THE UCC, THE EUROPEAN UNION…………….AND AFRICA?? (continued)

Second, customs policies (for goods crossing borders) are inefficient at best and corrupt/criminal at worst. Customs officials regularly hold goods up for days in order to induce bribes from those trading in these goods. Often women involved in carrying goods across borders are subjected to harassment, extortion and violence.

Third, infrastructure is a huge problem. Much of the infrastructure (roads, railways, air travel infrastructure, telecommunications) in Africa was built by the former colonial powers. The colonial powers built for the purpose of moving goods between their African colony and themselves. Optimal trade for the African colony was not the motivation. Thus much of Africa's infrastructure is geared toward trade with their former colonial master, and not for trade within Africa. Even today most of Africa's trade is with the former colonial powers.

Only 30% of African roads are paved. Telephone service is lacking. Because of these infrastructure problems, African nations are either unable to trade with one another, or the cost (freight etc.) of this trade is prohibitive.

Fourth – African nations' legal systems are not uniform and often not compatible with one another's.

Fifth – Regional conflicts hamper trade for obvious reasons.

Conclusion
Looking at these problems in Africa, it's clear they are realistically surmountable, especially with help from the developed world. Removing these barriers to trade would be a major step for Africa in its mission to emerge from its poverty.

It's Africa that will determine whether it emerges from poverty or not. When Africa's leaders make this decision, and implement good sound economic policies (see above) that have been tried and tested by history, it will THEN be in a much stronger position to leverage aid from the developed world into REAL economic gains. Aid works when it is feeding a healthy plan, a healthy strategy, not when it's flushed down a corrupt drain as so often happens.

Here's a quote from a recent piece written by the United Kingdom's Prime Minister David Cameron and Goodluck Jonathan, president of Nigeria. I think it hits the nail on the head:

"In the past, there were marches in the West to drop the debt. There were concerts to increase aid. And it was right that the world responded. But they have never once had a march or a concert to call for what will in the long term save far more lives and do far more good - an African free trade area. The key to Africa's progress is not just aid. It is time for some fresh thinking."

They continue:

"Never before has there been a time quite like this. We are used to thinking that the problems of our world will be always with us. But the economic revolution underway has brought within reach the steps to eradicate poverty in Africa. It is now possible to imagine an Africa no longer dependent on aid, and a real source of growth for the whole world. And the road to get there lies through freeing up the wealth creating power of enterprise and trade."

I've know many Africans. It's my opinion that they are some of the best people on earth. When their leaders get smart, implement good policy and then get out of the way and let the African people do their thing, Africa will not only graduate from its poverty status….Africa will flourish.

I truly believe this.

Jeff Jentgen
President
Fostrian Business Capital Corporation

FALL 2011

The Community Lender

from FOSTRIAN | Business Capital Corporation

Fostrian Business Capital is a commercial lender specializing in working capital loans to emerging companies through the factoring of their accounts receivable.

From Jeff:

In this newsletter I've returned to the Developing World theme, specifically Africa. It's a subject that fascinates me and I hope you guys enjoy the piece.

Changing direction, Fostrian Business Capital is well capitalized and continues to provide factoring and asset based credit lines to financially stressed/emerging small businesses. Fostrian has been working with various banks in helping them better position themselves with their struggling clients and/or clients that have outgrown their bank credit lines and need capital to expand. Banks are also using Fostrian as a tool to help them in establishing new client relationships – Fostrian and the bank team up, with the bank taking on the clients' deposits, and Fostrian providing a credit line. If you would like to learn more about Fostrian's services, please feel free to give me a call.

I hope everyone is doing well!

THE UCC, THE EUROPEAN UNION……………AND AFRICA??

The theme of this piece is Third World development, specifically Africa this time - something I've written about in past newsletters. My angle will be how trade (free trade) can be a major pump primer for economic development and is, in essence, a prerequisite for impoverished nations to move from their impoverishment to healthy economies that provide the material substance that their citizens have a right to.

I'm going to relate the United States' Uniform Commercial Code (UCC) and Europe's European Union (EU) to African development. It's a different approach but one that I think works.

The premise is that both the UCC and The EU have promoted trade within their respective regions, resulting in these respective regions' economies expanding because of the increased trade. I want to show that Africa could do something similar to what the U.S. did with the UCC and Europe did with The EU, and thus take a huge step in strengthening the economies of the nations of Africa, and graduating the African people from the grinding poverty that so many suffer from.

