ALTRUISM OR OPPORTUNISM?
Strategic Interests in Development
The United Nations has had four different peacekeeping missions in Haiti since 1994. This photo shows a Sri Lankan patrol on the main road west of Port-au-Prince. The razor wire that surrounds the vehicle suggests the tenuous relationship between the peacekeepers and Haitians, many of whom are resentful of a semi-permanent foreign military force in their army-free country. Two months after this photo was taken, a Nepalese unit was blamed for dumping untreated sewage into the Artibonite River, sparking a deadly cholera epidemic that infected over five hundred thousand people—5 percent of the population—and killed approximately seven thousand Haitians. Despite the support that the UN provides to the nation's security and stability, events such as this have eroded public opinion of the peacekeepers and the UN as a whole.

Graham Day spent thirteen months working in Haiti for the Clinton Foundation’s Health Access Initiative. He developed projects with the Ministry of Health, which, like almost all ministries, lost its building and many staff to the devastating earthquake in January 2010. He managed several projects, including a diagnostic of health clinic services, the creation of Haiti’s first health worker database, and a deployment of cholera education brigades.
ACKNOWLEDGEMENTS

PERSPECTIVES is published by students in the International Development Program of Johns Hopkins University’s Paul H. Nitze School of Advanced International Studies. The continued success of Perspectives owes largely to the efforts of its faculty support, including:

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A Letter from the Editor

Careers in development are prone to disappointment. Youthful optimism becomes jaded. Naïveté gives way to cynicism. Bureaucracy is impregnable. Corruption always wins.

The theme of this year’s edition highlights the ulterior motives in global development. The contributions of our authors expose and comment on contradictions that we as students and practitioners of international development will inevitably confront on a personal and professional level.

With experience, the dichotomy between altruism and opportunism becomes less severe. We learn that international development takes many forms—government-sponsored, nongovernmental, faith-based, foundation-funded, community-driven, and corporate. Each approach involves a complicated network of funding, targets, monitoring, reporting, and budgets.

Questions of altruism or opportunism give way to realism. We learn to embrace the practical over the ideal.

We observe the saturation of cellular phones across Africa and our suspicion of profit-seeking behavior yields to an admiration of its effectiveness. Though skepticism of Chinese concessionary projects is ubiquitous, Africa’s leaders clamor to secure offers of infrastructure investment. When the US government donates 240,000 tons of food to North Korea in exchange for an agreement to suspend its nuclear activity, does anyone call this altruism?

Certainly not, but nor should it be called wrong. Development tools can be used for diplomatic or military ends, as President Obama explicated in his 2009 “Defense, Diplomacy, Development” policy framework. Soldiers under the US military’s AFRICOM, for example, are responsible for supporting the provision of humanitarian assistance. With respect to the physical security of western aid workers in conflict areas, any previously sacred delineation between philanthropists and soldiers has been compromised, if it ever existed at all.

Development is a complicated and challenging subject. In such a heterogeneous field, strategic and self-serving interests have always contributed in some fashion. To imagine that an actor is either ‘altruistic’ or ‘opportunistic’ is to believe that some forms of development are necessarily ‘better’ for the poor than others. Rather than assume intentions ex-ante, the experienced student of development learns to observe what models have been successful and try to adapt each for local circumstances.

This year’s edition is subdivided into sections which we thought broadly covered the various dimensions of development’s strategic interests. Within the China section our authors discuss China’s evolving and strategically important role in Africa, arguing that China’s role in African development is unfairly demonized, though not undeserving of close scrutiny. We transition to our India section with an essay contrasting India’s approach to African development with China’s. We dissect the strategic interests in India’s domestic development by taking a close look at its enormous textile industry, as well as its oft-maligned use of eminent domain to clear land for corporate construction.

A section on energy and technology explores the role of multinational telecoms in Haiti’s post-earthquake reconstruction, the social impacts of Brazil’s state-directed biofuels program, and the challenges faced by the REDD+ program’s efforts at preventing deforestation through cash incentives to developing countries.

We close with a section whose title, Crooked by Design, is borrowed from our final editorial on reforming the governance of global aid programs. The section also explores America’s bloated food aid program and the failed ‘authoritarian bargain’ between Tunisia’s pre-revolution leadership and its aggrieved population. Both structures, the papers suggest, have been so corrupted by special interests as to make their grand designs unrecognizably perverted.

This edition of SAIS Perspectives initially intended to uncover discrepancies between altruistic design and opportunistic actualization, exploring lies and contradictions in development practice. Having compiled our issue, rather than confirming our hypothesis, we find that this edition instead adds meaningful context to the question of whether development motives can ever be exclusively altruistic or opportunistic. Development projects survive in a hazy zone between these poles, focused more on the practical needs of their specific mission than on a well-meaning yet empty philanthropic platform.

Through a healthy skepticism mixed with tangible experience, we learn that good intentions have often underwritten failed development projects, while the most impactful interventions have usually been of no particular philanthropist’s design. Altruism or opportunism, we observe, are neither exclusionary intentions nor the principal lens through which the development community ought to judge its contributors.

Jason Loughnane
Editor-in-Chief
I am again delighted to introduce the new issue of SAIS Perspectives 2012. This year’s theme, “Altruism or Opportunism: Strategic Interests in Development,” explores what drives decisions to provide international development assistance. I commend the letter from this year’s Editor-in-Chief, Jason Loughnane, who has summarized the themes explored by all of our authors, as well as adding his own thinking to this topic. This year’s publication covers topics as diverse as India and China’s roles as donors and the reform of global governance. Contributors also explore the benefits and challenges associated with the expanding use of telecoms technology and biofuels in development. It is our shared hope that the views of the authors who contributed to this year’s publication will enhance your appreciation of the nuances and contradictions inherent in understanding the motives behind international development assistance.

I would like to thank our Editor-in-Chief, Jason Loughnane, and his editorial team of Corey Gannon, Abhishank Jajur, Carolyn Nash and Matthew Putkoski for an excellent job in producing this year’s issue of Perspectives. My thanks also go to Tina Evangelista and Katherine Diefenbach both of whom provided strong support to the publication. The IDEV Poet Laureate, Professor William Douglas, currently my Acting Co-Director of IDEV, has once again contributed a poem tied in to the current year’s theme.

In closing, I would also like to express our ongoing thanks to all of IDEV’s generous donors. Bernard L. Schwartz, whose enduring support of IDEV through the Bernard Schwartz Globalization Initiative, continues to make possible a full range of leadership development activities including internships, scholarships, field practicum, conferences and workshops. Other longstanding IDEV donors—Mrs. Hope Simon Miller, Mr. Alan Fleischmann and Ms. Dafna Tapiero, as well as the Ferris family’s generous contributions—continue to support IDEV internships throughout the developing world. IDEV is grateful to the Sullivan family for their sponsorship of the Mount Vernon fellowship, the second of which will be awarded to an incoming IDEV student beginning in academic year 2012/2013.

Cinnamon Dornsife
Acting Co-Director
International Development Program
POEM

More Expediency, or Morality?

Among those who treat the poor world’s woes
We see debate persist:
Are morality and self-interest foes,
Or can they coexist?

When giving aid to the world’s poor nations
We may have a mix of motivations—
Poverty reduction is altruistic,
While strengthening allies is nationalistic.
Does this mixture of intentions
Sully our moral pretensions?

For example, with the Marshall Plan
We tried to help our fellow man
Recover from a terrible war,
And economic health restore.
But, blocking Soviet expansion too,
Was part of what we sought to do.
Was concern for national security
Compatible with our ethical purity?

When for wrong reasons the right thing is done,
Is that thing still right?
Has our evil nature won,
Or can we keep our honor bright?
To point us in the right direction,
Let’s change the wording of the question:
If for “other” reasons, the right thing we do,
Can we help the poor, and our self-interest too?

If the “other” reason is morally pernicious,
Then our motives become suspicious.
But if that reason itself is morally OK,
Our aid program can ethically go on its way.
Altruism and expediency can both belong,
Because, two rights don’t make a wrong.

If fact, self-interest may be morally good,
If it impels us to do those things we should,
Which from altruism alone won’t be begun,
Thus leaving the right things still undone.

— William A. Douglas
IDEV Poet Laureate Emeritus
An Interview with Deborah Bräutigam, Author of The Dragon’s Gift: The Real Story of China in Africa

Deborah Bräutigam, incoming director of the International Development Program and author of The Dragon's Gift: The Real Story of China in Africa, sat down with Perspectives to discuss some of the themes covered in this year's issue, including China's role in Africa, reforming America's food aid program, and the impact of multinational corporations in development.

JASON LOUGHNAKE: The theme of this year’s issue is “Altruism or Opportunism? Strategic Interests in Development.” Has altruism in development ever really existed, does it exist now, or is every development project going to be somewhat opportunistic?

DEBORAH BRÄUTIGAM: I think there is a huge role for altruism. Altruism comes from the deepest part of our human nature, that we want to do good things, and there is something of that I think in everybody. People want to help, to make the world a better place, and certainly for development students that’s a core part of what they are, and what I am.

But I don’t think that altruism ever built economies. What altruism can do is very well suited for helping out at the margin, for working on social projects, for doing volunteer work, for trying to make a commitment through non-governmental organizations. It’s always a bit of a mix, but altruism has its position.

That said, I’m not sure I would position the two ideas as altruism ‘versus’ opportunism, though I’m not sure what another word would be. The question sets up a false dichotomy where you have altruism as being wholly good and selfless, and opportunism as entirely selfish. I think that you can be a businessperson or a banker making a decent salary and you can be doing good things for development.

And I think that ultimately having what the Chinese call a ‘mutual benefit’ system is probably the most sustainable. Altruism implies charity, a donation of some kind, and in many ways that’s not respectful. For a child, you want to be helping them, but for equal relations between governments or for relations between poorer and richer countries, altruism is seen as ‘from us who have it to you who have not.’ It’s a less respectful relationship in many ways, and I think that basing relations on mutual benefit for both parties is ultimately more sustainable.

JL: This topic inevitably bring us to China’s role in Africa, which is your area of expertise. Can you talk a bit about what China’s role in Africa looks like with respect to altruism and opportunism?

DB: The Chinese don’t position their foreign aid as being about altruism. One of their core foreign policy principles in foreign aid is that it must be for mutual benefit. So, in the early years, it was more based on donations and a one-way transfer, but in the 1980s the Chinese decided that this was not sustainable. They decided that if they were going to expand their foreign aid and global engagement, they needed to focus on doing things that would benefit both parties.

We tend to think that foreign aid should not be about making a profit, and yet, within our own foreign aid system, a huge part of it is about making a profit for the companies that carry out these projects, the beltway bandits and such.

So I think there is something less hypocritical about the way the Chinese are approaching this. Yet many people regard it as shocking that aid should be mixed with business, because we think we can try to keep them separate.

When we look at China in Africa, we tend to often juxtapose the nitty-gritty reality of what the Chinese are doing with an idealized portrait of what the West is doing. So the Chinese are always seen as land grabbers or miners who are exploiting Africans and causing environmental and social problems, and the West is always seen as a Peace Corps volunteer or selfless provider of altruistic projects focused on democracy and poverty alleviation. The reality is that there is a lot more self interest than we recognize in Western engagement in Africa. I think that’s very clear.

JL: One major example of that is the role of the US Military in development work. Can you comment on this?

DB: The role of the military in development is fascinating. One phenomenon I’ve noticed over the last few years is that I’m getting more and more military people coming into my classes who want to study development. They had been assigned to do development work, knowing nothing about development, and they had felt very frustrated. After experiencing this some of them have gone on for further education and tried to learn how they could have been more effective.

I think that the military brings technical capacity, for example, in the Army Corps of Engineers. They can do a lot of good engineering and construction work, but they’re not necessarily the people that should be doing development. To have the army building schools and health clinics, it confuses what I think should be two separate parts of engagement in developing countries.

It also puts development workers at risk. If they are looked at as being part

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of a military establishment, they are much more vulnerable than if they were seen as trying to improve things, and not part of the combat situation.

My overall view is that this is not a good direction that we’ve moved in. I think one can expand beyond that to look at the Defense, Diplomacy and Development initiative. I think many people on the development side of that are uncomfortable with being so closely mixed up with defense and diplomacy.

It’s a more hardcore realist way of looking at it, because development and foreign aid have always been related to our strategic, commercial, and foreign policy interests. But there has also been a very strong effort throughout the decades to try to separate foreign aid and make it more about development.

We see this in food aid for example, with things like the ‘Buy America’ act. The people working in the food aid sector have tried to make it more sustainable and developmental, and they continually come up against vested interests that make reforms really difficult.

**JL:** On that subject, how do you think the US can move away from its system of heavily tying food aid to US agriculture?

**DB:** I think it’s possible. If you look at DfiD [Department for International Development], Britain’s leadership has taken a much firmer stance about ending tied aid than we have in our country. They probably don’t have the same agribusiness or shipping interests that we do, but they have many of the same pushes from their taxpayers to make aid something that is also going to benefit British business.

It takes leadership. Gordon Brown and Tony Blair had to say, “Enough. We are going to be a leader in this kind of reform.” We haven’t seen the US stepping up to the plate in this regard. Perhaps there will be opportunities in the next administration. Whoever is in charge of the State Department might have an opportunity to change this issue. These opportunities do exist, but they depend on leadership to overcome vested interests.

**JL:** Do you think that Congress would support aid reform right now?

**DB:** Not in an election year. But it’s certainly not impossible to get Republicans to agree to aid reform. Look at what happened with PEPFAR under President Bush. Who would have expected that a Republican president would have become a champion for aid in Africa? He really stepped up to the plate on the issue of funding antiretrovirals in Africa. So I think we can be surprised, and I hope we’re surprised again in the future.

**JL:** Where do you think the US can strategically target development in Africa if it wants to compete with China for influence in the region?

**DB:** I think we are locked in right now to the health issue, particularly with HIV/AIDS. Because you can’t stop paying for antiretrovirals, people will just die if they don’t get those. So that we have to continue, and that’s a good thing.

But I think there are opportunities for cooperation with China as well. One of the things the Chinese have been promoting is regionalism in Africa, particularly with regard to infrastructure. There are a lot of projects that they would like to do but which go across national borders, so financing and signing agreements on them is much more complicated. This is an area where a lot of Africa’s partners can step up to the plate in terms of financing and logistics.

Imagine what this country would be like without the highway system that was built in the 1960’s, or without our trains, airports and ports. These things are essential for reducing costs in Africa, which are very high and make it very difficult for Africa to become competitive. I think that this is something where American companies can play a role. We are not so competitive in construction, and the Chinese are, but we are very good at things like engineering and design. So there are opportunities for collaboration and jointly tackling some of these big infrastructure challenges.

**JL:** Let’s discuss the role of multinational corporations in development. Can you talk about where multinationals have, either through corporate social responsibility work or for revenue generating purposes, positively impacted areas where they operate?

**DB:** I think these can be genuinely developmental activities. I think we can actually look at multinational corporations as providing something very useful aside from their corporate social responsibility programs. In telecommunications, look at all of these companies that have spread across Africa, not with any foreign aid program, but have put cell phones in the hands of peasants in the middle of nowhere. Now these farmers can pick up information on crop prices and text funds to different family members, and this has been done just through the market. This is a hugely beneficial impact.

That’s the kind of real benefit that you can get from a company doing what makes sense for them, being profitable, and coming up with innovative products that people choose to buy and use, because it makes sense to them.

