The Global Dimensions of Development

By Robert Picciotto

I. Introduction

Since September 11th, the dark side of globalization has come center stage with international terrorism suddenly joining illegal drug trafficking, ethnic conflict and the spillover of infectious diseases across borders on the global policy agenda.

Growing environmental pressures and the silent crisis of world poverty underlie these challenges. Almost half of the world's population subsists on less than $2 a day (2.8 billion out of 6 billion people). A fifth (1.2 billion) lives on less than $1 a day. Global inequality has risen. In 1999, the ratio of per capita income between the richest countries, e.g. Switzerland ($38,350), and the poorest, e.g. Niger ($190), was 200 to 1.[1] Two and a half centuries ago, the gap was only about 5 to 1. Given the communications revolution, this extraordinary economic imbalance is creating social discontent in poor countries plagued by high unemployment, especially among the youth.

The number of refugees and displaced populations has grown. The digital divide is widening. The AIDS crisis is devastating Africa. Deforestation is proceeding unabated. Bio-diversity is threatened. The financial instability associated with the growing integration of the global economy has proven especially harsh for the poor. The social costs of the debt crisis of 1982, the Mexican peso crisis of 1994, the Asian financial crisis of 1997, the Russian default of 1,998 and the Argentina crisis of 2002 have been borne mostly by poor people in poor countries.

In sum, globalization has not been symmetrical. The new technologies and market-oriented policies have benefited rich countries more than poor countries. The business sector has adapted to the new borderless economy. So has the voluntary sector now globally interconnected. Not so the public sector. Rich countries' development policies lack coherence while the scale and intensity of cross-boundary challenges is outstripping the management capacities of international organizations.

Hard work lies ahead to reform the ramshackle process currently in place to deal with global issues. Inter-governmental conventions are years in the making and enforcement mechanisms are non-existent or weak. To be sure, there is no shortage of international conferences, workshops and global think tanks. Equally, informal networks are multiplying and tailor-made alliances are sprouting up among public

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officials, business firms and non-governmental organizations. But they have tended to operate in isolation and sometimes at cross-purposes and monitoring of their results, let alone objective evaluation, has been the exception rather than the rule. All in all, globalization is severely under-managed.

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II. Development's Achievements

The emergence of a global public policy gap does not mean that development has failed – a popular myth. To the contrary, aggregate development trends have been positive. Economic growth in many still developing countries has produced average growth rates over the last several decades that are unprecedented in world history. The United Kingdom took more than sixty years to double output per person (1780-1838), but Turkey did it in twenty years (1957-77), Brazil in eighteen years (1961-79), and China and Korea in ten years (1977-87).

Since 1965, average annual GNP growth has been almost twice as fast in low-income countries as in high-income countries—5.9 percent a year compared to 3.0 percent.[2] Population growth in low-income countries eats up part of this growth. However, even in per capita terms, the average annual growth of low-income countries has been faster—3.7 percent a year in low-income countries versus 2.3 percent in high-income countries.[3] Still, in purchasing power terms, the average US family income is currently 60 times higher than that of an Ethiopian family.

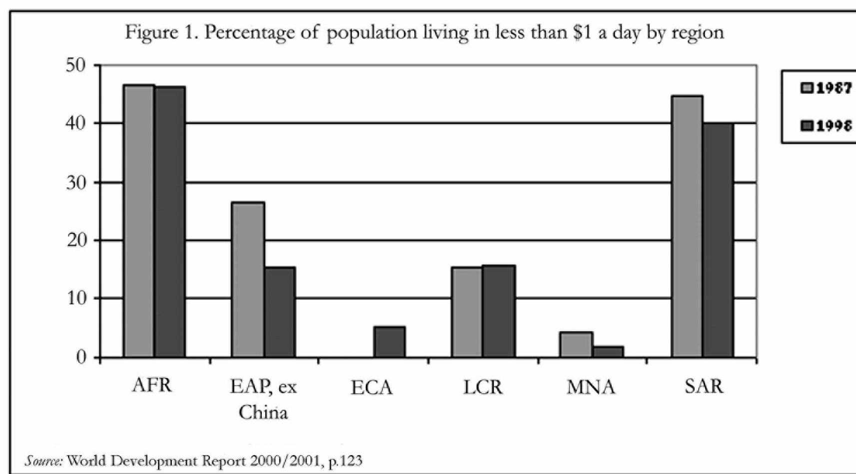
An indicator strongly associated with poverty reduction is private consumption per capita. It rose by 3.5 percent a year since 1980 in low-income countries compared to 2.2 percent a year in high-income countries. Between 1987 and 1998, the share of population living on less than $1 a day declined from 28 percent to 23 percent. On the other hand, because of population growth, the number of poor people declined marginally from 1.25 billion in 1990 to 1.12 billion in 1999.[4]

Average gains in human development in low and middle-income countries have been substantial and even higher than gains in incomes. In these countries, between 1950 and 1998 life expectancy increased by 59 percent (from 41 years to 65 years), while in industrial countries it rose by 9 percent (from 70 to 76 years). This convergence reflects progress in infant mortality rates that fell from 11 percent to 6 percent. The progress of net primary school enrollments for girls from 67 percent to 82 percent may induce future gains in maternal and child health. Similarly, illiteracy was reduced from 39 percent in 1970 to 25 percent in 1998. And, access to clean water (an important determinant of health) rose from about one-quarter of the population of developing countries in the late 1960s to about two-thirds in the early 1990s.[5]

Development's Shortcomings

A. Performance Across Regions Has Varied Greatly

Development's achievements, while impressive by any measure, generate widespread disenchantment. This has to do with the enormous variations in development performance across regions and countries. Specifically, the aggregate statistics are heavily influenced by the remarkable progress achieved in Asia, principally by China and more recently by India. The most rapid reduction in poverty rates took place in East Asia (from 28 percent to 15 percent of the population). In parallel, a 4 percent decline in the share of the population living in absolute poverty was recorded in South Asia. On the other hand, there were no discernible poverty reductions in Latin America and Africa while poverty rates increased dramatically in the transition economies that emerged following the dissolution of the Soviet Union. (See figure 1.)



