The Developing Countries in the Evolving Global Economy

The Need for a New "Development Chapter"

In the global economic environ ment that prevailed over the ini tial post war decades the developing countries were, for the most part, pursuing strategies of planned economic growth under the guidance of the state. In the aftermath of colonial rule in many such countries the private sector was weak, industrial capability severely limited, and infrastructure and skills highly deficient. At the same time, markets for primary commodities, their principal source of export earnings, were often depressed and unstable while opportunities for the export of manufactures were minimal. In such a setting these countries sought the support of the industrialised world for their development efforts through conscious actions of various kinds – by supplying external finance on soft terms, by launching schemes for strengthening commodity markets, by providing preferential tariff treatment for their exports and for other measures to improve the external economic environment for development. The supportive measures called for were, for the most part, articulated by the UN Secretariat, specially UNCTAD since 1964, and often became the subject of negotiations in multilateral fora. In general, in the setting of cold war rivalries, the developing countries received the support of the socialist bloc of countries in such fora. Although the needs of the developing countries were far from being fully satisfied there was partial progress in many areas as reflected in the decisions and measures taken with developed country support at several international conferences.

By the early eighties, however, a new scenario began to emerge. Right wing governments, committed to free enterprise assumed office in many of the leading industrialised countries, policies of internal economic contraction came to be introduced by them and, above all, the bi-polar world of big power rivalry for global influence came to an end with the break-up of the socialist bloc. A by-product of all this was the virtual rejection by the industrialised countries of the West of many of the pillars that supported the earlier edifice of International Development Cooperation. In its place came the concept of 'Globalisation and Libealisation" with its emphasis on market forces and the role of private sector actors. The new concept was presented as an universal panacea beneficial to developed and developing countries alike, a road that would lead to the integration of markets and a veritable "global village". The institutional support for the new scenario was to be provided by the multilateral financial institutions and the newly established World Trade Organisation, bodies largely controlled by the developed countries themselves. The rules of the international trading system were themselves to be extended to new areas of trade and exchange and the domestic policies of the developing countries were to be virtually standardised by programmes of "structural adjustment". Earlier initiatives in support of development were discarded as being statist and interventionist.

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The new thrust towards globalisation and liberalisation produced, at first, some impressive results. World trade and flows of private capital – though not GDP growth rates – reached unprecedented levels supported by advances in communications and information technologies that strengthened inter-country linkages. A limited number of developing countries, particularly in East and South, East Asia, themselves displayed impressive performances and their experience was pointed to as evidence of the power of the new scenario. But the record of success was highly partial. It soon became evident that the beneficial impacts of the new liberalisation processes were still largely confined to the developed countries, by passing most of the developing countries. In fact, the disparities in world income distribution increased dramatically in favour of the richer counties. Similar results also emerged within countries, particularly the developing countries where, in the new setting, social and political tensions and negative manifestations of various kinds came to be intensified.

But this is not all there was in the negative balance sheet. The latter years of the nineties saw the beginnings of a major crisis that called further into question the success story of globalisation and liberalisation. The countries of East and South East Asia were themselves plunged into crisis with consequences – economic, social and political that were indeed far reaching. The tremors reached out to such other areas as Russia and many of the countries of Latin America giving rise to fears of a global recession comparable to that of the thirties. The remedial measures, promoted largely by the multilateral financial institutions, were themselves "ex-post" with a heavy focus on contractions and corrections by the countries in trouble and a bias towards safeguarding the interests of their financial and trading partners in the world outside. The results, as could be expected, have turned out to be mixed. Evidence of a slow and still uncertain turn around in some of the afflicted countries continues to be accompanied by a deepening of crisis conditions in others. In the meantime, while fears of a global crisis have receded the dangers have not vanished altogether.