I think the way of thinking inspired by the book *The Fortune at the Bottom of the Pyramid* [C.K. Prahalad, 2004] is great. More and more people are going into business and thinking like this, making money at it, but providing things that are useful to the poor. That kind of creative thinking, marketing, and selling a product that is in demand is excellent.
CHINA’S ROLE IN DEVELOPMENT

Learning from the Past While Securing the Future

CHINA’S ROLE IN AFRICA

Kelly Johnson

Dragons, elephants, geese, tigers, ducks, even devils. These are a few of the analogies employed as economists and pseudo-economists attempt to divine the impact of China on its cohort of fellow ‘developing’ countries. This zoo of descriptors reflects the confusion of commentators trying to analyze China’s place amid a relentlessly changing economic landscape. It remains unclear how China will wield its growing economic clout in a post-recession world economy, but undoubtedly its statements and behavior increasingly influence international norms. To explore China’s power, as well as its ability and willingness to bridge its roles as developing nation and international leader, this article investigates China’s economic relationship with the countries of sub-Saharan Africa. Chinese rhetoric regarding its relationship with Africa long emphasized two principles: non-interference and mutual benefit. However, the less than convincing results of initial empirical studies calculating the effect of Chinese aid and investment on African productivity suggest that China’s determination to maintain a policy of nonintervention betrays other priorities to the detriment of the development it professes to support.

Chinese Growth and the ‘Benign Circle’

In order to understand China’s approach to development in Africa, one must first consider China’s own path to unprecedented economic growth. A 2009 UBS study of data from 1990 to 2008 demonstrated that China’s growth in total factor productivity (TFP) far outpaced both developed and developing countries, averaging approximately 4 percent growth compared to the United States, Germany, and Britain’s 1 percent each. The UBS study further identified technological growth as the most significant factor. As China’s economy gradually opened to foreign investment and trade, Communist Party leader Deng Xiaoping took careful measures to ensure that China’s business community reaped the benefits of expanding investment and production. By requiring fifty-fifty joint ventures, the government ensured that Chinese companies built up experience in the business world and, most importantly, gained exposure to the technology and processes used by western companies. As the pace of growth increased, Chinese leadership also pushed for multinational companies to gradually expand ties beyond the established special economic zones to which it originally limited international investment, thereby distributing the effect more broadly. Finally, the government strictly limited the number of foreign workers that companies could bring into China, requiring investors to hire and train Chinese, thereby elevating its human capital.

Even while becoming creditor of much of the Western world, China continues to use foreign investment and trade with the West to piggyback off of western research and technology. After joining the World Trade Organization (WTO), increasing global competition, China defended its liberal use of western technology in a 2005 government White Paper on Intellectual Property Rights (IPR). While highlighting China’s attention to developing the legal infrastructure to support IPR, the paper stressed the need to balance the concerns of western intellectual property creators against the interests of its users. Citing a “benign circle for the creation and use of intellectual property,” the paper speaks of “adjusting and improving international rules regarding IPR protection in order to let all countries of the world share the fruits and benefits brought about by the progress of science and technology.”

In reviewing the paper, DeWoskin suggests that Chinese development since the mid-1980s progressed from labor-intensive factory production to capital intensive industrial production, then to the current era of intellectual property-intensive development. In this last stage, Chinese leadership intends to maintain growth rates by exploiting western-developed intellectual property to raise itself up the production value chain. DeWoskin worries that such an approach to intellectual property will eventually undermine legal frameworks that traditionally provided an incentive for innovation.

In sum, in its pursuit of development, China boldly prioritized its own continued growth and stability over the maintenance of existing international norms, potentially trading long term growth in the global economy for its short term productivity gains and advancement up the production value chain. Given

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CHINA

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Source: World Bank Data
Learning from the Past
CONTINUED FROM PAGE 7

Debates of Trade and Assistance

Distinctive in China’s relationship with Africa is the interconnectedness of each of its three main forms of international economic interaction: trade, official development assistance (ODA), and foreign direct investment (FDI). Official figures in each of these categories rose steadily since China’s economic reforms took hold but distinctions among the three are sometimes murky. A brief overview of Chinese trade and ODA in Africa follows, before turning special attention to FDI and its impact on African industrial productivity in particular.

First, since China announced its intent to join the General Agreement on Tariffs and Trade, the WTO’s precursor, the potential impact of Chinese trade on African exports to third-party nations raised concerns among African and western countries. The creation of both the African Growth and Opportunity Act (AGOA) and the EU’s Everything but Arms initiative stemmed from concern that China’s accession to the WTO would flood markets with cheap textiles and manufactured goods, blocking industrialization in less-developed African countries. Although in 2010, China’s trade with Africa surpassed trade between the United States and Africa, thus far, empirical evidence on the effect on African development is inconclusive. A ten-year study of African exporters of clothing and accessories found that Chinese goods displaced African exports during the first five years. The latter five years of the study, however, showed a diminishing negative effect. This shift may reflect the launch of AGOA in 2000, which boosted United States-Africa trade. However, American officials acknowledge that their trade remains heavily weighted towards natural resources, and the bulk of Chinese trade with Africa remains in the area of low value-added commodities. As later analysis will note, by not integrating into global supply networks and tapping into the significant intra-industry trade characteristic of modern distributed production, African nations may miss an opportunity to escape resource-dependence.

Second, Chinese ODA is increasingly formalized as Chinese aid increases. Signaling recognition of its growing influence on the international system, China published its first White Paper on Foreign Aid in April 2011. The paper’s first line defiantly underscores the unique Chinese brand of assistance with “no political conditions,” the limitations of which are reviewed below. In addition to China’s willingness to support disreputable leaders, China also receives scrutiny for its linkage of aid to investment access or resource extraction, a practice accentuated by its foreign aid arm’s location within the Ministry of Commerce. Still, some development experts hold Chinese investment as a model alternative to western aid, which experts hold Chinese investment as a model alternative to western aid, which critics deride as expensive, with coddled aid workers living far above average living standards. In comparison to the extensive informal operations of Indian businesses, Chinese investment assumes a more ‘enclave’ style, isolated from the rest of the host economy, as it controls most of the levels of infrastructure and other projects that it funds. Such isolation from the rest of the economy may limit spillover effects into broader African societies, even if Chinese firms partner with and develop the capacity of African firms.

A Dragon on Safari

Given the strident rhetoric within western media surrounding Chinese growth, it is difficult to parse out the true effects of Chinese FDI in Africa from the paper tigers. China’s White Paper on Foreign Aid and a 2011 White Paper on Peaceful Development both underscore the country’s focus on cooperation and building capacity and self-reliance in fellow developing countries. Deborah Bräutigam’s The Dragon’s Gift outlines how China applied its own model of development to shape its investment and foreign aid. In stark contrast, popular western criticism usually either emphasizes the threat Chinese investment poses to the United States and African competitiveness in emerging African markets or foretells the impending failure of Chinese-built construction due to poor materials and craftsmanship. Having outlined general debates surrounding Chinese trade and ODA in Africa, the rest of this article evaluates FDI’s contribution to productivity in Africa in order to assess the validity of Chinese claims to special understanding of developing country needs.

Systematic studies of the effect of Chinese aid and investment in Africa are few and inconclusive. Juliet U. Ehi and Gregory N. Price found in their study of five African countries (Ghana, Kenya, Nigeria, South Africa, and Tanzania) that Chinese FDI in their manufacturing sectors did not increase productivity. In fact, in all sectors, except metals and machinery, increased investment by China lowered TFP estimates. Further analysis indicates that the cause of the decline was import competition and, surprisingly, an adverse effect on technology transfer, the very factor that proved vital to China’s growth. Another study on Ghana, though not looking specifically at Chinese investment, found once again that the presence of foreign firms in Ghana did not increase productivity.
Learning from the Past

The productivity of Ghanaian firms. Interestingly, the investment did raise the productivity of other foreign firms.

What might account for this negative impact? A student of China’s remarkable economic reform will note the key role of Deng Xiaoping in advancing the transformation that China needed to escape its famine cycle. While the countries included in the Africa TFP study enjoy relative political stability, the findings suggest that their leaders have not mirrored Deng and his successors’ single-minded pursuit of advantages and growth. Elu and Price conclude their study recommending that African leaders take an active role in prioritizing tangible assets, such as technology training for employees, over intangible factors of human and organizational capital. In this respect, they could emulate Deng’s approach to foreign investment as a means of grasping technology and spurring growth. China offers some market incentive for African companies to climb the production value chain. For example, China places a lower tariff on chocolate than on unprocessed cocoa beans, providing an opening for an industrious cocoa-producing nation, such as Cote D’Ivoire. Taking advantage of the opportunity, however, requires African leadership and vision.

This discussion raises the question as to whether China’s claims of mutual benefit ring hollow when funds and investment are squandered because of poor host nation leadership. Declining productivity in the African recipients certainly contradicts the theme of China’s official policy on foreign aid, which assumes that a country can separate its political interests from its economic dealings. In fact, an empirical study covering the years 2003 to 2006 of twenty-nine African countries found Chinese investment heavily weighted toward natural resource-rich and governance-poor countries. As continued data collection and analysis improve the picture of Chinese investment, China’s leadership must consider whether to adjust its long-standing nonintervention policy, encouraging African government leaders to increase the benefit to their people from foreign investment.

A Productive Future?

The debate over China’s impact on development will continue to rage as capital competes for new markets and influence across the developing world. While Europe and the United States struggle to fund the basic elements of government, many question core tenets of capitalism and democracy. For the developing world, what would be the implications of an economic model centered on China rather than the West? Before recommending one path or the other, western and eastern governments alike should not discount the human factor in a nation’s growth. If China is to serve as a model for other developing countries, Deng Xiaoping’s single-minded and visionary focus on economic growth cannot be overlooked.

Endnotes

5. Bräutigam, Deborah. The Dragon’s Gift: The Real Story of China in Africa. New York: Oxford University Press Inc., 2009, 130, 141. For example, modeling on the ‘request-based’ loan system that Japan used well in China, starting in the 1970s, the Chinese Export Import Bank now typically provides concessional loans to fund infrastructure projects built by Chinese companies in cooperation with a host nation company. Under this ‘request-based’ system, businesses from the loaning country develop proposals which they then propose to the recipient nation government, who in turn requests the project from the loaning government. For the Chinese government, allowing Chinese companies to conduct the projects ensures the safe return of its loans. In reality, some African officials note that despite the circulation of aid, loans, and grants, often throughout the whole process, they never see the funds.
Chinese Pragmatism in Africa

Paul Armstrong-Taylor

China's role in Africa has been criticized as both self-serving and damaging to Africa. Chinese investments ensure access to raw materials for their own benefit, while undermining pressures to improve governance and human rights to Africa's detriment. China wins, Africa loses. Some, though certainly not all, of these criticisms are unjustified; Africa has in fact benefited from Chinese investment. Economically, the exchange has been a 'win-win.'

While China has faced legitimate criticism for its ambivalence to human rights—particularly in Sudan and Zimbabwe—China's programs have been quite successful in promoting economic development. This editorial will make two main points: firstly, by securing loans against resources, Chinese loans can be made to countries of dubious creditworthiness at competitive interest rates. This explains China's lending patterns better than a mere desire to secure access to strategic resources. Secondly, Chinese loans are frequently made to an escrow account in China which may limit government corruption in Africa. These two factors combine to make Chinese development programs very effective in their primary role of promoting economic growth.

**African Resources as Collateral for Chinese Loans**

China Exim Bank, which is solely owned by the Chinese government, makes loans to Africa that are much larger than China's official aid. As a prudent financial institution, China Exim Bank must consider the creditworthiness of its borrowers and, if that credit is weak, secure collateral before investing. While there is no evidence that Chinese official aid is linked to resources, often China Exim Bank's collateral comes in the form of claims on raw materials, as many African countries have few other resources.

Is the link between loans and resources better explained by a demand for collateral or a desire to secure strategic resources? For countries with stable, fiscally sound governments, loans have been extended to the government and used for projects that have nothing to do with resources—public housing in Botswana, for example. For countries without stable and financially secure governments, loans have been secured against natural resources. However, China has secured loans not only against strategically important resources, such as Angola's oil, but also against Ghana's less strategically important cocoa beans. These patterns—unsecured lending to creditworthy governments and loans secured against strategically unimportant assets—suggest that the connection between loans and resources is an attempt to reduce credit risk, rather than to secure access to Africa's resources.

**Limiting Corruption by Lending through Escrow Accounts**

China Exim Bank loans are often held in escrow accounts in China from which payments are made directly to the companies carrying out development projects. Recipient government officials do not intermediate these transfers, reducing the risk of embezzlement and corruption.

This approach contrasts with western loans and cash grants made directly to governments. These different approaches to structuring loans might explain the differing importance placed on governance. For the Western approach to be effective, governance reform is essential, as local governments control disbursement of loans. However, the Chinese approach bypasses governments, so governance is not seen as a prerequisite for effective development.

**China in Sudan and Zimbabwe**

If China's role in economic development has been positive, its record on human rights issues has been poor. China has been particularly criticized for its role in Sudan and Zimbabwe.

In Sudan, China's purchases of oil allowed the Sudanese government to buy Chinese arms later used against rebels in Darfur. Furthermore, China used their political power to prevent the international community from acting to stop these atrocities. While China did eventually use its influence to persuade the Sudanese government to allow peacekeeping forces into Darfur, it could have done so much earlier. Other countries were not completely innocent—Japan, India, and Malaysia purchased large quantities of oil from Sudan, and a Canadian company was a major investor in Sudan's minerals industry.

In Zimbabwe, while the West was imposing sanctions on Robert Mugabe, China maintained economic ties to his regime. However, official Chinese aid to the Mugabe regime was small and the

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Chinese Pragmatism

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degree of economic support from China was relatively light.\(^{10}\) Although China was Zimbabwe’s main supplier of imported arms, supplying 39 percent of its imported weapons from 2000 to 2009,\(^ {11}\) not all of the deals seem to have been completed.\(^ {12}\) While it was not the only country to violate sanctions on Zimbabwe,\(^ {13}\) China’s support of the Mugabe regime characterizes a disturbing lack of concern for human rights abuses.

Conclusion

China has focused on economic development and mostly ignored African politics. By securing loans against resources and using escrow accounts, China Exim Bank has been able to effectively fund development projects in unstable countries with poor governance. But China can justifiably be criticized for supporting regimes with deplorable human rights records, such as Sudan and Zimbabwe. From an economic perspective, however, China’s contributions to Africa have been positive, and the Chinese can justifiably claim that they have done at least as much, if not more, than the West to support Africa’s considerable growth over the last decade.

Endnotes


3. Ibid., 278. Chinese official aid has gone to every country in sub-Saharan Africa that recognizes China diplomatically and does not go in greater quantities to countries that have more resources.


In the first half of 2005, the Zimbabwe Investment Center approved thirty-five foreign investment projects with a value of $329 million. China’s share was $8.5 million.


12. For example, 12 FC-1 combat aircraft purchased in 2004 seem not to have been delivered.

No Strings Attached?
CHINA’S OVERSEAS ASSISTANCE TO CAMBODIA

Jia Han

In 2006, China surpassed the United States in foreign aid disbursements to Cambodia and has rivaled Japan as the country’s largest aid donor in the past five years, especially in the area of infrastructure development. It has also become the biggest foreign investor in Cambodia. The lack of transparency regarding Chinese foreign aid, the disjointed nature of its aid apparatus, and China’s willingness to fund aid projects without attaching conditions has left western observers suspicious of China’s motivations. Furthermore, most of China’s engagement in developing countries facilitates economic cooperation through non-concessional loans, investments, and export credits, and does not fit the Organization for Economic Co-operation and Development’s (OECD) definition of Overseas Development Assistance (ODA). This article will discuss some of the motivations for employing these tools. Lastly, Chinese companies play an important role in identifying and implementing both aid and commercial projects in developing countries. As the Chinese government continues to employ state-owned enterprises and banks to pursue policy goals, this article discusses the role in foreign assistance of both the Chinese government and Chinese companies, some of which are state-owned and subject to control by the state.

