PARADIGM LOST

Critical voices on globalisation
and the big hole in finances
for development

new economics foundation

Globalised markets offer the capacity to mobilise resources rationally to poorer countries
Michel Camdessus, former Managing Director of the International Monetary Fund, February 2000

After more than a decade of liberal reforms in developing countries, their payments disorders...remain as acute as ever, and their economies depend even more on external financial resources
UNCTAD, Trade and Development Report 1999

While the revolution in information and communications technology that underlies globalisation (is) irreversible... the policies ...have been made by policy-makers and they can be changed by policy-makers
Juan Somavia, Director General of the International Labour Organisation

One of the primary sources of his vast authority (was) his ability to convince a mass public that he was the vehicle of impersonal world-historical forces, the moving spirit of modernity.
Marshal Berman, All that is solid melts into air - the experience of modernity

The Paradise of Fools, to few unknown
John Milton, Paradise Lost Book 3

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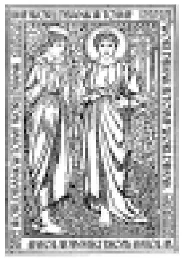
summary



Critical voices

Are campaigners wrongly trying to ‘save’ poor countries from development by their opposition to the current dynamics of globalisation? The first half of Paradigm Lost looks at the words spoken by developing countries themselves at the first major international conference on trade to follow the debacle in Seattle.

Telling numbers

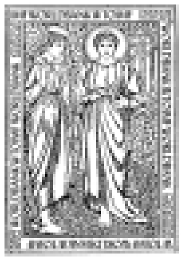
In the build up to landmark events assessing global progress towards sustainable development,[1] and the state of resources to pay for it, the second half of Paradigm Lost summarises various trends affecting finances for development.

After years of lobbying, multilateral organisations now accept that eradicating poverty should be the objective of economic policy. Yet the most influential of them all, the International Monetary Fund (IMF), proposes that poverty be tackled with the same set of policies that presided over a dramatic rise in the gap between the global rich and poor. One that has seen the crumbling of social services in many very poor countries. Influential decision-makers expect to arrive at a new destination without changing direction.

Dissent is dismissed as the misguided reaction of non-governmental organisations who are trying to ‘save’ poor countries from development. But, on the basis of words spoken at the first major international conference on trade since the World Trade Organisation (WTO) in Seattle, the multilateral policy-makers have lost the confidence of developing countries more than ever. Trust in liberalisation as a panacea to the problems of development is, in fact, a paradigm lost.

In the face of clear international environmental and development goals governments could be costing and finding the resources to meet them. Yet the global economy remains a hostile and uneven playing field for the poorest countries, and rich countries continue to do worse than failing to meet their international obligations. From trade to investment, and unrealistic resolutions to end the debt crisis, they are actively obstructing the efforts of the poorest to develop and meet their basic needs. Old policies are bankrupt and there is a huge hole in the finances for development. But the world is not poor. Only the lack of political will can explain the lack of resources going to where they are most needed. The real debt is owed by the North to the South.

paradigm lost: critical voices



Poverty is now accepted as the "ultimate threat"...

In the next two years, a decade on from the Earth Summit, the world will look again at its attempts to live sensibly within our shared environmental budget. It will also worry about another budget, and ask whether the resources can be found to meet our basic human needs.

Behind these two absorbing issues lie specific economic models that have conditioned our experience of globalisation. These models are often presented, like globalisation itself, as beyond questioning.

It was said before the World Trade Organisation meeting in Seattle that trade liberalisation was like riding a bike. If you slowed down too much you would fall off. But the failure to agree and begin a thorough review of the human and environmental consequences of past liberalisation, before starting on a new, more comprehensive trade round, is like a cyclist setting off into dense traffic wearing a blindfold.

Michel Camdessus, retiring Managing Director of the International Monetary Fund (IMF), made his last speech at the meeting of the United Nations Conference on Trade and Development (UNCTAD) on 13 February, 2000.[2] His initial choice of words was unprecedented coming from the IMF:

> *"Poverty is the "ultimate threat" to stability in a globalising world… The widening gaps between rich and poor within nations, and the gulf between the most affluent and most impoverished nations, are morally outrageous, economically wasteful, and potentially socially explosive… poverty will undermine the fabric of our societies through confrontation, violence and civil disorder."*

But policy-makers fail to adapt…

His following words were more familiar:

> *"Globalised markets offer the capacity to mobilise resources rationally to poorer countries (through, among other things) …the promotion of the free market and an outward orientation of economic policies… trade and exchange liberalisation; improving incentives by rolling back price controls and subsidies."*

Camdessus' reign at the head of the IMF coincided with the high water mark of that package of policies which became known as the Washington Consensus. The name was appropriate because, typically, the further you travelled from Washington, the weaker the consensus became.

Recent years witnessed a mild and misleading economic *perestroika*. But, even as some in the World Bank, like the former chief economist Joseph Stiglitz, were rediscovering the importance of the State and prioritising basic human needs, plans were being drawn up for a new and more deeply penetrating wave of market-focused liberalisation.

Camdessus' farewell speech at UNCTAD rang with the true commitment of a market utopian. The answer to the great poverty challenge, he said was a "reinvigorated multilateralism." This was to be met by moving toward three basic aims: "First, liberalisation of trade… Second, the liberalisation of payments," and third "the liberalisation of capital movements."

To help make this happen developing countries would be making their policies "more attractive to the private sector." Camdessus and his followers assume this will translate into automatic benefits for poor people.

Is this true? Will progressive liberalisation, given the current state of the global economy, help end "morally outrageous" poverty? This paper tries to answer that question with reference to the debate which took place between countries, academics and non-governmental organisations at UNCTAD, first major international trade conference after the WTO's Seattle debacle.

