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The Impact of Current Trade Relationships and Strategies for Improvement

Introduction

We can only understand the present international trade regime if we go back to its historical developments and try to analyse how it was first of all structured and later on theoretically justified so that the so-called international division of labour became a frame work of trade relationships between the so-called developing countries and the industrialized west.

To understand the genesis of international trade relationships let's have a look at some historical developments.

Before Nations-States here in Europe had taken their first shapes and slowly developed their internal markets, there had existed trade relationships among various countries as means of exchanging different products which could not be produced by each and individual country.
Mostly, through far trade most African Countries had exported what we call exotic goods, and in turn they had imported handicraft products which they could not produce for various reasons. Such kinds of trade relationships had also existed between China and India on the other hand and some African countries on the other side. Undoubtedly such kinds of relationships had their own impacts on later developments and specializations as the gains of trade become more apparent.

The emergence of nations-states here in Europe had great impacts in shaping international trade relationships. With the emergence of Nations-States we had for the first time the development of national economy which was gaining momentum and was actively supported and shaped by the respective governments. The European Nation-States mostly represented by the Monarchs had followed two strategies of developing and strengthening the national economy. From within they had actively supported the development of the home market through various mechanisms, especially by supporting the active forces. They had allocated cheap credits and induced manufactured activities. In order to enhance the home market they had to break all the barriers which hindered hitherto the development of manufactures. They began destroying all the tariff barriers from within which were installed by the small feudal lords which hindered the free movements of goods, labour and capital. Secondly they began engaging themselves in developing infrastructure activities and cities without which a coherent national economy could not be materialized.

The development of the internal market must be supported by cheap goods and wealth which were imported from other underdeveloped economies. Hence the European Nations-States had followed what we call it an active balance payment policy. The strategy of such a policy had two faces. The first was to protect the internal infant industries from the same kinds of products which came from outside by imposing tariff barriers. Only so the internal manufacture activities could be expanded and developed. Hence the protection of the infant industries was a pre-condition of industrial and technological development and expansion. Secondly they had followed active export policies to gain more and more Gold and Silver as the two wealth accumulation instruments as seen by the Mercantilist economists. Gold and Silver as the two international trading currencies had great impacts for the supply of money from within in the various European Nation-States. Only as sufficient Gold and Silver had flowed from outside into the Nation-States, governments could print money which could be used as financing instruments for the industries and could facilitate the circulation of commodities in each country. Through these double strategies of boosting the home market, the different Nation-States in Europe could develop their home market and could emerge as sovereign states. Such economic policy was justified by all Mercantilist economists of that time who were convinced of developing the internal market, and who believed that the emergence of Nation-States was a historical fact which could be actively supported by the various states.

This policy of developing the internal market and protecting the infant industries could not be accepted for some nations like England which was relatively developed in the 17^{th} and 18^{th} centuries compared to the rest of other European countries.

Theoretical Justification of the International Division of Labour

The prominent Scottish economist Adam Smith who had a background of liberal idea formulated in his well known book the Wealth of Nations the advantage of free trade and the necessity of cultivating international division of labour between different states. According to Smith, economic policies as practiced by different European Nation-States will have negative impacts on the development of the division of labour, and it is against the natural order of human beings, since every individual by nature has the egoistic motive of pursuing its own wishes and try to maximise its needs. According to Smith, the motor of economic development is not as such pursuing a strict Mercantilist policy but the invisible hand which has the ability of allocating the scarce resources and developing the economy. Price as a parameter by which market participants orient their handlings to maximize their utility will enable the invisible hand to allocate the scarce resources Smith has extended his notion of liberal idea and free trade theory by formulating the necessity of international division of labour among trading nations. According to the theory of Smith, different nations will have absolute cost advantages if they will be specialized in the products which they are suitable to produce cheaply and exchange with each other. By way of examples, Smith had tried to show that if Portugal specializes in wine production and England concentrates on the production of textiles which was supported by machinery, both countries save costs which they could allocate again on those sectors which they are fit for. This theory of cost advantage was reformulated by David Ricardo to justify the necessity of relative cost savings after specialization and welfare maximization in both countries which take part in trade relations. In fact England with her developed manufactured sectors and political status and military might were in a position to convince countries like Portugal to specialize in agricultural products and neglect the systematic development and expansion of manufacture activities, which had negative impacts on the development of her home market.