While there are several strategic reasons for China’s aid to Cambodia, they

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“should not be misconstrued as a goal of domination,” writes Sophie Richardson of Human Rights Watch. This article agrees, and suggests that rather than viewing China’s foreign assistance to Cambodia through a security lens, it is more appropriately understood as consistent with China’s foreign policy values. These values are codified in China’s Five Principles of Peaceful Coexistence: (1) mutual respect for sovereignty and territorial integrity, (2) mutual non-aggression, (3) non-interference in each other’s internal affairs, (4) equality and mutual benefit, and (5) peaceful coexistence. Accordingly, China’s foreign assistance to Cambodia is characterized by its continued alignment with developing countries, an ‘East Asian’ model of development, and an emphasis on mutual benefit realized through exchange of Chinese aid and investment in return for access to Cambodia’s natural resources.

Cambodia has been historically dependent on foreign assistance, which has arguably yielded little in the form of economic development and political reform. After the Paris Peace Agreements of 1991, Cambodia, emerging from decades of neglect by the West and the brutal reign of the Khmer Rouge, was at first administered by a UN-established interim government. Over the course of the last twenty years, it has received nearly US$12 billion in foreign aid, and has held four national elections, but has experienced no political turnover at the top. Simply put, Cambodia has fallen into an “electoral authoritarianism.” As observers note, “corruption, cronyism, and nepotism are endemic in Cambodia.”

China’s Overseas Assistance

Although China has been experimenting with foreign aid to Asia and Africa since the 1950s, it increased its foreign assistance spending after the events at Tiananmen Square in 1989, to help repair its global image. In April 2011, China published an official White Paper on Foreign Aid. The White Paper lists five basic features of China’s foreign aid policy, including emphases on helping countries “build up their self-development capacity,” on mutual benefit, and on not attaching political conditions to aid. Historically, China has been tight-lipped regarding its foreign assistance, designating it a “state secret.” However, China publicly discloses its amount of bilateral ODA aid to Cambodia through the Council for Development of Cambodia’s (CDC) online database. This step towards transparency is viewed as unprecedented for China. According to the CDC’s official data, between 1992 and 2011, China provided over US$860 million in ODA to Cambodia, which is significantly less than the approximately US$2.1 billion Japan has provided, or US$2.65 billion provided by European Union (EU) countries and the EU Commission. China’s aid to Cambodia has, however, risen significantly in the past several years. For 2011, the total disbursement amount of China’s ODA to Cambodia was projected to be US$211 million, which is nearly double Japan’s estimated contribution (US$121 million) and quadruple the estimated contribution of the United States (US$57 million).

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How Does China Benefit?

Cambodia is a small, low-income country, highly dependent on foreign aid and facing continued difficulty enforcing its borders. It is puzzling why China offers so much foreign assistance, trade, and investment to a country unable to consistently repay its loans. Cambodia stands to gain much more from this economic relationship than does China.¹⁴ Through trade, Cambodia gains access to China's large domestic market for products, raw materials, and intermediate goods. Conversely, trade with Cambodia represents less than 0.02 percent of China's trade with Myanmar, Cambodia, Thailand, and Vietnam combined.¹⁵

Engagement with Cambodia allows Chinese access to natural resources, however, China provides concessional loans to a wide variety of countries (seventy-six in total), not just those rich in natural resources.¹⁶ Pursuit of resources is a significant, but not the sole, explanation for the extent of Chinese aid to Cambodia.

This quandary allows for many interpretations of China's motivations; explanations include that the countries are ideologically aligned, that China stands to benefit economically from Cambodia, and that it represents a part of China's 'charm offensive,'¹⁷ as China uses 'soft power' to win influence in and support from Cambodia. The dominant explanation is that China's aid to Cambodia is fueled by national security interests and represents Chinese assertions of regional hegemony.¹⁸ This line of argument views Southeast Asia as the primary site of United States-China competition. Friendly relations with neighboring countries generate political support for China in the region against the United States and other western powers.

The most compelling security argument is that China is developing Sihanoukville on the southern coast of Cambodia for the following reasons: to have a port to more easily launch ships to Taiwan, to protect its territorial interests in the South China Sea including the Spratly islands, and to respond to the growing incidence of piracy in the Gulf of Thailand.¹⁹ Richardson, author of China, Cambodia, and the Five Principles of Peaceful Coexistence, responds that there is no evidence that Cambodia is in a position to actually assist China.²⁰ China has never asked Cambodia for assistance with Taiwan, in the South China Seas, or by providing a port in the Gulf of Thailand. Furthermore, Cambodia is unlikely to become a client state to China, as Cambodian Prime Minister Hun Sen shares a rocky history with Beijing's leaders. In 2009, China gifted a mammoth Council of Ministers building to Cambodia, which was completed in record time, only to have the mercurial Hun Sen refuse to move into the building. He allegedly remarked that the feng shui of the office was unsatisfactory and that the building was 'too Chinese.'²¹ A savvy politician, Hun Sen continues to play Hanoi and Beijing against one another.²²

Cambodia and China have enjoyed a longstanding bilateral relationship, and assistance to Cambodia does not appear to be ideologically based. China has continuously offered assistance to Cambodia throughout its varying political regimes, including a constitutional monarchy, the radical socialist Khmer Rouge, during its administration by the United Nations Transitional Authority in Cambodia, and through today. The dominant realist argument that China's longstanding aid to Cambodia is motivated solely by geopolitical security interest is insufficient to explain the extent of Chinese aid and engagement in Cambodia.

How Aid to Cambodia Aligns with China's Five Principles of Peaceful Coexistence

Three characteristics consistent with China's foreign policy objectives provide a better understanding of the motivations behind its overseas assistance to Cambodia.

South-South Giving: The Principles of Non-Interference and Respect for Sovereignty

China's policies toward Cambodia demonstrate its emphasis on respect for sovereignty as China increasingly defends other developing countries when their handling of domestic affairs is criticized.²³ China's absolute insistence on sovereignty explains its fundamental opposition to, and discomfort with, international interventions—economic, military, or political. Accordingly, China structures its aid to promote self-sufficiency in recipient countries.²⁴ Richardson writes that this effort is aimed at helping countries reduce their dependence on western aid and avoid subjection to western donor conditions.²⁵

Caroline Hughes' work demonstrates how aid dependence disempowers Cambodians by subverting the country to donor country interests.²⁶ She argues that donors give international aid in return for recipient nations submitting themselves to “international surveillance and regimentation,” as stringent monitoring and evaluation requirements demonstrate. Savvy actors in dependent communities are those who can both secure approval from international actors in the form of grants and investments, and “maneuver … out of … international supervision” to accomplish their own goals.²⁷ This creates opportunities for local elites to benefit from corruption and graft, subverting western donors' goals of empowering marginalized groups and introducing democratic principles. Cambodia shares China's value of non-interference, which is also enshrined in the fundamental principles of the Association of Southeast Asian Nations, where Cambodia is a member nation.²⁸ China has countered controls by western

China is undeserving of the ‘rogue donor’ title.
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donors, seen as patronizing by many developing countries, by choosing not to impose political conditions on its aid. China does have one firm requirement of all its recipient countries, as a prerequisite to aid, they must acknowledge the one-China policy and sever official diplomatic relations with Taiwan, as Cambodia did in 1958. China regards the Taiwan issue as an internal dispute. It expects partner nations to respect the principle of mutual non-interference and stay out of the controversy.

Additionally, China continues to identify strongly with other developing countries. Its 2011 White Paper calls China the ‘world’s largest developing country,’ with a ‘large poverty-stricken population.’ It frames its aid as part of ‘mutual help’ between like countries. Learning from Japan: The East Asian Developmental State Model

As documented by Deborah Bräutigam, author of The Dragon’s Gift: The Real Story of China in Africa, China has exhibited commitment to a distinct East Asian developmental state model and incorporated lessons on foreign aid from its own experience as a recipient of Japanese aid. This model emphasizes the use of state-guided policies to invest in infrastructure and to finance domestic firms in key manufacturing industries to spur growth.

Japan’s ODA flows are characterized by investment in infrastructure and by aid projects linked to Japanese businesses. In the 1960s and 1970s, Japan provided technology and development assistance in return for natural resources from China, such as oil and coal. Japan gained access to raw materials and China benefited from equipment and technical expertise to spur its own modernization.

China’s linking of aid with business interests originated during China’s own ‘Reform and Opening,’ with state-led policies encouraging Chinese firms to ‘go global,’ or engage in joint ventures abroad to find new markets and opportunities for Chinese products and firms. It was furthered by China’s restructuring of its aid system in 1995 that tied concessional loans to trade and investment in developing countries.

China is consistent in how it sequences aid projects. First, China’s aid programs link with joint-venture investments in manufacturing and agriculture. Second, China encourages domestic firms to set up factories that create demand for export of Chinese machinery and intermediate goods, such as the three thousand Chinese-registered companies in Cambodia, mostly in the garment and textile industry. Third, Chinese companies, sometimes with the support of local Chinese embassies and government-backed loans, pursue exploration of and investment in extraction of natural resources, such as oil and timber. The application of the developmental state model in foreign aid has created an East Asian donor circle consisting of Japan, South Korea, and now China.

Development of Hydropower: The Principle of Mutual Benefit

One look at China’s demographics, its continued population growth, and its economic development makes it clear why access to energy and natural resources is currently one of China’s primary concerns. China has strengthened its relationships with its neighbors in the Mekong Delta through a combination of aid and commerce that illustrates the principle of mutual benefit. China’s engagement with Cambodia allows it to gain access to raw materials, like timber and minerals. The picture is more complicated when it comes to hydropower technology, which is one of the most cost-efficient means of producing electricity. Chinese companies have a lead in hydropower technology and are responsible for building and operating many of the dams on the Mekong River.

While it uses its dams in China to meet domestic demand, power generated by its dams in neighboring Thailand and Vietnam are sold to the host countries, whose demand for energy is growing and who have several of their own dam projects on the Mekong.

Similar to Japan, China operates largely on a request-based system that demonstrates the principle of mutual benefit. This system encourages the Cambodian government or Chinese firms in Cambodia to identify local needs, such as high-profile road and bridge projects, prior to requesting funding from the Chinese government. This means that development projects funded by China are more likely to be at the behest of recipient countries. The high price of electricity in Cambodia, due to a fragmented and antiquated power sector, has given Cambodia ample incentive to encourage Chinese companies to develop hydropower projects in the country. Kamchay Dam, Cambodia’s first hydropower station which was recently completed, cost Chinese state-owned Sinohydro Corporation US$280 million and was financed by the China Exim Bank. China will continue to operate the dam for an additional forty years, an unusually long term. It will sell the electricity to Cambodia at eight cents per kilowatt hour, a 40 percent discount to the current price in Cambodia. The speed and scale with which China is constructing hydropower projects on the Mekong River have led some scholars to fear that China will have the ability to control water flow and energy production, which “could easily become a political tool.” China is also criticized for the widespread environmental and social consequences of its dam projects. Dams continue to be a controversial part of China’s overseas assistance to its downstream neighbors. However, from the perspective of Cambodia, a country hungry to attract private investment, the benefits of Chinese-funded hydropower projects that create jobs, enhance domestic technical expertise, and supply cheap electricity have outweighed critics’ concerns.

Conclusion

China’s consistent adherence to the Five Principles of Peaceful Coexistence

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indicates that it is unlikely to make a significant break with this long-standing policy in order to dominate a sovereign state such as Cambodia. China uses its foreign assistance to promote relations with all nations and not just those leaders with whom it agrees.48 China has used trade to promote economic interdependence with other countries as the foundation of its ‘peaceful rise,’ and it has engaged in the same diplomacy with Cambodia. It is yet to be decided whether China will become a responsible stakeholder in field of foreign aid, as accusations of corruption are common toward Chinese enterprises and entities implementing development projects.

This article has argued that China’s level and pattern of engagement in Cambodia departs from what would be necessary to consolidate security interests in the region, and that China is underserving of the ‘rogue donor’ title. Its belief in a noninterventionist foreign policy, application of a developmental state model, and interest in promoting business through aid indicate that China has a fundamentally different view towards foreign assistance when compared to western donor nations. China’s unwillingness to attach political conditions to aid is not surprising considering its adherence to the Five Principles of Peaceful Coexistence.

Endnotes


4. Ibid., 5.


12. “The Cambodia Development Board of the Council for the Development of Cambodia, 2011. http://www.cdc-crdb.gov.kh/cdc/aid_management/DER%202011%20FINAL%20%283%20Oct%202011%29.pdf. Suspicions that Chinese foreign aid is quickly eclipsing combined giving by western donors are largely based off reports of aid commitments that are inflated compared to actual disbursements. Many of these reports are based on the NYU Wagner School’s figures, which are subject to these caveats (Bräutigam 2011).


19. Ibid.


22. Richardson, Sophie in discussion with the author, Washington, DC, December 7, 2011.

23. Richardson 2009, 156.


27. Ibid., 3.


33. Japan has been the largest source of ODA to China since it began aid disbursements in 1978. Bräutigam 2009, 80.


36. Ibid., 80.

37. Ibid., 80.

38. Ibid., 81.


43. Bräutigam 2009, 141.


47. Burgos and Ear 2010.

Words and Deeds in India’s Africa Policy

Constantino Xavier

“W e are not like the Yangtze [River]; straight, fast and furious; our [River] Ganges is slow, has many curves and is complex, but eventually reaches the sea.” This is how a former senior government official described India’s Africa policy to the author in 2010.

Invariably, the words ‘China’ and ‘strategy’ would come up in the first minute of almost every interview the author then held with Indian diplomats, scholars, and government officials. As indicated by the above metaphor, many in India insist that their country’s approach to development in Africa is fundamentally different and more benign than what they perceive to be a more short-term and aggressive Chinese strategy. In the words of one retired diplomat, “Our strength [in Africa] lies precisely in our difference from China.” These strong words are, at least in part, enforced by deeds. During the second India-Africa summit, held in 2011 in Ethiopia, Prime Minister Manmohan Singh pledged US$5 billion over three years in development support, US$700 million for eighty new institutions and training programs, and US$300 million for a railway line between Ethiopia and Djibouti under its initiative to establish a strong presence in Africa, with most of its embassies remain chronically understaffed. It also suggests a very simplistic denigration of China’s presence in Africa based on the premise that India’s approach, unlike that of China, includes an important altruistic factor. This optimism can breed strategic inertia—why should India invest in its Africa policy if it is only a matter of time before African countries reject the ‘Beijing model’ and recognize the virtues of India’s approach?

Unlike India’s hawkish ‘ emulationists,’ who seek a fierce competition with China, this second, more optimistic and passive strand is comprised of what the author considers to be the ‘singularists.’ While New Delhi witnesses constant debate between these two views, with respect to Africa, ‘singularists’ have gained significant terrain in recent years.

It is difficult to assess whether India’s Africa policy is therefore assuming increasingly altruistic contours by focusing on long-term gains and hoping for an eventual Chinese debacle in Africa. There are, however, three dimensions that are frequently invoked as examples of New Delhi’s comparative advantage and potential to leave a positive footprint in Africa.

First, there are repeated references to historical links, including India’s support for many of Africa’s anti-colonial struggles and its staunch opposition to the South African apartheid. While China was militarily involved in Africa during the early years of the Cold War, India chose to put Mahatma Gandhi’s South African story of nonviolence at the heart of its public diplomacy in the continent. India’s leading role as a Colombo Power in creating the Non-Aligned Movement at Bandung and its central role in the 1960s Afro-Asian bloc at the United Nations has earned it persisting respectability as a ‘southern power.’ For example, unlike China, it is a founding member of the G-77 of developing nations, and held its presidency twice. This reputational dimension is not only cherished, but also relied upon heavily in India’s relations with African states.