The WTO emerges again and again as key. Senior members seek a growing role for the organisation in all areas of economic liberalisation. But also it emerges that some developing countries believe the North is advancing distinctly illiberal policies beneath the cloak of liberalisation, for example in relation to intellectual property.[3]

Are NGOs the new enemy?

A popular criticism of environmental and Third World campaign groups after the Seattle conference was that they were trying to 'save' poor countries from development. By opposing the WTO's model of trade deregulation, said the *Financial Times* newspaper and *Economist magazine,* campaigners were hurting the interests of the very people they claimed to be demonstrating for. Commentators said that developing countries wanted what the WTO was offering and, who were the non-governmental organisations to say otherwise? Were they right?

In Bangkok in February 2000, the world gathered for the 10th UNCTAD conference. It was an opportunity for calm reflection on what had gone wrong in Seattle and what to do next.

Representing 53 countries, the Organisation of African Unity (OAU) called it:[4]

> *"The first major event bringing the international community as a whole together at the dawn of the century, to reflect on the strategies that will effectively ensure the development of all countries and all peoples."*

The heads of all three major multilateral economic institutions, the World Bank, IMF and WTO turned up indicating the importance of the event.

Or a useful scapegoat...

WTO head, Mike Moore, began by saying that his organisation was "back on track." His words were met with muted applause. When the Indian delegation responded, the gulf became apparent between industrialised countries – in favour of broad based liberalisation – and more cautious developing countries. With one in six of the world's population, India's views carried considerable weight. The delegate said that:[5]

> *"The WTO is perceived to have been responsible for many developing countries like India undertaking commitments in many areas… like intellectual property rights and services, without first examining… whether the political, social and economic conditions in these countries can sustain these commitments."*

A theme of criticism also emerged from the Indian delegation that was frequently echoed elsewhere. They thought industrialised countries were trying to 'pull up the ladder.' New trade rules meant that the conditions which led to successful economic development for some countries throughout history, could not now be repeated:

> *"Many policy instruments which were used by industrialised countries and advanced developing countries to achieve development are now being treated as WTO inconsistent…There is a genuine feeling that some of the WTO disciplines run counter to the development interests of developing countries."*

'Mission Creep' is another common accusation levelled at the WTO. The range and complexity of trade agreements is already a problem even to the major developing countries like India. Introducing new issues to the WTO, when many existing commitments to improve trade conditions for poor countries have yet to be met, seems to add insult to injury:

> *"There are continuous attempts to broaden the agenda of the organisation (WTO) even before countries like India are able to come to terms with the commitments already undertaken in the Uruguay Round."*

Despite India pursuing a degree of trade and investment liberalisation domestically, their delegation still questioned who the WTO's rules were designed to benefit. To them that organisations' agenda seemed:

"To be driven more by the interests of multinational corporations rather than equity... One can easily question whether the TRIPS Agreement strikes the right balance between private profits and public good," and that the balance had shifted too far, "to the detriment of the public good."

The WTO had become too "legalistic." And, like any legal system, it tended to favour the rich with the resources to exploit it. Two factors skewed the system away from benefiting poor countries. Political power was brokered through the undemocratic 'green room' process of invite-only consensus building meetings. This led to unbalanced trade agreements that were then, in turn, implemented via a loaded legal process.

For unaccountable institutions and power politics...

Politicisation of the WTO by its leading players is only the beginning. The same faults plague the World Bank and IMF. There are parallel debates over developing country alienation from, and dissatisfaction with, the Washington institutions.

The Economist magazine wrote before the annual meetings in 1999, that:

"The Fund and Bank have been hijacked by their major shareholders for overtly political ends. Whether in Mexico in 1994, Asia in 1997 or Russia throughout the 1990s, the institutions have become a more explicit tool of western, and particularly American, foreign policy." [6]

India's Minister of Commerce, speaking at the Bangkok meeting, warned of the creation of a 'behemoth' threatening the interests of poor countries:

"Because (the) WTO is empowered with the rule of law, 'coherence of Bretton Woods institutions like (the) World Bank (and) IMF with (the) WTO has generated suspicions and invited resistance… co-operation among international organisations may be good, but we should be careful that in the name of coherence we do not create a networking behemoth which puts pressure on developing countries through cross-conditionalities."

At the same meeting, Singapore's Prime Minister Goh Chok Tong, head of a country considered a princely domain in the global economy, underlined both *The Economist's* message and India's concerns:

"Globalisation is undoubtedly led from the West and bears the strong imprint of American political and economic power. It is highly uneven in its consequences. But globalisation should not mean the dominance of the West over the rest."

For some, the marriage of gun-boat diplomacy and international trade is the subject of purely historical investigation. Yet there is ample evidence of the WTO being co-opted for geo-political ends. It has become an extension of the battleground for unrelated foreign policy disputes. This was deeply felt by Iran, a country managing a fragile and volatile domestic political situation, which has been trying to join the WTO. Their delegation said:

"…decision-making by consensus effectively amounts to granting the veto power to every member, which obviously is against the spirit of the WTO charter. It has, in some cases, amounted to even barring countries outside of the WTO from simply starting negotiation on terms of their entry…

"Preventing the formation of a working party on Iran's accession is a case of utmost lack of transparency in the WTO… (which) should not be used as a means of furthering non-trade related agenda. Abusing the WTO for political means will weaken it…" [7]

And the death of market utopian dreams...

