



Bundesministerium für  
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Value Chains for Broad-based Development  
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**I. Words of welcome: Twin presidencies for development**

- I would like to welcome you all to Berlin and to the international conference on Value Chains for Broad-Based Development. I am pleased that **so many** representatives of other donors, academic institutions, our partner countries and the private sector have come. This broad range of participants shows how important the issue of value chains has become for development policy.
- Our goal is to halve the **proportion of poor people** in the global population by 2015. Even if we are making good progress on a global scale, progress varies a great deal from region to region. **Sub-Saharan Africa** in particular **continues to be a problematic region**.
- But this year marks the halfway date on our way to achieving the Millennium Development Goals. This is a reminder to us that we need to further increase our **efforts for poverty reduction**.

- We are making use of this politically significant year to work on that: Africa is a focus of our **twin presidencies of the EU and the G8**, and trade issues in the context of value chains are vital to the success of our work.
- During our EU Presidency, our focus is on **Economic Partnership Agreements** (EPAs) between the EU and the ACP countries.
- At the **European Council meeting two weeks ago**, conclusions were adopted that form a good basis for Economic Partnership Agreements that are good for development.
  - The EU member states confirmed the goal of providing **tariff- and quota-free access** to the European market for all products from ACP countries – with some transition arrangements for particularly sensitive products.
  - ACP countries will be able to benefit from **long transition periods** to slowly integrate their markets – which are still imperfectly developed – into the world economy.
- These conclusions and the **Council Conclusions on Aid for Trade** have paved the way for providing 2 billion euros per year in **aid for trade for developing countries** starting in 2010. These funds will be made available by the EU Commission and the member states.
- Next week, the G8 Summit will be held in Heiligendamm under the heading of **Growth and Responsibility**. We want to help improve the

economic environment in Africa and provide incentives for **more, and sustainable, investment.**

- The G8 wants to adopt a set of initiatives to improve the business and **investment climate** in African countries.
- In order to reach these goals and reduce poverty, the **value chain approach** (which is a fairly **recent** development) is very helpful. The **basic idea** is to increase local and regional value added in our partner countries, taking particular account of poor population groups.
- In principle, this insight is not new. So the question is why have value chains only become important as a development tool in the past few years?

## II. Changed global environment

- The global environment has **changed rapidly and dramatically.**
- Today we are living in a globalized world in which **international trade** is becoming ever more important. In the past 20 years (1984 to 2004), the volume of global trade grew by more than **360 per cent (!)**, **and it continues to grow.**
- And more and more enterprises with international operations are becoming **global players.** The volume of foreign direct investment has grown manifold over the past decade as well. Through foreign direct investment, **transnational enterprises** have a presence **in developing**

**countries, too**, and they have a decisive influence on production patterns there.

- These figures show that **international work processes have changed very much**. The individual production and processing stages are now taking place in different regions of the world – just think of the textile and clothing industry.
- But this has not only resulted in the emergence of new production sites but also of **new sales markets**.
- Given this background, **world trade and the international division of labor** offer **opportunities** for developing countries. The developing countries must use them! As **Germany** is the **world's number one exporter**, we know very well how important exports can be for a country's economic performance.
- Both factors – **economic growth and increasing exports** – are needed to fight poverty effectively and to reach the MDGs by 2015. We can see this from our experience in many countries.

### **III. Risks and opportunities of globalization**

- **However**, economic growth and increasing exports do not automatically lead to reduced poverty. I want to draw your attention to three problems:
  1. Globalization, which is the source of all these opportunities, is unjust in some ways.
  2. Participation in world trade varies very much from region to region.

3. Economic growth does not benefit all population groups equally.

**This means that, firstly, we must make globalization more just!**

- Today's globalization is unjust. We are living in a world that is becoming interconnected more and more quickly, while at the same time it is increasingly disintegrating. The **gap between rich and poor** is growing dramatically, both between the global South and North and within countries and regions.
- The richest 20 per cent of humankind enjoy incomes that are 90 times as high as those of the poorest 20 per cent. The majority of all people live in poor countries. This **inevitably** leads to **tensions** which are a threat to the very basis of our open societies and economies.
- So we must give direction to globalization, and we must give it a social dimension. The **realization of social standards** in line with ILO conventions is an important step toward that goal. We must not allow a race to the bottom, what we need is a race to the top!

"Decent work" is the heading under which these issues are discussed at the ILO.

- This is an area where we must **take our private sector on board** to a greater degree. Kofi Annan initiated the **Global Compact**, which unites enterprises that shoulder responsibility and support and implement ecological and social standards.

- In the long term, this is in **enterprises' own interest**, because economies can only grow sustainably together with the people and with our partner countries.

**Secondly, we must give everyone a chance to participate in world trade!**

- Participation in world trade is very imbalanced. The highest growth rates among developing countries can be found in **Asia** – above all in China and India.
- China's share in world trade is now 7.3%, which makes it number three after Germany and the US. By contrast, the **50 poorest countries** (LDCs) combined only have **a share of one per cent in global trade**. The countries of Africa in particular must benefit more from the achievements of globalization. Africa's exports typically consist of a small number of **low-value-added products**.
- Players must succeed in building industries that could **broaden and deepen value added**. Value processes must be designed in such a way that developing countries' participation in the global market goes beyond providing raw materials or sewing buttons on clothes.
- **Business sectors** must be created that offer good jobs and give **people sufficient income**.
- So we must make **sustained** efforts to **strengthen** specific **sectors that offer potential**, such as agribusiness, construction, and textiles.