All this has given rise to several questions relating to the process of globalisaton and liberalisation. Some of these concern the better

management of the process itself with a view to avoiding the negative experiences of the recent past. These range from the creation of new mechanisms for the better "governance" of the global economy – a global financial architecture, for example – to the reshaping and strengthening of the multilateral financial institutions. These are certainly issues of the utmost importance that intimately concern the developing countries, particularly the overriding need for them to have a major voice in the decision making processes to be created. But this is not, by any means, all that is of concern to these countries. Of even greater importance is the impact the globalisation and liberalisation process can have on the overriding objective and concern of the developing countries – their economic and social transformation and their ability to consciously pursue this goal in the light of their own particular situations and circumstances. As mentioned before, globalisation and liberalisation has hitherto had little to show by way of its impact on the development scene. The experience has ranged from the marginalisation of several of the poorest countries to a widening of the income gap between rich and poor nations and to a heightening of income disparities and social tensions within many of the developing countries themselves. All this in addition to the setbacks that afflicted the newly industrialising countries of East and South East Asia, on the one side and, on the other, the narrowing of the scope left to developing countries for autonomy in decision making.

This unsatisfactory record cannot but put the spotlight on the relationship between the evolving global economy and the development process. The process of globalisation and libealisation followed in the wake of the end of the Cold War and the consequent strengthening of the political and economic influence of the major industrial powers, particularly the U.S.A. and the European Union. Market oriented and right of centre policies dominated the domestic scene in these countries with an accompanying rise in trade flows and capital movements among themselves. A fall out from all this was a radical reordering of the earlier concepts and approaches concerning international development cooperation. The leading industrial powers began to take the view that the development process in the developing countries should itself be primarily market driven in the belief that efficiency and dynamism will be enhanced in these countries and beneficial linkages established with the world outside.

Bilateral influences apart, this view was imposed on the developing countries through three principal channels. The first was the process of reform of the World Trade System that had hitherto evolved under the aegis of GATT, the General Agreement on Tariffs and Trade. The second was the intrusion into the domestic policies of most developing countries by the multilateral financial institutions via the imposition of "structural adjustment" recipes linked to conditionalities accompanying financial support, debt relief, and supportive reporting to donors. And third was the dismantling or shelving of much of the mechanisms and measures that formed the earlier framework of international cooperation for development negotiated, for the most part, under the aegis of the United Nations. The influences transmitted through these channels have gravely diluted the autonomy that had hitherto been enjoyed by the developing countries in the realm of domestic policy making. In view of the poor record of success that these developments have produced so far by way of accelerating the development process, there is now an urgent need to re-examine and restate the relationship between globalisation and liberalisation and the imperatives of development policy.

All this would not, however, imply a return to the heavily interventionist and autarchic policies that many developing countries felt obliged to pursue in the setting of the political, economic and ideological environment of earlier times. Rather, it would underline the need for a controlled, selective, and phased response to the evolving global economy currently being driven by the forces of globalisation and liberalisation. Two considerations are important in this context. In the first place, the developing countries would need to take advantage of the positive features of the changing global scene while safeguarding themselves against manifestations that are negative and harmful to them. This requires a selective approach in the realm of domestic policies that reflects a balance between private initiatives and state guidance and between local and foreign forces suited to the varied conditions of different countries. The developing countries stand to gain by the opening up of external markets, the flows of external capital, and access to technological change. But their responses need a degree of control and adaptation to local conditions. Whatever its origins, an universal and undifferentiated formula applicable equally to the domestic policies of developed and developing countries alike would not reflect this need.

Secondly, and increasingly important in this context, is the growing trend towards having domestic policies stipulated by international institutions and the agreements negotiated within them. The institutions primarily concerned are the World Trade Organisation and the Bretton Woods institutions – the World Bank and the International Monetary Fund. In the earlier period arrangements negotiated with the Untied Nations and its agencies were also of relevance but their importance has since diminished and a number of decisions taken earlier are no longer being adhered to. As mentioned, the stipulations imposed by the multilateral institutions tend not to reflect a marked degree of differentiation between countries – between the developed and developing countries in the field of trade rules and between developing countries themselves in the realm of policies for structural adjustment.