Of course, development has to do with more than income and variations in social indicators have proven to be equally sharp across regions and country. South Asia improved its gross primary enrollment rate from 77 percent to more than 100 percent between 1982 and 1996, while the rate in Sub-Saharan Africa has not risen above 74 percent and may even have declined in recent years.[6] The poorest and smallest countries have generally fared worse than large countries. Some of them have been severely affected by political shocks and conflicts: twenty-three civil wars are currently underway in developing countries. Among them, they have claimed 5 million lives, of which half in the Democratic Republic of Congo. The AIDS crisis has also led to increases in rates of infant and maternal mortality. Given that the focus of the media on the turmoil of failed states, it is not surprising that the electorates of industrial democracies hold negative perceptions about development.

B. Inequality Remains Extraordinarily High

The other cause of public disenchantment with development has to do with inequality both across and within countries. Today's rich countries, which were already ahead of the race 100 years ago (primarily as a result of the Industrial Revolution), have continued to grow while the poorest countries concentrated in Africa and South and Central Asia have not grown much. In purchasing power terms, the ratio of the average income of the richest to the poorest country in the world increased from 9 to 1 at the end of the nineteenth century to about 30 to 1 in 1960, to more than 60 to 1 today.[7] To be sure, China and its smaller neighbors in East Asia (and more recently India) have been growing at faster rates than the already rich countries. But their convergence to the standards of living of the rich countries will not be achieved for decades if not centuries and it might not be ecologically feasible given current development patterns.

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Inequality within countries has risen. In the last two decades, it increased in China, where income growth has been concentrated in coastal areas. It has also increased in most countries of Eastern Europe and the former Soviet Union, where growth has been minimal and where the current poor are worse off than they were before the fall of Communism. The picture elsewhere is mixed. In most countries, income inequality has not changed much. Only in a few (including Bangladesh, Ghana and the Philippines) has it declined. This means that measured in terms of household data, the "world" distribution of income is even more skewed than inequality across states– greater than inequality within Brazil and South Africa where the richest 20 percent of households are about 25 times richer than the poorest 20 percent.[8]

On the other hand, in the last twenty years the long-term trend of increased inequality has moderated in terms of purchasing power parities. With rapid growth in average income in China and to a lesser extent in India, two of the world's largest poor countries, increases in world inequality have slowed. Average income of China's poorest 20 percent of mostly rural households—more than a hundred million people—has grown rapidly (even though income of China's urban households has grown even faster). Income in urban India has also been rising, including for the urban poor.[9] Thus, measured in terms of changes in purchasing power, average incomes between the initially 20 percent richest and 20 percent poorest households in the world, inequality, though very high indeed, is leveling off.[10]

All in all, global inequality is a serious challenge even if it mostly reflects past rates of growth. But this does not mean that connectivity to the global economy

hinders growth. Indeed, the opposite seems to be the case. Historically, the few poor countries that managed to catch up with their richer counterparts did so through increased trade. This includes Japan between 1868 and 1912, poor Western European countries during the nineteenth century, and more recently, within the European Union. Outward oriented development strategies also helped the tiger economies of East Asia, China, and now India achieve growth and poverty reduction.

C. Current Development Trends Are Not Sustainable

World population may stabilize in this century. Progress has been made in protecting the ozone layer and reducing acid rain. Lead is being phased out of gasoline. Environmental advocacy is helping to promote environmentally sustainable practices in the private sector. But current development policies are putting enormous pressure on the environment and it is the poor who bear most of the burdens of the resulting environmental degradation. Water scarcity is looming in many parts of the world. Coastal ecosystems are threatened. Erosion, salinization, and other forms of degradation affect 30 percent of irrigated lands, 40 percent of rainfed lands and 70 percent of rangelands. Seventy percent of fisheries are being harvested well beyond sustainable levels. Half or more of coral reefs may be damaged in this century. More than one third of bio-diversity resources are under siege within an area of less than 2 percent of the earth surface. Air pollution causes serious health damage in the growing cities of the developing world. Too much carbon dioxide and inorganic nitrogen is being pumped in the atmosphere.

Continued improvements in the well-being of the poor will require not only accelerated growth but also global transformation in the way environmental resources are managed. No sustainable future can be envisaged without expanded global finance directed at the control of greenhouse emissions; the discovery and promotion of renewable technologies, the enhancement of ecosystem sustainability; the protection of forests and bio-diversity resources or the improvement in livelihood prospects of the poor subsisting in ecologically fragile areas.

