

## **THE MISSING DIMENSION OF DEVELOPMENT: IMPACT OF RICH COUNTRIES' POLICIES ON THE POOR**

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The following assumptions form part of the current development consensus: (i) the responsibility for poverty reduction lies squarely with developing countries; (ii) in a global economy driven by trade, knowledge and private capital, only poor countries that create favorable enabling environments for private enterprise and adopt pro-poor economic strategies can achieve equitable and sustainable growth; (iii) countries that resist globalization are marginalized, cannot reap its benefits and consign the majority of their citizens to squalor and despair; (iv) accordingly, aid should be directed mostly towards countries that help themselves by promoting poverty reduction and adapting to the global market place.

### **Another side of the story**

The above propositions are grounded in development experience. But there is another side to the story. There is little doubt that countries unwilling or unable to connect to the mighty engine of the global economy have tended to fare worse than others. But by now, most developing countries have become enmeshed in the global market place for goods, services, people and ideas. Helped along by the advice and the conditionality of international financial institutions, far-reaching policy reforms have taken place throughout the developing world.

Development cooperation is a two way street. The millennium development goals reflect shared objectives but also distinct accountabilities and reciprocal obligations among rich and poor countries. It is rich countries that exercise control over the institutions that oversee the global economy. It is their rules and standards that regulate the flows of capital, people and ideas. And it is their production and consumption patterns that pose the greatest threat to the physical environment.

Thus, in the integrated global economy, the results of country based development assistance strategies cannot be attributed solely to the policy performance of individual developing countries. Rich countries' policies matter too. If the heady promises of globalization have not been fulfilled it is in part because policy reform has been asymmetrical. Unless reform takes place in rich and poor countries alike, the current global transformation (and the volatile market conditions that characterize it) may continue to generate economic and social dislocation instead of improved living standards for a majority of middle and low-income countries.

Volatile markets and secular declines in commodity prices associated with globalization have had adverse consequences for the poorest and smallest countries. 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.

Except for China and the tiger economies of East Asia, most of the world's poor regions have been unable to tap substantial benefits from the expansion of trade and capital flows. Even assiduous practitioners of the Washington consensus (e.g. Argentina, Indonesia, Russia) have run into trouble due to their vulnerability to financial contagion. Their institutional weaknesses have not been addressed effectively. Nor could they have been remedied by “push button” policy changes negotiated with a handful of reformers.

### **An unbalanced evaluation consensus**

Despite the growing impact of rich countries' policies on developing countries as a result of globalization, evaluators lavish attention on only one side of the development partnership – aid recipients. Conditionality is largely geared to improved macroeconomic management in the south. Despite the rhetorical endorsement of a global compact between rich and poor countries, only one of eight millennium development goals endorsed by the United Nations addresses the obligations of rich countries to shape more “development friendly” policies. Virtually all performance indicators being tracked by international agencies point south. Vast resources are mobilized to evaluate the development effectiveness of developing country policies and programs. In all low-income countries, country based poverty reduction strategy papers are mandated to guide the allocation of aid resources. They are subject to public disclosure and to systematic review by the IMF and the World Bank.

No similarly integrated effort is underway to evaluate the development effectiveness of rich countries' policies. They have escaped systematic scrutiny even though they determine the amount and quality of aid, debt reduction, foreign investment, trade, migration, access to intellectual property and global environmental trends on which sustainable development depends. Noisy anti-capitalist street protests have mobilized the attention of the media. Instead of evidence-based policy research, idiosyncratic domestic political considerations have shaped global policy-making.

### **Aid has absorbed the lion's share of evaluation resources -- with mixed results**

With policy performance indicators increasingly influencing its distribution, aid effectiveness has improved. But public perceptions about aid remain unfavorable. The disenchantment is due, in large part, to unrealistic claims by aid agencies keen to “sell” their individual programs and their supporters. It is compounded by exaggerated perceptions of the amounts actually allocated to aid. In fact, official development assistance as a share of national income has declined from about 0.65% in 1967 to 0.22% in 2001, notwithstanding the endorsement by numerous UN conferences of a 0.7% of national income target. Currently, only five out of 22 DAC countries have reached the target.

Clearly, the United Nations' lofty declarations about the goals and principles of development cooperation have not been matched by commensurate action. The quantity of aid is inadequate in relation to the challenges embedded in the millennium development goals. Its quality is undermined by geopolitical calculations. Commercial considerations lead to “tied aid”, a striking illustration of policy incoherence. The proliferation of aid channels hinders coordination and imposes high transaction costs. There has been virtually no progress towards the international commitment to double

official development assistance. Harmonization of aid practices has proceeded at a snail's pace.

From a development perspective, rich country policies are coherent if they open up access of developed countries' markets, facilitate migration, promote knowledge transfers, etc. But from the perspective of a donor government, coherence may mean the very opposite, i.e. it may encourage subordination of aid strategies to geopolitical imperatives (e.g. the cold war), foreign policy calculations (e.g. US aid to Egypt and Israel) or commercial interests (e.g. tied technical assistance).