Developments such as these point to an important need in the present context. This is the need to re-examine and re-state the requirements of development policy in the setting of a rapidly changing global economic environment. The present thrust of policies to guide the evolution of the world economy, policies described as those of globalisation and liberalisation, have emanated from the major industrialised countries and reflect

their interests and perceptions. Such policies have not placed any special focus on the imperatives of the development process. They have assumed, by and large, that their relevance and beneficial impacts are universal. Their logic is often attributed, either implicitly or explicitly, to the tenets of classical economic theory, which favoured free and open markets and the mobility of factors of production, virtually without qualification, as means towards an optimum allocation of resources. The reservations and qualifications that formed part of this theory such as the insistence on the small size of individual actors and their inability to influence situations, the distortions introduced by monopolies and cartels, and the weakness of adjustment processes in the case of agricultural commodities, are all virtually ignored in the present debate. In fact, a parallel is not altogether lacking with the earlier experience of history when England as the pioneer of industrialisation advanced its own interests by championing free trade and laissez faire while the other countries, lagging behind, offered resistance and continued to pursue protectionist and more selective policies.

The developing countries need urgently to respond to the evolving situation that confronts them at present and to restate or reformulate the imperatives of development in the light of the new scenario. The main challenge facing them is how to reconcile trends towards globalisation and liberalisation, reflecting a logic that derives essentially from developed country perceptions, with the policies and actions essential for the acceleration of the development process. They need to reject the assumption that current policies at the international level, without qualification, bring universal benefits to rich and poor countries alike and that their own domestic policies should reflect standard prescriptions with a minimum of differentiation. They need, in other words, to set out what may be called a new "development chapter" relevant to the evolving global economy of present times – a chapter that seeks to benefit from the positive developments in the world economy with adequate safeguards against their negative aspects. This will call for the modification of some of the earlier elements in development policy that have ceased now to be relevant, the retention of aspects that remain valid, and the articulation of new approaches that better reflect the evolving environment of recent times.

The "development chapter" that needs to be articulated would not require a comprehensive analysis of the development process itself or an elaboration of the complex of policies and actions that are linked to its acceleration. Since the present constraints have largely arisen out of the new thrust spearheaded by the developed countries and international institutions relating to the evolution of the global economy its focus must be on these issues and their impact on development needs. There are three special areas that call for attention in this connection. One of these is the evolving world trade system with its legally binding rules and commitments introduced under the aegis of the recently established World Trade Organisation, the successor to GATT. A second is the area of formulations pertaining to the domestic policies of developing policies – beginning to reach now beyond economic policies alone – advocated, and often insisted upon, by the multilateral financial institutions, particularly the World Bank and the International Monetary Fund, in connection with loans and other forms of assistance and described often as programmes of structural adjustment. The third relates to the contributions of various parts of the United Nations system reflecting at times a going back, even rejection, of earlier initiatives and contributions and the highlighting of a variety of new issues that often support the thrust of the new thinking.

In regard to the world trading system there is a need, in the first instance, to ask what kind of an international system the developing countries would wish to see established. There is, in other words, a need to spell out the features of a world trading system that would both safeguard and stimulate the acceleration of the development process. An open and non-discriminatory system of world trade will, undoubtedly, bring benefits of one kind or another to virtually all participants. Indeed, this was the logic of the increasing participation of developing countries in the GATT which was initially viewed by them as a "rich man's club". The GATT rules, however, made special provision for the developing countries – through, for instance, part IV and the recognition of the need for "special and differential" treatment. Though the leeway offered to developing countries through these instruments was limited, strictly defined, and often time bound it did serve, all the same, to provide a degree of latitude to them in responding to unexpected and temporary difficulties.

Whatever the language retained in the texts, there is a feeling that the new WTO system deprives the developing countries of even the limited latitude that they enjoyed under the GATT rules. In some important areas, the only special treatment extended to them under WTO agreements was the provision of a longer time span than given to the developed countries for the implementation of agreed decisions. However, what is of over-riding significance is the extension of the legally binding disciplinary system to cover not just

merchandise trade in tangible goods, as was the case with the GATT, but a wide variety of other transactions including services, capital flows, intellectual property and other inter-country linkages. The inclusion of such transactions as these in the rules for international trade impacts severely on both the sovereignty of countries and the limited flexibility they had hitherto enjoyed in formulating and applying domestic policies. Though the new WTO rules apply to all members, the developing countries are generally importers rather than exporters in the areas to which the new rules and disciplines extend and are hence the providers rather than the beneficiaries of the concessions, safeguards, and guarantees being provided.