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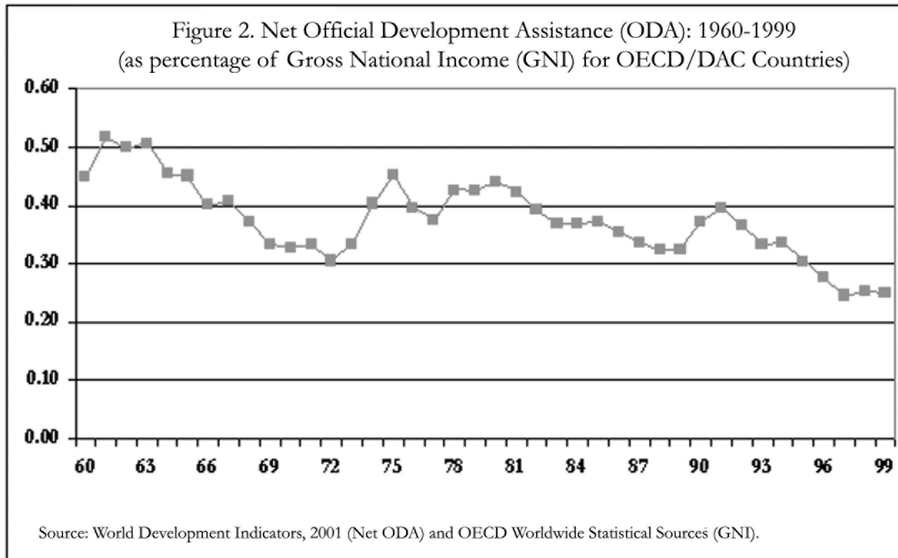
D. While Development Assistance Levels Have Declined, Development Effectiveness Has Improved

Aid has declined as a share of GNP. Given the above constraints and challenges, aid is critically important. Indeed, World Bank research indicates that without a doubling of development assistance levels, the millennium goals endorsed by the development community are unlikely to be reached. Unfortunately, current trends are not pointed in the right direction. Over the last decade, the volume of aid has

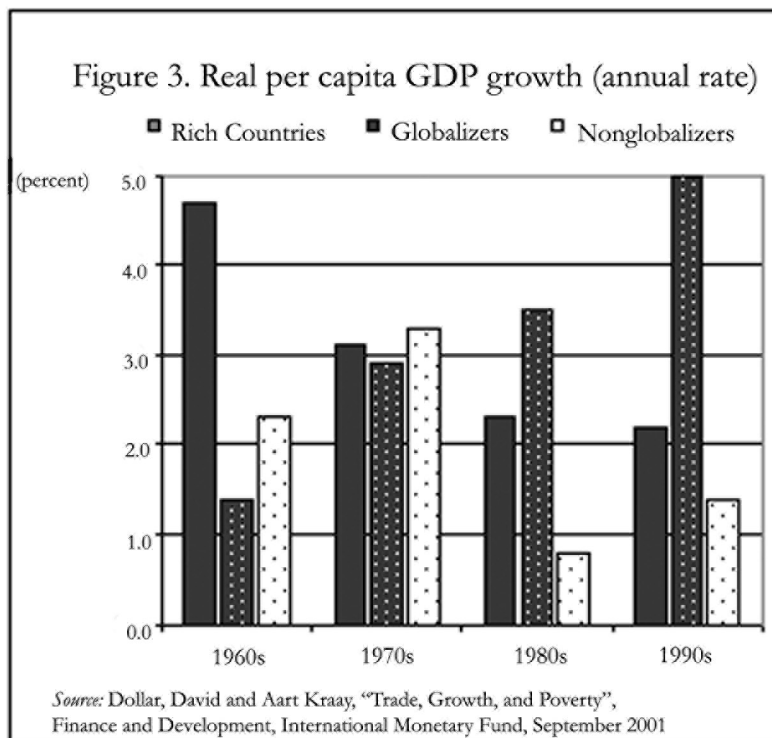


dropped from $51.8 billion to $37.5 billion. The percentage of GNP that donor countries allocate to aid has declined continuously from 0.5 percent in 1962 to 0.37 percent in 1990 and to 0.25 percent in 1999. (See figure 2.)

Aid as a percentage of GNP of developing countries has also declined — from 2.0 percent in 1962 to 1.4 percent in 1990 and 0.8 percent by 1999.[11] Yet, current growth rates in most poor countries are too low to achieve poverty reduction. Indeed, no plausible development scenario yields growth rates sufficient to reduce poverty by half by 2015 without a doubling in aid flows.

The end of the cold war enabled donors to align their aid more consistently with economic development rather than geo-political objectives. Where developing countries invested in human development and adopted market friendly development policies, the productivity and development impacts of aid programs increased. Greater openness has also helped to foster economic progress in developing countries (see figure 3).

As a group, developing countries increased their merchandise exports at 4.1 percent per year in the 1980s and at 6.4 percent in the 1990s. As a result, during the 1990s developing countries gained significant market share—about 7 percent—in world non-energy merchandise trade.[12] Trade growth is highly correlated with income growth and is unequally distributed across developing countries. The poorest 48 countries have seen essentially no growth in their share of world trade. Such countries are not in a good position to take full advantage of available trade opportunities given severe infrastructure gaps, shortage of skills and institutional weaknesses. For them, aid remains essential.



III. Shaping Development Outcomes for the Better—A Holistic Exercise

The very diversity of economic and social outcomes depicted above confirms the wide scope for improved economic performance through adoption of good policies. A substantial body of development research experience has identified key components of successful country development strategies. They emerge out of over fifty Country Assistance Evaluations (CAEs) produced by the Operations Evaluation Department (OED) of the World Bank since their introduction in 1996.[13]

A. Establishing Sound Macroeconomic Management Policies

Sound macroeconomic management has been identified as a key determinant of economic productivity. Numerous cross-country statistical analyses and case studies have shown that sound macro-economic policies promote growth and poverty reduction. Although there are ongoing debates over the importance, sequencing and design features of such policies as privatization, trade reform and capital account liberalization, broad agreement exists about the macro-economic fundamentals that make up a good environment for sustainable and equitable development. In particular, inward-looking, state-led development approaches have proven less effective than market friendly policies emphasizing incentives and private investment.

