THE CHALLENGE OF REDUCING POVERTY AND FINANCING DEVELOPMENT IN LESSER DEVELOPED COUNTRIES

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For the wrong and very sad reason – the tragedy of 11 September – international cooperation for development seems to be making a comeback after many years of disgrace. As recently as our last meeting in London, multilateralism was passé and unilateralism was simply a fact of life.

Tonight I want to argue that since the World Trade Organization meeting at Doha and the recent UN conference on Financing for Development at Monterrey, we have a real possibility that multilateralism and international cooperation will be reborn. Yet I must also caution that this possibility is still elusive and fragile. Much is to be done before we can achieve cooperative, managed, sustained interdependence, working effectively against poverty and underdevelopment and consequently in support of lasting security in the world.

I start by claiming that relative to what could be expected a year ago, both the WTO Doha ministerial meeting and the UN financing for development conference were impressive successes.

The Doha meeting happened against all the odds. And it concluded with the launching of a new round, or "work program", which addresses the issues of core concern to developing countries: dumping, subsidies and countervailing duties; trade in services; tariffs and non-tariff barriers on non-agricultural products of export interest to developing countries. A special declaration was made on the divisive issue of intellectual property rights, with provisions that amount to a significant achievement for developing countries.

The Doha agreement on agriculture – if it is ever satisfactorily fulfilled – will prove the most significant. Here, delegates committed to "comprehensive negotiations aimed at: substantial improvements in market access; reductions of – with a view to phasing out – all forms of export subsidies; and substantial reductions in trade-distorting domestic support”.

Because trade has such a big impact on growth, the timely negotiation and implementation of the Doha work program is the most powerful way for the international community to help developing countries improve their living standards. A recent study shows that full trade liberalization would add to the income of developing countries by 184 billion dollars a year. This is more than triple what these countries receive in aid.

Another hopeful sign of emerging multilateralism is the success of the Monterrey conference on financing for development.

Why do I believe the conference was an impressive success?

- First, because it happened at all.
- Also because the conference preparations were marked by unprecedented collaboration between the UN and the Bretton Woods Institutions.
- Because it was not tainted by the traditional North-South confrontation. A rather grotesque attempt by a long-lasting ruler to make such a negative imprint on the conference was too vacuous and too late to be successful.
- Because – in a most unusual step for a UN conference – the draft declaration was formally sanctioned in advance by representatives of member countries. Given the collective ownership it
entails, it is better to speak now of the Monterrey Consensus rather than the Washington Consensus.

- The so-called Monterrey Consensus stresses that the developing countries have the main responsibility for their own development, and commits them to implementing the right policies for this purpose. Making such a commitment in a UN forum gives the developing countries moral authority in pressing their case.

- In two significant departures from typical UN positions, the Consensus highlights the importance of foreign direct investment for sustained growth in developing countries, and it approves of meaningful trade liberalization as an engine of development. It endorses the implementation of the Doha work program.

- The Consensus recognizes that to achieve the International Development Goals, aid and other resources must increase greatly. It urges "developed countries that have not done so to make concrete efforts towards the target of 0.7 percent of GNP as official development assistance to developing countries". This is the section of the Consensus most accused of lacking teeth. I don't agree. Just compare what was said in the UN Millennium Declaration a year and a half ago: "We call on the industrialized countries: ...To grant more generous development assistance..."!

- As some of us had expected, governments of some industrialized countries provided an aid "bonus" to the Consensus. The US pledged to fund nearly 10 billion dollars over three years from 2004, followed by a permanent increase of 5 billion dollars a year thereafter. And the European Union announced that by 2006 its ODA will reach 0.39 percent of the EU gross national product. This initiative will mean an extra 7 billion dollars a year in EU aid by 2006.

So by any pertinent criteria, dear friends, the Doha and Monterrey conferences should be seen as a turning point in the rather dismal international cooperation trends of recent years. But an arduous road still lies ahead.

There is a serious risk that the Doha work program, due to its complexity, will not be completed within a reasonable term. This risk emerges clearly when one considers some of the Singapore or new issues – other than the development ones I mentioned earlier – that are included in the negotiating program.

Consider first the agreed inclusion – mainly at the insistence of the EU – of negotiations for multilateral frameworks on investment and competition policy. I have serious doubts that the world is ready for such frameworks, or capable of implementing them any time soon. For the long term, such frameworks may be a desirable goal, as long as they are kept simple, non-discriminatory, and proscriptive. But today there is a danger that they will detract attention from the truly development-oriented trade issues on which the world most urgently needs to make progress.