Juan Somavia is the first director-general of the International Labour Organisation to come from a developing country. As such he gives an important different perspective on the well-worn globalisation debate. Most governments are fond of referring to globalisation as something with a life of its own, an unchallengeable reality. It is as if they are speaking from a shared invisible script. But Somavia provided a different interpretation in Bangkok, and made an important distinction.[8]

He said that while the information technologies driving globalisation are a fact, the policies that go along with it:

> *"have been made by policy-makers and they can be changed by policy makers in order to expand the benefits of globalisation."*

He warned against structural adjustment measures that rode on the backs of the weakest members of society, asking: `Is that the only way we can balance a budget?'[9]

> *"Inequality continues to widen. The needs of ordinary people for security, for identity and for decent work somehow do not flow from economic objectives… But the institutions of the international community do not operate in a way which reflects this basic truth… the multilateral system… is under-performing."*

While comments from UN agencies are sometimes too easily dismissed, other recent voices have been harder to ignore. Former chief economist at the World Bank, Joseph Stiglitz, wrote in 1999 that the policy of "conditionality" is flawed and may have undermined democracy in countries receiving loans.

Stiglitz questioned 'whether the market-based reform strategies followed by the World Bank over the past 20 years have been either sufficient or even necessary for economic development:

> *"China, which is by all accounts the most successful of the low-income countries, did not follow many of the key precepts of the Washington consensus."*

He went on to make the devastating observation that, if the US had obeyed the Bank/Fund mantra, it would not have enjoyed its own striking growth rates.[10] And he compounded disenchantment with the IMF writing in April 2000 that the Fund was run by third rate economists.

Because for some the dreams are a nightmare...

But doubts grow in the soil of many countries about the IMF's conventional solution to its newly discovered "ultimate threat" of poverty. The success of any system may be judged by how the most vulnerable survive, endure or prosper within it. Julian Hunte, speaking in Bangkok on behalf of the alliance of 43 small island developing states said:

> *"Small island developing states (SIDS) have long been vulnerable to the forces of the seas and of natural and environmental disaster. But they are now having to brace themselves against forces of a different nature... the pace and terms of globalisation and trade liberalisation are dramatically altering their economies and hampering their efforts at sustainable development."* [11]

His words expose another flaw in neo-liberal logic. Swimming may be good for your health, but if you can't swim, or haven't learned, and someone throws you in the water, you are going to drown. Alternatively, no matter how good you are at swimming, if there is a great storm blowing out at sea, the same fate is likely to befall you. Considerations like these hang heavy in the decision making of small and vulnerable states. If the argument for globalisation is that it brings human benefits, the prospect of no benefit, or actual harm, suggests a serious problem.

The representative of the member states of the OAU freely admitted that poor countries had made their own mistakes and had learned that "Development is possible but it is not inevitable." But, he said:

> *"We have not been helped by the inflexibility of policy conditionalities that were imposed on us during the 1980s and 1990s within the framework of the 'Washington consensus.'"*

Adding that, "imposing a uniform set of policies as the main response to the basic problems of development," demonstrated the "naivety" of the model. As UNCTAD say in their 1999 Trade and Development report:

> *"The time has thus come for a radical rethinking of policies and responsibilities… The international community must face up to the pronounced external constraints to development… It is now time to take a long, hard look at the international trading system…"*

'Free trade' cannot be taken at face value…

> *"Free trade was for the first arrival, where, as in Britain, it was, indeed, an attractive design for confining the later contenders to their earlier stages of development,"*
>
> JK Galbraith in *A history of economics* on American attitudes to free trade in the early 19th century

> *"Especially the most powerful, have fought to restrict, manipulate and control their markets. Indeed, much of their creative energy over the centuries has gone into arrangements for doing this - chartered monopolies, holding companies, trusts, cartels and conglomerates, protective tariffs, price-fixing, open or hidden subsidies from the state – all accompanied by paeans in praise of the free market."*
>
> Marshall Berman, *All that is solid melts into air – the experience of modernity*

Intended or not, Galbraith's characterisation of American suspicions of free trade, at the time when Britain was the dominant world economic power, has turned into a depressing reality for many of the world's poorer countries over a century later.

Policy-makers who have have followed the road signs erected by Camdessus' IMF, appear deeply reluctant to listen and learn from either the lessons of history, or the experiences of recent more successful travellers.

According to the OAU, the example of East and South East Asia showed the importance of local ownership over such:

> *"Crucial decisions as partnership between the public and private sectors, as well as the sequencing of policies relating to import substitution and export orientation, and the timing of trade and financial liberalisation."*

Whereas:

> *"In Africa, on the other hand, we were subjected to less flexibility from our development partners in regard to the essential importance of the principle of ownership as the foundation for sustainable development."*

Over time, attempts were made by African nations to develop regional integration initiatives designed to "overcome the historical legacy of extreme balkanisation of the continent and its small country markets," that already industrialised countries had "failed to support."

"India had supplied Europe with calicos and muslins, as China had supplied silks and satins. The British manufacturing industry, at the end of the 18th Century, clamped a 100% tariff on the imports of Indian textiles. The cotton towns of Surat of India, Dhaka and Murshidabad of Bangladesh, which is now a least developed country, were described by Robert Clive in 1757 as just 'as extensive, popular and rich as the city of London.'

"What happened to the Indian textile industry was repeated in other industries. The native iron smelting industries of India that could produce six-ton 24 feet steel pillars at Qutab Minar 1,500 years ago and the steel for the famous Damascus blades were wiped out. That's how we lost out and became a part of the 'Third World.'

That's why we believe that the rules of the game of the international trade or the world order should be fair and equitable. That's why we demand that the international rule-making must not encroach on the sovereignty of the national governments and permit flexibility and autonomy to developing countries to pursue their material development strategies on the basis of the needs and aspirations of their people."[12]

Shri Murasoli Maran, Minister of Commerce and Industry, India, 13 February 2000.

And the jury is still out on benefits for people in poverty...