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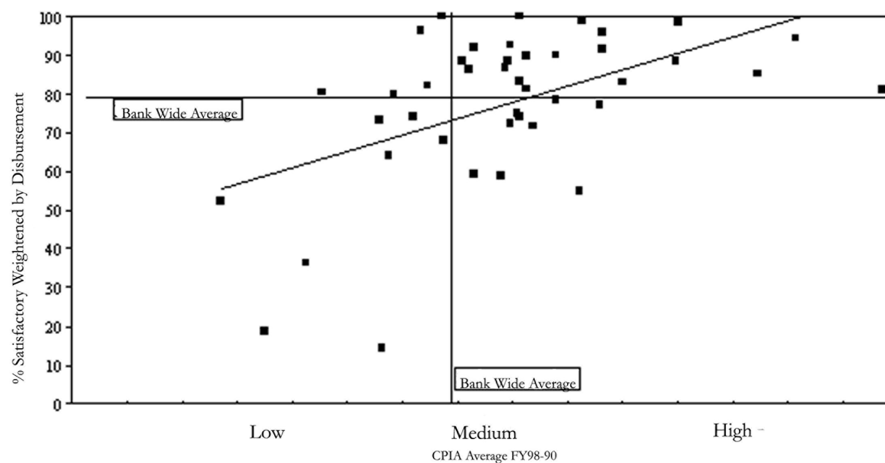
Fiscal and monetary discipline, redirection of public expenditures towards human development, competitive exchange rates, openness to foreign investment, and protection of property rights have contributed to better growth performance over the medium-term. While a good policy environment favors growth, the results are even better with aid. In such situations, additional aid equivalent to 1 percent of GDP raises the long-term rate of growth by 0.5 percentage points on average. Conversely, financial aid to countries with bad policies and weak institutions may be wasted or even be harmful to development especially if it creates debt. Thus, despite considerable aid, countries such as Uganda and Tanzania had unimpressive growth until they put in place a sound framework of economic reforms[14].

Numerous OED studies have confirmed that the share of satisfactory project outcomes is influenced by the quality of the operating environment. Figure 4 below shows the latest results for FY96-01 exits. It compares the OED project outcome ratings (percent satisfactory) to the respective Country Policy and Institutional Assessment (CPIA) ratings used by the World Bank for its performance based allocation system.

The long-run benefits of sustained improvement in the policy environment can be substantial. An OED study of forty-three adjusting countries over the period 1975-96 examined the difference in growth between 'durable adjusters' (countries which maintained a good macro policy index for at least nine years), 'not yet durable

Figure 4. Better Lending Outcomes Associated with Higher Policy and Institutional Quality (FY96-01 Exits)

Source: 2001 Annual Review of Development Effectiveness , p. 25.



adjusters' (countries which had adjusted for at least the most recent four years but less than nine years), and 'oscillators' (countries which continued to oscillate between weak and strong policy environments). Only 12 percent of the countries achieved durable and major improvements in their macro policy environment, but for those that did, the results were dramatic.[15] In successful adjusters, GNP per capita grew at nearly three times the rate of countries that had not yet achieved durable adjustment, and six times faster than oscillators. The adjusters also increased their own pre-adjustment growth rates more than six-fold.[16]

Accordingly, outcomes improve markedly through *selectivity*. This lesson of experience is being heeded: more aid resources are now being directed to countries with sound policies. (See figure 5.)

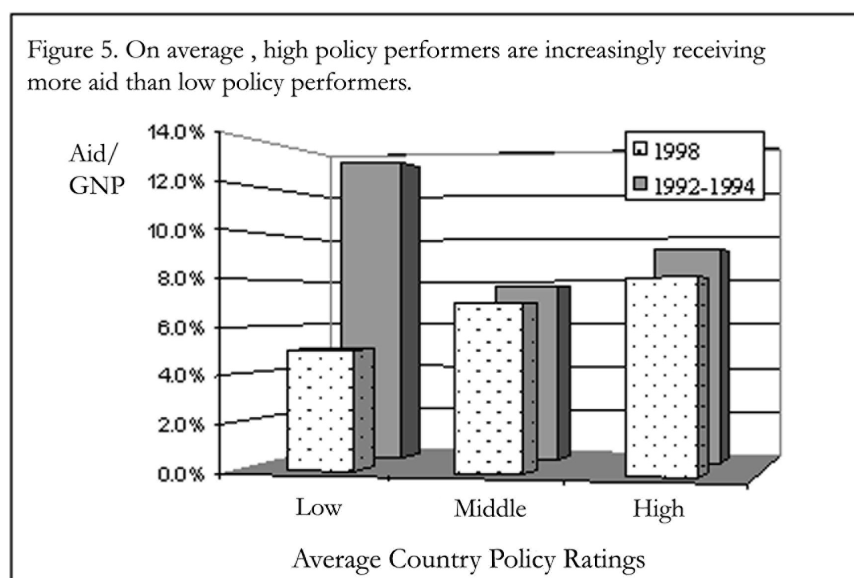


Figure 5. On average , high policy performers are increasingly receiving more aid than low policy performers.