**The quality and distribution of private investment require independent assessment**

Of course, aid matters (particularly for Sub-Saharan Africa) but it is only one of the policies of the rich countries that should be evaluated. Market based capital flows towards developing countries are now far larger than aid flows although they peaked at nearly \$300 billion in 1997 and have dropped sharply in the wake of the current economic slowdown, reaching \$175 billion in 2001 and \$140 billion in 2002. The distribution of foreign direct investment (FDI) is highly skewed. Least developed countries collectively receive only 0.5% of global FDI flows. Of this, 86% is concentrated in 10 countries, of which over half goes to four oil-producing countries. Africa as a whole is a marginal recipient, receiving less than 2%. Within Africa, as elsewhere in the developing world, the distribution of FDI inflows is limited to a handful of countries.

FDI can promote a more competitive business environment and generate domestic and enterprise development. On the other hand, FDI may not create net benefits to host countries when it is associated with capital-intensive development; corrupt use of royalties; limited linkages to the local economy; negative environmental impacts or deleterious social consequences for local communities. The quality of investment flows is shaped by the corporate investment policies and operating practices of multinational companies and, in turn, these are responsive to public opinion and the policy stances adopted by international institutions. Public private partnerships have yet to induce sufficient private flows to meet the massive infrastructure needs of developing countries. Independent evaluation is needed to help enhance the quality and the distribution of foreign direct investment.

**The development impact of trade restrictions should be measured**

Trade policy needs systematic evaluation. Tariffs in developed countries disproportionately affect developing and least developed countries. Developing countries suffer from high tariffs precisely where they are most competitive, including cereals, sugar, fish, fruits and vegetables, clothing and footwear. The social consequences are detrimental too since these products are produced largely by subsistence farmers and relatively small enterprises. A 40 percent reduction in tariffs on manufacturing goods would generate an expansion in the volume of global trade of US \$380 billion, with nearly 75 percent of the gains accruing to developing countries. Developed-country tariff-rate quotas are another area of concern.

'Food aid' has been used to dump surplus production with negative effects on agricultural production in developing countries. Full agricultural liberalization would

generate benefits worth US \$20 billion a year for developing countries. Even as tariff barriers decline, non-tariff restrictions tend to proliferate. In many cases, standards are justifiable. In others, they create significant distortions. In particular, incompatibilities between standards and methods of conformity assessment between developed and developing countries could disrupt trade and provide implicit protectionism for domestic industries. Private voluntary eco-labeling favor processes and technologies that may be unavailable, unsuitable or prohibitively expensive for developing countries.

Similarly, trade related intellectual property rights standards have been used to protect private rights without adequate consideration of basic human needs in developing countries. Trade-related intellectual property regimes have restricted access to essential drugs and other knowledge intensive products and services. There is increasing pressure on developing countries to increase the levels of intellectual property protection in their own regimes, based on the current practices of developed countries. Yet, standards of IP protection that may be suitable for developed countries may produce more costs than benefits in developing countries that are large net importers of technology.

### **Migration policies need objective evaluation too**

Given that goods, capital and ideas have become more mobile, migration makes eminent economic sense and it is proceeding apace. But between one-quarter and one-third of it moves through illegal channels due to pervasive immigration restraints. An abrupt demographic transition has triggered a pent-up demand for migration. Some is due to war, civil conflict or political persecution. Cultural considerations also intervene. But primary migration is mostly driven by economic factors and from the secondary effects (such as family reunification) that flow from it.

Policy adjustment is hindered by domestic politics stemming from vested interests and cultural prejudice. Immigration policies obstruct the entry of asylum seekers; interdict entry by unskilled migrants and ration immigration by well-trained professionals and skilled workers. Such policies are cumbersome to implement; favor “brain drain” and create opportunities for smuggling of migrants that enrich criminal groups and divert public resources towards border control needs. Tacit tolerance of illegal migration is widespread, as it fills genuine labor needs in destination countries. However, it induces petty corruption, opens up profitable smuggling opportunities for criminal networks, perpetuates unfair treatment of migrants and discourages their integration into the fabric of the host country.

### **The sustainability of environmental policies should be scrutinized**

Last but not least, the policies of rich countries (emulated by poor countries) are inducing unprecedented pressures on the physical environment. Industrialized countries dominate global environmental management through the heavy ecological footprint of their production and consumption patterns, and indirectly through their influence over global regimes governing trade, investment, and the global commons.

Climate change threatens the most severe and widespread impacts, but extraterritorial resource use (e.g. sea lanes, fisheries) and environmental regulations in industrialized countries also create significant impacts while rich country dominance within governance regimes tends to impede the “development friendliness” of policies and programs. Both

within and between countries, the poor suffer most from perverse rich country environmental policies. For example, the poorest countries are least well positioned to adapt to climate change and artisan producers are least well positioned to take advantage of market opportunities created by eco-labeling schemes.

### **Towards a new development evaluation paradigm**

It is time to conclude. Sustainable poverty reduction depends on cooperation between the north and the south. It is the aggregate of rich and poor countries' policies that should be judged by results. Yet, the "results chains" normally associated with development evaluations relegate rich countries' policies to the status of exogenous factors or boundary conditions.

The focus of development evaluation has been on only one side of the relationship -- policy adjustment in poor countries. The unintended consequence has been a mistaken attribution of poverty reduction shortfalls vs. goals to poor aid performance. This has contributed to stagnation in aid levels just at a time when, based on conservative assumptions, they should be doubled in order to achieve the goals.

Thus, new evaluation priorities are called for. Given globalization, rich countries' policies, including aid, foreign investment, trade, intellectual property, migration and the environment should come center stage within the development evaluation agenda.

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