

**Economics 172**  
**Issues in African Economic Development**

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Lecture 23 – April 17, 2007



Outline:

- (1) Trade rules and development: the case of cotton
- (2) “The Illusion of Sustainability” in African development
- (3) Which way forward on foreign aid?

# Trade, aid, and development

- Foreign aid is only one part of the overall relationship between rich countries and poor countries
- Access to other countries' markets through trade is another important aspect of the relationship
- There has been asymmetry in trade liberalization: there have been major efforts to liberalize global trade in products rich countries are good at (e.g., manufactures) and less at liberalizing products poor countries are good at (e.g., agriculture, textiles). There are huge rich country subsidies to their farmers

# Trade, aid, and development

- For example, agricultural producers in the wealthy OECD countries need to be heavily subsidized to survive: annual subsidies about US\$330 Billion – six times what rich countries give poor countries in development aid each year (Source: World Bank *Global Economic Prospects 2004*)

# Cotton as a lens into international trade

- Does the current world trade system promote or hinder economic development in Africa?
- Opponents of the current world trade regime have pointed to the case of cotton as an example where trade rules have hindered African development

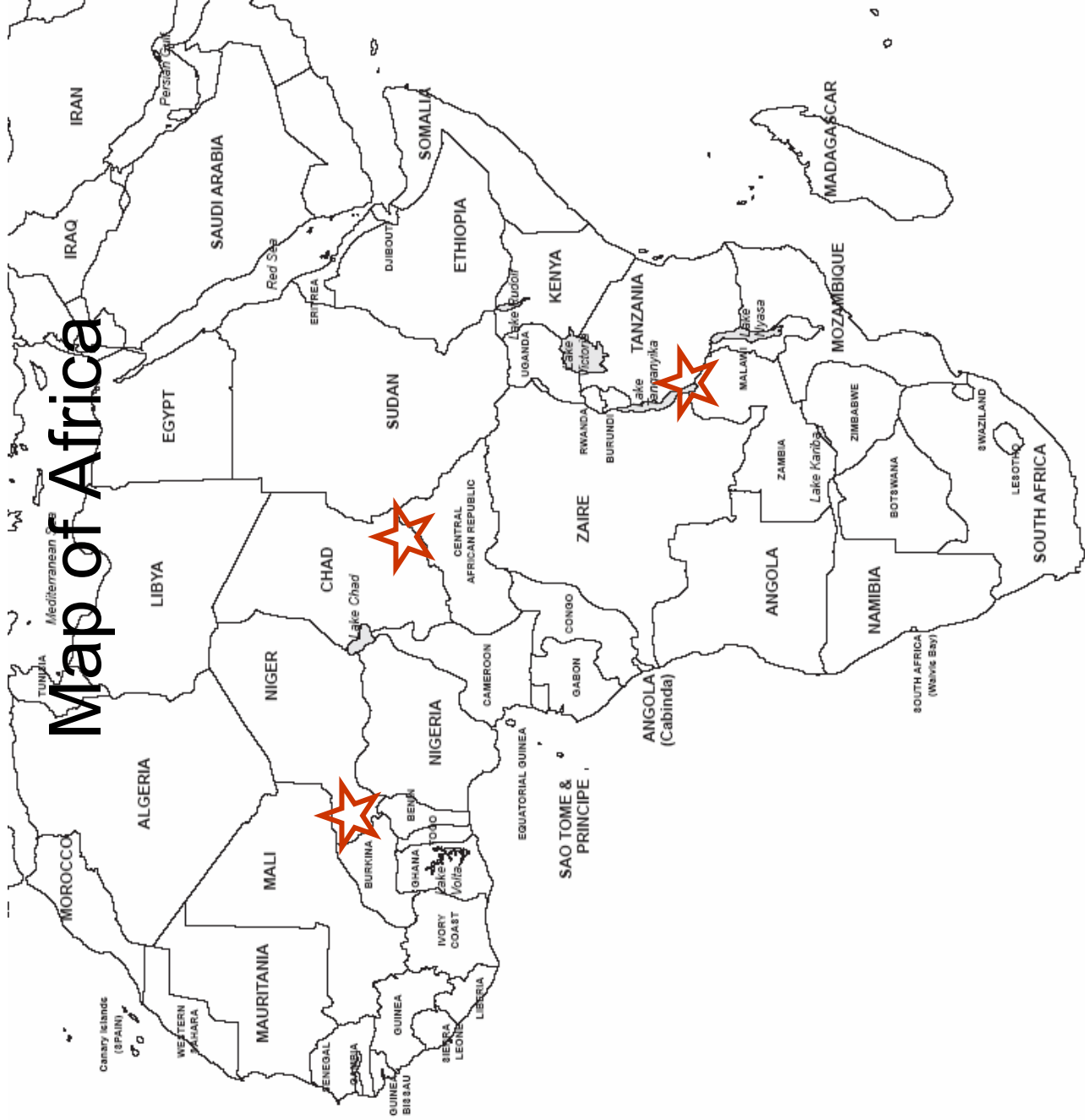
# Cotton as a lens into international trade

