Forging a Global Partnership for Development: Some critical issues

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Goal Eight of the Millennium Development Goals does not have detailed enough targets to define the objectives and actions that are needed in the area of global finance, including the problems of debt, capital flows and a healthy system of financing for development. The emerging paradigm calls for developing countries to take a pragmatic approach to globalisation and liberalisation and to integrating their domestic economies with the global economy in the areas of finance, trade and investment. However, the financial system as a whole–increasingly characterised by the absence of regulations, transparency or a fair set of rules for resolving the conflicts between debtor and creditor countries–requires an overhaul.

The origins of the Millennium Development Goals (MDGs) lie in the United Nations Millennium Declaration, which was adopted by all 189 UN Member States (147 of them represented by their head of State or government) on 8 September 2000. The Declaration embodies many commitments for improving the lot of humanity in the new century. Subsequently the UN Secretariat drew up a list of eight MDGs, each of them accompanied by specific targets and indicators. Goal 8 is to «develop a global partnership for development.» As of November 2002, there are seven targets listed under Goal 8, and 17 indicators to measure progress towards them (see box).

Successful development efforts require appropriate policies at both domestic and international levels. International factors have become proportionately more important in recent years as a result of globalisation. Developing countries have generally become more integrated into the world economy, and their development prospects and performance are more dependent on global economic structures and trends. More importantly, many policies that used to be made solely or primarily at the national level are now very significantly influenced at international fora and by international institutions. This applies especially to those developing countries that are dependent on the international financial institutions for loans and debt restructuring and that must abide by loan «conditionalities». However, it also applies to developing countries that are members of the World Trade Organisation, as they are obliged to align national laws and policies to conform to the WTO's legally binding agreements. Thus, the «external economic environment»—comprising global economic structures and trends, and the policies determined or influenced by international agencies such as the International Monetary Fund, the World Bank, the WTO, the UN, and developed-country groupings such as the Group of Eight, the OECD and bilateral aid agencies—does have tremendous impact on a typical developing country.

The extent to which a developing country is able to make progress on many of the MDGs (especially Goal 1, to eradicate poverty and hunger, but also Goals 4, 5 and 6, relating to health, and Goal 7, on environmental sustainability) depends not only on domestic policy choices, but also on how «friendly» or «hostile» the external economic environment is to that country. Four examples can illustrate this.

- The continuous fall in prices of export commodities has caused tremendous income and foreign exchange losses to many developing countries and is a major cause of persistent or increased poverty at the local community level.
- The financial instability and sharp currency fluctuations caused by large inflows and outflows of external funds have led many developing countries (including those considered the most successful among them) into financial and economic crises, with dramatic and sudden increases in poverty rates.
- Many developing countries have suffered declines in or threats to their industrial jobs and farmers' livelihoods as a result of inappropriate import liberalisation policies, partly or mainly caused by external policy influences resulting from loan conditionalities or multilateral trade rules.
- Cutbacks in social sector expenditure, as well as the introduction of the «user-should-pay» principle as a result of structural adjustment policies in the past have been identified as significant factors in the deterioration of social well being of vulnerable and poor groups in several developing countries.

These examples, as well as the continuation of the debt crises in many countries, show that attempts to improve domestic policies, however exemplary, are not sufficient, if developing countries are to attain the MDGs. There is a clear need to forge a «global partnership for development» to underpin or at least to accompany the other efforts for attaining these goals.

Towards a pragmatic approach to the integration of developing countries

Perhaps the most important, and most difficult, set of development policies that a developing country has to decide on concerns the interface between domestic policies and the world economy. Whether, how, when, to what extent, in which sectors, and in which sequence to integrate the domestic economy and society with the international economy and society are simple but vital questions that face developing countries. There is no consensus in the international discussion on these issues; instead there is much debate and many controversies about the definition, nature and consequences of globalisation.

The emerging paradigm calls for developing countries to take a pragmatic approach to globalisation and liberalisation, and to be deliberate in choosing how best to integrate their domestic economy with the global economy in the areas of finance, trade and investment. This approach recognises that interaction with the global economy can benefit a developing country, perhaps significantly. But the terms of interaction are crucial if the potential benefits are to be realised, and if costs and damage are to be avoided. Too rapid a rate of integration, or integration in the wrong areas or in the wrong way, can be harmful rather than helpful.