I'll start with a quick sketch of the UCC and EU and finish with a section on Africa's dearth of intra-African trade and what could be done to improve Africa on this front.

Here we go...

The UCC

The Uniform Commercial Code (UCC) is a uniform code of commercial law adopted by all 50 states of the United States for the purpose of creating uniformity between the states with respect to their commercial codes, and thus promoting inter-state business. 49 states have adopted the UCC almost in its entirety while Louisiana has adopted the UCC on a partial basis.

There is a long history in the U.S. of attempts to create uniformity in state law prior to uniformity becoming a reality. In the 1940s the American Law Institute, various lawyers, judges and professors along with the National Conference of Commissioners on Uniform State Laws (NCCUSL) prepared several drafts of a UCC. In 1952 a final draft was approved and published by the ALI, NCCUSL and the House of Delegates of the American Bar Association. This final draft of the UCC was then sent to the state legislatures for approval. Pennsylvania was the first state to vote to adopt the code. By 1967 49 states had adopted the UCC and uniformity in state commercial law became a reality.

The UCC is indispensable in promoting commercial transactions across state lines. I'm a lender and could not do business outside of my home state if there were no UCC. My business horizon is 50 times what it would be without the UCC. My experience is shared by all business entities looking to do business across state lines.

Increased trade increases economic output for the entities engaged in this trade. The entities in this case are the American states and the businesses located within these states. This relationship between trade and economic output is an axiom. Suffice it to say that the UCC has been an instrumental element in maximizing economic output for the U.S. states, and thus pushing United States economic output toward its optimal level.

The EU

The European Union (EU) is an organization of European nations created in 1993 by the Maastricht Treaty for the purpose of integrating Europe on the political and economic fronts.
The seeds of the EU were planted immediately after WWII and there has been much evolution, iterations, addition of new members etc. during the EU's development over the years.
For this piece I want to concentrate on the economic reasons behind the creation of the EU.

The ultimate objective on the economic front was/is to create a common economic market that will induce free trade across national borders of EU member nations, promote the free movement of people, services and capital across these same national borders and create an environment of undistorted competition within the EU's economic zone. The main elements implemented to accomplish these goals were:

-creation of a common currency (euro)
-lower, or elimination of, tariffs on trade between EU nations
-creation of one Central Bank serving the EU
-creation of standardized laws applying to the EU's member nations
-creation of a common external tariff for goods imported into the EU zone
-elimination of barriers to EU citizens living and working in EU nations outside their home nations

The creation of the EU's common market by promulgating the above has juiced trade between the EU member nations and thus made each nation more prosperous than they would otherwise be. The member nations of the EU also have more negotiating power with the outside world by negotiating as a group (EU). This power is palpable as we've seen the EU force policy change within large U.S. multi-national corporations that the member nations acting alone could never have realized.

There are downsides to the EU and how it has evolved. Some of these problems are currently in the press and I won't detail these here. But the main point is that the member nations of the EU are economically more robust because they are now free to trade with one another.

Africa

Free trade promotes economic output. This is clear. This is an axiom. Free trade provides a larger world (larger markets) for a nation's business entities to trade with and thus allows these business entities to take advantage of economies of scale. How can you build a modern efficient factory if your market is only a handful of customers?

Second, trade frees nations to do what they do best, to specialize. It allows them to specialize because these nations can import goods that lie outside their specialization from other nations at advantageous terms. Of COURSE a nation will produce more if it can concentrate its time, efforts and capital on producing what it does best… if it can specialize. And lastly, for obvious reasons, free trade forces nations and their business entities to sharpen their competitiveness.

But the nations of Africa do not trade with each other! Of course there is some trade between African nations and there has been some progress on this front with the creation of regional economic blocks, but overall, barely a dent has been made. African nations' trade with other African nations represents only 10% of their overall trade. This compares to 40% in North America and 60% in Europe. This is clearly a problem, a huge problem, but one that can be solved.

What are the reasons for this dearth of inter-African trade?

First, there are high tariffs imposed by African nations against one another. There are also non-tariff restrictions, such as origin of goods restrictive laws, that clog inter-nation trade.

(Continued on Back)