rich farmers in Europe, the United States and Japan. Farmers in rich countries receive about $1 billion a day in subsidies. Such high subsidies mean that the average European cow earns its owner $2.50 per day. By contrast, some 2 billion people still live on less than $2 per day. *The New York Times* published (September/ October, 2003) a superb and aptly named editorial series, "Harvesting Poverty," on the occasion of Cancun Ministerial about the enormous damage that the $320 billion spent annually by rich countries on agricultural subsidies is doing to the world's poorest farmers. For example, one article details how ag subsidies impoverish Filipino farmers and points out International Monetary Fund estimates that "a repeal of all rich-country trade barriers and subsidies to agriculture would improve global

welfare by about $120 billion. An up tick of only 1 percent in Africa's share of world exports would amount to $70 billion a year, some five times the amount provided to the region in aid and debt relief." Another shows how generous subsidies to America's 25,000 cotton farmers, who each have an average net worth of around $1 million, drastically depress world cotton prices and undermine the livelihoods of 2 million cotton farmers in Burkina Faso in West Africa, not to mention millions of other cotton farmers in Asia and Latin America. Then there is the "Great Catfish War" between Vietnam and Mississippi. Vietnamese catfish farmers are able to produce tasty catfish cheaply. So cheaply that some Mississippi restaurants began selling Vietnamese catfish rather than local catfish. Upset Mississippi catfish farmers turned to Senator Trent Lott, who managed to get a bill passed that declared that of the world's 2000 catfish species, only native American catfish could be labeled and sold as "catfish." Then the U.S. Commerce Department slapped a tariff of 37 to 64 percent on imports of Vietnamese catfish by declaring that Vietnam is a non-market economy and therefore must be "dumping" catfish at below cost on U.S. markets. Similarly, European sugar beet farmers are paid 6 times the world price for their sugar, which is then dumped on world markets. Naturally, poor sugar cane producers in tropical countries cannot compete.

Investment in basic services—rich vs. poor countries

Poor countries must spend more to increase literacy and enhance the health and nutrition systems for their populations. While trade enables poor countries to export their way out of poverty, it is strong health and education services that give people the tools they need to take advantage of opportunities in the global marketplace. In fact, promoting literacy and enhancing health and nutrition often rank as the most critical measures for the poorest people -- and those they value most. But government spending in these areas remains low in many countries. In 2000, public spending on health in low-income countries averaged 1 percent of GDP compared with 6 percent in high-income countries (refer to table 2 below). As rich countries grow older and their working

Table 2. World Health Expenditures, 2000

	Health expenditure Total (million dollars)	percent of GDP per capita
World	482	9.3
East Asia, Pacific	44	4.7
Europe, Central Asia	108	5.5
Lat. America & Caribbean	262	7.0
Middle East, North Africa	171	4.6
South Asia	21	4.7
Sub-Saharan Africa	29	6.0
United States	4,499	13.0
European Union	1,924	9.1

Source: Human Development Report (UN), 2001

population shrinks, poor countries have an opportunity to create jobs and increase the productivity of their growing work force if they invest more in the health, education, and nutrition of their people. But the poorest countries will need help to increase the capacity to invest in these basic services. Public and private health spending in rich countries was 10 percent of gross domestic product, while low income economies could manage barely 4 percent. And this does not go very far: Rich countries spent $2,700 per person on health care per capita while African countries spent only $29 per capita, and some as little as $6 per person. AIDS and HIV virus have infected more than 60 million people worldwide, 70 percent of whom live in sub-Saharan Africa. Total health care spending in the US was $1.3 trillion or 13 percent of GDP and represented 43 percent of total global expenditures on health. Low-income economies spent only $45 billion. In this regard, the World Health Organization's Commission on Macroeconomics and Health recently estimated that Ghana and other countries in the malarial zone needed to spend about $35 or $40 a person a year just to meet the essential health need of their population keeping workers healthy enough to work. Yet Ghana can afford only about $10. So it takes an extra $30 a person for 20-million people just to keep Ghanaians fit to work. But that's $500m that Ghana does not have to spend on health care or other basic needs. Its people live on less than a dollar a day. They cannot hand over about a month's earnings for health or anything else (WHO, 2000). A similar situation prevails in other developing countries.

The World Bank (2001) reported that the 1990s witnessed rapid progress in reducing the number of people worldwide who live on less than $1 a day, with numbers dropping from 1.3 billion in 1990 to 1.16 billion in 1999. But these gains occurred largely in China and India. The number of poor rose in Eastern Europe and Central Asia from 6 to 24 million, from 48 to 57 million in Latin America, from 5 to 6 million in the Middle East/ North Africa region, and from 241 million to 315 million in Africa. Looking ahead to 2015 if economic growth is sustained, the number of people living in extreme poverty is likely to fall in all of the world's regions except Sub-Saharan Africa, the Middle East, and North Africa, where projected growth will not be enough to stem the rising number in poverty The Bank projects that the number of people living in absolute poverty will only decline slowly in the next 15 years, with 800 million having an income of below $1 per day in 2015, compared to 1.1bn in 1999. But in sub-Saharan Africa, the numbers in poverty will rise from 315m to 404m in the same period, making it the region with the poorest people. The Bank further reported alarming disparities between the quality of life in rich and poor countries. While seven of every 1,000 children in rich countries die before the age of five, that number climbs to 121 of every 1,000 children in the poorest countries. While 14 out of 100,000 live births in rich countries result in the death of the mother -- that ratio may be as high as 1,000 deaths per 100,000 live births in some poor countries. And while rich countries have achieved the goal of educating all girls at the primary school level, progress lags behind in places like South Asia where only 61 percent of girls complete primary school.