B. The Necessity of Social Reforms

Market reforms are necessary, but insufficient by themselves, to produce development. What is needed, rather, are broad social reforms. To be sure, income growth is correlated positively with reduction in poverty and infant mortality and with increases in caloric intakes and life expectancy. But not all 'quality of life' indicators improve with growth.[17] For example, equitable income distribution and secondary school enrollment have been found to be insensitive to growth while air quality has been negatively correlated with growth. In addition, macro-economic reforms have limited impact on income distribution. Their costs and benefits are distributed unevenly over time, across regions and among occupations. In parallel with improved macro-economic management, broad-based development strategies

must be adopted to promote private investment, environmental protection, fair labor practices, rural development and equitable access to credit and social services. Well-functioning markets create opportunities for people to escape poverty but social reforms need to be designed and implemented so as to provide 'safety nets' for adversely affected groups in a way that is tailored to the economic, social and political circumstances of individual countries.

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C. Institutional Capacity is a Measure of Development Effectiveness

Institution-building is vital to development effectiveness. Stronger institutions are associated with a 20 percentage point increase in the likelihood of a project's outcome being rated satisfactory (figure 4 above). Land tenure is a major determinant of rural income distribution. Sound state government is essential for efficient market operation, as well as, for equitable service delivery to the poor. Curbing corruption, reforming the civil service, offering legal protection for the rich and poor alike, involving local communities and voluntary organizations in social service delivery, and facilitating the creation of pro-poor organizations are among the determinants of socially sustainable development. Removing gender bias in public policy design, enhancing social expenditures in budget allocations, promoting social capital creation, and encouraging good corporate governance practices—including transparency and accountability—are equally worthwhile and indispensable objectives of development assistance.

D. Country Ownership of Development Policies is Essential

Sustained policy reform requires domestic 'ownership'. This is not usually generated through external conditionality. However, reform often takes place in the wake of economic crises or changes in government, and development assistance can be managed to promote, nurture, and consolidate country commitment. The key is being able to distinguish commitment from compliance. This is an 'art' rather than a 'science', but the ownership of policy reforms or programs can be assessed based on the degree of consensus among decision-makers, the locus of policy initiatives (whether local or external), the existence of up-front actions, and the participation of major stakeholders. [18] (See box 1.) When programs are adapted to the local context, ownership improves. This can be critical in low-income countries with weak implementation capacity. Project design features and policy reforms promoted by external assistance agencies are all too often too complex to be implemented effectively. Similarly, inadequate analytical and advisory services and/or insufficient

engagement with local counterparts can lead to inappropriate prescriptions. A poverty study by the Operations Evaluation Department found "surprisingly limited differentiation in the policy agenda across country assistance strategies over the past decade".[19]

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E. The Importance of Public-Private Partnerships

Partnerships have become critical to the development enterprise since development policy has become market-oriented and the civil society has emerged as a major development actor. Ideally, partnership means that all development actors agree to participate in a coordinated assistance strategy driven by the borrowing country. This is a central feature of the Comprehensive Development Framework being piloted in twelve developing countries around the world. Partnerships extend to NGOs as well as the private sector and external donors, and they specify each partner's role and accountability. At the sector level, partnerships can lead to sector-wide approaches to development assistance (SWAPs) that can help to harmonize aid practices and reduce transaction costs. When it works well, donor coordination can contribute to lower costs, better selectivity, and reduced burdens upon the borrowing government. Equally, partnerships among donors and country stakeholders can contribute to better-adapted programs (as in Uganda), broader country ownership (as in Bolivia), and increased learning and respect on both sides (as in Ethiopia).[20] Effective country-led partnerships implies that a minimum core of influential officials and stakeholders are committed to sound policies and poverty reduction priorities, and that they command enough institutional resources to coordinate aid without neglecting basic government functions.

F. Lending Programs Should Be Carefully Crafted and Implemented

Experience shows that country program outcomes depend on the choice and quality of lending instruments, the effectiveness of non-lending services, and the synergies tapped between lending and non-lending services. Thus, analytical and advisory services should precede lending. In addition, adjustment lending should be reserved for situations where governments are committed to policy reform. And, adaptable lending should be deployed where the operating environment is uncertain (starting with learning and innovation interventions, etc.).

For development effectiveness, a results oriented culture is vastly superior to an approval culture. Development agencies should not be too quick to re-engage on the basis of promises from reluctant reformers. Re-engagement should be based on

results rather than promises. Of course, there are cases in which a regime change leads to a "turning point".[21] In such cases, development agencies should be in a position to respond quickly. This is only possible if they have maintained a presence and kept their knowledge base current in the meantime. Recognition of "turning points" depends on case- by- case analysis, which confirms the need to maintain a cooperative relationship even when lending is suspended.

In countries with an uncertain environment, piloting projects offers a way to reduce risk, build institutional capacity, or convince stakeholders of the benefits of reform. In the Kyrgyz Republic, the CAE concluded that piloting new approaches through learning and innovation loans might have resulted in more realistic perceptions of government capacity, simpler project designs, and more effective lending.[22] Finally, over-reliance on adjustment lending can limit effectiveness if the policy and governance environment is inadequate. CAEs have found lending pressures in 5 out of 13 recently evaluated countries. In many instances, investment lending or non-lending instruments would have been more appropriate than adjustment lending.[23]

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G. Aid Delivery Mechanisms Need Reform

An evaluation carried out by the Operations Evaluation Department of the World Bank highlights a lack of capacity to absorb the volumes of aid provided given current modalities of aid delivery that involve large numbers of donors, each with its own fiduciary and reporting requirements and put enormous administrative burdens on local officials.[24] Half of the aid delivered to the least developed countries is still 'tied' to procurement of goods and services originating in individual donor countries. Donors vie with one another to lend for "popular" sectors such as education and health (where institutions tend to be the weakest) while neglecting basic infrastructure, rural needs and private sector development. Lack of harmonization in aid practices contributes to "donor overload" while the large number of project interventions strains limited country capacity.[25] In Tanzania, for example, the reporting requirements of forty donors for 2,000 projects are imposing excessive stress on the domestic administration. Furthermore, the World Bank and other donors often establish parallel institutions, such as project implementation units, to help channel financial assistance. These institutions provide salary supplements to domestic staff associated with these units, thus distorting civil service pay scales, weakening core ministerial capacity and undermining domestic ownership. Finally, donors often resort to costly technical assistance practices involving resident expatriate staff that tend to perpetuate aid dependency and de-motivate local staff.