The theory of free trade and international division of labour was not as such without contest. The prominent German economist of the 19^{th} century Friedrich List had proved the fallacies of Smiths` theory of free trade and division of labour. According to List, who had developed a coherent theory of national economic policy, not free trade as propagated by Smith and other liberal economists, but a conscious policy which is institutionalized and pursued by the various states which could bring economic prosperity for any nation as a whole. List had formulated his economic theory not as a pure abstract theory developed by liberals and neo-liberals alike, but a theoretical frame work which cannot be seen isolated from political, cultural and social processes that exist in various countries. Accordingly, for any nation to be developed as a free and sovereign Nation-State the **productive power** of each particular nation must be mobilized. The basis of this productive power is **manufacture** without which no nation could develop its internal market and compete with other nations. By proving empirically and theoretically, List showed the necessity of developing a manufacture sector which has the power of developing and expanding, and through which all sectors of the economy could be activated and developed in a manifold manner so that each sector becomes a market for the other sector of the economy. Such economic development which is supported by manufacture will have also positive impacts in developing the human cognitive powers. The people who are engaged in industrial activities will be free and become creative, and as manufacture develops their power of thinking will increase progressively, and become creative and be able to develop new device which in turn fastens the development of the home market. According to List, the free market ideology as propagated by the English economists, and especially by Adam Smith will have only advantages to England, which was then superior in all economic fields, including maritime activities. List vehemently rejected that if any nation specializes according to the theory propagated by Adam Smith, she cannot develop her internal economies and she will become the victim of any kind of aggression. Therefore not agriculture the basis of economic development which has limited expansion and multiplier effects to the rest of the economy, but the systematic enforcement of industrial development which has great advantages for any nation's economic development. Schmoller the originator of institutional economics followed suit the argument of List and developed his theory of **cultural resources** which has the sole power of developing a well sustained economy and had refuted the laissez fair principle of Adam Smith which could benefit those only who have the power of controlling the wealth of a given nation. According to Schmoller, consensus politics which gives opportunities to all social groups and the building up of various institutions either governmental or non-governmental and the organic link among these organizations and the development of financial instruments could boost the internal economy. Both List and Schmoller who were brought by humanistic values had developed their theories from the perspective of the whole society in the belief that only a balanced relationship which could be cultivated by the state could ultimately bring social peace and prosperity for the whole nation. Hence their main two basic foundations of developing a given economy are **productive power and cultural force** of a given society which will pass from one generation to the other. In their formulation of economic policies, both insist that the particularity of each nation must be studied in depth before one takes any abstract theory and apply it.

Though the free trade theory and its usefulness especially for underdeveloped economies was in question, after the 1940s the international division of labour is reformulated and adapted to the changing world. The necessary of specialization for countries that want to participate in international trade became the precondition of welfare maximization and economic growth. The so-called factor endowment theory which was developed by Heckscher and Ohlin supplemented by modernisation theory became the engine of economic growth especially for the so-called Third World Countries. According to this theory, Third World Countries are endowed with raw materials, and the climatic conditions are suitable for the production of tropical agriculture. On the other side industrial countries are endowed with capital goods and could produce industrial products better than the Third World Countries. If trade relations do exist between these countries both enjoy welfare maximisation. In order to substantiate this theory, the idea must be supported with the so-called modernisation theory which was developed at the beginning of the 50s. According to this theory Third World Countries must modernise certain parts of their economies which can be used as growth pole from which a trickle-down effect will come. To materialize this certain people who are brought up by western values and have rationalistic attitudes must take the lead in order to bring the economy to a certain level so that development will slowly take place. If this happens general economic growth and welfare maximization will inevitably become the rule of the Third World Countries which participate in international trade.

If we see the reality of the last 50 years this theory can't take so many relevant issues into considerations. First of all the power relationships in many Third World Countries is out of this theoretical model. On international level prices of raw materials are being dictated by cartels and certain multinational firms. If we look the situations in many Third World Countries the peasants and the seasonal workers are reduced to slave like situation. These groups will never have the chances of improving their lives. The small peasants are compelled to sell their products to the merchants at lower prices. The huge benefit goes to those inland traders and exporters of raw materials who have directly or indirectly connected to the outside market. Even from the perspective of the overall economic growth the inland merchants and exporters become the victim of new consumption patterns which are reproduced on international level. In other words, these groups by importing luxury products, they divert the meagre resources which could be otherwise used for the importation of capital goods. As we see in many Third World Countries there is an automatic development of centre-periphery relationships, where as few cities will have the possibility of economic modernisation at the expense of the masses of population. In this case, as realities do prove certain centres in Third World Countries absorb resources from the rural areas. The result is unequal development and waste of valuable resources.

Smith's theory of liberal trade and the empirical realty of international trade

When Smith and other liberal economists formulated and propagated the advantaged of free trade relationships among different nations, they had deliberately subjugated the realties which England had played in destroying manufactured activities in various countries which she believed that they could endanger her supremacy. After all England could develop her industry by stealing technologies from other European countries and India, and create favourable atmosphere for those foreign experts to come to England and resume their skilled activities. With this and systematic aggressive mercantilist policies and systematic destruction of Third World economies, she could develop her own industrial base which gave her supremacy in all fields. The so-called primitive accumulation both internally and on the international scale are clear evidences why from the outset England did not follow the theory of liberal trade as Smith makes us believe. The 15th century of slave trade which was first initiated by Portugal and then overtaken be Spain and England was a vivid example how western industrial development, first by England, later on by other Western countries could be used systematically to develop strong economies in Europe. All major European countries had later taken the advantage of using the free trade ideology as instruments of accumulating wealth in their countries by at the same time undermining efforts of industrial development in the so-called Third World Countries. All this empirical evidences are not mentioned in the works of Adam Smith.