Second, while China’s massive new labor diaspora remains largely segregated...
India’s Africa Policy

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and is often seen as a threat to local African labor, there are close to one million people of Indian origin who have been settled in Africa for many decades, and in many parts of East and South Africa for more than a century. They are fully integrated—both socially and economically—with the local population, and many even reject a closer association with India. They often play an important role in streamlining India’s interests to local needs by facilitating communication and mutual understanding, including in times of conflict. In Liberia, for example, the Honorary Indian Consul, a local businessman of Indian origin, stayed in Monrovia throughout the various civil wars when most other diplomatic missions closed down.

Third, China’s development and aid packages may be impressive in sheer size, but they are consistently offered, negotiated and enforced by state or parastatal organizations. In contrast, India’s altruism is seen as rooted in its

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development-focused approach led by the private sector and nongovernmental organizations, which are responsible for a majority of investments in African countries. Instead of a merely mercantilist exchange of minerals for infrastructure, representing Beijing's obvious focus on access to energy resources, New Delhi tends to focus on socioeconomic sectors such as health, education and manufacturing.

India offers African countries much needed skills, software and know-how to run and maintain the 'dragon's hardware,' referring to Chinese investment. In addition, India is the only Asian member country of the African Union's Capacity Building Foundation. A popular claim in this regard is that while China 'gives fish,' India is 'teaching how to fish.' These three dimensions are complemented by many others, including India’s declared preference for a multilateral approach, rather than China's strictly bilateral engagement, India’s established governance credentials, and its experience in managing cultural diversity and political opposition with federal and democratic instruments.

In the words of a retired Indian diplomat, “Our strength in Africa lies precisely in our difference from China.”

These are all arguments frequently offered when Indian officials are questioned about their country's relative delay in establishing a strong footing in Africa. While research on China’s impact in Africa is burgeoning, it would be useful to begin comparing not only how Beijing’s and New Delhi’s strategies differ, but also whether India’s claims of altruism and benignity are finding any echo among African decision-makers or are mere rhetorical devices.

Unfortunately Entangled

STRATEGIC CHALLENGES IN INDIA’S TEXTILE AND GARMENT INDUSTRY

Lauren Goodwin and Marisol Trowbridge

It seems like business as usual in the Chandni Chowk market in Delhi, where amid the bustle of hawkers, food fryers, and shoppers, you can unearth nearly anything you’d like in one of the small shops lining every street and alleyway. The authors encountered no evidence that just a few months ago these vendors joined together to successfully protest the entrance of Wal-Mart to the Indian market.

For the Indian government, things in Delhi are still far from 'business as usual.' Policymakers wait in uncertainty after the decision to suspend debate over opening India to foreign direct investment (FDI) in the retail sector—the basis for the strongly unpopular Bharti-Wal-Mart joint venture. Furthermore, India is undergoing a much less public, but equally important liberalization of import tariffs on retail goods, such as garments from the rest of South Asia. However well-intentioned the government’s pro-competitive intent may be, such market liberalizations raise the question of whether India's industries—and the policies governing them—have a strategy for competition.

The textile and garment industry should represent a strong position for India in the face of FDI and market liberalization. It has traditionally been an important growth industry in India, employing over 35 million people, the second largest employment sector after agriculture.1 Furthermore, India is one of few countries in the world to house the complete textiles value chain: from fiber, to fabric, to garment. A look beneath the surface, however, shows this industry is not as competitive as it should be, and worse, it lacks a national plan to move forward—despite the urgent need for one in light of...
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today’s liberalizations. Unfortunately for this industry, the stakes for development are especially high, while the problem of strategic interests is especially complex. India’s lack of focus on the textile and garment industry appears to be due to the operation of its democracy, which allows conflicting strategic interest groups to challenge the policymaking process. Competing demands from within the textile and garment industry obfuscate the bigger picture, and the government has resorted to a reactive policy process that subsidizes one segment of the value chain at the expense of another. In fact, despite a pro-development government stance toward the industry, short-sighted altruism towards specific sectors and a lack of strategy on the part of the Indian government have ensnared textile and garment industry actors in a web of policy traps.

Our Approach

To understand the nature of strategic interests in the textile and garment industry value chain, we interviewed stakeholders from each segment of the cotton textile and garment industry, as well as industry interest groups and experts. We focused specifically on the cotton value chain, since cotton has long been a core part of India’s textile and garment industry and can shed light on the entrenched policymaking process.

India’s Textile and Garment Industry Policy

Farming

India’s cotton farmers are the segment of the textile and garment industry value chain most detrimentally affected by India’s lack of strategic national policy, largely due to pricing problems. Farmers receive significant government assistance on many of their inputs: soil, fertilizer, seed, water, electricity, labor, machinery, and infrastructure. Yet the cotton farmers we interviewed indicated they would prefer to solve the problem of their inputs themselves if only the government would help with marketing. These farmers have no control over their cotton selling prices; they are instead at the mercy of buyers. Despite a government-set national minimum sale price (MSP) for cotton, only some farmers sell their raw cotton directly to the government-owned Cotton Corporation of India and receive the MSP. For farmers in regions where selling to the government is not required, most sell to local merchants and ginners, and the MSP makes little difference in the amount they receive. Since many farmers are forced to rely on their buyers for price information, they have no idea if the price they receive is fair.

The reasons for cotton farmers’ lack of power to influence the government policies affecting them are both physical and political. Cotton farmers are often regionally disbursed. Most have small plots of land yet grow multiple crops. This makes it difficult for farmers to rally behind the cause of cotton and has led to regionally-based, weak cotton lobbies with incomplete coverage of all cotton farmers. Furthermore, their lack of organization makes it difficult for cotton farmers to vote along industry lines, so their voice is further eroded. Meanwhile, more powerful lobby groups in the next stage of the value chain, who purchase raw cotton as an input, carefully research market prices and can greatly influence what they pay for Indian cotton.

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Source: World Bank Data

Spinning

The spinning sector is the clear winner from the current policymaking process for the textile and garment industry, in which national-level strategy is subsumed by political interests of the moment. As the strongest, most organized, and most mechanized segment of the chain, the cotton-spinning sector has won numerous concessions. For example, it used its sway with the government to push through a stunning government ban on raw cotton exports, which lasted first from April 21 through October 31, 2010 and later from December 15, 2010 through July 6, 2011, and included a total export ceiling for raw cotton of 5.5 million bales between October 2010 and September 2011. The aim was to reduce domestic raw cotton prices below global cotton prices and therefore improve spinners’ margins during a year of international cotton shortages when prices spiked (towards long-run average prices after a low-price decade). This policy was pursued regardless of the fact that it would come at the expense of India’s five million cotton farmers.

Spinning mills are also likely behind the passage of India’s recent ‘Technology Upgradation Scheme’ for the textile and garment industry. Chetan Bijesure, Team Leader of Manufacturing at the Federation of Indian Chambers of Commerce and Industry (FICCI), indicated that the government would like to include all segments of the value chain in this scheme, but that for now, spinning mills make up the majority of applicants—probably because under the stipulations of the scheme it is only the major spinning mills that can afford the investment required to apply.

Fabric Processing

The processing segment of the value chain (which weaves, knits, and colors fabric) does not currently appear to influence government policy for its own ends, despite the fact that it represents 61 percent of global fabric looming capacity.
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It is made up of many small businesses dispersed around the country. Its lack of organization keeps it powerless. The only segment of the processing sector that has the ear of the Indian government is the handloom weaving industry, which has been protected since well before India’s 1991 market liberalizations.5 Removing restrictions on handlooms is politically sensitive, particularly among rural voters, and is unlikely to occur—despite the fact that beneficial policy for the handloom industry is detrimental to the spinning industry because of output controls and to the garment-making industry because of price impacts on inputs.

Garment Making

The garment sector is hit hard by the high cost of inputs resulting from India’s lack of a unified strategic policy for the textile industry, reducing Indian competitiveness in the international garment export market. The garment sector offers one the greatest value-added export opportunities for the entire textile industry value chain, as garment factories take in the outputs from previous stages in the value chain and produce design-based products that could command high margins. Yet according to Bijesure it has not capitalized on these opportunities or even captured the expected level of extra sales in the post-Multi Fibre Arrangement era; the volume of India’s garment exports falls behind that of Bangladesh and even Vietnam. Indian garment producers may continue to fall behind as more garment imports into India see reduced tariffs – and if foreign retailers enter the scene.9 Despite this, garment makers do not seem inclined to spend their time pressuring the government for favorable policy changes. Interviews with garment producers Cotton Kids and Fabindia indicated that this market-oriented segment of the value chain does their best to ignore the government and work within the confines given.10 It is the government that needs to take note of the anti-competitive policies hurting the prospects of their garment sector.

Indian Policy-Making for the Textile and Garment Industry in the International Context

On the international level, Indian policy for the textile and garment industry continues its disorganized trend. Despite its intentions to support the industry throughout South Asia, predominantly reactionary policies to international slights and sub-national value chain tensions ultimately prevent the industry from reaching its full potential. Within South Asia, India has one of the largest combined textile and garment industries but one of the weakest strategically-generated set of national and international policies.

Some of the reason for India’s reactionary policy might be a result of the industry’s size relative to its South Asian neighbors. In South Asia, garments are a main export from every country, while besides India, only Pakistan boasts significant production of textiles and fibers. As stressed by Nisha Taneja, Senior Fellow at the Indian Council for Research on International Economic Relations, this makes India’s textile production important to garment industry success in the entire region.11 Yet unlike smaller countries, the textile and garment industry does not define India’s economy or its exports. At 10 percent of India’s exports, 14 percent of India’s industrial output, and 4 percent of GDP,12 the textile and garment industry has not warranted priority among policy makers.

As a result, India’s international policies for the textile and garment industry are destined to be unorganized and reactionary. A glance at the past decade’s World Trade Organization (WTO) agenda might suggest otherwise, as India’s cases in the trade forum appear aimed to protect Indian interests in the international export market. But even in the global trade context, India’s textile and garment industry policy has more to do with reacting to the conflicting interests of different strategic players rather than promoting a unified goal. Indian industry experts we interviewed insisted that cases brought to the WTO in the past decade have aimed not to solely promote India’s strategic position in textiles, but to combat trade-policy interferences from the West, which disrupted South Asia’s balance of fiber, textile, and garment trade.

For example, in 2001, India filed a complaint with the WTO after the European Community launched a new Generalized System of Preferences, including a series of ‘drug arrangements’ that granted an extra textiles quota to Pakistan for managing their drug control systems efficiently. However, many believe the drug arrangements to be a reward to Pakistan for its support of the West on post-9/11 terrorism.13 We see a similar story when, in September 2010, The European Council agreed to grant increased market access exclusively to Pakistan in the wake of US$10 billion damage from monsoon flooding, providing time-limited reduction of duties on key imports as aid for flood damage.14 India’s contestation of these cases appears to target Pakistan as one of India’s major security concerns. However, industry experts suggest that India in fact views regional development (that is, including Pakistan) as crucial to promoting its own developmental interests. One high-ranking official at the Confederation of...
Indian Textile Industry, who wished to remain anonymous, suggests that the problem lies in developed countries’ attempts to hide strategic interests within economic and trade policies that complicate regional policymaking for the textile and garment industries.  

**Conclusion**

While the Indian government is often doing the best it can by targeting policies towards development, continuing to encourage competition by further opening the economy, and attempting to stave off western attempts to interfere in South Asia’s trade, India’s democratic liberties and economic freedoms have hindered efforts toward cohesive economic and trade policies. As noted in the Economic Times of India on December 14, 2011, “Policy sets different segments of the value chain against one another. Cotton farmers are pitted against the yarn and weaving industry, the garment industry sees the makers of fabric to be an obstacle in its path... Attempts, motivated by short term political considerations, to shower one segment of this value chain that starts with cotton and ends at garment sales, whether in markets abroad or at home, have come at the expense of other segments.” As it stands, even the new National Fiber Policy only focuses on a piece of the picture—fibers—and may be insufficient to make the changes needed to boost growth in the entire industry.

Without a strategic national policy, the Indian textile and garment industry may not be able to survive in its current form. Rather than struggling to implement altruistic policies through a web of strategic interests, India’s democratic government would do well to develop a strategic policy. Potential steps towards this goal could include improving competitiveness through lower taxes and tariffs, reducing government intervention and regulation in the labor markets, and pushing forward with the politically difficult market liberalization on the government’s agenda, including putting a hold on the powers of the Ministry of Commerce to adjust export regulations against WTO guidelines.

While all policies have some winners and some losers, making their removal or addition politically challenging, India needs to take action. Both the possibility of opening to FDI in retail and the further liberalization of regional imports present urgent challenges to the entire textile and garment industry value chain that will soon make the present lack of holistic industry policy unsustainable.

**Endnotes**

10. Anderson, Mrinalini in discussion with the authors, Cotton Kids, Gurgaon, India, January 17, 2012; Smita, Mankad in discussion with the authors, Fabindia, Delhi, India, January 19, 2012.
12. India Brand Equity Foundation 2012.
15. Government Official in discussion with the authors, Confederation of Indian Textile Industry, Delhi, India, January 17, 2012.
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The Use and Misuse of Eminent Domain for Private Projects in India

Abhishank Jajur

Acquiring land for large industrial projects is inherently difficult. These projects typically require large tracts of contiguous land and access to resources, or land along a predetermined route, such as for a highway. In these cases, even a small proportion of landowners can preclude the development of the project by refusing to sell their land. To avoid this deadlock, the state frequently intervenes by using its power of eminent domain, which is the right that the state reserves to “take privately owned property, especially land, and convert it to public use, subject to reasonable compensation for the taking.” The intended objective of such an action is the achievement of public purpose, defined as “the benefit of the community as a whole.” It can be easily argued that industrial projects will lead to communal benefit through economic development and higher employment. It is more difficult, however, to distribute these benefits equitably among the winners (usually capital-owners and skilled manpower) and the losers (often peasants and unskilled workers) created by the process, making it politically and socially difficult to manage. Achieving such a balance is even more complicated when the land is acquired on behalf of private project developers, which visibly enriches profit-seeking private entities by dispossessing poor peasants.

India is a germane case of how poor resolution of these issues can lead to a standstill in economic and social development. Public agitations by peasants in response to recent state-led land acquisitions for private projects in Singur, Nandigram, and Raigad led to a hasty withdrawal of state support to these projects. Opponents criticize the land acquisition law, a legacy of the British colonial era, as being draconian and archaic. The legal framework for such acquisition, they rightly argue, provides the state with wide latitude to interpret the scope of public purpose, which has been frequently misused under the pretext of development. Hence, development is seen as “being ‘anti-poor’ in a direct [and] easily recognized sort of way ... [and] the political basis for anti-developmentalism is large.” Consequently, political support for private projects with large land requirements has waned.

In contrast to current populist views, poverty alleviation over the past two decades in India was, in large measure, a result of industrialization, with a large contribution from the private sector. Moreover, the role of private sector investment is growing, not least because of encouragement and incentives offered by the state. Historically, growth in private corporate capital formation, driven by investment in new projects, has been a bulwark of overall economic growth. In the aftermath of the social agitation against land acquisition, however, greenfield project investment has been decreasing. Industry observers contend that uncertainties and delays related to land acquisition is the most important bottleneck to private investment, especially in the infrastructure sector.