I am even more suspicious of the agreement achieved by the EU to bring environment fully into the negotiating agenda. It is rather alarming that Europe's representatives at Doha substantially hardened their position on this topic just when it became clear they had been left alone in opposing the agreement on agricultural liberalization. The EU representatives accepted that agreement only with the quid pro quo of introducing the new non-developmental issues.

Let us not forget that the Doha round is a single undertaking – which implies that nothing is agreed until everything is agreed. And consensus is now mandatory for deciding not only the substance but even the "modalities for negotiating" such matters as investment, competition, government procurement, and trade facilitation.

So, given the complexity of the agreed agenda, any party will have plenty of chances to block the progress of the new round without even invoking the topic of agricultural protection or any other protectionist motive.
From the development perspective, I insist, the most important task of the Doha work program is to dismantle agricultural protection. The work program needs to be successfully concluded by January 2005. I sincerely hope that some agreement will be reached around the next ministerial meeting (to take place in Mexico next year) on a way to prevent talks on the new issues from impeding the successful resolution of the true development issues.

Enlightened leadership will be equally necessary to get the Monterrey achievements properly followed up.

In particular, there remains a huge deficit in aid. The additional annual aid that has just been committed by the US and the EU by 2006 provides less than one fourth of the estimated extra 50 billion dollars that is needed to achieve the International Development Goals. Greater and increasing contributions from these and the other Quad countries will soon be needed.

To accomplish this we shall need a significant change in the public opinion of rich countries towards foreign aid. This will not be easy to achieve. Some misconceptions about aid, by force of repetition, have come to be treated as established facts, to the point that it has become politically correct to bash both foreign aid and the institutions in charge of channeling it.

So now we have an urgent job to do in order to set the aid record straight.

The most damaging of the misconceptions is that even quite large flows of aid have failed to reduce poverty and foster growth in recipient countries and that in many cases they have been counterproductive.

There are problems with this judgment. First, development aid has never been large relative to any pertinent variable. There has always been a huge gap in relation to what the international community accepted as a reasonable target many years ago. Second, donors have often used aid labeled for development to advance their own foreign policy goals or to promote their own exports, rather than to achieve the biggest impact on poverty or growth in the recipient country.

These two problems are well illustrated in the case of the United States. In the year 2000, this country provided official development assistance of only 0.1 percent of its gross national income – the lowest proportion among all donors. And its biggest aid recipients were countries such as Russia, Israel, Egypt, Ukraine, and Colombia, where hardly any part of the aid was used for strictly development purposes. These facts strongly suggest that the new US aid commitments, though highly commendable, fall far short of the required response.

Bluntly, one could say that wherever and whenever aid has failed as a development tool, it has failed because donors did not intend it for development in the first place. Think, for example, of present aid to Afghanistan and Pakistan. It is more than justified on security and foreign policy grounds. Hardly anybody would question such aid if it failed now to meet some sound development conditionality. Yet, don't be surprised if in a few years time, a former World Bank economist, for example, becomes famous by claiming that aid to Afghanistan and Pakistan failed to foster these countries' development.

Contrary to popular belief, the fact is that aid works well, provided it follows reasonable principles: when it is available in sufficient amount, when it is targeted to reduce poverty in countries with sound policies, and when it is administered with the full input of local decision makers.
It should also be considered that in some cases, before specific development projects or programs can succeed, aid is needed to help countries build the institutions that are indispensable for the functioning of nation states. Aid is easily wasted when donors ignore this need to help build institutions.

The inescapable bottom line is that much more funding is needed for official development assistance. The challenge, then, is to persuade the politicians and public of industrial countries that aid expenditures are both morally compelling and a vital investment in building a more secure world. We must sustain the pursuit of the UN International Development Goals and transform it into a formidable catalyst for public awareness and support.

In conclusion, dear friends, sound domestic policies in developing countries, together with open markets and generous aid from the developed countries, constitute a solid platform for fostering a process of interdependence, both more intense and more inclusive, among all nations of the world.

Only through the deliberate building of this kind of interdependence can we achieve a more prosperous world with lasting security – a world where the poor are released from misery and the privileged are released from fear.

Thank you very much.