The slave trade which was initiated by Portugal and which was responsible for the massive uprooting of the African population had totally disturbed the social matrix of the African society and destructed the already developed division of labour in various African countries.

When many African countries were colonized the systematic destruction of the internal economy becomes the necessary condition of pushing the Africans into few selected exportable sectors which did not have any organic links. The enclave economies were connected to the mother country and condemned to export the raw materials without processing them. Extractive machines were implanted here and there to exploit the mineral resources and plantation economies were established to expand agricultural products for the world market. This economic process of throwing the African economy as appendage of the world market is the basis of Africa's underdevelopment which has been going almost over 100 years and which still dominates the African life. The marginalization of the African society and the systematic suppression of the development of the productive forces, and the compulsion of its people to concentrate on mineral extraction and export oriented agricultural products is part of a concerted international capitalist order which the liberal ideologists always deny.

In countries where colonial rules were setup there was a deliberate destruction of the existing division of labour and the disbursement of the people. When the indigenous people had invented new technologies the colonial masters had destructed them deliberately. Only economic activities which were potentially advantageous to the colonial masters were allowed. Infrastructures and cities were developed in areas where goods could be exported to the motherland. After the end of colonialism, the colonial masters had destructed all what they had built not to give chances for the indigenous people to develop them further. Even in Ethiopia where colonialism had never the chance of fully setting up its feet, the British had transported what the Italian Fascists had built in order to satisfy their consumption needs. These are economic realities which had cemented Africa's underdevelopment which the originators of free traders and their adherents will always deny.

This process of one sided economy and the suppression of the internal division of labour continued until independence. African countries, until the 1960s, even Ethiopia the country that was never colonized became the victim of marginalized economy. Though after independence the world economy has changed and world trade has developed to unknown historical level, Africa still remains dependent on few commodities for her development.

World Trade Arrangements after the Second World War

As we know the Second World War has changed the balance of forces in all spheres of international politics. England ones the major power in undermining the Third World economies and controlling international trade could not enjoy the same level of supremacy after the Second World War.

The economic depression of the 1930s and the negative impacts of the War on international trade relationships and capital movements had called for new international trade regime which slowly encompasses many countries. The organizing of the Bretton Wood institutions, namely the IMF and the World Bank in 1944 in America under the auspicious of America, which became the dominant economic, military and political force opened the way for the establishments of other multilateral organizations which smooth trade relationships among the various Nation-States which want to become members of the organizations. The IMF and the World Bank have defined policies which are based on liberal and neo-liberal ideology. From the outset it was believed that liberal trade, with free capital movements across the world could benefit all nations and economic growth will be the rule in all participant countries.

The reformulation and acceptance of the international division of labour as first developed by Adam smith and Ricardo became the necessary criteria for the execution of trade arrangements among the various nations. The so-called factor endowment theory which was developed in the 1940s and expanded in the 1950s with the so-called modernization theory became the bible of international trade relationships and economic growth in all countries which participate in the world trade. By suppressing all other theories which are more scientific than the neo-liberal ideology, and deliberately denying the historical facts which had governed international trade relationships in the last 200 hundred years, modernization theory and free trade ideologies were propagated all over the world. After the End of the war the division of the world into two blocks had in fact blinded the eyes of so many intellectuals in Africa. The world is being understood which is divided by two ideological blocks, one is free and the other is a totalitarian world which undermines individual freedom and private property. The logic behind this argument was not clearly known. The inherent contradictions and the theoretical weakness of the so-called international division of labour, and the abstract theory of market economy which is more fictitious than a reality, could not be critically examined. The African universities bombarded by this theory of market economy become themselves the sources of underdevelopment. The changed international political order after the war and the emergence of new cities in the Third World Countries which are not coherent enough, and which could attract the new generation were understood as signs of real development. The world market which gets new momentum after the war in fact could suppress social, political and economic realities which were created in the 1950s.

The Korea war and the reindustrialization of Europe had boosted demands of raw materials and certain agricultural products. So many Third World Countries, without deeply studying the historical facts of the past and falsely advised by the so-called international experts have concentrated their energies on certain exportable products and began from there to introduce the so-called import-substitution-industrialization. It was believed that depending on certain exportable products and introducing such kinds of industrialization strategy will have the effect of drawing the whole strata of the population to economic activities which is inherently dynamic and resulted in undermining the traditional sector.