Research Significance

Despite efforts and progress to combat poverty in the poor countries millions of people are living in extreme poverty over the major regions of the globe. The following tables indicate the incidence of regional poverty and the per capita income of rich and poor countries:

Table 3. Number of people living on less than $1 a day

Developing country groups	1990	1999	2015
	-----(millions)-----		
East Asia, Pacific	486	279	80
(excluding China)	110	57	7
Europe, Central Asia	6	24	7
Latin America, Caribbean	48	57	47
Middle East, North Africa	5	6	8
South Asia	506	488	264
Sub-Saharan Africa	241	315	404
TOTAL	1,292	1,169	809
(excluding China)	917	945	735

Source: World Development Indicators, 2001

Table 4. GNP per capita, 1997

UK	Uganda	Ethiopia
(Pound Sterling)		
12, 648	200	67

Source: World Development Indicators, 2001

Poverty reduction is an attainable objective, but it should be borne in mind that meeting the goal of halving income poverty by 2015 is only part of the battle. As the world's population is projected to increase to 7.1 billion by 2015, the number of poor stands to rise. So even if the goal of halving the proportion is reached, almost 900 million people will still be left living on less than $1 per day. Nonetheless, the price of doing nothing would be very great indeed. By acting now we stand a chance of being able to sustain poverty reduction efforts over the long run.

The situation is quite alarming and need immediate action for redress. In order to fully investigate the major reasons for the incidence of poverty in poor countries there is a need of research study to explore causes of poverty in the poor countries which is the outcome of rich countries policies. This study is an effort in this direction.

Objectives

1. To identify the trade barriers imposed by the rich countries on imports of the poor countries
2. To estimate the loss in revenues due to trade barriers imposed on goods and services (migrations) by the rich countries on imports of the poor countries
3. To investigate the status of local and foreign investment on basic services, viz; health care, education, infra-structure under 20/20 initiative; i-e, 20% of aid and 20% of the budget of the developing country receiving that aid is being spent on basic services.
4. To study the direction of achieving the Millennium Development Goal (MDG); i-e, poverty reduction during the decade, 1995-2004 and forecasting intended poverty reduction (by one half) in the year 2015

Review of Literature

In Sri Lanka using the one dollar a day measurement as poverty line of the UN, only 6.6% of the country's population is poor in 1983-2000 (HDR, 2002). If the poverty line is increased to two dollar a day, this percentage will rise to 45.4%. Given the 600,000 internally displaced people as a consequence of the armed conflict, this high estimate of poverty incidence seem realistic. The success story of human development reported in the post independent era of Sri Lanka has thus changed into a gloomy phase starting from 1980s. Following gives some of the characteristics of this some what declined development in the 1980s as reported in the PRS of Sri Lanka.

- inverse relationship between extent of poverty and urbanization i.e. higher the urbanization and lower the poverty. For instance the higher poverty line in the Western Province where the capital city and major part of the economic, political, trade and administrative functions are concentrated is 23, compared with 55 of Uva Province, a remote administrative area.
- Poverty is distinctly rural phenomenon. 88% of the total poor that fall below poverty line reside in rural areas.
- 43% of the principle income earner in poor households is employed in agriculture.
- 21% of the children in the age group of 5-17 are engaged in some form of economic activity as they dropped out of school due to poverty.
- 30% of the youth in the age group of 19-25 are unemployed.

Hence Sri Lankas' poverty is complex and not similar to other cases. The failure to continue the impressive social achievements of the post independence era might have urged the decision makers to re-visit their development strategies which seemed to have failed in delivering desired results. More importantly, at a time that Sri Lanka's

development partners are forcing themselves to focus their minds on this single issue of 'Poverty' in its multidimensional fashion, Sri Lanka too did not have any other option but accept the advice to prepare PRSP.

According to ADB (2002) data from various studies indicate that the incidence of poverty increased from 22 - 26 percent in FY1991 (FY stands for fiscal) to 32 - 35 percent in FY1999. As mentioned earlier, most of the increase in poverty in this period seems to have taken place between FY1997 and FY1999, a period of slow growth and macroeconomic instability in Pakistan .since FY1999, growth has slowed even further, the fiscal squeeze has intensified, development spending has declined, and the country has experienced a severe drought. It is highly likely, therefore, that the incidence of poverty in Pakistan now is higher than in FY1999.

