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## **Economic growth, the UN and the global South: an unfulfilled promise**

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The most visible success of the UN system has been to foster a multilateral structure of international governance that has proved resilient since World War II. However, this structure has failed to provide a financing mechanism to help developing countries achieve the structural transformations required for broad-based economic growth. Indeed, the global South has also had many chances to reorder the international financing system but has failed thus far to do so. The global distribution of power remains with the USA and the West; even rising China plays by the contract enforcement rules of the North in terms of global economic governance. Another critical reason why financing has not been readily available despite the magnitude of capital flows between developed and developing economies is that it comes with conditions that induce little ‘effort’ to result in capability development. Policies should be devised to overcome this weakness, but they are unlikely within a multilateral framework. However, if the USA and China agree to work together on alternative multilateral systems promoted by the global South, the potential for positive change increases.

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The multilateral system has not worked to achieve structural transformation and broad-based economic growth in the global South, a reality that contrasts with other topics under discussion in 1945 and today. For instance the system has worked successfully to provide solutions to humanitarian or public health crises but has drawn up short in terms of financing structural transformation. The analysis suggests that growth was a powerful normative aspiration for the UN's multilateral framework at the outset, but it has not been realised to the extent hoped for by the global South.

The UN Charter was ahead of its time and highlighted goals of achieving full employment and higher standards of economic and social progress and development globally. While the world organization began with a development mandate, it was starved of the authority and resources to realise the lofty aims articulated in the Charter. Rather than the UN, Western powers vested responsibility for global economic governance in the Bretton Woods Institutions (BWI) because they could control these financial organisations and thus protect their economic interests. Developed countries driving the economic agenda saw issues of currency stabilisation, full employment and reversal of beggar-thy-neighbour trade policies as their mandates for economic growth and development. The idea that development needed to encompass rapid catch up for the rest of the globe was never part of that multilateral agenda. Also the United Nations, and more specifically the General Assembly, was not trusted by Western powers to handle significant financial issues pertinent for developing countries.

There were early initiatives through which the UN displayed an agency in economic affairs that it has not often displayed since. Such examples are the Economic Sub-committee of the Economic and Social Council (ECOSOC) with membership from China, Brazil, Russia

and India set up in 1946, the Economic and Employment Commission set up around the same time, the financing of UN Development Cooperation and last but most significantly the call for the New International Economic Order (NIEO) by the General Assembly in 1974. Today however, economic institutions that define Southern cooperation in the twenty-first century—for example, the New Development Bank (NDB) or BRICS Bank, and the Asian Infrastructure Investment Bank (AIIB)—are independent of the UN.

What does this mean for the future of the United Nations as a universal, multilateral body and its role in guiding economic development? This article answers that question first by examining the contemporary global economy and then going back to the origins of the UN's aspirations for development in 1945. The acme of aspirations from the global South, as articulated in the NIEO, is then discussed as a prelude to a discussion of South-South economic cooperation.

## **Today's global economy**

Contemporary financing initiatives from developing countries reflect a changing global order and should be taken seriously. The challenges that they face are, however, no less daunting than the ones confronting the BWI—designing policies so that the probability of failure is reduced. That challenge is thorny because the compulsory tools needed to ensure that policy is successfully implemented are extremely hard to introduce into policy design. Where such compulsions seem to have resulted in transformational growth as in South Korea have resulted from the specific characteristics of the political settlement of that country or the distribution of power among organisations.<sup>1</sup>

The biggest challenge for multilateralism, even for the NDB and AIIB, remains financing for capability development in such a way that productive firms or organisations can be established to provide gainful and broad-based employment to facilitate structural

transformation. But such a result requires appropriate incentives and enforcement mechanisms, and the latter is linked to state capacity, which makes a multilateral approach problematic because it is fraught with collective action problems. There also remains another problem: who oversees governments that discipline firms?

That challenge requires assistance from credible financial institutions so that investments can be channelled to potential growth sectors while disciplining the use of resources so that they are not misappropriated or wasted—a substantial concern for donors globally. The appropriate institutional rules have to be consistent with the political settlements in which they are operating so that the conditions of financing are feasible and the recipients are compelled to establish organisations that are competitive. Such a global structure of financial institutions does not exist, which explains why lenders in general do not feel safe in lending to countries and firms in countries without adequate organisational structures to engage in competitive, productive activities.

The significant demand for a ‘no-strings attached’ technology policy, or the demand for greater economic transfers without conditions attached to them, by the NIEO which is discussed later, was a demand for economic self-sufficiency by developing countries<sup>2</sup> as well as for redistribution from richer to poorer countries as the most productive technologies were then and remain now in industrialised countries. However, such a policy provided no guarantee that the learning and catching up required for industrialisation would actually take place because the policy does not encapsulate any monitoring of the ‘effort’ by recipient countries to achieve stated goals.<sup>3</sup> Aid is of course another form of financing for developing countries. While opinion is divided on aid effectiveness, there is little doubt that the amount of aid available is too little to jump-start the process of structural transformation—going from a pre-capitalist to a broad-based, inclusive modern capitalist economy. Indeed very little aid is now given for industrial development, with most overseas development assistance (ODA)

going to areas like health, education, governance and humanitarian assistance.<sup>4</sup> These are no doubt critically important areas but the long-term solution for developing countries can only be self-sufficiency resulting from higher productivity, higher value added, and employment from manufacturing. The role of manufacturing is explained later, but if there is to be another multilateral moment post-Bretton Woods this would be the focus—enabling job creation through policies that are designed to be feasible for developing countries to implement while also providing adequate returns to donor countries.<sup>5</sup>

How necessary is redistribution from the West to the rest? A quick scan of per capita incomes in 2014 from the World Bank reveals a stark disparity. A citizen in Malawi, which has the lowest per capita income, ‘earned’ \$ 255. The per capita income in Qatar, the country with the highest income was almost \$ 100,000 in the same year. The per capita income of the USA in the same year was almost \$ 55,000 while the average income across the members of the Organisation for Economic Co-operation and Development (OECD) was almost \$ 26,000. At the same time, approximately 25 countries had incomes of less than \$1,000 while another 23 countries had less than \$ 2,000 and seven with under \$ 3,000. Most other countries fall in the category of ‘middle income’.