This strategy could not be materialized as it was supposed for various reasons. The income from the exports could not grow in such a way so that industrialization at a higher level could be possible. First of all there was competition among the raw material producing countries which could be manipulated by multinational firms. Secondly, many industrialised countries began rationalising their industries. With this they could reduce the consumption of raw materials, since the rationalized industries could not waste raw materials. Thirdly, the recycling of the products is possible. Parts of the old cars, and other used products could be used again as raw materials. These factors have negative effects on the prices of raw materials.

The import-substitution-industrialization became more and more expensive. All the input factors and know-how must be imported from the industrialised West. Since the prices of raw materials are fluctuating on the international market, incomes from the exports were not sufficient enough to go ahead with this policy as projected. The oil crises of 1973/74 and the economic crises of the 70s in all major industrialised countries have negative impacts on the economic developments of the Third World Countries, especially their trade relationships with the western world. The industrialisation strategy which was undertaken by most governments of the Third World countries above its cost intensiveness, it did not have any built-in mechanism to play as multiplier mechanism for the rest of the economy. It was not linked to the rest of the economy and hence it could not serve as a market for the raw material producing sector. Since most of the intermediate goods and the spare parts must be imported, its accumulation base is very low. If we look at the consumption side, since the buying power of the masses are very low, the industries could not be run with full capacity. This in turn compels the producers to make the prices of the products very expensive, since low capacity production activity means fix cost remain constant and prices of the single product (piece prices) will increase automatically. The fact that there is no competition among the industries, consumers do not have any choice, and the sellers behave as Oligopolists. If we see the income of the governments, both direct and indirect taxes, because of the very low industrial base of the societies, and due to the nature of such kinds of industrialization, governments could not generate sufficient incomes to finance the necessary physical and social infrastructures which are very crucial for the expansion of a market or a capitalist economy.

The oil crises of 1973/ 74 and the economic crises of the same year and the deterioration of the trade balance in America, especially beginning the end of the 60s means that world trade arrangements and international economic order must be affected. America, which was economically affected by the war in Vietnam and with its continuous trade balance deficit, was compelled to change its economic strategies. In 1971 it had unilaterally declared that countries could not exchange their dollar reserves which they hold in their accounts into Gold. In 1973 the introduction of the flexible exchange rate automatically devalued the dollar. Now major currencies could fluctuate according to demand and supply, and this also opens the door to financial speculators. Money holders are not any more interested to invest their money on real physical activities. Instead they shift their money in areas where they can earn money easily and profitably. Since the 1970s we witness that the world economy is governed by a totally different economic regime which has its impacts also on the Third World Countries. The low development of physical investment in major industrial countries means that raw materials could not be demanded as earlier, and hence prices of raw materials will fall. This has jeopardized the trade balance of many underdeveloped economies and economic growth from within. This has wide range impacts on the economic setup of the Third World Countries. After the oil shock of 1973/74 many Third World Countries face new realties, which cannot be manageable easily. Permanent trade balance deficit means that many countries must find another financial source to fill the gap of trade balance deficit. They must borrow either from the financial market, or get loans from multinational organizations. This means that the international financial institutions like the IMF have now the opportunity to dictate the tempo of the economies of this heavily dependent countries. Only with the acceptance of certain economic policies which are suit to the policy of neo-liberalism, and which squeeze the economic bases of the concerned governments, they could get loans. By accepting the prescription made by the IMF and the World Bank and other donor governments, especially many African countries must practice the bitter medicine of neo-liberalism. They must devalue their currencies in the hope that they can export more of their raw materials and gain extra money. They must at the same time invest on the export sector which is the source of hard currency. That means the export sector must be strengthened at the expense of the home market. This mechanism of shifting the meagre resource to the export sector has tightened the hands of the governments. Devaluation means also that now intermediate goods which are vital for the industries become expensive, since many small and medium size industries could not afford to cope with the new exchange mechanism, since they have to pay now more of the their currencies for one dollar or any other trading currency. Secondly, the foreign trade must be liberalized. That means most of the industries will be confronted by cheap products which are imported from outside. This means that those industries which could not compete will be compelled either to lower their production activity or shut their industries. The other side of such measures is that unemployment will automatically increase. In countries where there are no social benefits- this is the case in many

Third World Countries where there are no social standards - one could easily understand the social consequences of such kinds of measures. Thirdly, governments must reduce subsidy and other social costs which could be allocated on the productive sector. According to the philosophy of monetarism, when resources are shifted from the unproductive to the productive sector, though this has from a shorter point negative impacts, from a longer perspective the productive class invest more which creates employment opportunities, and economic growth will be the rule of this kind of short term monetary restrictions. As we have experienced in the last 20 years such neo-liberal oriented economic policies have accumulated negative consequences which narrow the economic sources of the society and the government. Through this, from scientific point of view not economically justified policy and debt mechanism, the African economies are strangulated. Through diverse mechanisms, economical, political, ideological and through indirect military intervention, Africa is practically sabotaged to follow her own an internally oriented economic development policy.