> *"Positive trade liberalisation effects may eventually relieve the poor, but in the short / medium term the whole adjustment process may be more harmful than helpful... risks may considerably worsen conditions for the poor." Overseas Development Institute, December 1999.*

The momentarily stalled juggernaut of trade liberalisation drives on roads that are built of largely untested assumptions, weak evidence and too little concern for the people living in the path of their construction. Even academic advocates of 'free trade for development' admit that the evidence of real benefits is "actually rather informal."[13]

Do rising trade flows increase or decrease poverty? There is no consensus, which is partly due to the difficulty in producing models that take account of all the necessary factors. The British-based Overseas Development Institute (ODI) illustrates the point that "a clear relationship between trade and poverty is hard to establish" with the different experiences of East Asia and Latin America where "increasing trade flows were accompanied respectively by lower and growing levels of poverty." [14]

The debate on trade, growth and poverty reduction also normally takes place without any reference to environmental constraints. The trouble is that, if they are ignored and transgressed, these constraints are most likely to return to haunt the very people who are supposed to benefit from liberalisation - the poorest. Even the OECD has said that, "the negative scale effects of globalisation may turn out to be very large, effectively swamping any positive…effects."[15]

For example, there is an unbroken link between conventional economic growth and rising concentrations of climate change causing greenhouse gas emissions. Human induced global warming and the recent spate of climate related natural disasters show how this negative feedback cycle happens, ranging from Mozambique to India, and Nicaragua to Bangladesh, causing immense social and economic damage. Estimates from the Munich Re insurance company indicate how perilous is our neglect. If costs continue rising on current trends they could equal and surpass the value of world economic output by just beyond the middle of the century.

Even allowing for this, a huge variety of other policy variables determine the distribution of benefits from economic activity. It is the case to such an extent that policy-makers who emphasise the foremost priority of liberalisation are guilty of a cruel deception. Because they know how unlikely it is that there will be an accompanying set of policies needed to guarantee that all will benefit.

The United Nations Development Programme (UNDP) say that there is a "strong link" between trade and growth. But researchers at the ODI describe three scenarios for an open trade policy which question such a simple assertion:
One where, in an ideal world, there should be a strong link, but the reality of "market failures," such as "poor information, monopolies, (and) political interference," contradict the theory.
A second scenario where trade policy has no effect. And a third where selective protection of industry actually produces faster growth.

So much for unregulated trade and conventional growth. Next is the question of their impact on poverty. According to the UNDP, "there is no automatic link with human development." Russia is an example of a country that can open its economy, increase exports and inward flows of foreign investment yet "generate neither growth nor human development." Whereas the greater success of a country like the Republic of Korea is explained by policies including:

> *"Widespread land reform... extensive public provision of social services," and "redistributive income policies."*

The Korean experience tends to suggest that only by front-loading liberalisation with realistic policies for redistribution and comprehensive social provision will the poorest people stand a chance to benefit.

While rigid policy does more harm than good...

There is a persistent failure to consider what people living in poverty need to survive in a market economy, before new measures are promoted. But worse than that, developing countries increasingly state that the set of policies accompanying trade liberalisation actively obstruct the progress of late developing economies.

The OAU say these: "need access to technology, technological know-how, and resources." And they point out that learning from and "copying the experience of one another was a notable dimension of industrialisation as it spread across Europe, North America, Japan and around the world."

But the last phase of trade talks, the Uruguay Round, produced agreements on a range of issues including subsidies and countervailing measures, trade related intellectual property rights and trade related investment measures which:

> *" Have limited the policy options that are available to the late developers…Today, many of the policy measures that were applied so successfully in the transformation of the South and South East Asian region are no longer possible under these agreements."*

These same agreements have imbalances: "which could adversely affect the industrialisation and economic stability of late developing African countries."[16]

All these issues were raised consistently by civil society groups over the course of the GATT negotiations. That they can no longer be ignored in the light of Seattle is not a reason for frustrated officials to attack the messengers.

finance and development: the gaping hole

The accounts are not in order…

The 20th century closed on "a note of crisis and a growing sense of unease about the policy advice that was proffered in the past decade," according to UNCTAD, and:

> *"…after more than a decade of liberal reforms in developing countries, their payments disorders… remain as acute as ever, and their economies depend even more on external financial resources for the achievement of growth rates sufficient to tackle the deep-rooted problems of poverty and underdevelopment."* [17]

As well as policy failure there has been a tremendous resource failure. In spite of the important task of redefining what we mean by wealth, and how we measure it, nothing can disguise how much finance health and education services need. Nor that the environment suffers from money flowing in such perverse ways, through subsidies and incentives, that it becomes 'profitable' to destroy the conditions of life – the soil, water and the atmosphere – that we depend on.

The Organisation for Economic Co-operation and Development (OECD) is the market oriented think tank of the major industrialised nations. It promotes an international policy environment pre-eminently favourable to its wealthy members and emphasises their positive role in the world. So, it is with a sharp in-take of breath that we should react to the conclusion reached by their specialist committee that deals with aid.[18] Taking into account the inconclusive academic debate about aid effectiveness, it makes this extraordinary observation in its 1999 Report on development co-operation, published in early 2000:

> *"It might well be argued that if more donors had met the ODA (aid) target, the mass poverty and humanitarian emergencies which persist in many parts of the developing world today might have been largely avoided."*[19]

But we can estimate what is needed…

Costing is an inexact science. But there are several estimates that provide a foundation to assess the scale of resources necessary to meet social and environmental goals, and evidence for where potential funds may be leaking through the global net.

