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Free trade beats development aid

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[foreign aid](#), [Marian L. Tupy](#)

Aid has not stimulated African growth

By **Marian L. Tupy**

Four years ago, the G8 countries agreed to increase development aid, reduce debt and open their markets to African goods. But, while aid increased and debts have been reduced in the interim, trade protectionism has become worse. The group had it backwards: Trade, not aid or debt forgiveness, is the key to Africa's success in the future. With the G8 currently meeting in L'Aquila, Italy, a new vision of economic development must be embraced.

Sub-Saharan Africa is the poorest region in the world. In 2007, according to World Bank data, the region's per-capita income was a mere \$1,869. (The second-poorest region was South Asia with per capita income of \$2,532.) Africa lags behind the rest of the world in most indicators of human well-being, including longevity, child mortality, nutrition and education.

Over the last half-century, many development economists embraced the "vicious cycle of poverty" theory. Poverty in poor countries, the theory goes, impedes the accumulation of domestic savings. Low savings lead to low investment and low growth. But foreign aid can fill the "gap" between insufficient savings and the requisite investment for economic growth. The 2005 G8 summit gave that view a new impetus — the group agreed to double aid to Africa to \$50-billion per year by 2010.

But aid has failed to stimulate growth in Africa. Between 1975 and 2005, for example, per capita aid to Africa averaged \$24.60 per year. By contrast, over the same period per capita aid in China and India averaged \$1.50 and \$2 respectively. The result: Chinese and Indian incomes rose by 888% and 174%

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respectively; but in Africa, incomes fell by 5%.

The 2005 summit also “agreed that all of the debts owed by eligible heavily indebted poor countries to the [international financial institutions] ... should be cancelled.” The effects of debt relief, however, remain unclear. A recently released study from the U.S. Government Accountability Office, for example, found that the “impact of debt relief on countries’ poverty-reducing spending is unknown.”

Moreover, past debt relief did not put African countries on a firmer financial footing. Instead, it led to yet more wasteful government borrowing that necessitated more debt relief. Thus, the World Bank and International Monetary Fund’s Debt Relief Initiative for Heavily Indebted Poor Countries (HIPC) in 1996 was followed by the enhanced HIPC initiative in 1999 and then by the creation of the Multilateral Debt Relief Initiative in 2005.

There is a general consensus among economists that free trade, accompanied by institutional and policy reforms, leads to higher rates of growth. According to a World Bank paper, “moving to free global merchandise trade would boost real incomes in Sub-Saharan Africa proportionately more than in other developing countries or in high-income countries.”

Unfortunately, Africa remains one of the most protectionist regions in the world. Between the late-1980s and 2007, for example, average applied tariffs in the developing world declined from 26.1% to 9.8%. In Africa, however, they only fell from 26.6% to a still-high 13.1%.

The G8 can help Africa integrate with the rest of the world by eliminating restrictions on African exports and ending farm subsidies. But, the group should also recognize that its heavy emphasis on aid and debt relief make foreign actions appear to be chiefly responsible for poverty alleviation in Africa. In fact, the main obstacles to economic growth in Africa rest with Africa’s policies

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and institutions, such as trade protectionism and weak protection of property rights.

In L’Aquila, the choice is between endorsing failed policies of the past and creating a new consensus on development. The G8 should realize that aid and debt forgiveness have not led to growth in Africa, while trade liberalization has contributed to prosperity in the rest of the world.

National Post

Marian L. Tupy is a policy analyst at the Cato Institute’s Center for Global Liberty and Prosperity. He is the author of a recent Cato study, “The False Promise of Gleneagles: Misguided Priorities at the Heart of the New Push for African Development.”








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