The so-called structural adjustment program (SAP) which was introduced in the beginning of the 1980s in many African countries south of the Sahara, has fastened the deindustrialization process from within, and increased African dependence on foreign financial sources. African countries that came to terms with this program must experience new mechanism of resource transfer. First of all the liberalization and privatization policy of the governments has shifted the balance of power from within. New groups could have access easily to resources and enjoy the privatization measures undertaken by the respective governments. Secondly these new groups become new consumers of European, American and Japanese products. The African markets are overwhelmed by new pattern of consumer products, durable and non-durable and inevitably absorb the hard currencies which could be other wise allocated for productive investments. At the same time we witness that the import of second hand products have increased dramatically and Africa with very low technological base becomes simply a garbage place of second hand products that cannot be easily recycled and cannot be destructed. The ecological and health consequences of such kinds of waste dumping on the African soil are not yet known. This being the case the pauperization of the masses has increased at an alarming rate.

The SAP which was once seen as a remedy for the endemic economic crises in Africa had two major negative consequences: The trade balance deficit of many African countries has increased progressively which has narrowed again their handling power. With the increasing trade balance deficits, debts have grown dramatically which further complicated the economic situation of the governments.

The report made by UNCTAD in the year 2002 affirms the fallacy of the SAP and other neo-liberal models practiced in the African soil. According to the statement: "*during the 1990s more and more African countries came to adopt Structural Adjustment Programmes(SAPs) supported by the Bretton Woods institutions, encompassing rapid and extensive liberalization, deregulation and privatization of economic activity... However, while SAPs have applied more intensively and frequently in Africa than in any other developing region, barely any African country has exited from such programmes with success.*" Further acknowledgment by UNCTAD is the de-industrialisation of Africa. The study remarks that, industrial growth has fallen behind Gross Domestic Product (GDP) since 1980. The elasticity of industrial value added with respect to GDP was 1.10 and 1.03 during the 1960s and 1970s respectively, but it declined to 0.75 for the 1980s and 0.65 for the 1990s. The statement continues: " *De-industrialization, at least in some African countries, appears to have been associated with trade liberalization and the decline of state -owned enterprises which, in many countries, had constituted the major segment of large-scale industry.*"

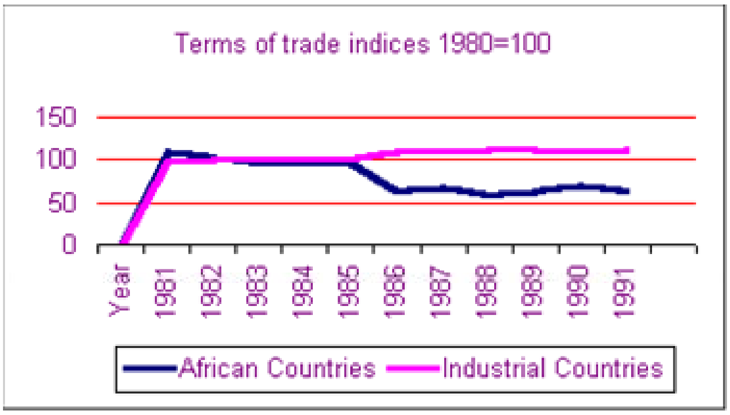
Africa's Position in the World Trade

In the last 5 decades many African countries have been practicing various programs and policies as prescribed by the World Bank, International Monetary Fund and other well known international experts. The aim of all these programs and advices is to develop a market economy, and to strengthen African position on the world market via international trade. At least 5 different programs have been adopted and still being practiced to transform the African economy to a functioning market economy. These programs are: 1) the so-called import-substitution industrialization policy with the aim of modernizing the African economy by taking selected measures. According to this policy, African countries should not import the necessary consumption goods, like sugar, textile products, shoes and other products of light industries, 2) the second policy is the Basic Needs Approach program which was adopted in the beginning of the 70s to equip Africa with the necessary instruments, like sanitation and medicine, to expand elementary schools, and other related basic needs which are aimed to eradicate poverty, 3) the Green Revolution program to make Africa self-sufficient in food. Africa must produce her own food in order to feed the growing population. In order to execute this program, many African countries should import all the items needed to develop their farming systems, and dissociate themselves from their traditional farming practices, 4) the so-called structural adjustment program (SAP) which is aimed at institutional reforms and eradicating bottlenecks which block market economy instruments, 5) the millennium UN program with the aim of eradicating poverty from the African soil which will be completed by the year 2015.