To pay for the environment…

When the world gathered in Brazil in 1992 for the Earth Summit not only was the scale of our collective environmental crisis becoming clear, so was the need to find new and additional resources. Looking back in its new report, the Global Environmental Outlook 2000, the UN Environment Programme (UNEP) commented:

> *"Implementing Agenda 21 would need new and additional sources of funds… low-income countries would need substantial additional funding in the form of development aid or other foreign capital flows."*

Inconveniently for politicians today, because it gives us all a stick with which to measure our governments' response, the secretariat of the Earth Summit put a price on what it would cost to implement the new environmental agreements and meet their targets:

> *"Implementing Agenda 21 in low-income countries would cost an average of more than US$600 billion annually between 1993 and 2000, of which $125 billion would have to come in the form of international donations or concessions."*

A survey to mark the fifth anniversary of the Earth Summit in 1997 assessed Europe's contribution to helping developing countries put the agreements into practice. Just looking at the structure of existing aid programmes at the time, and disregarding the European Union's failure to make available the extra 3 billion Ecu promised at the Summit, the survey found that aid going to direct environmental objectives, donor by donor, ranged from less than one half of one per cent, to around only fifteen per cent of what was actually needed.[20]

The report found that, "this funding gap is not only a problem in itself, but it has also undermined trust between North and South on the wider sustainable development agenda." In something of an understatement, UNEP conclude:

> *"Since the Earth Summit, official international financing for sustainable development has remained well below the level considered necessary to implement Agenda 21."* [21]

Calculating environmental costs must also include measures for the damage resulting from the biggest challenge we face, climate change. Estimated damage from recent storms in Venezuela alone was put at $10 billion, while insurance related losses due to climate related disasters in 1998, well over $80 billion, were greater than for the whole of the 1980s.[22]

And human development

> *"The goal drawn from the Copenhagen Conference on Social Development, of halving the incidence of poverty by 2015, has become widely seen as the overarching international development objective."*
>
> *OECD DAC 1999 Report (2000)*
>
> *The gap between the richest and poorest fifth of the world's population has risen from a ratio of 30:1 in 1960 to 74:1 in 1997. In sub Saharan Africa per capita incomes are lower than in 1970.*
>
> *UNDP Human Development Report 1999*

There are many different assessments of the extra resources needed to meet human development targets. Some are disturbingly low given the visible suffering that results from not meeting basic needs.

Without even taking into account the new financing needs for social and environmental goals UNCTAD observed that "the level and composition of net capital flows received by most developing countries are inadequate to meet their existing external financing requirements." [23]

One estimate of external resource needs for sub-Saharan Africa in 1998 for the year 1998, was $82.4 billion, and "given current trends" was considered to far exceed "the realm of possibility." [24]

Dismissing these needs as unrealistic is to accept that the holes in the resource net will not be mended. Holes such as: the continuation of distorted trade practices by industrialised countries, squandering of public resources on perverse subsidies and unproductive expenditure, allowing corporate tax evasion and global tax arbitrage, and rich countries still failing to meet their international financial commitments to poor countries.

Other estimates consistently put the cost of meeting universal basic human health and education needs at modest additional costs. Assessing the world's spending priorities, in 1998 the UN Development Programme calculated the additional, annual resources needed. Basic education would need an extra $6 billion, basic health and nutrition $13 billion, water and sanitation for all $9 billion, and reproductive health care for all women $12 billion. Altogether it implies an extra $40 billion, less than Europe spends on cigarettes each year and slightly more than Japan spends on business entertainment. Not large amounts on a global scale, but the OAU say that the "political will" to find the resources is "not forthcoming."

The human international development targets:

- **Universal primary education in all countries by 2015**
- **Elimination of gender disparity in primary and secondary education by 2005**

- **Two thirds reduction on 1990 levels in each developing country of infant and child death rates by 2015: maternal mortality by three quarters in the same period**
- **Primary health care systems to provide reproductive health care for all by 2015**

But where will the money come from?

`Political' capital is low…

Discussions of finance for development often miss the buried root cause of problems that grow elsewhere above the soil. This is the shortage of political capital that poor countries enjoy in the global economy. Singapore's Prime Minister attributes the problem to post cold war geopolitics, "the end of the cold war may have made international cooperation less likely."[25]

The loss of strategic importance by countries in Africa and elsewhere can certainly explain the fading of aid programmes. 'Real-politic' may be a part explanation. But, it does not excuse the fact that the WTO is allowed to operate whilst approximately 30 poor countries cannot afford to run permanent offices at its headquarters in Geneva, excluded from shaping crucial trade agreements that affect their future.

In a world where democracy, transparency and accountability are held to be the highest values in government, it is also hard to justify how the other international economic institutions, the World Bank and IMF operate. Like Kingdoms run by hereditary aristocracies they have a democratic veil that hides the naked power of the richest nations. In spite of the fact that developing countries form the client base for the Bank and Fund, the industrialised countries call the shots. The Group of Eight nations have 48 per cent of the voting power. A different group of eight poor, indebted countries that met in a counter summit to the G8 in 1998 shared just 1.6 per cent of the votes.

Bad policy has left a debt…

A further debt that is owed North to South is for the consequences of a failed policy paradigm. The World Bank's former chief economist admits it. A comprehensive survey of 53 countries locked into economic adjustment programmes, carried out by the World Bank itself in 1995, showed an average decline in health spending per person of 15 per cent over the course of adjustment. According to health development charity MEDACT:

> *"Evidence shows that equitable health services are best directed by governments not markets."*

A typical consequence of adjustment programmes, highlighted by the development agency Christian Aid, is the application of 'cost recovery' market measures in developing country health services. These lead to 'user fees' being charged which act as a profound deterrent to poor people getting access to the services they need. These types of policies in poor countries are described as '*economics bullshit'* by the President of Royal College of Physicians in Britain.[26]

The delegate in Bangkok, speaking on behalf of the OAU, described how the Washington consensus had locked them into tight macro-economic policies which favoured: "capital against labour, finance against industry... speculation against human development," adding that there was:

> *"Little wonder that we have not been able to generate the resources to address the terrifying HIV/AIDS pandemic."*

A review of IMF sponsored adjustment programmes found a 75 per cent failure rate and concluded that, "conditionality–intensive programmes seldom succeed in achieving their objectives." Another report found that policy conditions, "may even be counter-productive."[27] More literally, Tanzanian NGO *TASOET* reported onhow a large proportion of World Bank loans to the country were 'non-performing', leaving a burden of repayment and no benefit. Sadly, the multilateral institutions are still technically immune to the human consequences of their bad lending and policy choices.