The developing country response to the major new thrust towards extending the areas covered by the rules of the trade system has been essentially reactive and in the direction of damage limitation. Hitherto, the beneficial results have been minimal or even negative and overshadowed by the shortcomings, imbalances, and situations of crisis manifested by the globalisation and liberalisation process in general. There have been disappointments concerning the implementation of some of the decisions of the Uruguay Round of interest and possible benefit to the developing countries such as those relating to agriculture and the trade in textiles. Even more serious, there has been growing concern about attempts by the developed countries to further extent the coverage of the WTO regime to additional areas. These include a new multilateral regime for investment, stipulations relating to trade and environment, trade and labour, government procurement, competition policy and other fields. The developing countries have endeavored to counter this thrust by seeking more time for analyses and for studies of a non-committal nature and for faster progress in implementing some of the decisions of the Uruguay Round. However, a new Ministerial meeting of the WTO is to convene towards the latter part of this year in Seattle in the U.S.A. at which the developed countries –the U.S.A., the EU, and Japan – are pressing for the launch of a new round of negotiations to cover as many as possible of the new areas mentioned above. The developing countries now face the challenge of how to respond to this initiative and how to ensure that the world trade system will begin to evolve in a way that reflects their own interests and priorities.

The need in the evolving situation is not just for a further reactive or defensive response from these countries. On the contrary, the time has now come for them to identify and make articulate the design of a world trading system that is more directly supportive of their needs and that focuses more specially on the acceleration of the development process. It is such a design that the developing countries should present to the WTO and all its members and that should stand alongside the proposals of the developed countries as a basis for negotiations that would eventually result in a reconciliation of views. The outcome should probably include special provisions applicable to developing countries as in the case of the earlier GATT agreement but considerably more comprehensive in scope in view of the wide range of new areas and issues being taken up in international trade negotiations. The developing countries were caught unprepared for the widening of the scope of Uruguay Round. There were few prior analyses, if any, of the special problems and needs of the developing countries in the new areas that were taken up for negotiation. It is important that this shortcoming be overcome in the context of the Seattle meeting and its possible aftermath.

What is needed? However, is something more than an updating of the GATT exemptions as reflected in Part IV and the provisions for Special and Differential treatment. As already mentioned, there is first a need for a wider "development chapter" that sets out the interactions, both positive and negative, between the process of globalisation and liberalisation and the requirements for development – with a special focus on the evolving international framework of rules and regulations and the prescriptions of international organisations. The developing countries need a degree of autonomy in terms of their varying situations in determining domestic economic policies. This autonomy must reflect such imperatives as the need to build up indigenous capabilities as a goal of economic advancement, the need for a significant degree of flexibility in the design and application of domestic policy instruments, and the need for some differentiation, where justified, between national and non-national actors in the workings of the economy. The "development chapter" relating to international trade should explore these requirements and the instruments that serve their purposes in specific and more detailed terms with a view to minimising discrimination and disharmony in international trade relations. In some areas of international trade, the developing countries could accept commitments to a degree of discipline and to time bound actions, as reflected in the exemptions allowed under the GATT rules. In others the need for a degree of autonomy that is less precisely circumscribed must be safeguarded. All this must from part of the agenda that the developing countries must elaborate upon in order to determine and guide their approach to new negotiations that may well be launched under WTO auspices in the period ahead.

Many developing counties are already expressing their concern over the manner in which some of the decisions of the Uruguay Round are being implemented. Even more significant, fears are being voiced about some of the new issues being promoted by the developed countries, particularly some of those being earmarked for negotiation in a new post Seattle "millennium round". As mentioned before, these include proposals for a new multilateral agreement on investment, for new instruments relating to such subjects as trade and environment, trade and labour, competition policy, government procurement and so on. As mentioned, these

often reflect the goals and interests of the developed countries and it is important that the developing countries should shape their reactions and responses to such initiatives and articulate the modifications needed to minimise the problems and drawbacks they may give rise to.