There are other diverse short and long term programs like the IMF economic stabilization policy, especially to stabilize the chronic balance payment deficit which has affected so many African countries South of the Sahara(SSA), and which has been practiced, especially intensively after the oil crises of the 1973/74. To integrate Africa into the world market and create favourable condition, many African countries have agreed with the EU in Lomé in 1975, which is known as the so-called Lomé agreement. To help member countries in case of price destabilization, the EU has organized a special fund program known as STABEX.

All the above programs, policies and agreements could not bring the necessary transformation of the African economy as projected. Year after year the African economy is internally disintegrated, and many African countries are far away from building a coherent market economy based on science and technology. As studies show, while the industrial and the agricultural sector are disintegrating, the service sector is flourishing, without any real economic foundation. In the last 50 years, where as world gross national product (GNP) is growing at a dramatic rate never seen in human history before; Africa's share in this world gross national product is practically negligible. In 1990 alone the world gross national product (GNP) amounted to $ 23 trillion. That means in one year alone goods and services amounted to $ 23 thousand billion are produced. Africa's share in this GNP amounted to an insignificant $ 270 billion, which is less than the wealth of the richest 25 people on this earth which owe $ 474 billion. If we look at the international trade growth, in the last 50 years which is a reflection of highly sophisticated development of science and technology, in the year 2003 alone goods and services worth of $ 7.3 trillion are traded world wide. This is an increase of 16% in comparison to the previous year, a dramatic increase which demonstrates the development of trade relationships among different countries. Again, Africa's share in this merchandize trade is a negligible 1%, where as China alone traded last year goods and services worth of $ 1 trillion.

Africa's worsening economic performance, especially her deteriorating trade balance beginning the 1970s could not be counter attacked by other instruments which could reduce her dependence on foreign aid and strengthen her internal economy. Instead her reliance on one or more exportable goods and the application of false economic policies makes her venerable to outside shocks. Due to the continuous fluctuation of prices of raw materials and agricultural products, the income from export has decreased from $ 51.7 billion in 1980 to $ 29.1 billion in 1986. Between 1986 and 1989 because of decreasing prices of raw materials African countries south of the Sahara lost almost $ 55.9 billion in income. Other statistics show that between 1981-31.12.1990 Africa has lost almost $ 150 billion in her external trade. According to the World Bank study the terms of trade losses for SSA between1970-1997 amounted to a cumulative of 119% of the regional GDP. Again the UNCTAD study shows that the terms of trade loss as a share of GDP for SSA has increased from 38% to 43% between 1988-1989 and 1999-2000. The worsening of the terms of trade (TOT) coupled with the decreasing share in the world trade Africa's bargaining power in economic affairs becomes continuously narrower. Africa's share in the world trade has decreased from 4.3% in 1963 to 2.4% in 1990, where as in 1996 to 2% and to 1% in the year 2000. This proves that Africa's share in the world trade is very negligible, and improvements in the near future cannot be expected as long as the world economic structure remains like this. The following diagram shows the deteriorating terms of trade for the African commodities.



The fierce competition among the raw material and agriculture producing countries deteriorates the trade balances of so many African countries. If we take coffee as an example, after the abundance of guaranteed price agreements in 1989, coffee prices began collapsing. Before 1989 the guaranteed producer price for coffee per pound was $1.20. After 1989 this has decreased to 50 cents per pound. Adjusted to inflation this decrease in prices is the lowest in 100 years. As a result of this, producer countries which received a decade ago $ 10 billion out of a retailed price of $ 30 billion, the producer prices has decreased to $ 6 billion out of a retailed price of $ 70 billion after 10 years. The entrance of Vietnam as the second largest coffee producing country in the world market has worsened this situation. In 1990 Vietnam has produced 1.5 - 60 kilogram sacks of coffee, where as a decade later she has produced 15 million -60 kilogram sacks of coffee. For countries like Ethiopia, one of the traditional coffee producing countries, this is a heavy blow. The following table shows how Ethiopia's income from coffee trading is becoming insignificant to play as economic engine as some still believe.

Ethiopia: Coffee Sector Production, Prices and Exports, 1997/98-2003/04

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
(In metric tons)							
Production	230,000	232,000	230,000	221,000	230,000	241,500	253,575
(percent change)	0.9	0.9	-0.9	-3.9	4.1	5.0	5.0
Exports	120,006	101.231	116,557	96,000	100,000	111,000	115,600
(percent change)	-2.6	-15.6	15.1	-17.6	4.2	10.0	5.1
Export earnings millions of US $	420	281	262	175	155	178	
percent change	18.3	-33.1	-6.8	-33.2	-11.4	14.8	

Source: Coffee and Tea Authority: National Bank of Ethiopia. 2001/-02-2003/04 are projected