Sustenance of growth momentum is essential to the economic and social progress of the country. Diversion of land from agriculture in favor of capital-intensive private investment is essential to achieve this goal. This requires a predictable process for the use of eminent domain through an equitable application of the public purpose condition. Such a process should benefit all stakeholders—the state, the private sector, and the landowners—since it reduces uncertainties and alleviates social opposition to land acquisition.

This article focuses on the debate over the legitimacy of the use of eminent domain for the benefit of private developers, and the determination of public purpose which lends ethical defence to eminent domain. In the first section, it establishes the need for state support in the form of land acquisition for private developers. In two subsequent sections, the paper examines the legal framework for the determination of public purpose and its practice. Based on the lacunae observed, the paper concludes with policy recommendations for the determination of public purpose.

Rationale for Use of Eminent Domain for Private Projects

Private land sought to be acquired for a project possesses an anticommons property, since “multiple owners hold effective rights of exclusion in a scarce resource.” Economic development of this land thus suffers from the tragedy of anticommons, since rational individuals may exclude others from using the resource to preserve their right to trade later or to engage in rent-seeking. As a result, the resource is under-consumed when compared to the social optimum under market forces, which prevents innovation and depresses economic growth. Such under-consumption can be overcome by the market using either of two strategies: withholding information of the purpose of land acquisition from landowners or threat of relocation of the project.
The state and the judiciary should act to prevent the misuse of eminent domain and to empower those who are affected by it.

outcomes in land acquisition can be obtained in the market. This strategy, however, is not useful in the case of most large projects, since knowledge of these projects are made public during project planning or regulatory approval processes, which usually precede land acquisition. In addition, this strategy is time- and cost-intensive, and does not prevent cases where landowners do not sell due to idiosyncratic reasons.

The second strategy of threat of relocation is not credible in cases of most large projects which seek to benefit from positive externalities of their location, or projects which require a linear tract of land and few alternative economic routes exist. This strategy also requires that all land be purchased simultaneously, which is not practicable when the developer must deal with a large number of landowners.

The business environment in India makes the above strategies even less desirable. Unclear land titles, inability to commutate possible objections to land titles, and poor land records increase the possibility of inadequate title on acquired land, unless obtained through acquisition by the state. In addition, land-holdings on average are small. Hence, projects tend to dislocate people in large numbers, which make coordination in negotiation extremely difficult. In view of these constraints, the Indian state should exercise its powers of eminent domain in favor of private projects.

Legal Framework for Eminent Domain and Public Purpose

The evolution of eminent domain in India has been controversial. The Constitution of India drafted during independence provided its citizens a fundamental right to property, which was seen as a hindrance to the exercise of eminent domain. This right was subsequently withdrawn through a constitutional amendment in 1978. In an interpretation of this post-amendment status, the Supreme Court of India (SCI) in Dev Sharan and Others v. State Of U.P. and Others, Civil Appeal No. 2334 of 2011, a case which dealt with the state’s exercise of eminent domain, ruled that the right to property “was never a natural right, and is acquired on a concession by the State,” firmly establishing the principle of eminent domain.

The Constitution of India also prescribes that, while land acquisition must be jointly administered by the federal government and the individual state governments, the power of eminent domain resides with the latter. These state governments act individually within their respective regions, but are bound by the provisions of the Land Acquisition Act 1894 (LAA1894). This legislation was enacted during British colonial rule and thus is removed from the economic, social, and political realities of today. Subsequent attempts to replace it with new legislations have been unsuccessful. The LAA1894 was originally ambiguous on whether eminent domain could be exercised in favor of private companies, but an amendment in 1984 explicitly allowed this practice.

The process of land acquisition begins with the state government notifying landowners in the region of the public purpose and compensation offered by the acquirer. The state bureaucracy then invites objections related to the stated public purpose and seeks to address them. If all such objections are addressed, the state government declares that the land is required for a public purpose and commences acquisition. Objections that relate to compensation do not stall the declaration of public purpose and are subsequently addressed with judiciary intervention. In cases where land is required urgently, the LAA1894 provides for direct declaration of public purpose without the public hearing process.

Private companies must also adhere to Part VII of LAA1894. As per the provisions of this section, they enter into a public agreement with the state government, which specifies the purpose of acquisition and the terms on which the public will be able to use the services rendered by the envisaged project. Importantly, this section prevents the use of the emergency acquisition procedure for private companies.

On the definition of public purpose, however, the LAA1894 is vague. The judiciary has further complicated the matter by avoiding its definition. In Srinivasa Coop. House Building Society Ltd. v. Madam Gurumurthy Sastry and Others., JT 1994 (4) SC 197, the SCI ruled that “the executive would be the best judge to determine whether or not the impugned purpose is a public purpose” unless there is a “colourable exercise of power.” It also ruled that public purpose “is not capable of precise definition,” but “broadly speaking would include the purpose in which the general interest of the society as opposed to the particular interest of the individual is directly and vitally concerned.” Subsequently, the judiciary has refrained from assessing the validity of a claimed public purpose ex-ante, except in a few cases where the emergency acquisition clause was applied. Thus, aggrieved landowners have no forum to challenge a state-supported public purpose, apart from the notification process which
Practices and Social Reaction

Deficiencies in the legal framework, especially related to the determination and governance of public purpose, have resulted in several deplorable practices. The lack of clarity in public purpose and the inability of aggrieved landowners to appeal against a state-supported public purpose in courts, have given the state a free reign in using eminent domain.\(^\text{15}\) Competition among states to attract private investment has led to widening the public purpose definition beyond prudent bounds.\(^\text{19}\) The state machinery for land acquisition abets corruption and attracts private companies by allowing them to avoid compliance with the restrictive Part VII provisions.\(^\text{20}\) In the absence of appropriate governance norms, developers, including state-owned enterprises and public universities, tend to acquire land in excess of their requirement, in order to monetize such excess land after the project is developed.\(^\text{21}\)\(^\text{22}\) Worrisome, the use of the emergency clause for acquisition, which serves to deprive landowners of their only opportunity to petition their case, had to be stemmed by judicial action.\(^\text{23}\) Instances of such unscrupulous practices dwarfed genuine cases, where eminent domain was applied in spirit.

Peasants have responded to such state excesses with cynicism towards the economic development process, which has worsened with a fall in public perception of political morality.\(^\text{24}\) In recent years, this cynicism transformed into social agitation because of an increase in the size of acquisitions by private companies in the vicinity of urban centers, where peasants command greater political clout.

Furthermore, the social dislocation caused by acquisitions has historically victimized marginal sections of the population, those most ill-equipped to recover from the setback. Sixty million people were displaced on account of development-induced reasons through the year 2000. Dislocation due to land acquisition formed a significant proportion of this displacement. More than 40 percent of these people were of tribal origin and 20 percent were Dalits, people traditionally regarded as socially untouchable. This has led to a polarization of the view of development, where its protagonists perceived it as “modernization, improved standard of living and industrial progress”\(^\text{24}\) and the peasants who question “the paradigm of development … which is so heavily loaded against them.”\(^\text{25}\)

Conclusion

The state and the judiciary should act to prevent the misuse of eminent domain and to empower those who are affected by it. This will serve to dispel the cynicism that India’s massive peasant population harbors and will create an environment of inclusive growth. The following policy recommendations are suggested to ensure predictability and equity in the application of eminent domain.

1. The law should define the limits of public purpose with greater precision to reduce policy and regulatory risk for all project investments.\(^\text{26}\) This goal should be achieved through legislative action, since the state derives this power directly from the Constitution of India. An alternative could be to leave the definition of public purpose ambiguous, but allow its application to be challenged in a court of law. This mode of action, however, will overburden the Indian court system, which is already encumbered with pending cases, causing even more uncertainty and delaying projects further.

2. Only projects that require specific lands—which means that they cannot be economically relocated—and with land requirements beyond a defined threshold should be eligible for eminent domain.

3. An independent state-level institution should be empowered to vet all aspects of proposals for acquisition and to redress grievances of landowners.\(^\text{27}\) This institution should also assist in determining the social value of a project based on a cost-benefit analysis, where social costs of displacement are taken into account. Governance procedures to ensure accountability should be followed and companies should be directed to adhere with provisions of Part VII of LAA1894.

The inequity of the use of land acquisition has made an otherwise democratic system seem oppressive to those sections of society who may benefit most from the process. In the reinstatement of the fairness of eminent domain lies a sustainable economic and social future in which both India’s resurging and lagging population can thrive.

Endnotes


2. Ibid.


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is operated by the state itself, and is arguably biased against the landowner. The judiciary has also complicated the interpretation of LAA1894 in cases of private companies. In *Devinder Singh and Others v. State of Punjab and Others* 2008(1) SCC728, the SCI ruled that an acquisition on behalf of a private company does not attract the provisions of Part VII if part of the compensation, even a nominal sum of hundred rupees, was paid by the state exchequer. This served to negate the important provisions of this section which had the potential to enhance transparency and accountability.\(^\text{17}\)
In the 18th and 19th centuries, Great Britain’s leaders ‘painted the map red’ by claiming far-flung territories around the globe with its imposing Royal Navy. Like every empire before it, the British intervened in sovereign lands for economic power and glory. Such domination continues today, albeit with less reliance on the military, as wealthy countries trade development aid for political influence and economic gain. However, a major challenge to the preeminence of nation-state interventions is the growing influence of multinational corporations (MNCs), many of which are not only improving people’s lives by generating employment and introducing new technologies, but also enhancing the government’s tax revenues. Therefore, certain MNCs are able to play a powerful developmental role while unambiguously chasing profits.

**Telecommunications and Digicel in Haiti**

MNCs can play different roles in local development depending on the industry in which they operate. For instance, the disparity between the roles that MNCs in the telecommunications and mining industries play in the development of host countries is particularly interesting. Industry players in telecommunications earn profits by selling to the local population, in stark contrast to mining companies who sell to global commodity markets. Fortunes of telecom companies are therefore closely tied with the economic well-being of the domestic market; higher local income enhances consumption of their products and services. While mining companies may offer the host country employment and

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**Eminent Domain**

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Institute of Management Ahmedabad, 2007.


7. Certainly, the magnitude of the problem is much larger. Determining and delivering compensation for people affected by the land acquisition, and implementing resettlement and rehabilitation schemes for the displaced, are important. In specific circumstances, the land to be acquired may be located in protected ecosystems and regions with indigenous peoples, requiring special environmental and diversity considerations.


17. Ibid.


23. Ibid.

24. Ibid., 353.

25. Ibid., 351.


27. Singh 2012.

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**ENERGY AND TECHNOLOGY**

**OP-ED**

**When States Lose Power to Multinational Corporations**

**DEVELOPMENT IN HAITI**

**Graham Day**

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**GRAHAM DAY IS A SECOND-YEAR MA STUDENT IN THE ENERGY, RESOURCES, AND ENVIRONMENT PROGRAM.**

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**HAITI**

| Population | 10mm |
| GDP | $6.7bn |
| GNI Per Capita | $670 |
| Poverty Rate | 77.0% |
| Life Expectancy | 61 |
| Literacy Rate | 49% |

**Source: World Bank Data**

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Multinationals
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capital investment, they have no customer relationships with locals and therefore do not have a strong incentive to enhance their welfare.

In Haiti, the penetration of mobile connections has grown from virtual nonexistence to reaching over half the population in less than a decade—a significant feat for a country with a GDP per capita on par with much of sub-Saharan Africa. Leading the charge has been Digicel, owned by the Irish telecom mogul Denis O’Brien. The company is not only the market leader with four million subscribers, but is also the country’s largest employer and taxpayer. Signs of its dominance are everywhere. Across the country, derelict city walls and rusting iron roofs bear the company’s scarlet red and white logo. With its growing influence, intriguing questions emerge: to what extent will Digicel use its newfound power with the Haitian people and the government, and how will Haiti’s foreign donors react to this new player?

Investing in Relationships

Digicel’s growth has been primarily fuelled by aggressive marketing and social investments. Beyond the prolific advertising campaign, Digicel is the main sponsor of the country’s soccer league and supports intercollegiate sports competitions. It is also the sole sponsor and creator of the American Idol-inspired ‘Digicel Stars’ contest, and an annual entrepreneurship competition. With no other corporations eager to contribute, these popular events would likely not exist without Digicel.

Digicel has also supported Haiti’s public sector. Most importantly, its ballooning earnings and a strictly-followed corporate policy of actually paying taxes owed (uncommon for companies in Haiti) have made it the largest contributor to the Haitian treasury. In 2011, it paid over US$60 million of taxes—more than four times as much as the second-highest corporate taxpayer. In addition, it recently provided Blackberry devices to all municipal offices in the country, under an initiative spearheaded by the Ministry of Interior, to increase disaster response coordination. Moreover, during elections Digicel uses its ‘Tcho Tcho’ system to receive and store money using their mobile phones. Along with Scotiabank, an international financial services firm, Digicel has partnered with the Bill and Melinda Gates Foundation and the United States Agency for International Development (USAID) as part of the Haiti Mobile Money Initiative, a marketplace for hundreds of small merchants. These are remarkable achievements in a country where thousands of NGOs and development agencies struggle to meet even modest deadlines.

Beyond philanthropy, Digicel has built innovative social-corporate partnerships. For example, Digicel has partnered with the local Haitian government to provide Blackberry devices to all municipal offices in the country, under an initiative spearheaded by the Ministry of Interior, to increase disaster response coordination. Moreover, during elections Digicel can provide an important power source alternative to the derelict grid in major cities and expensive self-generation elsewhere. In doing so, Digicel expects to boost sales by ensuring that more phones remain charged and connected to its network. These stations, which also serve as street lights, are operated by local women’s associations, who earn an income off the fees collected.

Certain multinational corporations are able to play a powerful developmental role while unambiguously chasing profits.

Beware of the Giant

Insiders describe Digicel as a lean and tough employer, but one with an almost paternal benevolence towards Haiti. It is easy to jump on the bandwagon, lavish O’Brien with praise, and conclude that Digicel can do no wrong. But there may be reason for concern. Digicel’s growing monopoly status is earning not just profits, but also popular influence. It continues to squeeze competitors in mobile and internet communications out of business. The only actor who can check its power, the government, is largely bankrolled by Digicel’s tax payments. To put this influence in perspective, the US$60 million in 2011 tax revenue from Digicel was equal to the average amount received from all donors between 2004–2009. Though donors substantially increased their support in 2010 following the earthquake, it appears that their contributions are reverting to previous levels.

Yet despite its obvious influence over local development, Digicel has no seat at the donor table. This is no surprise to the company. Digicel does not expect, nor is it expected, to be a part of development coordination efforts. However, in Haiti, Digicel deserves a voice in this arena. After all, Digicel’s telecommunications hegemony carries with it a market power that can easily transcend into political
The Social and Environmental Impacts of Brazil’s Biofuels Program

LARS OLSON

When Henry Ford designed the Model T, he designed it to run on both gasoline and ethanol. At that time in the United States, it was still unclear what type of fuel would become the dominant energy source for the country's nascent fleet of automobiles. As we all now know, gasoline and diesel became the primary automotive fuels in use throughout the world. Since the initiation of the Proácool program in the 1970s, however, Brazilian biofuels policies have quietly subverted the dominance of fossil fuels in Brazil. The rest of the world has followed suit, and, in the past ten years, production of ethanol and biodiesel has grown immensely. In 2009, global production of biodiesel and ethanol was 17 and 76 billion liters, respectively, and in 2011 biofuels comprised nearly 2 percent of global transport fuel consumption.