But a new "development chapter" covering international trade issues must go much further. It must identify and elaborate upon the provisions and features of an international trade system that would positively promote their interests and help speed up the development process. Some of these provisions existed in the pre-Uruguay Round period but have since been eroded or discarded. These include the Generalised System of Preferences, discrimination against non-member developing countries on the part of new trading blocs of selected developed and developing countries, the agreements that were earlier negotiated or were under negotiation in UNCTAD and other parts of the United Nations system such as those covering restrictive business practices, shipping, the transfer of technology, the conduct of transnational corporations, the strengthening and stabilisation of commodity markets and so on. The need for these and other such instruments, far from being rendered redundant by the globalisation and liberalisation process and the push towards a more open system for world trade become all the more urgent in the background of striking disparities in economic power and levels of development. These and other issues – including the persistence of tariff escalation against the imports of developing country products in processed form – need inclusion in any "development chapter" pertaining to world trade, in any developing country platform for trade negotiations.

There are also, as already stated, other dimensions to the interactions between an evolving global economy and the needs of the development process. These are manifold but, in the context of the pivotal role of international organisations, attention needs to be given to the policy prescriptions extended by the international financial institutions – the World Bank and International Monetary Fund in particular – that are intended to enhance the participation of the developing countries in the globalisation and liberalisation process, viewed in general as an unifying trend. Much of the internal policy dimensions of the developing countries have been influenced by the international financial organisations in the background of prescriptions for conditionality linked to financial and other forms of support. Indeed the range and content of such prescriptions have expanded vastly in recent years. Beginning with an insistence on the technical and economic soundness of projects seeking finance, they have extended progressively and in some kind of sequence to stipulations for sound monetary-fiscal management, to broader policies of deregulation, privatisation and the provision of increasing scope for the operation of market forces. and more recently to a focus on poverty alleviation and social safety nets. The liberalisation of the import regimes of many developing countries in recent times, in fact owes more to the advice and stipulations of the international financial organisations than to the negotiating processes launched by the GATT and the WTO.

There is, it needs to be recognised, much that it sound and helpful in the stipulations and policy guidance that emanate from these organisations. In many cases they have helped in introducing elements of discipline that serve to counter disruptive political and other pressures linked to domestic power alignments. At the same time, however, they suffer from several shortcomings. They are often too standardised from a conceptual point of view and offer too little room for adaptation to suit the varying situations of individual developing countries. They also reflect orientations that are excessively ideological, even academic, and pay too little heed to the political and social environments to which they are applied. Often they focus excessively, in the name of discipline and sound management, on contractionary policies to the neglect, once again, of their social and political repercussions. Above all, they tend to substitute for the autonomy that developing counties still need to possess in the realm of domestic policy formulation. The process of globalisation and liberalisation should not entrust the role of domestic policy making to international organisations, however valuable their advice, as a substitute for national decision making on many of the sensitive issues relating to development. The importance of this is, in fact, enhanced by the trend towards a widening gap between the financial assistance these organisations are able to offer to developing countries and the range of their policy prescriptions.

A "development chapter" would need to reiterate the role of the state in the development process adapted to varying conditions. It would need to recognise the need for a measure of protection – disciplined, limited and time bound – to domestic enterprise to take account not only of the needs of nascent industries but of the wider limitations they experience in such realms as infrastructure – physical, financial and institutional. It would need to recognise the need for positive interactions between domestic and foreign enterprises with an emphasis on a learning process that serves to enhance indigenous capabilities. It would need also to recognise the need for a relationship of collaboration between the public and the private sectors and for overall guideposts or road maps to help the decision making process in each of these sectors. Not least, it must provide for the social and environmental dimensions, for the distribution of incomes and employment and a host of related factors. The developing countries need to fashion their domestic policies within the framework of the emergent trends in the global economy. They must seek to take advantage of the growing access to markets, the increasing scope for capital movements and above all the far reaching changes in technology that are vastly enhancing the scope

for linkages in communications, transportation and other fields. The challenge they face is one of deriving the greatest advantage from the positive features of the globalisation process in the context of their own situations and, at the same time, of avoiding or minimising the negative impacts. The structural adjustment policies of the international financial institutions need to provide for the degree of flexibility called for in varying situations and to endeavour to support and guide rather than substitute for the domestic policy mix required by individual developing countries. In this way the potential role of these institutions could be vastly enhanced.