V. Globalization Is Part of the Solution

While aid effectiveness can and should be improved, aid alone cannot be expected to trigger and sustain rapid, equitable and sustainable growth. Along with aid, foreign trade and direct investment are needed. In an international economic environment characterized by integrated markets for goods, services and capital, trade and investment are frequently associated with increased productivity since they provide a transmission belt for technology, knowledge and improved management practices.

While the life of 2 billion people living in countries handicapped by inward looking policies, poor governance and scarce skills is harsh, globalization is not the cause.

Aggregate private capital flows, however, have been both volatile and narrowly focused. For example, they are down from their peak of nearly $300 billion annually in 1997 to about $160 billion following the terrorist attacks of September 11, 2001. Yet, they are still a multiple of net Official Development Assistance flows—$42.6 billion in 2000.[26] Also, private capital flows are more concentrated than trade. In 1997, fifteen emerging market economies accounted for 83 percent of net private flows to developing countries. As a result, Sub-Saharan Africa received only five percent of the total.

The growing interdependence of economies around the world has impacted countries very differently because of highly differentiated policy frameworks and institutional strengths. The importance of a good investment climate has been amplified by the growing integration of capital markets. Countries that are already ahead–with stable political systems, secure property rights, adequate banking supervision, reasonable public services, and so on–are the ones that tend to attract both local and foreign investment.

Equally, societies and economies open to the free flows of people and ideas associated with globalization have done better than closed societies. However, the rapid opening of capital markets has not always had a wholesome impact on developing economies given the volatility of short-term capital flows. Although, China, and India have weathered in international financial storms better than many other developing countries, they are still relatively closed markets, especially on the capital account. Conversely, Mexico, Argentina, and Thailand have opened their capital accounts and have fallen prey to severe financial crises.

All in all, globalization has opened up major opportunities for 3 billion people living in countries that have adopted policies that favor trade integration into the international economy. While the life of 2 billion people living in countries handicapped by inward looking policies, poor governance and scarce skills[27] is harsh, globalization is not the cause. Across all developing countries there is no systematic relationship between openness to trade and "within-country" inequality. And even though income

inequality may have increased (e.g. in China), the more rapid growth associated with a capacity to hook up to the mighty engine of the global economy is creating opportunities for poverty reduction. It is also important to note that, even as inequality increased, poverty declined among such "globalizers" as China, India, Costa Rica, Indonesia, Vietnam, the Philippines, Thailand, Uganda and Mozambique.[28]

VI. The Benefits of Growth are not Equitably Distributed

Notwithstanding the benefits of growth as a by-product of globalization, growth alone is not enough to achieve poverty reduction. Concentration of wealth leads to concentration of political power and locks in privileges and economic advantage—as may have happened in Russia. Corruption also undermines the equity and efficacy of public expenditures allocations.[29] This means that where governance is poor, inequality can breed inequality through vested interests' capture of safety nets, fiscal tools and access to social services.

In particular, inequality of income can be perpetuated from generation to generation through poorly targeted educational expenditures. In Brazil in the early 1990s, 21-year olds from the richest families had twelve years of school, compared to about six years from those of the poorest families. Similar patterns can be found in other developing countries. Only socialist entities in the developing world (e.g. Cuba, China and Kerala in India) have succeeded in using education programs to reduce inequality.

Rising wage gaps in competitive economies open to globalization do increase inequality but they also provide incentives for enterprise and investment. Some countries view it as the price to pay for higher long-run sustainable growth. Highly trained engineers and financial analysts from developing countries can quadruple their earnings by moving to Europe or the United States. The resulting 'brain drain' is equivalent to lost investments in education worth billions. But given appropriate policies, migration can generate offsetting remittances over time. For example, remittances from the United States to Mexico and Central America grew from less than $1 billion in 1980 to more than $14 billion in 2002. [30]

Since the global market is not a level playing field, market- friendly policies, at both the global and country level, should be combined with people friendly policies in order to achieve poverty reduction. Global rule-setting and enforcement are influenced by power relationships and result from intricate negotiations and complex dispute resolution mechanisms. These processes involve specialized skills not always available to poor and small countries.

The benefits of globalization would be more equitably distributed among the rich and the poor with more open trade. The current protection of agriculture and textiles in developed countries is highly detrimental to the developing world since it affects precisely the sectors that are labor intensive and in which developing countries have a comparative advantage. In 2000, OECD countries provided $327 billion in

agricultural support, three quarters of which in the form of direct payments. These subsidies have created gluts of agricultural commodities that have crowded out developing country production. A 50 percent reduction in agricultural support combined with partial liberalization of manufacturing trade would yield benefits worth $69 billion annually to the developing world.[31] Another estimate based on a dynamic model projects the annual benefits of a fully revamped trade regime in 2015 at $184 billion for the developing world and $171 billion for rich countries.[32]

In boom years, high capital inflows and imprudent commercial lending fuel demand for land and stocks, which benefit the rich. The succeeding bust penalizes the poor when high interest rates are imposed to stabilize the currency and bank bailouts create public debt that transfers resources to capital owners at the expense of the general public.