Real money is in short supply…

Aid languishes in the shallows…

> *"For the roughly 1.3 billion people in the developing world who still live in absolute poverty, even 0.7% of donors' combined GNP would represent only a little over $100 a year each. Moreover, practically every country which has achieved a substantial rise in per capita income over the last thirty years was initially a substantial recipient of ODA." OECD DAC 1999.*

In spite of its many problems, there is still a case to be made for aid. And, as we see below, for strong external reasons there are few other obvious revenue raising opportunities for the poorest countries.

Aid from OECD countries amounted to $51.9 billion in 1998. It represented 0.24 per cent of combined GNP, still very far short of the agreed target of 0.7 per cent. The downturn in aid began in the period 1992-94. The OECD estimate the cumulative shortfall from 1992-98, based on the level that aid would have reached today if earlier trends continued to be $88.7 billion. In 1998 alone the shortfall on the prior trend was $21 billion.

Not only is the low level of aid a problem, but the proportion that goes to basic human needs is still far too low. In 1998 basic health accounted for 1.3 per cent of combined OECD aid, basic education received one per cent and clean water and sanitation six per cent.[28]

Poor countries are often criticised for their own spending priorities. Yet figures for recent decades show that in both sub-Saharan Africa and Latin America and the Caribbean, spending on education and health has modestly increased, whilst military spending as a proportion of GNP for developing countries as a whole declined between 1988-96.[29]

Debt remains a burden in spite of relief

Any mention of the debt crisis must begin with a reminder of its essentially political nature. Bizarrely, Britain still owes the US $12.8 billion, a hangover on its First World War debt from early in the last century, the rest of Europe still owes the US $17 billion. Of course no attempt is made to recapture this debt, and Washington does not demand of Britain and Europe the draconian measures it demands of poor, indebted African economies.

While recovering from conflict Germany was offered debt relief in 1953 at least four times more generous than were heavily indebted poor countries at the launch of the current international initiative, known as the HIPC in 1996. Indonesia, was also given more generous treatment in 1970-71.[30]

There are several problems with the HIPC initiative.

- It uses the wrong measure of debt sustainability, not taking into account the resources needed to meet the 2015 international development targets.
- Debt service payments continue at the cost of productive domestic investment.
- Relief will bring marginal resource improvements but they will be "grossly inadequate" to meet social expenditure needs – and also unstable and unpredictable, making "long term strategic planning impossible."[31]
- Too few countries will benefit, and the process is too slow with too many complex conditions.

According to the Jubilee 2000 Coalition campaign, in spite of many promises, only five countries will have benefited by Spring 2000 from the new revised HIPC; Uganda, Bolivia, Mauritania, Tanzania and Mozambique. Even so, together the five will still be paying over $500 million annually in debt service.[32]

After treatment, Mozambique will still be spending more on debt service than either health or education. To stand a chance of meeting the 2015 targets, Tanzania would need a 100 per cent cut in debt service.

Rich countries obstruct trade…

The trade picture for the 48 least developed countries – representing one in eight of the world's population – is especially bleak. According to UNCTAD they account for just 0.4 per cent of world trade.

Africa's market share of commodity export markets – which they depend on strongly - is declining. According to the IMF, "If its share had remained at the 1980 level, by 1997 Africa's non-oil exports would have amounted to more than $150 billion, compared with the actual level of $62 billion." That represents a loss of earnings, just for 1997, of $88 billion. [33]

Again, the IMF admit that much blame can be laid at the feet of the developed world:

> *"Industrial countries tend to have restrictions on imports of agricultural products, where much of Africa's export potential is concentrated."*

Tariffs levied by the European Union, amongst others, specifically penalise efforts by poor countries towards economic development. Where countries try to add value to their exports by processing raw materials, they face higher charges: 15 per cent for imported unprocessed agricultural products against 25 per cent for processed products. The IMF add that: "these figures understate the level of protection," because charges are higher on goods that compete with EU produced goods, and there are also non tariff barriers such as export subsidies, producer price supports and complex marketing arrangements.

The cost of industrialised country protectionism in low technology industries alone for developing countries is estimated at $700 billion per year.[34]

And commodities do not earn a living…

In Africa, say the OAU: "dependence and especially commodity dependence, rather than interdependence, has been our common experience." This means the continent has been hit especially hard by the long term decline in commodity prices.

Alfred Maizels of Oxford University estimates that the "rate of loss has risen sharply, from about $5 billion a year for the period, 1981-1985 to almost $55 billion a year for the period 1989-1991. Total terms of trade loss from 1980 to 1992 was about $350 billion, with a considerably greater cumulative loss since then." He says this is a "major factor" in the rise of the debt crisis and concludes that.

> *"If world commodity markets are left to the 'free play of market forces'... the downward trend in real prices of commodities exported by developing countries is likely to persist. Indeed... the downward trend might even be reinforced."* [35]

Money is squandered on perverse subsidies…

There is no innate resource problem. The world is not poor. When the political will exists enormous sums of money can be found. Unfortunately it seems to be easier to raise funds to bail out morally hazardous investors burnt by the Asian crash, and to invest in environmentally damaging economic activity, than for useful purposes. World-wide governments are able to find $700 billion a year to spend perversely, subsidising, according to UNEP:

> *"Environmentally–unsound practices in the use of water, agriculture, energy and road transport. Many of these subsidies are economically inefficient, trade-distorting, ecologically destructive and socially inequitable, sometimes all at the same time."*

What does sustainable development cost?