The third area that needs to be the subject of a new "development chapter" concerns the contribution of the United Nations system – besides the WTO and the international financial organisations. In the earlier postwar decades the United Nations itself and some specialised agencies were engaged in a significant way in the endeavour to strengthen and improve the external environment for development. UNCTAD, in particular, since its first conference in 1964 identified a number of areas and instrumentalities pertaining to the global economy through which the development process could be supported and accelerated. These covered preferential tariffs for developing country exports, targets for concessional aid from the developed countries, initiatives for an integrated programme for commodities and for a common financing fund, proposals for the compensatory financing of shortfalls in export earnings, suggestions for the longer term supplementary financing of export earnings, schemes for cooperation among developing countries, proposals for the creation of a new reserve asset to enhance international liquidity and the establishment of a link with the financing of development and, as referred to earlier, a number of arrangements relating to the transfer of technology, restrictive business practices, shipping, insurance and so on. The importance of the external environment for development and of international development cooperation were further underlined by the proclamation by the United Nations of "decades of development" and of "international strategies for development".

All this contributed, in a way, to the elements of a "development chapter" that was relevant to the global political and economic situation that prevailed in earlier times. In the more recent period, in the wake of the ending of cold war rivalries and the move towards more market oriented policies by the developed countries, the situation has changed. This has impacted on the United Nations system and its previous role. Within the system the spotlight shifted from economic to political preoccupations, to increasing pressures on budgetary allocations for economic work, to an enhancement of the role of the Bretton Woods institutions and the WTO, to the abandoning or downgrading of earlier achievements as being excessively statist or interventionist, to the introduction of new actors from the business and the non-governmental sectors, to a sharpening focus on social and other issues that do not interact too directly with international economic relations – to a new scenario, in other words, that continues to evolve. What all this means, in fact, is the discarding of much that provided at least an approximation to a development chapter in the past without replacement by any new substitute. Indeed, the faith in market forces reflected in the present thrust towards globalisation and liberalisation suggests the rejection of even a need for such a substitute.

The developing countries cannot surely accept the present state of affairs. There is no theoretical basis for any belief that free markets by themselves will spontaneously generate an accelerated and comprehensive development process. The practical results of globalisation and liberalisation in recent years themselves point to failures, imbalances, and crises in many parts of the developing world. The conclusion that needs to be drawn is surely compelling. It is that while the forces of globalisation and liberalisation may well continue to guide the evolution of the global economy in the period ahead there is an overriding need for policies, mechanisms and actions that would serve specially to accelerate the development process – for provisions, in other words, that enable developing countries to partake in the benefits provided by the changing global economic scene while avoiding its shortcomings. This should be the essential purpose of a new "development chapter" – one that would encompass, not only the activities of the international institutions in the fields of trade and finance but also those of the United Nations and its agencies.

Such a revised chapter must retain whatever is valid in the earlier initiatives of the United Nations – the need for finance on concessional terms, for debt relief, for stronger commodity markets, for measures to encourage the export of manufactures from developing countries, as well as other related goals and activities. The new chapter must also, as discussed earlier, encompass new developments in the realms of trade and finance and the manner in which the requirements of the development process could be strengthened and safeguarded. In addition, such a chapter must put a specially sharp focus on the participation of developing countries in the decision making processes of the international community – in the processes that relate to global governance and to the work of the WTO, the World Bank, and the International Monetary Fund. The developing countries must not lose sight of an obvious fact – that their main strength in the processes of international bodies derives from the strength of their numbers. This points to the need for unity, a requirement that underlines, in turn, the need for analytical support to identify common interests and reconcile differences. The developing countries have, up to now, failed to establish any mechanisms for providing such support. They have failed, so far, to follow the example of the developed countries, relying essentially on the work of the United Nations secretariats. Such secretariats, however, no longer play this role. There is thus a void that needs to be filled in one way or another – a requirement that is central to organising any meaningful responses from the developing countries to the rapidly changing global situation.