Beyond trade, the rules of global finance tend to be especially demanding for developing countries. Financial markets expect tighter fiscal and monetary policies from developing countries than from developed countries. This is understandable given the financial risks involved, but this creates counterproductive social outcomes. Thus, in the face of recession, expansionary policies are needed to stimulate employment. But these are the circumstances when austerity policies must be imposed in order to restore fiscal balance—precisely the opposite of what developed country governments routinely implement through such devices as unemployment insurance, increased availability of food stamps and public works.

In the volatile and integrated global economy, poor countries are especially vulnerable to terms of trade declines. According to UNCTAD, between 1970 and 1997, cumulative terms of trade losses for non-oil exporting African countries amounted to more than half the cumulative net resource flows to the region. These losses, combined with interest payments, profit remittances, capital outflows and reserve buildup, have resulted in a net transfer of resources from Africa to the rest of the world.[33]

Poor countries are also peculiarly susceptible to financial contagion since their banking sector and their capital markets usually lack depth and strength. In boom years, high capital inflows and imprudent commercial lending fuel demand for land and stocks, which benefit the rich. The succeeding bust penalizes the poor when high interest rates are imposed to stabilize the currency and bank bailouts create public debt that transfers resources to capital owners at the expense of the general public.

Historically, migration has helped to reduce world inequality. Fertility rates are highest where employment opportunities are the scarcest, especially poor and remote

areas with limited agriculture potential. During the last 25 years, only 2% of the world's people have changed their permanent country residence, compared to 10 percent in the twenty-five years before World War I. Human capital mobility is currently hindered by immigration restraints. The resulting income differentials for skilled labor between developing and developed countries are as high as 1 to 5.

Immigration rules become even more stringent following September 11, 2001. Yet, demographic fundamentals related to the aging of populations in developed countries have increased the demand for imported labor, especially for low skill occupations that cannot be automated (e.g. in the health care field). In principle, migration could become a major instrument of global poverty reduction in the twenty-first century just as it was in the nineteenth century. Unfortunately, cultural constraints to assimilation lead to political pressure in favor of immigration restrictions. As a result, mutually beneficial legal migration is hindered and illegal smuggling of migrants enriches criminal groups and diverts public resources towards border control and internal security needs.

Finally, lack of skills and inadequate information infrastructure have created a digital gap that developing countries should fill in order to share in the benefits of the new information economy. Beyond this, the international regime for intellectual property rights needs review since it restricts the benefits that developing countries can reap from knowledge as a public good. While intellectual property rights are meant to create incentives for invention, they lead to relatively high costs for products and services in developing countries. Because developing countries are large net importers of technology from the developed world, the on-going globalization of intellectual property protection under the aegis of the World Trade Organization's trade-related intellectual property system (TRIPS) is bound to prove burdensome to poor countries unless countervailing measures are adopted. In particular, global action is urgently needed to promote agricultural and health research in developing countries, protect developing countries' traditional knowledge and restrict the application of patenting to protect poor countries' access to new agricultural technologies and basic medicines.[34]

VII. Conclusions

A. How to Ensure That Countries Reap More Benefits From Development Efforts

First, the time is ripe for the aid industry to be reformed. There is broad based consensus in the development community as to what needs to be done: (i) aid allocations should be performance-based and reward countries that adopt sound economic management practices; (ii) aid should promote social development and poverty reduction; (iii) domestic ownership of reform should replace intrusive conditionality as the touchstone of a business-like approach to development assistance; (iv) aid should support rather than undermine domestic capacities; (v) the choice and sequencing of development assistance instruments should be judicious and

focused on results; (vi) involvement of the private sector and the civil society should be encouraged and joint funding of government development programs should be promoted with the targeted country "in the driver seat"; and (vii) aid practices should be globally harmonized. This is a tall order, but much progress has already made with regard to the country level aid dimension of the global development challenge.

With some notable exceptions, existing global programs command limited resources. They are often scattered and isolated. Many have a relatively short shelf life. They will need to become far more effective and results oriented to help meet the huge challenges facing humanity in the new millennium.

Second, the "rules of the game" of the global economy need adjustment. Trade, aid, debt, investment, migration, knowledge and the environment are the transmission belts of globalization. Each of these areas is endowed with a distinctive force field, involves different sets of global and local actors and requires tailor made solutions. For each, a dedicated global policy network should be created to take the lead in promoting reform, facilitating agreement among the parties and reporting regularly on progress towards global welfare. This calls for engagement with stakeholders in diagnosing constraints, mediating conflicting interests and defining workable solutions to very controversial issues.

Third, mastering cross-boundary challenges will call for strengthened transnational coalitions to deliver global public goods. In particular, more bridges will need to be built between governments, the private sector and the civil society and ways found to channel public emotion towards increased support for international cooperation. Some existing public-private partnerships are successfully dealing with cross boundary issues (e.g. the highly successful international River Blindness Program coordinated by the World Bank with medicines donated by Merck). But with some notable exceptions, (e.g. the Global Environment Facility) existing global programs command limited resources. They are often scattered and isolated. Many have a relatively short shelf life. They will need to become far more effective and results oriented to help meet the huge challenges facing humanity in the new millennium.

B. The Cooperation of Multilateral Institutions is Critical to the Success of Development Efforts

Both aspects of global programs (policy and public goods) will call for a far closer alliance between the global multilateral organizations—the UN system, the Bretton Woods twins and the WTO. Such alliances should aim to facilitate the dialogue among governments, private firms and the civil society so as to create constituencies for reform, forge ad hoc coalitions and/or nurture programs to deal

with specific global challenges.