Sanomat (2004) observed that the Millennium Development Goals (MDGs) is an agreement signed by the UN member states, the UN and international financial organizations, according to the rules of the games of international cooperation. In this context the world member states agreed for the first time on concrete numerically expressed objectives. These objectives are divided into eight parts. The most important element is the eradication of extreme poverty. Other objectives for 2015 are universal primary education, promotion of gender equality, reduction of child and maternal mortality, ensuring environmental sustainability and global partnership for development.

OECD (2004) stated that the status of development assistance explains that the quantity of assistance has increased in the past two years, but not sufficiently to meet the promises. Five large OECD member states are in critical status: USA, Britain, France, Italy and Germany. Their willingness to expand the financial channels are crucial for meeting the Millennium Goals. This objective, if implemented, is 0.3 percent of the total GDP of the member States. The UN has demanded an increase of 0.7 percent of GDP. According to the UN report (2004) it is very likely that only a partial objective on clean drinking water will be achieved globally. Objectives related to health are badly delayed. The report stresses that rich countries increasingly support such initiatives which strengthen the private sector and economic growth.

IMF (2002) discussed that growth in living standards springs from the accumulation of physical capital (investment) and human capital (labor), and through advances in technology (what economists call total factor productivity). Many factors can help or hinder these processes. The experience of the countries that have increased output most rapidly shows the importance of creating conditions that are conducive to long-run per capita income growth. Economic stability, institution building, and structural reform are at least as important for long-term development as financial transfers, important as they are. What matters is the whole package of policies, financial and technical assistance, and debt relief if necessary.

Components of such a package might include:

- Macroeconomic stability to create the right conditions for investment and saving;

- Outward oriented policies to promote efficiency through increased trade and investment;
- Structural reform to encourage domestic competition;
- Strong institutions and an effective government to foster good governance;
- Education, training, and research and development to promote productivity;
- External debt management to ensure adequate resources for sustainable development.

All these policies should be focused on country-owned strategies to reduce poverty by promoting pro-poor policies that are properly budgeted—including health, education, and strong social safety nets. A participatory approach, including consultation with civil society, will add greatly to their chances of success. Advanced economies can make a vital contribution to the low-income countries' efforts to integrate into the global economy:

- By promoting trade. One proposal on the table is to provide unrestricted market access for all exports from the poorest countries. This should help them move beyond specialization on primary commodities to producing processed goods for export.

- By encouraging flows of private capital to the lower-income countries, particularly foreign direct investment, with its twin benefits of steady financial flows and technology transfer.

- By supplementing more rapid debt relief with an increased level of new financial support. Official development assistance (ODA) has fallen to 0.24 percent of GDP (1998) in advanced countries (compared with a UN target of 0.7 percent). As Michel Camdessus, the former Managing Director of the IMF put it: "The excuse of aid fatigue is not credible—indeed it approaches the level of downright cynicism—at a time when, for the last decade, the advanced countries have had the opportunity to enjoy the benefits of the peace dividend."

The IMF supports reform in the poorest countries through its new Poverty Reduction and Growth Facility. It is contributing to debt relief through the initiative for the heavily indebted poor countries

Methodology

In order to study the impact of rich countries policies on enhancing poverty in the poor countries three groups of countries will be formed. Two groups of countries will represent two different regions of poor countries. One group of counties will represent rich countries. Four countries will be placed in each group. The country groups and countries are as under:

Poor countries:

1) South Asian region—Bangladesh, Sri Lanka, India, and Pakistan
2) African region—Senegal, Tanzania, Ghana, and Uganda

Rich countries:

USA, EU, Canada, and Australia

a. Data and data sources

The study will be completed by using secondary data on the important variables. In this regard following sources will be explored for getting the needed information on different variables as detailed in next section:

1. FAO country statistics
2. WTO data set
3. Country-wise data on imports/ exports/ balance of trade
4. Country-wise data on agriculture
5. Country-wise data on demography, health care and education
6. Country-wise data on infra-structure development
7. Country-wise data on foreign aid, FDI and national investment
8. Cross-border migration data among the selected countries
9. The World Bank/ IMF statistics
10. The UN/ UNDP statistics

b. Procedures

<u>For objective 1 & 2</u>

The flow of trade (merchandised goods and services—migrations) from rich to poor and vice versa will be observed by using time series data for the period 1995-2004 (10 years). The direction of value of trade will be recorded to investigate the causes of variability in the flow. In case a negative flow for the poor countries trade barriers imposed by rich countries on fair trade will be identified. A suitable econometric technique(s) is/ are applied to test the proposition

The monetary value of gains and losses with reference to the trade flow are worked out to calculate the loss/ gain in revenues by the respective trade partners (rich and poor countries) for the same time series.

<u>For objective 3 & 4</u>

The actual foreign aid and FDI by rich to the poor countries are observed through time series data for the period 1995-2004. The actual investment of these receipts will be

examined in the basic services viz; health care, education, infra-structure. The results will be examined by applying Human Poverty Index (HPI) to work out the direction of poverty. It does not use money as the only factor to measure poverty. It includes education, length of life and living standards.

These results will be used to forecast using the common econometric techniques the expected magnitude of poverty in the year 2015 (the final year of the Millennium Development Goal (MDG).

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