- One good **example** from our practical work is our cooperation with **Ethiopia**. The Ethiopian government has chosen five priority areas in which it wants to advance swift and deep industrialization, namely:
  - pharmaceuticals,
  - textiles,
  - leather,
  - agroprocessing, and
  - construction.
- For these sectors, Ethiopia **analyzes value chains** and gives support to the enterprises involved so as to first make them competitive in the local market and, in the medium term, in regional markets. In parallel, Ethiopia is improving its **public control system** for the fulfillment of international standards, strengthening the **investment climate** and educating people for these new jobs, both through **vocational training** and through higher education.
- Ethiopia is hoping that this **holistic approach** will enable it to slowly move from being an agricultural country to a newly industrialized country. And it is already making great **progress**. You will learn more about this during this conference, looking at the pharmaceutical sector as an example.

### **Thirdly, economic growth must benefit the poor!**

- Economic growth must be **inclusive** and pro-poor if sustainable development is to be achieved.

- To that end, **reforms** must also be carried out **in our partner countries**, and they must be implemented with determination.
- One **success story** is the ***Cotton Made in Africa*** initiative. It shows that Africa and its people can benefit from globalization and from the sale of agricultural raw materials.
- Farmers are given **access to world markets** by means of
  - support for sustainable cotton production,
  - the improvement of the quality of cotton, and
  - fulfillment of higher standards.
- Zambia, Benin and Burkina Faso are pilot countries. In these countries, almost **70,000 small farmers** have already been trained in improved cotton cultivation methods and integrated pest management to protect soil and water. At the end of this value chain, there are well-known German textile retailers, for example OTTO mail-order company.

#### **IV. Prerequisites for enhanced value added in our partner countries**

- There are several levels at which a basis must be put in place to foster value added in developing countries.

Firstly, in the developing countries:

- The fundamental idea is to make use of **producers' competitive advantages**.

- To that end, small and medium enterprises in particular must be given **better access to those resources** which are needed for successful business activity and investment: information, know-how, credit, and markets. We are supporting our partner countries in building such an environment.
- We work on **improving the legal, institutional, and economic policy environment**.
- What is just as important is **fostering** the provision of **services that are often vital to the competitiveness of the production of goods, such as banking and insurance services**.
- Non-tariff **trade barriers, for example technical and sanitary standards**, have now become the greatest **market barrier** for many of our partner countries as they try to enter industrialized countries or global value chains.
- So one important element of our development cooperation must be support for our partner countries and for the private sector on the ground with regard to **setting up relevant institutions**. Even the best market access is no good if products from developing countries do not meet European Union quality standards and are thus rejected at the border.
- We therefore support both the private sector and governments in setting up their own **quality management systems**.

Secondly, in the global economy:

- **Open markets** are the fundamental prerequisite for international trade.

There is still potential for improvement in the industrialized countries

- regarding the reduction of tariff escalation (this means that tariffs increase with the level of value added in developing countries);
- regarding generous **rules of origin in granting tariff preferences to developing countries**;
- regarding the reduction of subsidies in our **agricultural markets**. It was a great breakthrough when we agreed in Hong Kong in 2005, as part of the Doha Round, that all **export subsidies** must be eliminated by 2013.

However, as long as the Doha Development Round has not been completed, this agreement will not become effective. There is an urgent need for the negotiations to be resumed and concluded, with an outcome that is in the interest of the developing countries!

## V. Conclusion

- In order to fight poverty successfully, we must address **several levels**.

This is also true for efforts to foster value chains. So let me sum up:

- **At the international level**, we need to improve the **general environment** so that developing countries can become more integrated in the world market. This includes the successful conclusion of the **Doha** development round.

- **In our partner countries**, a basis for pro-poor economic growth and trade must be put in place. This means **improving the productivity** of micro, small and medium-sized enterprises by reducing regulatory barriers, providing access to technology, financing and infrastructure, and building well-functioning markets.
- **In the industrialized countries**, we need to change our respective policies so as to give developing countries a chance to benefit from their comparative advantages. This means improving rules of origin and market access.

But there are also three specific questions which I would like to pose to the participants of this conference:

1. *How can we make sure that the value chain approach has a **broad effect**, actually reduces poverty and includes poor population groups?*
2. *How can we ensure that as many industries as possible are included in value added?*
3. *How can value added be **kept in the country or in the region** if possible? How can we prevent a situation in which developing countries only provide **raw materials** or are only involved in low-value-added production stages? If we want to bring about a lasting change in the situation in developing countries, we also need to **create opportunities for lasting development!***

- In the next two days, you will be **discussing** relevant **strategies and exchanging experience**. Please share your findings with our Ministry, because, to quote Amartya Sen in conclusion:

*"If one is concerned with the nature of globalization, we have to see what is the best way of making the benefit (...) of globalization to be shared more equitably rather than in an unequal way."*