The various Brazilian administrations involved in its biofuels programs have touted them as an aid to development, creating higher-value rural employment and raising living standards. Opponents of the programs assert that they raise food prices, subsidize big business and encourage employment-destroying industry automation. After considering these two positions, this article concludes that the positive developmental benefits of Brazil’s biofuels programs outweigh their negative impacts. Brazil has made a wise decision in developing biofuel production.

Brazil’s Biofuels Policies

After the 1973 Organization of the Petroleum Exporting Countries (OPEC) oil shock, President Ernesto Giesel’s administration created the Proácool program to aid the Brazilian sugarcane industry and slow the deterioration of the country’s terms of trade, as Brazil was importing 80 percent of its petroleum at the time. The program also aimed to reduce income disparities among regions by generating new economic activity in the poor Northeast. Proácool had four main pillars through which the government: 1) provided subsidized loans to ethanol distilleries, 2) regulated the price of ethanol to make it attractive to consumers, 3) regulated sugar exports, and 4) required Petrobrás to buy a fixed amount of ethanol every year. By 1985, over one-fifth of Brazilian vehicles on the roads were fueled entirely by ethanol.

It all came crashing down in 1986, however, as world oil prices fell and the international price of sugar began to rise. In response to increased prices, the government ended export controls on sugar. The Proácool program officially ended in 1991 and support for ethanol languished until 2003, when the market was revived by the introduction of flex-fuel vehicles (and government tax breaks on their purchase), along with an increase in oil prices. Additionally, other countries began requiring ethanol additions to all gasoline, driving up foreign demand for Brazilian ethanol. Government research into improved production methods meant that per-hectare sugarcane yields nearly tripled between 2000 and 2004. As a result, by 2010, Brazil produced 486,000 barrels of ethanol per day, up from about two hundred thousand per day in 2001.

Biodiesel production in Brazil is a much more recent phenomenon than ethanol production, dating to December 2004 when President Luiz Inácio Lula da Silva launched, by presidential decree No. 5.297, the National Program for the Production and Use of Biodiesel (PNPB). The decree mandated a 2 percent blend of biodiesel in all diesel fuel used in the country, with a goal of a 5 percent blend by 2012. In an attempt to learn from Proácool’s failure to expand social inclusion, the PNPB instituted the Social Fuel Certification program, which offers tax incentives to producers whose practices favor small farmers or less developed regions. By 2010, Brazil had grown its biodiesel production capacity to 2.35 billion liters.

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Brazil’s Biofuels

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Social Benefits of Biofuel

Production and Use in Brazil

Brazil originally instituted its Proálcool program for social and economic reasons, not environmental ones. Its authors intended for the program to improve Brazil’s trade balance by substituting domestically-produced ethanol for oil imports, while also supporting the sugar industry and promoting rural development. The Brazilian National Development Bank estimates that between the beginning of the Proálcool program in 1975 and 2005, Brazil reaped US$195.5 billion in foreign exchange savings. Thus, biofuel production contributed positively to Brazil’s long-term economic health (notwithstanding the ethanol shortages of 2011, which were due to high sugar prices, underinvestment, and a poor harvest).

But have the benefits of ethanol production and export trickled down to the lower classes? A study by Luiz Martinelli, et al., finds that “the value added components of sugarcane production, which include sugar refining and ethanol production, may have a strong positive effect on local human development in comparison to primary agricultural production activities and other land uses.” By surveying agricultural production regions in São Paulo state, the authors find that municipalities with sugar production and processing facilities had the highest levels of human development. In contrast, cattle ranching regions had the lowest levels of human development, perhaps since sugar production generates four times as much employment per hectare as ranching. A separate study by Guerrero, Polonske, and Biderman, finds that the implementation of more capital intensive production (as in Brazil’s Southeast), rather than causing a net loss of jobs, actually generates more income and employment when the supporting industries for capital-intensive sugarcane cultivation are considered.

Proálcool had always aimed to develop Brazil’s “backward” regions, but the program as implemented in the 1970s contained few specific measures to ensure that this occurred. When Brazil initiated its biodiesel program in December 2004, Lula included explicit social measures to ensure benefits for small farmers through the Social Stamp program. This program provides a series of tax incentives designed to spur the inclusion of family farmers and less-developed Brazilian regions into the biofuels industry. Producers earn tax breaks by either: 1) contracting with small family farmers; 2) using particular feedstocks; or 3) sourcing feedstocks from poorer regions. Additionally, the program requires producers to provide some expertise to the small farmers with whom they work. Through the program, refiners can earn up to a 100 percent tax reduction on their fuel depending on the type of farm, feedstock, and region from which they have sourced. Thanks to these tax incentives, in auctions between 2005 and 2007, producers from the North and Northeast sold a total of 433 million liters, or 48.9 percent of national sales. By 2010, the North and Northeast had production capacity of 884 million liters per year, though with the rise of production in the South their relative share of total production capacity had fallen to 21 percent. This is a major victory for the program, considering that Proálcool failed to increase ethanol production in the region. Alex Leonardi, et al., estimate that around eighty thousand family farmers had participated in the program as of November 2009.

Though this is an impressive number, the program has not reached the two hundred thousand farming families it originally sought to help, for reasons explored below.

Developmental Challenges of Biofuel Production and Use in Brazil

In both the biodiesel and ethanol programs, benefits received by poorer, rural Brazilians have not been as significant as policy makers would have liked. In fact, the Proálcool program actually led to the consolidation of agricultural lands in the hands of larger producers. Despite the institution of the Social Stamp measure as part of Brazil’s biodiesel program, the program has reached less than 50 percent of its target number of families. The benefits that have been realized must be balanced against the substantial government cost (US$2.6 billion in 2009) of such a program. A study by Martinelli, et al., finds that the Social Stamp program has run into many challenges, such as high transaction costs for producers dealing with many small suppliers, a lack of literacy on the part of small farmers (causing breach of contracts), and the prohibitive cost to producers of providing technical assistance to farmers. A study by Jeremy Hall, et al., suggests that the Social Stamp program will not overcome the underlying economic incentives which favor social exclusion: “[I]ncreased international trade will likely exacerbate this paradox of economic efficiencies at the expense of greater social inclusion, as greater demand and strong motivation from suppliers encourage industry concentration.”

Brazil’s ramped up biofuel production also stokes the ‘food versus fuel’ debate; the World Bank finds that biofuel production contributed to the rise of food prices in 2007–2008, and cautions that any increase of biofuel production must be carefully weighed with the social costs of higher food prices. Producing biofuels may mean that some of the feedstock that would have been exported...
as food will go into fuels, raising global food prices and hurting the poor within and outside of Brazil. What is best for Brazil’s balance sheet may not be what is best for the global poor.

Conclusion

Biofuel production is a complex issue. The benefits and costs are extremely variable depending on local geography, feedstock, government regulations, and more. On balance, however, biofuel production does make sense for Brazil at this time. There are three principal reasons for this.

First, given the danger of vehicle emissions to Brazilians’ health and to the country’s climate, it makes sense for Brazil to seriously reduce its greenhouse gas emissions (and that of other nations as well through biofuel exports). The health benefits to Brazilians of greater use of biodiesel are also striking—if all diesel vehicles in Brazil had to use biodiesel when operating in urban areas, urban air pollution would drop by over 50 percent, bringing significant drops in respiratory illness.22

In addition, biofuel production is correlated with high rates of economic development. As the Martinelli, et al., study shows, sugarcane production with a local refining facility correlates with higher levels of human development than cattle ranching and generates more jobs. If Brazil is serious about rural development, it can improve its performance by encouraging more non-ranching agricultural activities; an improved version of the biodiesel Social Stanop program could contribute to that development. The land use comparison between ranching and biofuels also exposes a fallacy in the food versus fuel debate: by focusing so much on the displacement of food production by fuel, one misses the larger fact that far more land is taken out of ‘efficient’ (i.e. plant-based) food production by cattle ranching. If the question of lack of food resources is a serious one, then one should look critically at the economic, social, and environmental benefits of livestock production compared to those of biofuel production. Perhaps the world would be better off with more biofuels and less beef.

The final advantage for Brazil in producing biofuels is that they contribute to the country’s long-term economic stability. During the period following the oil embargo, substituting ethanol for imported gasoline positively affected the country’s balance of trade in a crucial moment of increasing debt. A study by the Brazilian National Development Bank and the Center for Strategic Studies and Management Science, Technology and Innovation (CGEE) concludes:

> From an economic point of view, the estimated cost of the implementation of Proalcool, between 1975 and 1989, is of approximately US$7.1 billion, of which US$4 billion were financed by the Brazilian government and the rest by private investments [Dias Leite (2007)]. Valuing the volume of bioethanol fuel consumed between 1976 and 2005 at gasoline prices in the world market (adjusted for inflation) yields an estimate of US$195.5 billion in foreign exchange savings, US$69.1 billion in avoided imports and US$126.4 billion in avoided foreign debt interest [BNDES (2006)].

Certainly, from an economic cost/benefit analysis, the ethanol program was well worth it. Such economic stability contributes to an environment in which the government can attend more fully to human and economic development.

In closing, Brazil has made a wise choice in developing its biofuels industry. Increased biofuel production has met both the government’s economic and political goals, as well as its development goals, as production has truly stimulated job creation and higher incomes. Brazil must, however, remain vigilant and constantly reevaluate its support for biofuels as the market grows. As food prices rise or deforestation spikes, Brazil must reconsider its program. For the time being, however, the growth of the biofuels industry serves as a welcome boost to rural development, especially to the extent that it benefits the poorer Northeast. Hopefully, as both the biodiesel and ethanol programs mature, their positive developmental outcomes will continue to grow, transforming the regions of Brazil most in need of development.

Endnotes


4. Ibid., 2452.

5. Ibid., 2454.


11. Ibid.

The Politics of Forest Protection

Duncan Gromko

Reduced Emissions from Deforestation and Degradation (REDD) is a mechanism that attempts to provide financial incentive for developing countries to protect their existing forests. REDD+ seeks to go further, by including payments for reforestation and afforestation. This international effort gained prominence as global climate change attracted attention and forests’ role in carbon sequestration became better understood. It is estimated that 12 percent of global greenhouse gas emissions come from deforestation and degradation.1

REDD+ represents a cost-effective means of reducing emissions compared with reforms to other sectors such as electricity generation and transportation.2 REDD+ is both an altruistic and opportunistic initiative that aligns the interests of the donor and the recipient. REDD+ aims to transfer upwards of US$30 billion per year to developing countries to protect their forests. If invested wisely, REDD+ funds can be used to improve the lives of the poor; forests directly support 90 percent of the 1.2 billion people living in extreme poverty.3 Investment in forest resources through REDD+ aims to improve the ecosystem services on which forest-dependent people rely. The donor country also benefits by mitigating climate change in a cost-effective way. Despite this confluence of interests, the ultimate success of REDD+ is contingent on the capacity and willingness of recipient countries to distribute benefits to their forest-dependent people.

Among other issues, the rights and protections afforded to forest-dependent people will determine the success of REDD+. The program has been called ‘carbon colonialism’ by critics, who suggest that international organizations such as the World Bank and the United Nations (UN) are using the guise of emission reduction to gain control over developing countries’ forests.4 While this claim is unsubstantiated, there is real danger that REDD+ will create incentives for local governments to wrest forest benefits from those who depend upon them. Two specific policy areas, land tenure and benefits distribution, will affect whether REDD+ redistributes wealth or concentrates it.

Indigenous Land Rights

Forest-dependent and indigenous people often do not have secure land tenure in developing countries. While it is difficult to measure the degree of land tenure that exists in forest countries, a survey of the state of Minas Gerais, Brazil, found that only 30 percent of landholders had legal tenure for their land.5 In some African countries, such as the Democratic Republic of the Congo (DRC), the state technically owns 100 percent of the land.

With little or no enforceable property rights, forest-dependent people have long been the victims of land grabs by the government. Indonesian President Suharto was notorious for granting millions of hectares of concessions to timber magnates without concern for the people who lived in and depended on these forests.6 Much of the world’s tropical forests lie under the control of corrupt governments. For example, the DRC controls most of the Congo Basin, the second largest tropical forest in the world, after the Amazon. The DRC was rated 164th for corruption and accountability by Transparency International in 2010.7 REDD+ payments will go directly to the government in exchange for forest protection and carbon sequestration. This creates a dangerous potential for governments to regain effective control of land that is used by forest-dependent people, but not secured by deed or title.

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If REDD+ is poorly implemented, the international community will be responsible for pushing forest-dependent people off their land.

The lack of secure, enforceable land tenure makes small farmers like those in Uganda vulnerable to land grabs by governments eager for carbon payments. The Global Alliance of Indigenous Peoples and Local Communities (GAIA) opposes REDD+ and for Life called for a moratorium on REDD+ projects because of this danger.10 The Ugandan example illustrates the need to make REDD+ funds contingent on fair treatment of the people living on the land. The UN and the World Bank have begun developing safeguards to ensure that REDD+ projects do not harm forest-dependent people.11 Social safeguards require that indigenous people have the right to “give or withhold their free, prior and informed consent (FPIC) on all activities that may affect their lands, territories and livelihoods.”12 Supporting REDD+ without such safeguards would lead to opportunistic behavior by national governments, supported and financed by multilateral organizations. The Ugandan example raises concern over whether FPIC will be obtained in countries that have a history of abusing the rights of their people.

Distribution of Benefits

Another aspect of the social safeguards issue is the distribution of benefits from forest carbon programs. If only a small percentage of REDD+ funds end up in the hands of people who invest in forests, the international community will fail to deploy the US$30 billion annual estimated expenditure needed to halve deforestation. Forest-dependent people are unlikely to reduce their impact on forests unless they are benefiting directly from REDD+.

Achieving equitable distribution of benefits is difficult; the benefits that forests provide are those of a non-excludable public good. REDD+ attempts to correct for this market failure, but coordinating the behavior of buyer (developing country governments) and seller (often small landholders in forest countries) is challenging. Among other potential stumbling blocks, two stand out as obstacles to the equitable distribution of forest carbon funds. The first is information asymmetry between buyers and sellers of carbon credits.13 Many of the potential sellers of carbon credits are small landholders that have little knowledge of the complexities of the international carbon market and the derivative contracts into which they will enter. This creates the potential for intermediaries to capture the majority of rents from forest carbon projects.

Second, the Munden Project Report compares the proposed global forest carbon market to other commodity markets.14 The monopsony structure of the European Union’s milk market means that milk producers only receive 3 percent of the final cost. According to the Munden Project, “Logic dictates that the scale and resources required to source forest carbon credits will be so large that only a very few global intermediaries will be capable of providing it.” Furthermore, there are significant transaction costs associated with verifying REDD+ projects. These factors will lead to a small proportion of REDD+ funds actually being invested in forests and going to those who depend on them.

Lessons from Abroad

Lessons from Mexico and Costa Rica offer two possible, related solutions to these problems. Mexico has successfully converted 80 percent of its forests to community managed forests, known as ejidos.15 By placing forests under communal control, Mexico has reduced the potential transaction costs of verifying REDD+ projects and increased the bargaining power of forest carbon sellers in a monopsony market. Communal control of forests may increase the proportion of REDD+ benefits that are invested in forests if these communities gain secure land tenure. This example is also significant because it involved granting legal land rights to people who had been living on the land without tenure recognized by the Mexican government.

Costa Rica set up a payment for ecosystem services (PES) program in 1996 that rewards landowners for protecting their forests.16 This PES system is similar to REDD+ and faces similar problems, particularly with transaction costs. It was difficult for small landholders to participate in the program because the application and verification costs associated with the PES program were
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greater than the benefits associated with protecting small plots of lands.

To solve this program, many NGOs, including the Foundation for the

Forest-dependent people are unlikely to reduce their impact on forests unless they are benefiting directly from REDD+.