- Tens of millions of Africans (in Benin, Burkina Faso, Tanzania, etc.) rely on cotton as a cash crop, but the world market is distorted by US\$4 billion annual subsidies by the U.S. government to 25,000 farmers
  - Three times annual USAID assistance to Africa
  - This flooding of the market by U.S. farmers leads the world market price to drop, perhaps by 10-20% (depending on the model)
  - In 2003 world price US\$0.42, US farmers US\$0.72



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  - This flooding of the market by U.S. farmers leads the world market price to drop, perhaps by 10-20% (depending on the model)
  - In 2003 world price US\$0.42, US farmers US\$0.72
- Brazil has already won several rounds of legal battles against US policy in the WTO



# Micro-evidence on cotton prices and poverty

- Minot and Daniels (2002) use household data to simulate what would happen to farmers in Benin if the cotton price rose 10-20%.
- Cotton makes up 90% of agricultural exports in Benin, and 60-70% of total exports
- They estimate that national poverty rate would fall 7%



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- They estimate that national poverty rate would fall 7%
- Meatu district in Tanzania is another cotton growing region. Farmers – and the owners of the local cotton ginnery, the only factory in the district – are hard hit when cotton prices fall, as they did in the late-1990s
  - We discussed earlier how the lack of savings instruments makes it hard for households to insure against these sorts of price shocks in Meatu
  - 60% households grow cotton as the main cash crop

## Are alternative “sustainable” projects viable?

- If the international trade system is tilted against poor countries (e.g., cotton), and traditional foreign aid has not been successful (according to Easterly), what is the way forward?
- What can rich country donors or governments do to help poor countries achieve economic development?

## Are alternative “sustainable” projects viable?

- If the international trade system is tilted against poor countries (e.g., cotton), and traditional foreign aid has not been successful (according to Easterly), what is the way forward?
- What can rich country donors or governments do to help poor countries achieve economic development?
- One currently popular approach is to focus on “sustainable” locally run NGO development projects to achieve these objectives

## Kremer and Miguel (2004) on financial sustainability

- The structure of foreign aid programs is also important
- There has recently been a strong push towards “financial sustainability” in local development / health projects, and against continued subsidies for drugs



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  - Health education
  - Local “ownership” of projects

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  - Health education
  - Local “ownership” of projects
- Contrast with the standard public finance approach that advocates ongoing subsidies to overcome externalities, aligning private and social outcomes

## (1) Cost-sharing and deworming take-up

- Cost-sharing has been widely advocated for poor countries (WB 1993)
- 25 of 50 Group 1, 2 schools free treatment in 2001
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25 of 50 Group 1, 2 schools cost-sharing in 2001
- 2001 take-up rate in free treatment schools was 75%,  
in cost-sharing schools only 18%
- Thus attempts to promote cost recovery seem likely to reduce treatment and lead to worse outcomes for the untreated, as well

## (2) Health education impacts

- No significant impact of health education on any worm prevention behaviors (e.g., hand washing, wearing shoes, playing in Lake Victoria)
  - No impact for older girls
  - No impact in neighboring schools
- There has been rapid depreciation of health education knowledge in several other experimental studies

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- People strive for consistency in words and deeds → Verbal commitments bind people to follow through, and give them a sense of “ownership” over the project
- A random subsample in the 2001 Pupil Questionnaire were asked whether they would take the drugs
- Verbal commitment had no effect
  - 1 percentage point drop in adoption (not statistically significant), basically no effect



## Wrapping up: what should aid look like?

- What types of development projects are likely to be most successful?
- What role should donors like the World Bank and IMF play in foreign aid?



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- What types of development projects are likely to be most successful?
- What role should donors like the World Bank and IMF play in foreign aid?
- Should foreign aid budgets be increased / decreased?
- Does foreign aid do more harm than good?

## Next topic: ethnic diversity and development

- Sub-Saharan Africa is the world's most ethnolinguistically diverse continent
- 14 of the world's 15 most diverse countries are in Africa (the one exception is India)

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- Sub-Saharan Africa is the world's most ethnolinguistically diverse continent
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- What language should be chosen as the national language of such diverse countries? (Laitin 1992)

# Lingua francas in Africa

<u>Language</u>	<u>Region (main countries)</u>
Swahili	East Africa (Tanzania)
Chichewa	South-east Africa (Malawi)
Lingala	Central Africa (Congo)
Wolof	West Africa (Senegal)
Hausa	West Africa / Sahel (Nigeria)

# Should the colonial language be retained?

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# Should the colonial language be retained?

- Drawbacks to retaining the European colonial language as the official language:
  - (1) School learning may suffer when children are taught in a language that they do not know well
  - (2) Language is an important component of national identity
  - (3) Others?



- For next time: readings from week 14 (ethnic and linguistic divisions)

# Whiteboard #1

# Whiteboard #2

# Whiteboard #3

# Whiteboard #4

# Whiteboard #5