- A 1992 estimate by the Earth Summit Secretariat of the cost to rich countries of implementing the environmental agreements in low-income countries was $125 billion per year in the form of international donations or concessions.
- According to UNDP universal basic education would need an extra $6 billion per year, basic health and nutrition $13 billion, water and sanitation $9 billion, and reproductive health for all women $12 billion. Altogether it implies an extra $40 billion annually, less than Europe spends on cigarettes each year and slightly more than Japan spends on business entertainment.

How are developing countries losing out and being short-changed?

- In 1998 alone the shortfall caused by the downward trend in aid giving in the 1990s was $21 billion.
- Africa's declining share of commodity markets represents a loss of earnings of $88 billion just for 1997.
- The cost of industrialised country protectionism in low technology industries for developing countries is estimated at $700 billion per year.
- World-wide governments – mostly in the OECD – are able to find US$700 billion a year to spend on perverse environmentally damaging subsidies.
- Corporate tax evasion costs developing countries an estimated $100 billion a year in lost tax revenue.
- Loss of market share among Sub Saharan Africa's 13 functioning stock markets between 1970 –1993 amounted to an annual loss of some $68 billion.

About half of this enormous sum is accounted for by OECD agricultural subsidy, equivalent to $16,000 per full-time farmer. Global energy subsidies currently total US$200 billion - of which 80 per cent subsidises climate change causing fossil fuels, and 8 per cent goes to nuclear power – which still receives more than renewable energy sources. In spite of this, it has long been understood that:

> *"An important economic key to sustainable development is to ensure that price and incentive structures reflect the true costs and benefits of production and consumption."*[36]

Investment is unreliable, unproductive and disruptive…

Developing countries now understand that investment can be a poisoned chalice. Disturbances caused by the Asian crashes cut health spending in Thailand, Philippines, Malaysia by 10-20 per cent. Suicide rates, street crime and domestic violence rose in all affected countries.[37]

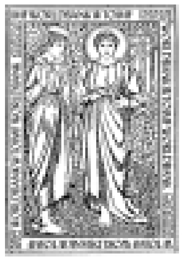
Less volatile foreign direct investment (FDI) flows to developing countries fell by $7 billion in 1998. But less than 1 per cent of FDI goes to the least developed countries anyway. Considering their low initial share, flows to Africa fell disproportionately by $1 billion the same year.[38]

According to Oxfam International, countries are also being denied legitimate revenue when they do host major corporations: "Corporate tax evasion through offshore centres is costing developing countries an estimated $100 billion a year in lost tax revenue." [39]

The removal of controls on capital, "has made matters worse" say UNCTAD and, "new inflows of private capital are not necessarily being put to productive use." New investment overwhelmingly has gone into buying companies rather than adding to productive capacity. UNCTAD's head, Rubens Ricupero also writes that : "the outcome of foreign direct investment depends significantly on how well the host economy bargains with international investors… However, the capacity of developing host countries to negotiate with TNCs is often limited."

As if the picture were not bleak enough, the rise in private capital flows seems to have done little to help develop Africa's stock markets. Loss of market share among Sub Saharan Africa's 13 functioning stock markets between 1970 –1993 amounted to an annual loss of some $68 billion.[40]

conclusion



A new vision is needed

Developing countries, not just non-governmental organisations, have lost faith in the old paradigm of globalisation.

Most agree with the former IMF head that poverty is "morally outrageous," the "ultimate threat" and likely to undermine society through "confrontation, violence and civil disorder." But few believe that it will be ended with the utopian market medicine administered by his followers.

It is this medicine – the ill thought out liberalisation of economic activity - which has failed to address "poverty and under-development which is at the root of political instability and conflict." Or, "the vicious circle of commodity dependence, low savings ratios, an unsustainable debt burden, and inadequate investment and financial flows," according to the the OAU member states. Many believe the medicine has made the patient worse.

History also has too much evidence of how "the most powerful have fought to restrict, manipulate and control" whilst giving "paeans in praise of the free market," says historian of the modern age Marshall Berman.

China together with the Group of 77 developing countries, who experience the double standards of many developed countries say, "the difficulties involved in harnessing the processes of liberalisation and globalisation for the benefit of all have been underestimated."

Modest recovery in South East Asia, they say, "has not been the result of a unique formula." And, it is time to "rethink the mechanisms and policies that underpin the functioning of the global economy." It is not the time to continue riding the bike of trade liberalisation blindfold, unaware of social and environmental costs, hoping that the cyclist will not crash. The echnological discoveries behind globalisation may be here to stay, but the policies that go with them are a political choice that all must share in.

A consensus is emerging that new trade talks should not begin until the full impact of previous negotiations is understood. New policy tools will increasingly be judged by how they move countries towards human development and environmental goals, and not just abstract economic growth.[41]

Minimising the threat of globalisation and maximising its benefits means leaving behind ideological economic baggage. India's Minister of Commerce and Industry quotes Gandhi,

> *"I do not want my house to be walled on all sides… I want the culture of all the lands to be blown about my house as much as possible. But I refuse to be blown off my feet."*

And resources to grow it

The world is not poor. The problem is getting resources where they are most needed. This report shows that corrections to trade policy, tax, investment and subsidy regimes could make available huge resources for sustainable development. New mechanisms such as carbon taxes and levies on currency speculation could create significant additional sums.

Lack of political will is the only reason that poverty and environmental degradation are allowed to continue. The OAU say, "Continuing stagnation in Africa in a world that is achieving new and higher levels of technological innovation and prosperity diminishes our collective humanity and our shared values." It is time for developed countries to move out of denial, and stop wrapping the pursuit of their self-interest in a false economic morality.

Endnote*This briefing avoids false optimism. It is a beginning from which the New Economics Foundation will begin a series of searching reports on new directions for the global economy. Facing the enormity of the task ahead, the reports will make suitably immodest proposals about what is needed to grow a more sustainable global economy.*

footnotes

[1] Especially the international conference on finance for development due in 2001, and the tenth anniversary of the Earth Summit in 2002.