Development of the Central Volcanic Range started collecting individual projects and facilitating joint applications to reduce transaction costs for small landholders. Aggregation of REDD+ projects could reduce transaction costs for sellers of forest carbon if the proper institutions are developed.

Furthermore, by giving responsibility of projects to organizations that have a better understanding of carbon markets, small landholders could reduce information asymmetry. Without institutions that create more wealth for small landholders, REDD+ transfers will end up in the hands of intermediaries, alienating small landholders and decreasing investment in forests.

Aligning Strategic Interests

Preventing deforestation through transfers to developing world countries seems to be the perfect alignment of interests between donor and recipient in the aid community. Donors benefit because of the low cost of carbon sequestration in forests, while recipients receive payments that, in theory, are invested in the long-term productivity of the country.

Although this article has highlighted the potential stumbling blocks of REDD+, it has tremendous potential for improving livelihoods and mitigating climate change. Not all indigenous groups are against REDD+; the Coordinator of Indigenous Organisations of the Amazon River Basin wants to improve REDD+ safeguards in order to gain access to the revenue.

Concerns persist, however, that REDD+ benefits will accrue disproportionately to governments, at the expense of their forest-dependent people. Unless REDD+ is able to ensure that forest-dependent peoples’ rights are protected and benefits are equitably distributed, the program will be unable to secure the support of those investing in forests and will consequently fail to achieve its objective of carbon sequestration.

Endnotes


5. Guinaraes, Andre. Phone conversation with the author. October 26, 2011.


11. Environmental safeguards are also an important topic. They ensure that REDD+ projects protect biodiversity as well as carbon.


14. Ibid.


17. Ibid.

18. IPS Correspondents 2011.
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Roadblocks to Food Aid Reform

JASON LOUGHNAANE

The US food aid program has been criticized for being both burdensome to taxpayers and ineffective at preventing hunger in developing countries. Yet the current system has proved resilient. An ‘iron triangle’ of US food aid—composed of agricultural interests, maritime interests, and the nongovernmental organization (NGO) community—has strongly influenced Congressional legislation, enriching itself with favorable stipulations and requirements that have stymied humanitarian goals. Conditionalities tied to food aid, without concern for impacts on faraway recipients, have meant that short-sighted domestic political interests consistently trump the program’s humanitarian objectives.

While academics and practitioners have suggested reforms that would be beneficial to both taxpayers and recipients of aid, the entrenched system has endured. However, the program’s powerful interests are flagging. With budgetary pressures building and the existing structure increasingly indefensible, food aid’s current sponsors might soon be forced to accept reforms that would be both financially responsible and enormously beneficial for the humanitarian aims of the program. This analysis will focus on reforms to Title II of Public Law 480 (PL 480), or ‘Food for Peace,’ the farm bill allocation representing the largest share of US food aid, and the program most burdened with conditionalities from domestic interests.

Maritime Interests

Maritime interests are largely responsible for the poor financial efficiency of the current food aid regime. According to the US Government Accountability Office (GAO), approximately 65 percent of Title II funds are spent on transportation, including delivery from farms to processors, to US ports, to shipping across the ocean, and finally in-country transport to distribution centers. Oceanic shipping costs alone accounted for 55 percent of Title II expenditures in the 2006 budget, or US$930 million of its US$1.7 billion appropriation. Because Title II funding is limited to assistance through US-grown foodstuffs, large transportation costs are inevitable. The amount of money wasted, however, is excessive. Shipping costs are inflated by protectionist stipulations intended to bolster the US Merchant Marine in case of wartime necessity. These ‘Cargo Preference Laws’ require that 75 percent of food aid shipments be made on US-flagged ships, which command steeper prices for bulk carrier shipment—on average levying a 78 percent premium over similar foreign competitors. In an especially noteworthy abuse of industry power, the shipping lobby increased the cargo preference requirement for food aid from 50 to 75 percent in the 1985 Farm Bill—an act that was uniquely directed at food aid (and made for no other government-financed program), against the wishes of the NGO community.

While support of the US Merchant Marine has been deemed worthwhile of government subsidy, the use of food aid to do so has resulted in unnecessarily excessive costs. Multiple US government agencies, including the Department of Defense, the Department of Agriculture, and the Department of Transportation and congressional representatives of shipping-friendly states have attempted to disband cargo preference for food aid, but have been halted by the Department of Transportation and congressional representatives of shipping-friendly states. As early as 1994, the GAO declared that cargo preferences for food aid programs “do not significantly contribute to meeting the intended objectives of helping to maintain US-flagged vessels as a naval and military auxiliary.” Given the enormous costs of this subsidy for maritime interests, removal of Cargo Preference Laws for food aid would greatly increase the program’s efficiency. Having no incentive to remove these laws, however, maritime interests will continue to block any reforms that oppose their financial well-being.

Agricultural Interests

US agricultural interests have exhibited similarly opportunist behavior toward humanitarian aims in recent Farm Bill negotiations. Although all of Title II funding is designated for expenditure on in-kind aid through US-grown food, a small share of this funding (between 5 and 10 percent) can cover administrative expenses for organizations responsible for handling food shipments, usually NGOs. PL 480 is explicit, however, that none of this administrative funding can be spent on program-related expenses outside of food delivery, such as technical assistance or training for farmers in recipient countries. Agricultural interests, it seems, would prefer to continuously give men fish, rather than teach them to catch their own. In 1986, Arkansas Senator Dale Bumpers pushed through legislation mandating that no US foreign assistance funds could support agricultural testing, seed breeding, studies, or training related to growth or production of foreign country exports that would compete in world markets with a similar commodity grown in the United States. Arkansas is home to the American Soybean Association, which inspired this legislation by complaining vociferously to its senator when it learned of a United States Agency
for International Development (USAID) research project to assist cultivation of soybean varieties in Brazil and Argentina.12

Agricultural interests constrain USAID in its ability to creatively use food aid in development, for example in farming assistance programs, for purchases of local food in developing countries, or for child nutrition programs. In 2003, the United States provided over US$500 million of US-grown grain to Ethiopia, but only US$5 million in funding for agricultural development aid.13 USAID is explicitly forbidden from using Title II funds to purchase local food, even in emergencies. Even NGOs that contract with USAID are not allowed to use food produced outside the United States for their own nutrition programs, including ready-to-use therapeutic foods proven to be effective in combating malnutrition.14

Though PL 480 was designed to dispose of production gluts, large segments of US agriculture have come to depend on food aid to support demand for intentionally overproduced goods. Wheat farmers in the northwest United States claimed in 2008 that up to 10 percent of their total crop was purchased by the US government for use in food aid. The Spokane Seed Company, green pea processors, estimated that food-aid orders accounted for 40 percent of its 2008 revenue.15 When the Farm Bill was up for review in 2002, Thomas Mick of the Washington Wheat Commission, a farmers’ advocacy group, lobbied for continuing food aid via US-produced wheat, arguing that “it would be a disaster for US agriculture if the system changes.”16 In 1999, President Clinton authorized a tripling of wheat bought for food aid in an effort to raise domestic prices, and in 2001, President Bush increased the amount of rice for food aid programs by 53 percent in response to requests from rice-state lawmakers.17 US farmers thus continue to enjoy the government’s price support and strongly oppose changes that would allow food aid monies to be spent on anything but US-grown crops.

Food aid’s vested interests sometimes squabble over how to slice the pie. Agribusiness corporations responsible for bagging and processing commodities have secured a legislative requirement that at least 50 percent of Title II food aid, and 75 percent of non-emergency food aid, must be bagged domestically before being shipped overseas.18 Farmers oppose these restrictions; they would prefer to sell grains in bulk to the government, rather than receive lower prices from agribusiness companies licensed to bag and process food aid before shipping. Archer Daniels Midland and Cargill, two of the largest food processing companies in the United States, handled over one third of all US food aid processing in 2003. Because there are relatively few licensed processors, contracts are often awarded non-competitively, driving up costs and further reducing funds for food purchase.19

These domestic stipulations are not just expensive, they are also damaging to food aid recipients. Requirements on domestic bagging account for up to one month of the approximately five-month long trip needed to get emergency food shipments to Africa, where 80 percent of US food aid is destined.20 Shipping food across the Atlantic Ocean adds roughly fifty days to the journey. This delay in delivery of emergency aid means that shipments sent at the beginning of Africa’s hungry seasons might arrive at the same time as the African harvest, flooding countries with food aid and depressing prices just when local farmers bring their crops to market.21

NGOs

While maritime and agricultural lobbies have a clear mandate to influence legislation and increase the welfare of their constituencies, NGOs must balance their avowed humanitarian intentions with realistic budgetary limitations. Leading NGOs recognize that government support is frequently targeted by ‘fiscally responsible’ politicians, who opportunistically attack foreign aid knowing that voters consistently overestimate foreign aid’s share of the federal budget.

The Coalition for Food Aid, an organization of sixteen NGOs, has been a vocal supporter of monetization of Title II food aid. Monetization—when an NGO sells bags of US-grown food aid in developing countries to raise money to fund other development projects—is a widely used but highly controversial practice. In 2006, up to 70 percent of non-emergency Title II food aid (about 25 percent of total Title II funds) was monetized, though very little emergency food aid was monetized.22 In 2001, funds from food aid monetization made up, on average, 30 percent of annual revenues for the top eight NGO distributors.23 Monetized food aid represents a substantial portion of NGOs’ operating budgets, thus explaining the tendency for NGOs to defend both the amount of food aid and the practice of monetization, despite the inefficiencies inherent to each.

Funding development projects through food aid monetization is slower and more administratively expensive than domestic purchase programs. Andrew Natsios, USAID Administrator during the Bush Administration, believed that domestic purchases of food aid...
Food Aid
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could have saved countless lives during the Ethiopian famine of 2003, but his desire for reform was overwhelmed by the farm lobby’s powerful influence in Congress.24 Although influential NGOs such as Oxfam and CARE refuse to monetize US food aid, arguing that monetization “competes with the crops of struggling local farmers,”25 the Coalition on Food Aid has continued to defend monetization.26 The coalition believes that the political influence of agribusiness and shipping is critical to maintaining Congressional support for food aid, and thus views monetization as a strategically important means to finance development work.

Reform Efforts

The most radical proposal for reforming food aid came from the Bush Administration, which in the 2008 Farm Bill negotiations recommended reallocating 25 percent of PL 480 Title II funds to cash purchases of local food. This proposal was met with strong resistance from both the House of Representatives and the US Senate committees. The House committee “condemned the Executive Branch to refrain from proposals which place at risk a carefully balanced coalition of interests which have served the interests of international food assistance programs well for more than fifty years.”27 That carefully balanced coalition of interests successfully stripped the executive recommendation from the final bill. The President’s request would have shifted roughly US$300 million of Title II funds to USAID’s International Disaster and Famine Assistance Program (IDFA), which, unlike PL 480 Title II funds, can be spent directly on local purchases of emergency food aid. Rather than accept the President’s recommendation or allocate additional funds to USAID, the House bill merely earmarked US$40 million of existing IDFA funding for famine assistance, constraining USAID’s ability to spend its limited funds as it deems appropriate.28

The US Senate similarly rejected meaningful reform to PL 480, stating that the committee simply “does not agree with the administration’s proposal to shift up to 25 percent of the Public Law 480 title II program level to USAID to be used for direct cash purchases of commodities.”29 In a nod to the Coalition for Food Aid, the Senate also recommended against placing an ‘arbitrary’ limit on the maximum amount of Title II funds that could be monetized by NGOs. While rejecting outright reforms, the Senate did allocate US$860 million for a 2008 ‘pilot program’ to study direct cash transfers in place of in-kind food aid.30

The results of the pilot program were completed in January 2012 by a team from Cornell University and will be published in a forthcoming 200-page report. The report will describe how local and regional procurement efforts resulted in far quicker and more cost-effective delivery of bulk grains, though processed oils and blends were more effectively sourced from the United States. Crucially, the report also confirms that, in most cases, the practice did not affect local market prices or price volatility, and that recipients reported increased satisfaction with locally sourced foods.31 NGOs including Oxfam America hope that the report will convince lawmakers drafting the 2012 Farm Bill to support an increase in Title II funding allocated to local purchase.32

While food aid’s traditional defenders continue to oppose cuts, the egregious fiscal inefficiencies of the US food aid program should catalyze systemic reforms in this era of deficit reduction. Major NGOs, Barrett argues, must lead these reforms, though it will require them to “show some courage and break from their short-term, income statement dependence on food as a resource.”33 By advocating for untying of Title II funds, removal of cargo preference laws, and redirecting funding towards domestic purchase, NGOs can frame the reforms as ‘fiscally responsible’ while also showing moral leadership by improving the effectiveness of US food aid programs.

Endnotes

1. Myers, Steven Lee and Choe Sang-Hun. “North Koreans Agree to Freeze Nuclear Work; U.S. to Give Aid.” The New York Times, February 29, 2012. http://www.nytimes.com/2012/03/01/world/asia/us-says-north-korea-agrees-to-curb-nuclear-work.html?pagewanted=all At the time of this article’s writing, the US Government was exchanging 240,000 tons of food aid to North Korea in exchange for suspension of its nuclear program. However, the diplomatic effectiveness of food aid will not be addressed in this piece.


3. The United States began its international food aid program in 1949 in response to domestic food gluts, caused by Depression-era government farm subsidies. Overseas disposal of these excess crops, it was believed, would support a domestic price floor and build foreign demand for US food exports, while simultaneously presenting US farmers as humanitarians, helping feed hungry populations around the world. This program was formalized with the passage of Public Law 480 in 1954, which was rebranded ‘Food for Peace’ by President Kennedy in 1961. While additional tranches have been added to the US food aid budget, including ‘Food for Progress,’ the ‘Bill Emerson Humanitarian Trust’ and the ‘McGovern-Dole International Food Education and Child Nutrition Program,’ the majority of US food aid is still provided through PL 480. PL 480 funding is dominated by Title II, which provides assistance through in-kind food grants to developing countries. Title II appropriations represented 74 percent of total US food aid between 2002 and 2006. Barrett and Maxwell 2005.


7. Ibid., 91.

8. Ibid., 97.

9. Ibid., 97.


12. Ibid., 61.

13. Ibid., xvii.


How Tunisia’s ‘Authoritarian Bargain’ Fell Apart

Peter Gruskin

Materially, Tunisia had made progress under the dictatorship of Zine al-Abidine Ben Ali, with some economic indicators trending positively since he took power in 1987. Economists concur that Tunisia fared reasonably well after liberalization programs were initiated in the 1980s. The ‘authoritarian bargain,’ which political scientists have proposed to explain the lack of democracy in various authoritarian countries, was arguably what kept Ben Ali in power for so long, and is a useful framework for looking at his reign. The ‘developmental dictatorship’ model, however, would not hold forever.

The liberalization adjustment period—which can entail lower growth while reforms are implemented—went fairly well, and during the 1990s Tunisia grew at around 5 percent annually. This was above average growth for a developing country’s backward ‘separation of powers’ and achieved a degree of fairness in distribution of resources, subsidies, and education. However, in recent years, the economic and political spheres no longer remained stagnant, which made the country’s backward separation of powers much more difficult to sustain. Economic factors would soon again influence political debate in Tunisia.

Income inequality, as measured by the Gini coefficient, declined over this time. However, while Tunisia’s government bureaucrats may have been on the right track policy-wise, the Tunisian people were not making progress politically. Interestingly, social indicators improved under Ben Ali, and today Tunisia enjoys one of the highest literacy rates in the Arab world. Gender equality was also an important theme for Ben Ali and his predecessor, Habib Bourguiba. No matter how brutal they may have been toward detractors, Tunisia’s two post-colonial governments did prioritize development.