For example, too great a dependence on commodity exports, and an increase in export volume when there is a global over-supply of a particular commodity, can be detrimental. Excessive financial liberalisation (for example, in allowing local institutions to freely borrow from abroad in foreign currency) can lead to a debt repayment crisis if the right regulations and conditions are not in place. A policy of selective integration, done carefully and appropriately, is therefore of the utmost importance. It should replace the still-dominant approach of «big-bang» liberalisation, adopted quickly and without regard to differences between countries.

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This change in approach should first be considered at the national level when governments choose their development strategy. However, it must be recognised that most developing countries do not have the luxury of choosing their approach on economic integration because of the determining influence of loan and aid conditionalities, or because of the rules they had agreed to in the WTO. Thus, MDG 8 assumes central importance. In creating a global partnership for development, there is an underlying need for an understanding that developing countries should have the right to take an appropriate and pragmatic approach towards selectively integrating their domestic economy with the world economy. This understanding should be the basis for the systems of international trade, finance, investment, aid, and intellectual property rights. The policies, rules and conditionalities arising from these systems should reflect the realities facing developing countries, and their needs. Without this change in attitude at the international level, it would be difficult or even impossible to attain a global partnership for development; and it would also be difficult for developing countries to attain the other MDGs.

The need for global financial reform

In working towards Goal 8, a major element is the reform of the global financial architecture. This need for reform is embedded within the first target accompanying Goal 8: «Develop further an open, rule-based, predictable, non-discriminatory trading and financial system.» A note under the target says that this «includes a commitment to good governance, development and poverty reduction, both nationally and internationally.»

It can be argued that the present global financial system is not open: many financial transactions, including those involving speculative activities, highly-leveraged institutions such as hedge funds, and derivatives are non-transparent and non-accountable. It is not adequately rule-based: there is absence of or inadequate regulation over many kinds of activities of the financial institutions, and over the massive international flows of funds. It is also not predictable: witness the volatility, fluctuations and unpredictability of exchange rates, and inflows and outflows of funds that countries are subjected to.

The lack of regulation and predictability of the global financial system has been a source of destabilisation for many developing countries. In recent years there has been a series of devastating financial and economic crises, including those that hit Mexico, Thailand, Indonesia, South Korea and Malaysia, Russia, Turkey, Argentina, Uruguay and Brazil. There have been conflicting reasons given for these crises, but one of the dominant explanations is that the affected countries suffered from bad political and economic governance. This is quite remarkable, as most of those countries had been lavishly praised just prior to their crises as shining examples of good economic management.

A more accurate and credible explanation is that these meltdowns were caused by the financial liberalisation and deregulation that has swept the world since the early 1970s, when the Bretton Woods system of fixed exchange rates collapsed. As a result, there has been an explosive increase in financial speculation as investment funds and speculators move rapidly across borders in search of profits. In recent years, many developing countries were also advised to deregulate and liberalise their financial systems. Controls over the inflow and outflow of funds were relaxed significantly. This led to excessive short-term borrowing by local firms and banks, as well as the entrance of international players who invested, speculated and manipulated currencies and stock markets.

The prevailing mainstream view that liberalisation was beneficial and posed little danger to developing countries had been promoted by the international financial institutions and the major developed countries. The latter were eager to obtain more market access for their financial institutions to the emerging markets. It is now widely recognised that when the crisis struck in East Asia in 1997, the IMF made it worse by misdiagnosing the cause and promoting even further financial liberalisation as part of its loan conditionalities. It also pushed a policy package (including high interest rates, tight monetary and fiscal policies and closure of local financial institutions) that converted a financial-debt problem into a structural economic recession.

Conclusion

Reforms are urgently required at both international and national levels, as a great number of developing countries are still heavily indebted even after two decades or more, while increasing numbers of other developing countries have become heavily indebted. The financial system as a whole requires an overhaul. In reforming it, the interests of developing countries should be given the highest priority.

Goal Eight of the Millennium Development Goals does not have a detailed enough target to define the objectives and actions that are needed in the area of global finance, including the problems of debt, capital flows and a healthy system of financing for development. Therefore, more detailed targets, as well as more and better indicators, should be articulated in this field. Most important, however, is the need to flesh out the various measures, policies and frameworks required to make the financial system a key component to a «global partnership for development» rather than the problem it now is. ■

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GOAL 8

Develop a global partnership for development

- Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally.
- Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction.
- Address the special needs of landlocked and small island developing States.
- Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.
- In cooperation with the developing countries, develop decent and productive work for youth.
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
- In cooperation with the private sector, make available the benefits of new technologies—especially information and communications technologies.

Source: United Nations (http://www.un.org/millenniumgoals/index.htm