[2] Michel Camdessus, Managing Director of the International Monetary Fund, *Development and Poverty Reduction: a Multilateral Approach*, at UNCTAD X, Bangkok, Thailand, February 13, 2000.

[3] "The non-competitive and un-liberalised structure of technology transfer and know-how deprives developing countries of the opportunity to compete fairly in new industries." Statement of the Islamic Republic of Iran, 16 February 2000. TD(X)/BKK.139, BKK.00-321.

[4] Ambassador Vijay S. Makhan, Assistant Secretary General OAU/AEC, statement at UNCTAD X, Bangkok, Thailand, 12-19 February, 2000, TD(X)/BKK.69, BKK.00-195.

[5] Intervention by Shri Suresh Pachouri, Member of Parliament for India, on the Interactive Debate with Director General of the WTO at UNCTAD X, Bangkok, Thailand, February 16, 2000.

[6] *The Economist* (18/9/99) quoted in *Kicking the Habit*, Jubilee 2000 Coalition UK, London 2000.

[7] Statement of the Islamic Republic of Iran, 16 February 2000, TD(X)/BKK.139, BKK.00-321.

[8] Juan Somavia, Director General of ILO, to the High Level Round Table with Heads of United Nations Agencies, Programmes and Related Institutions, 12 February 2000, UNCTAD X, Bangkok.

[9] ILO press release 15/2/00, ROAP/01/2000.

[10] *World Bank aid strategy flawed says departing chief economist*, *Financial Times* 29 November, 1999.

[11] H.E. Mr Julian R Hunte, permanent representative of Saint Lucia to the United Nations on behalf of the 43 member states of the Alliance of Small Island States. UNCTAD X, Bangkok, Thailand, 12-19 February 2000, Statement by Saint Lucia, TD(X)/BKK.116, BKK.00-293.

[12] Statement by Shri Murasoli Maran, Minister of Commerce and Industry, India, Plenary at UNCTAD X, Bangkok, Thailand, 13 February 2000.

[13] Winters, L. Alan, 1999, *Trade policy as development policy: building on fifty years' experience,* UNCTAD X, TD(X)/RT.1/2, 3 December 1999.

[14] *Trade Liberalisation and Poverty*, December 1999, Overseas Development Institute, London.

[15] *Economic Globalisation and the Environment*, OECD, 1997, quoted op cit CIEL, March 1999.

[16] Ambassador Vijay S. Makhan, Assistant Secretary General OAU/AEC, statement at UNCTAD X, Bangkok, Thailand, 12-19 February, 2000, TD(X)/BKK.69, BKK.00-195.

[17] UNCTAD, *Trade and Development Report 1999*, ppV-VI.

[18] The OECD Development Assistance Committee (DAC).

[19] *OECD DAC Development Co-operation, 1999 Report*, p57.

[20] *Close the Gaps: European Aid and the environment since the Earth Summit*, (1997), International Institute for Environment and Development European Programme, Christian Aid and WWF Europe.

[21] *Global Environmental Outlook 2000*, UNEP, September 1999, pp206-212.

[22] Sources: Munich Re Insurance, *World Disasters Report 1999*, International Federation of Red Cross and Red Crescent Societies, Geneva, Global Commons Institute.

[23] Op cit, UNCTAD, *Trade and Development Report*, 1999.

[24] Botchwey, Kwesi *Financing for development: current trends and issues for the future*, UNCTAD X, TD(X)/RT.1/11, 25 January 2000.

[25] Statement by Goh Chok Tong, Prime Minister of Singapore at UNCTAD X, Bangkok 12-19 February 2000.

[26] *Millennium lottery: Who lives, who dies in an age of Third World debt?* Christian Aid, 1999.

[27] ESAF external review 1998, p40; Reference Group Statement on the Evaluation Report on SPA 1998, p6; quoted in *Forever in your debt?* Christian Aid, 1998.

[28] All aid figures op cit OECD DAC 1999.

[29] UNDP *Human Development Report 1999,* Oxford and New York.

[30] Hanlon, Jo, *We've been here before*, Jubilee 2000 Coalition UK, March 1998.

[31] Op cit, Botchwey, (2000).

[32] Jubilee 2000 Coalition, quoted in *The Guardian*, 3 April 2000.

[33] Robert Sharer, Chief of the trade policy division in the IMF's policy development and review department, IMF, *Finance and development*, December 1999, Vol36, No 4.

[34] Op cit, UNCTAD, *Trade and Development Report 1999*.

[35] Alfred Maizels, *Economic dependence on commodities, High-level round table on trade and development: directions for the Twenty-first century*, UNCTAD X, Bangkok, 12 February, 2000. Ref: TD(X)RT.1/6, 22 November 1999.

[36] *Global environmental outlook 2000*, UNEP, September 1999, pp206-212.

[37] Op cit UNDP 1999.

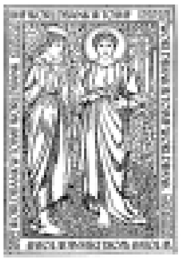
[38] *World Investment Report 1999: Foreign Direct Investment and the challenge of development*, UNCTAD 1999.

[39] Oxfam, article in *The Guardian*, 10 April, 2000.

[40] Op cit Botchwey (2000).

[41] "The attainment of social objectives is the ultimate justification for economic policies. The employment and social impact of economic and financial policies need to be taken into account from the outset and not to be left for subsequent treatment. This is particularly relevant to the formulation of macroeconomic policies for dealing with financial crises and the design of economic reform programmes such as trade and financial liberalisation, privatisation and enterprise restructuring, labour market deregulation, and social security reform."

Juan Somavia, Director General of ILO, to the High Level Round Table with Heads of United Nations Agencies, Programmes and Related Institutions, 12 February 2000, UNCTAD X, Bangkok.



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