They developed relationships with multilateral aid organizations from Europe and elsewhere, reduced infant mortality rates, fought poverty with direct transfers and training programs, and achieved a degree of fairness in distribution of resources, subsidies, and education. However, in recent years, the economic and political spheres no longer remained stagnant, which made the country’s backward separation of powers much more difficult to sustain. Economic factors would soon again influence political debate in Tunisia.

Political Liberties: A Development Connection?

After Ben Ali wrestled the presidency from the long-standing Bourguiba regime in the late 1980s, he appeared in public as a moderate on issues of political liberty, at least for the first few years. Ben Ali quickly released Islamists from jail and tried to co-opt his critics in a 1989 amnesty offer. In the early 1990s, repression set in. Readership of state-run and self-censored newspapers—an indicator of how much propaganda the masses will stomach—fell during this period, despite widespread advances in

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literacy. Islamists were rounded up and imprisoned for political activities. Some were physically harmed. The Islamists’ main political opponent, Ben Ali, established his authority to vet opposition parties before they could run against him in national elections.

Contrary to what some had initially hoped, Ben Ali was not going to serve as a bridge president to a more equitable political regime. He would be a long-term leader, or as some began to call him, a dictator. To solidify his control, Ben Ali proposed a constitutional referendum to abolish term limits and to extend the maximum age for presidential candidates to seventy-five. Some speculated he would be Tunisia’s president for life. Ben Ali effectively declared to his constituents, European human rights groups, and international donors that even if commodity prices were rising and the middle class were getting restless, there would be no new development model.

In December 2010, the coil sprung

The Development Model Self-Destructs

The main problem with Ben Ali’s developmental dictatorship was simple: higher expectations. Education was a prime example. Under the ‘authoritarian bargain’ with his constituents, the masses received material benefits such as government jobs, social services, food and oil subsidies, and macroeconomic progress in exchange for minimal political accountability from elites. Education was free and of fairly high quality, but the regime’s ‘success’ here was double-edged.

Tunisians began to expect jobs commensurate with their higher skill levels upon graduation. The catch was that the best jobs tended to be in the public sector, as the private sector was underdeveloped. This was for a number of reasons, but not least among them was corruption, which foreign investors saw as a major impediment to investment. It also scared away some donors, although it did not prevent Tunisia from receiving foreign aid. Meanwhile, economic liberalization programs had called for making the public sector more efficient, which meant slashing public-sector jobs to keep budget deficits in check.

The government simply could not employ all college graduates, and in recent years unemployment for college graduates reached 20 to 30 percent. Tunisia’s economy could not grow fast enough to meet the supply of educated labor. As a result of these structural problems and their lack of voice in political affairs, Tunisia’s educated youth decided not to uphold their end of the authoritarian bargain. When Mohammed Bouazizi, an unemployed college graduate working as a street vendor, lit himself on fire in December 2010, it signaled an end to the politics of compromise. It was no longer worth it for Tunisians to keep quiet. Protests engulfed the country and by January the Tunisian regime had crumbled.

Today, there is a new government in Tunisia which despite its shortcomings is more open and legitimate than the previous regime. Regular elections will now be held, and given Tunisia’s strong macroeconomic track record, the country should develop substantially over the coming years, both materially and politically. While the initial impact of the Arab Spring may have been a

When Mohammed Bouazizi, an unemployed college graduate working as a street vendor, lit himself on fire in December 2010, it signaled an end to the politics of compromise.

Tunisia's GDP at US$1 billion annually. Foundation estimates the cost of corruption to

Endnotes

The development industry has become an integral aspect of the economies of these developing nations.
events, and local community input. Across the development industry, project managers will implement programs that local communities do not necessarily want, need, or support, simply because the funds for that type of program are available during that cycle. This issue is especially prevalent in areas such as Iraq and Afghanistan. Legislative bodies approve funds to be used for specific purposes and development organizations then scramble to use the money. Even if developments countries have little interest in the issues that these projects address, or have higher priorities, their circumstances force them to rely on whatever aid they are given. The development industry has become an integral aspect of the economies of these developing nations.

Over the last several years, the United States Agency for International Development (USAID) has spent roughly 75 percent of its annual budget during the last quarter of each fiscal year. A drastic spike in fourth-quarter spending has trickled down to USAID’s recipient organizations; these funds in turn trickle down to their respective recipient organizations, and so on. Several factors may contribute to this phenomenon, but the most glaringly problematic issue is that USAID feels pressured to spend down its funds before the close of the fiscal year. This is done to guarantee funds for the next fiscal year, the logic being that if funds are not spent, they are not needed. Congress determines USAID’s budget, as well as all other state-run entities’ budgets, in this fashion. USAID then imposes the same poor practice on its recipients.

To improve the efficacy and transparency of development projects, Congress, USAID, and other donors must improve their funding schemes. The private sector is far from perfect, but its accountability to shareholders helps keep it in line, and its governance structures should serve as a model to the international development sector. The government, donor agencies, and taxpayers need to demand higher standards, better performance, and deeper impact from development organizations. Under such a structure, only organizations with strong programmatic and operational efficiency, robust monitoring and evaluation processes, mechanisms for local participation, and impact-based results would receive continued funding. Just as in the private sector, organizations that are irresponsible, unaccountable, and inflexible will not survive. The altruistic nature of development work is no excuse for propping up poorly performing organizations. With the appropriate mechanisms and incentives in place, development work will be better able to achieve its goals.

Endnotes

International Development Program Update

We are delighted to welcome Dr. Deborah Bräutigam, who will be SAIS’s new director of the International Development Program (IDeV) and professor of International Development and Comparative Politics, effective July 1, 2012.

Dr. Bräutigam brings to SAIS nearly 30 years of academic experience in the international development field, focusing on China-Africa relations, governance, foreign aid, industrialization, state-building and development. Our students—and the broader SAIS community—will greatly benefit from her extensive teaching and research accomplishments.

Since 1994, Dr. Bräutigam has served on the faculty of American University’s School of International Service (SIS) in Washington, D.C. Currently a professor of international development, Dr. Bräutigam has received numerous awards from AU for her outstanding teaching and research. From 1987 to 1994, she taught at Columbia University’s School of International Public Affairs (SIPA) and was director of the school’s Economic and Political Development Program. Her numerous research and visiting scholar positions have taken Dr. Bräutigam around the globe—including Liberia, Mauritius, Norway, Sierra Leone, South Africa and Thailand. Dr. Bräutigam has twice won the Fulbright research award and is also a recipient of a Council on Foreign Relations International Affairs Fellowship, grants from the Smith Richardson Foundation and the German Marshall Fund of the United States, and a residency at the Woodrow Wilson International Center for Scholars. She has served as a consultant for Transparency International, the United Nations, the World Bank, DfID, GTZ, DANIDA, the African Development Bank and USAID. She is currently on leave as a senior research fellow at the International Food Policy Research Institute.
Dev Update
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Dr. Bräutigam’s most recent book, The Dragon’s Gift: The Real Story of China in Africa, was published by Oxford University Press in 2009. She is also the author of Aid Dependence and Governance (2000) and Chinese Aid and African Development (1998) and co-editor of Taxation and State-Building in Developing Countries (2008). In addition to her books, she has published more than 60 scholarly articles, book chapters and commentaries.

A native of Wisconsin, she holds a Ph.D. in international development and a Master’s in Law and Diplomacy from Tufts University’s Fletcher School of Law and Diplomacy, and a B.A. in British studies from Ohio Wesleyan University.

Dr. Bräutigam will be collaborating with Professors Cinnamon Dornsife and Bill Douglas, who have served this year together as the Interim Co-Directors, to transition the program’s directorship and plan for the upcoming academic year.

It has been a pleasure having Professor Bill Douglas back with us in IDEV this year, serving as Acting Co-Director and co-anchor of the Human Development track. We continue to benefit from Bill’s vast experience and association with IDEV since 2000, with two years spent at the Hopkins Nanjing Center from 2009–2011.

Cinnamon Dornsife is in her seventh year with IDEV, having served as Acting Director for the past two years, joined this year by Professor Douglas. She continues as co-anchor of the Finance and Development track and in her appointment as Associate Practitioner in Residence.

Melissa Thomas, Associate Professor of International Development and anchor of the Politics and Governance track, continues in her seventh year with IDEV.

Dorothy Sobol, coordinator of the Emerging Markets specialization, maintains her formal association within IDEV as a senior adjunct professor and as co-anchor of the Finance and Development track.

Tanvi Nagpal is in her second year as co-anchor of the Human Development track, faculty advisor and professorial lecturer.

Brian Levy will be joining IDEV full time for each fall semester starting in fall 2012, when he will serve as a Senior Adjunct Professor and teach two courses, one of which will be his ever-popular “Development Strategies.” Currently Brian is Adviser, Public Sector Governance in the World Bank and Adjunct Professor in the School of Economics at the University of Cape Town, South Africa. He has authored, co-authored, and co-edited numerous books and articles on the interactions between governance and economic development in Africa, East Asia, and elsewhere.

Seth Colby, currently in the SAIS PhD program, has been associated with IDEV for the past four years as the Executive Director of the Bernard Schwartz Forum on Constructive Capitalism. Seth will be leaving us in April for Rio de Janeiro, where he will assume a visiting researcher position at the Brazilian Center for International Relations (CEBRI). He will be collaborating on existing research projects with the Center and completing work on his dissertation, “Searching for Institutional Solutions to Industrial Policy Challenges: A Case Study of the Brazilian Development Bank.” We wish Seth every success.

Oversight of the Bernard Schwartz Forum has been transferred to SAIS faculty member Matthias Matthijs, who will be supported by an advisory council made up of Cinnamon Dornsife; Pravin Krishna, Chun Ju Yun Professor of International Economics; and John Lipsky, SAIS Distinguished Visiting Scholar.

Robin Washington, Program Administrator in Political Economy, has continued to provide her able support to the Forum and all associated activities in political economy.

Katherine Diefenbach, in her third year with the program, was promoted to IDEV Program Coordinator in September 2011. Joining us this year is Mariett “Tina” Evangelista, IDEV’s new Program Assistant.

Former IDEV Director Francis Fukuyama, now the Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies at Stanford University, stays involved with SAIS through his appointment as Senior Fellow at the SAIS Foreign Policy Institute. Frank visited SAIS on April 3, 2012, presenting the keynote address on the politics of economic growth and development for a jointly organized event by the Schwartz Forum and the MacArthur Foundation on current themes and trends in international development.

In January 2012, the International Development Program undertook a field practicum to Colombia, looking at innovative social policy, private sector development in post conflict environments, and developing consensus in highly polarized environments. The group was led by Seth Colby, Professor Bill Douglas and student coordinator Alex Sotiropou, and was ably supported by Katherine Diefenbach and Robin Washington. Visiting Medellin and Bogota, the trip participants studied a range of macro and micro interventions that facilitated the country’s remarkable transformation, while also appreciating the ongoing challenges Colombia faces. The faculty is currently consulting with students to discuss a January 2013 intersession field practicum.
Alumni Updates

Samantha Perry (IDev ’11) and Benjamin Krause (IDev ’09) got engaged! Ben is currently the Country Director for J/P Haitian Relief Organization and has been living in Haiti for the past two years. Samantha is currently working as an Associate at McKinsey and Company in Washington, DC.

After spending this past summer in Ethiopia with USAID doing an emergency food aid evaluation, Mary Langan (IDev ’11) is now working for IPA as a Project Coordinator in Kampala, Uganda on a USAID-funded RCT on child and maternal malnutrition. In this capacity she will be evaluating the general Feed the Future program as well as some gender-focused add-ons.

Jarret Guajardo (IDev ’11) is currently working as a Basic Education and Literacy Research Specialist at Save the Children US (SCUS). In this position he provides technical assistance and monitoring and evaluation support to scale up SCUS’s early-grade literacy program. Previously, he worked as a labor markets research consultant at the Inter-American Development Bank. Prior to that and just after graduating from SAIS Jarret held his own 10-country cross-Asia charity rally to raise awareness and funding for early childhood education.

Nate Hansen (IDev ’11) recently started a job as an economist at the Bureau of Labor Statistics, where he analyzes employment data. Good times.

Vanessa Fajans-Turner (IDev ’09) is currently Assistant Director of the Avatar Alliance Foundation, a private grant-making organization newly established by filmmaker James Cameron to combat climate change. In addition to her foundation duties, she is a member of the DEEPSEA CHALLENGE initiative to advance scientific research into and exploration of the deepest parts of the world’s oceans. She is based in New York.

Bharati Chaturvedi, (MIPP ’07) who founded the Chintan Environmental Research and Action Group, has won the 2012 Secretary’s Innovation Award for the Empowerment of Women and Girls from U.S. Secretary of State Hillary Clinton. The Innovation Award jury—composed of Judith Rodin of the Rockefeller Foundation, Sheryl Sandberg of Facebook, Muhammad Yunus of Grameen Bank, and Melanne Verveer, the U.S. Ambassador-at-Large for Global Women’s Issues—described this as an initiative that “truly holds the promise of transforming the lives of women and girls.”

Jay Lurie (IDev ’07) has recently transferred to the International Financial Corporation (IFC)’s new Singapore office, joining a small team focused on developing new equity investments in infrastructure projects and companies in Asia. IFC’s presence is part of the World Bank-Singapore Urban-Hub and Infrastructure Center of Excellence (IFCOE)—a strategic partnership for integrated urban development and infrastructure financing solutions.

Anne Knight (IDev ’05) recently left the Office of the Secretary of Defense at the Pentagon.

Jed Howbert (IDev ’05) recently left the Goldman Sachs Urban Investment Group to join Tishman Construction, an AECOM company, where he works on principal real estate investing and Tishman’s international expansion plan. He remains based in New York City.

1999 SC&D graduates Mari Barboza, Wendy Shapiro, Maureen Heffern Ponicki, Nicole Behnam, and Denise Lofman reunited with Professor Grace Goodell in February 2012 at a DC area restaurant.

Ian MacNairn (SC&D ’93) is currently serving as the Deputy Chief of Party for the Fintrac BEST (Bellmon Estimation Studies for Title II) project, conducting food security and market analyses for current and prospective Title II countries for USAID’s Food for Peace Office.

Kristin Schafer (SC&D ’93) continues to work with the San Francisco-based office of the global NGO Pesticide Action Network. She is Senior Policy Strategist for the group, and also contributes to their public engagement and communications efforts. She blogs frequently on pesticide policy and children’s health issues, and lives in downtown San Jose with her husband Jim and two children, Linnea and Connor.

Susannah Hopkins Leisher (SC&D ’92) is halfway through a year living “off the grid” in the woods of Maine with her husband Craig, three sons and two cats, and having a wonderful time. Susannah is planning on a career move to focus on the overlap between global poverty and prenatal health. To do that, Susannah plans to go back to grad school (again!) in epidemiology or public health starting this fall, after she and her family return to their New Jersey base.

Marty Finnegan (SC&D ‘82) has shifted from international business back to international development in which he concentrated at SAIS. He has been named the Haiti Country Director for Population Services International, based in Port au Prince.
Photographer: David Fenton, SAIS '12, Hopkins-Nanjing Center '11
Location: Guangzhou, China
Date: January 2010

Guangzhou is a hub of manufacturing filled with migrant workers from the interior provinces of China. During Chinese New Year, Chinese return to their home cities and villages, bearing gifts and red envelopes full of renminbi. The Chinese Central Government’s 12th Five-Year Plan emphasizes domestic consumption in an effort to rebalance China’s economy. This photo was taken before the New Year Festival in a shopping district, as crowds overwhelmed the clothing and shoe shops selling both Chinese and foreign brands.