They will add value only through a highly selective, coordinated, action-oriented approach to agenda setting, program evaluation and monitoring. They should stay away from ideological debates and concentrate on critical obstacles to poverty reduction. They should also focus on selected policy issues that hold potential for significant progress over the medium- term in delivering favorable results, especially for the zones of transition and development where over 80 percent of the world's population lives.

Priorities will have to be set. Depending on the maturity of the topic for concerted action, a particular global problem may require the set up of platforms for professional interchange and cooperation, the provision of high quality analytical and advisory services, the organization of mediation arrangements, the design of independent verification and evaluation mechanisms, the promotion of public advocacy campaigns, the organization of fund raising programs, etc. From open-ended and loosely structured coalitions that exist today it will be necessary to forge business-like partnerships grounded in shared objectives, distinct accountabilities and reciprocal obligations.

In effect, a *comprehensive development framework* is needed at the global level just as it is needed at the country level. Indeed, the country level efforts will not be successful unless the superstructure of the development system is put to work. If not now, when?

Notes

[1] *World Development Report 2000/2001: Attacking Poverty*, Washington, D.C.: World Bank, 2001.

[2] GNP is weighted by country, using the Bank's Atlas conversion factor (a statistical method aimed at reducing the impact of exchange rate fluctuations in cross-country comparisons of national incomes).

[3] *2000 World Development Indicators*, Washington, D.C.: World Bank, 2001.

[4] *World Development Indicators*, 6th Edition, Washington, D.C.: World Bank, 2002, Table 2.6.

[5] Ibid., Table 3.5.

[6] Ibid., Table 2.12.

[7] Nancy Birdsall, *Asymmetric Globalization: Global Markets Require Good Global Politics, Working Paper No. 12*, Washington, D.C.: Center for Global Development, October 2002.

[8] Ibid.

[9] Ibid.

[10] Purchasing power parity based incomes is the right measure for comparing standards of living, since it reflects the cost of access to services and other non-tradables such as housing and education. But poor countries must generate domestic resources to pay debt service and purchase needed tradables at official exchange rates so that inequality measured in terms of official exchange rates matters as well. From this perspective, comparing household incomes across countries in terms of official exchange rates rather than in purchasing power parity terms would yield increases in world inequality.

[11] World Development Indicators, 2001 (net ODA) and OECD Worldwide Statistical Sources (GNI).

[12] *Global Economic Prospects and the Developing Countries*, Washington, D.C.: World Bank, 2002.

[13] William Battaile, *2001 Annual Review of Development Effectiveness, Making Choices, World Bank, Operations Evaluation Department*, Washington, D.C.: World Bank, 2002.

[14] *Uganda: Policy, Participation, People* and *Tanzania Country Assistance Evaluation*, Washington, D.C.: World Bank Operations Evaluation Department, 2001 and 2000.

[15] Robert Buckley, *1998 Annual Review of Development Effectiveness*, Washington, D.C.: World Bank, Operations Evaluation Department, 1999.

[16] Ibid.

[17] Vinod Thomas et al., *The Quality of Growth*, 2000.

[18] Johnson and Wasty, 1993.

[19] T. Johnston and William Battaile, *2000 Annual Review of Development Effectiveness*, Washington, D.C.: World Bank, Operations Evaluation Department, 2001.

[20] Nagy Hanna and Robert Picciotto, eds. *Making Development Work: Development Learning in a World of Poverty and Wealth*, World Bank Series on Evaluation and Development, Volume 4, Washington, D.C.: Transaction Publishers, 2002.

[21] *Operations Evaluation Department*, Report No. 23809, Bulgaria Country Assistance Evaluation, Washington, D.C.: World Bank, 2002.

[22] *Operations Evaluation Department*, Report No. 23278, Kyrgyz Republic, Country Assistance Evaluation, Washington, D.C. World Bank, D.C. 2001.

[23] William Battaile, *2001 Annual Review of Development Effectiveness, Making Choices*, Washington, D.C.: World Bank, Operations Evaluation Department, 2002.

[24] John Eriksson, *The Drive to Partnership: Aid Coordination and the World Bank*, Washington, D.C.: World Bank, Operations Evaluation Department, Report No. 22066, 2001.

[25] The experience of countries such as Uganda (aid/GNI of 9.2% in 1999), which has used aid very effectively, shows there is no magic number that spells danger, but assistance strategies need to pay special attention to the implications of high levels of aid dependency.

[26] *Global Economic Prospects: Making Trade Work for the World's Poor*, Washington, D.C.: World Bank, Operations Evaluation Department, 2002.

[27] *Globalization, Growth and Poverty*, Washington D.C.: World Bank, 2002.

[28] Ibid.

[29] Vinod Thomas, Mansoor Dailani, Ashok Dhareshwar, Daniel Kaufmann, Nalin Kishor, Ramon Lopez and Yan Wang, *The Quality of Growth*, Washington, D.C.: Oxford University Press and the World Bank, 2000

[30] Roberto Suro, *Billions in Motion: Latino Immigrants, Remittances and Banking*, Migration Information Source, February 2003.

[31] P. Dee and K. Honslow, *Multilateral Liberalization of Services Trade*, Canberra: Australian Productivity Commission Research Paper, 2000.

[32] *Building Institutions for Markets, World Development Report, 2002*, Washington, D.C.: World Bank, 2002.

[33] *Economic Development in Africa: Performance, Prospects and Policy Issues*, New York and Geneva: United Nations Conference on Trade and Development, United Nations, 2001.

[34] *Integrating Intellectual Property Rights and Development Policy*. London: Commission on Intellectual Property Rights, 2002.