Adding to these worsening situations of trade balance as a result of decreasing terms of trade, major raw material and agricultural prices, the policy of the EU and other OECD countries is not favourable to all countries of SSA. All major industrial countries spend $ 1 billion a day to support their farmers. In 1997 alone support and protection in OECD countries amounted $ 280 billion, in 2002 the support grew to $ 318 billion. EU alone subsidises its farmers with $ 93 billion. Another example is the subsidy policy of the US to its farmers. The average price of cotton per pound is $0.92, but subsidy represents $0.82 cents, amounting to 87% of the international market. Direct support to 14 cotton producer countries rose from $ 3.8 billion in 2000/1 to $ 5 billion in 2000/2. If we take the diary market, when a farmer in the EU produces a ton of butter under the common agricultural policy of the union he receives $ 3, 800. The wholesale price of a ton of butter in America is less than $ 1, 400. The average European cow gets $ 2 per day as subsidy, more than a daily income of the vast majority of the people in Africa.

Against this background of decreasing terms of trade and subsidy policy of the OECD countries the living standard of the African people is alarming. After 50 years of diverse economic policies and reforms practiced under the auspicious of the World Bank and International Monetary Fund (IMF), Africa's economic performance is very frustrating. Now days 50% of Africans live below the poverty line; 40% live less than $ 1 a day. Debt service takes almost 24% of Africa's export earnings. 40% of Africans suffer from malnutrition and hunger. Over 44% of the children in Africa are not in primary school. The quality of education is being eroded by the collapse of public investment. De-industrialization takes place at alarming rate. Cities are becoming slums; roads and bridges could not be maintained. House conditions are miserable. State institutions are not working properly. All in all the economic condition of most African countries SSA is in deep structural crises, and cannot be any more solved by simple neo-liberal model as it has been prescribed by the two sister organizations, the IMF and the World Bank in the last 5 decades.

Strategies to improve trade relations and ways to increase exports

Under these bleak circumstances, is there a workable strategy which improves the position of Africa on the world trade and brings economic development from within? We must discuss certain issues which are proposed by the different groups who are concerned with the economic crises of Africa.

To the groups who are still vehemently propagating the idea of neo-liberalism, there is no way out of free trade. According to this school of thought, privatization, deregulation, liberalisation, diminishing the role of the state and devaluation etc, are still the only remedies which pave the way to a genuine market economy. The ideologists of neo-liberalism if they are asked why the market economic policies of the IMF and the World Bank did not work, their answer is: not because the policies did not work, firstly, they were not applied well, secondly, still governments control the major sectors of the economy. They say if these two obstacles are removed, the market economic policies of the IMF induce the necessary economic growth. There are other groups of diverse ideologies but still believe that there is no other road than accepting the policies of the IMF and the World Bank. They differ in two major ways from the neo-liberals. They insist that the necessary of implementing sustainable development which is more ecologically oriented without loosing sights of the principles of market policies. Secondly, Third World products must have access to the world market. The problem of these groups is that they could not realise the intricate nature of the present economic setup and the dominant role of the multinational companies in dictating even the economies of the industrialized west. The other point to mention here is, must Third World Countries change their trade structures and directions or the status quo must remain like this? In other words, must Third World Countries remain as suppliers of raw materials or completely change the structure of their economies from within and outside so that capital accumulation and real economic development is possible which benefits the entire population. The other question to be raised here is, is it possible to get more market accesses to the products of especially many African countries under the prevailing world market order where many small and big nations compete against each other to throw their agricultural products on the world market. The fact that new member states have joined the EU and still join in the near future, the economic position of many African countries will be weakened and the chance of getting more market access is not promising. Besides this, many member states of the EU harvest through out the year certain agricultural products, like tomato and others by developing new technologies which block the African chances to get more accesses into the EU market. Though many African countries are endowed by nature to harvest special tropical products, plants which grow the whole year due to the climatic conditions prevails in many African countries, countries like Holland and Spain by using new devices, they control certain parts of the agricultural market. In this case it is not sufficient to pledge for more market access for the African products without mentioning the comparative advantage which Africa has, but overtaken by certain EU member states by using modern technologies.

There are other groups which are struggling for a more just world market order. In these diverse groups which are representing this slogan, the ideological confusion is more visible and it is very difficult to follow their ideas. There are some who are against the global economic order and the dominance of multinational companies which are plundering the resources of many Third World Countries. These are facts. The point is, which strategy should we apply to change these kinds of economic order which are against the natural developments of many Third World Countries? Other groups are working with the World Bank and their respective governments and still struggle for a just world, though they are not far away from neo-liberalism in many respects. I do not like to mention here the diverse international meetings held by different groups in order to remain concerned with the African endemic economic crises. The African crises become more of a world affair than internal, and many groups of diverse ideologies and governments have come to the conclusion that African governments could not solve the existing economic and social order by themselves. Hence we have to prescribe them more the of the neo-liberal medicine so that market economy functions at the end. This is a tacit agreement by all non-governmental, governmental organizations and international organizations. Even African governments have fully accepted the ideology of neo-liberalism, though neo-liberalism has destroyed the social reproduction base of the African society. NEPAD is a vivid example how African leaders have shut their eyes to the existing realities of the continent, and do not realize that free trade cannot be a solution to the overwhelming crises of the continent.

All these suggestions remain simple ideas as long as one is not able to analyse the problem of the world market from a different perspective. If we talk of a just world and fair trade, the question why and why for must be answered. In this case there is the problem of ideology. That means, though market economy has become a natural order in every society, the point is what kind of a market structure each nation could create so that technologically based economic development is possible. I say market economy has become a natural order that in every country there must be a division of labour, some produce, some are employers, and some buy the products and sell them again to the consumers. Production, distribution and exchange are the natural order of any nation, and market economy cannot function without these preconditions. From this perspective if we look at the economies of many African countries there is a problem of ordering the division of labour so that production, distribution and exchange function properly. The internal organization of the market structures must be changed. From outside African countries could not rely any more on few raw materials and agricultural products to sustain as nation states. It is a great crime against the natural order of humanity that certain nations remain permanent producers and suppliers of raw materials where as few nations dominate the science and the technological world. Before I go into detail let me mention some important issues concerning the world market situation at present time.

Today we witness that the world market cannot function like this. The global economic order is out of control. There is a systemic economic and financial crisis which dictates the lives of so many people and which tightens the hands of many governments. There is a huge gap between real capital and financial investments. The financial market which is overwhelmed by different bond systems and structures, and which is completely detached from the physical economy strangulates the world economy never seen before. In the face of this reality, the dominance of neo-liberalism and the global players which are out of reality and revolving within their own circle for the sake of maximization of profits, African governments remain aloof or incapable of bringing substantial changes in their society. In this case before one talks about a just world, one should study the inherent contradictions of the world economy and the ideological mechanism which it has arrested the world economy, in order to come to a workable solution. In other words without changing the economic dominance of neo-liberalism and without gaining control of the world market by the respective governments, which is more welfare oriented, there is no solution to the present deepening African economic crises.

If the situation is so bleak which way the respective African governments should follow in order to bring genuine economic development from within? They must follow an inward strategy of economic development. Since this takes me far away from the topic I am requested to present here, I do not dwell too much on this subject. The most important for this discussion is what kinds of strategy African governments should follow, firstly, to reduce their dependence from one or two raw materials for their foreign income, secondly, to get more of hard currency by which they could finance certain projects. From the very beginning it must be clear that engagements in the world trade must have the purpose of helping any meaning full development. International trade relationships which cannot be formulated and always adjusted from the above perspective are meaningless.

In order to take part into the world trade and increase one's own share each country should formulate its own priorities. I take Ethiopia as an example. Ethiopia cannot any more relay on the export of coffee to bring a meaning full economic development. It is not in the advantage of this generation to believe that coffee could serve as the engine of a genuine economic development. As long as Ethiopia is not in a position to process coffee and pack and send it the production and export of raw coffee is meaningless. For any development economist this must be clear. Without the production of value added any country cannot develop her economy coherently and strategically. Since coffee cartels and western governments block our efforts of processing coffee, we must make special arrangements with those countries, like the republic of China, which support our real development effort. Beside this we must diversify our export products and make bilateral agreements with certain governments. We must try to exploit the nearby markets by exporting diary products, vegetables and others with which we could easily compete with the EU products, which are contaminated by chemicals and other health affecting substances. If we make the necessary organizational and marketing arrangements we will have a decisive share in the nearby markets. With this in mind, we must make a long term bilateral agreements by making special deals with certain governments in order to get machines at the exchange of agricultural products. We can get real economic development in the future if we break ourselves from the neo-liberal thinking and from the belief that Western governments and their representatives help our efforts of genuine economic development. From outside we must introduce new tariff systems to control our market. Products which compete with the products at home must be heavily taxed or forbidden from entrance into our market. Luxury products which consume the meagre hard currency must be forbidden for a certain period, and some must be taxed heavily. African governments must control capital movements. Hard currency must be available for vital consumption needs of the society and for the importation of capital goods which have higher multiplier effects. Only so we can achieve genuine economic development.

In this case the effort made by the Ethiopian government to become membership of the WTO is a useless attempt which completely misses the realities on the ground. It is simply a waste of time, energy and money. It is a very dangerous attempt which diverts the attention of the intellectuals to unnecessary controversies. The government should have known that it's market economic policies of the last 14 years and its opening door politics to the international community, and the diverse meetings in our capital city which do not have any scientific bases could not bring any tangible changes to the Ethiopian people. With more neo-liberalism, more international meetings and aid, the Ethiopian economy is getting worse every day. The way out of this dilemma is following a strict inward looking economic development strategy which is based on science and technology.

Thank you very much

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