Redistribution is not defined as lump-sum transfers like writing off debt along the lines of the Highly Indebted Poor Countries (HIPC) initiative, which targets some of the world’s most impoverished countries. The idea is to redistribute capital so that developing economies can finance their own capability development, which is essential because such financing can be viewed as redistribution to compensate for market failures that prevent commercial lending along these lines. Financial flows between the developed and developing countries have grown in the last two decades; but this growth has not solved the problem of creating productive firms that can generate employment. The flows are by no means inadequate, but they do not reach the neediest recipients. There is also the significant

challenge of financing structural transformation in a context in which failure can be punished by rapid and devastating capital flight.

The requirement is for richer countries to provide firms in developing countries with incentives to learn and grow—hence, conditional financing. This is not a simple but rather subtle approach because a disciplining mechanism from the ‘outside’ addresses problems ‘inside’—a difficult task to engineer in sovereign states. Essentially donors have to ensure their funds are being used for capability development rather than being captured. Making sure conventional ODA for service delivery or strengthening audit institutions is difficult enough. Yet designing financing by which firms actually gain organisational capability and become competitive in world markets without any subsidy is likely to be even more arduous because conventional economic models that focus on managing risk are insufficient for identifying the institutional requirements for managing learning, which requires experimentation and understanding local political realities.<sup>6</sup>

Alternative and unconventional policies are more thinkable today because the long-standing consensus about market-driven development is increasingly contested.<sup>7</sup> The distribution of power between developed and developing economies has started shifting in favour of the latter. In addition, since the 2008–2009 financial crisis, doubts have arisen about the robustness and sustainability of the existing financing system based on liberalisation and privatisation, about how ‘fit-for-purpose’ the global system is. The creation of the NDB and the AIIB might be a move towards an alternative multilateral framework that could devise policies outlined above. The last section returns to the challenges and possibilities for such new policies.

## **The UN and origins of the underdevelopment discourse**

General Assembly resolution 198 (III) was adopted in 1948, three years after the UN's founding, with a request that ECOSOC give 'further and urgent consideration to the whole problem of the economic development of the underdeveloped countries in all its aspects'. The problématique was far different from the challenge of achieving full employment that confronted developed countries in the postwar period. Despite being damaged by war, or at least in the case of the USA, disturbed by war, these economies had underlying levels of productivity that could be potentially restored with Keynesian policies of achieving full employment.<sup>8</sup> Most of the early members of the UN from the global South had a very different problem—one of structural transformation, which implied policies for improving productivity as opposed to restoring full employment and existing productivity. However, the critical feature of Keynesian thought prevalent among countries of the North and South at the time was that national governments had an essential role.<sup>9</sup> The multilateral system at this point was primarily the overarching economic governance framework of the Bretton Woods system dominated by the USA and its allies.

The United Nations in those early days was to be the leading organisation to promote economic growth. UN Charter Article 55 lays out the aims of full employment and 'conditions of economic and social progress and development' among other aims. The BWI were not mentioned in this article, making clear that it was the UN, and more specifically ECOSOC, that would be responsible for setting the global policy mandate for economic growth.<sup>10</sup> At the San Francisco conference, delegates understood the word 'economic' to include international trade, finance, economic reconstruction; and 'economic problems' to include international access to capital goods and raw materials. The Preparatory Commission took over the task of fine tuning the details to be presented to ECOSOC; and a key recommendation was to set up the Economic and Employment Commission, which went beyond full employment and the prevention of economic instability to encompass economic

development of underdeveloped areas. The Preparatory Commission had also recommended setting up an Economic Development Committee that was expressly concerned with methods of increasing productivity and production in less developed economies.<sup>11</sup>

The World Bank and the International Monetary Fund (IMF) had no specific mandates for productivity growth in developing countries.<sup>12</sup> The postwar conferences in Bretton Woods in 1945, Geneva in 1947 and Havana in 1948<sup>13</sup> had economic agendas that were not concerned with structural change, the process of transforming a country from an informal, often agrarian economy to one with a productive and high-wage, high value-added, manufacturing-based economy. Given their much greater levels of productivity, the West's concerns were currency stabilisation and full employment. It was up to the newly independent countries of the global South to try and find solutions to the problem of structural transformation.

The critical question was and remains how to fund development and productivity growth. Newly decolonised developing countries in the 1950s and 1960s had scant access to capital whether through domestic mobilisation, foreign direct investment or export earnings. Such financing had to come from developed countries, which were the main donors to the BWI and therefore the main decision makers in terms of the disbursements. What was not yet called 'South-South cooperation' was nonetheless thwarted from the outset. There were, however, more successful and more visible efforts from within the multilateral UN system to put in place an agenda of redistribution. The NIEO discussed in the next section was the apogee of this phase of cooperation through which solidarity among developing countries focused on economic sovereignty. But the pushback from the North was always present and robust. For instance, the USA and the UK opposed setting up the UN Special Fund for Economic Development because it was to be administered by the General Assembly, in which already the numbers favoured developing countries. In the end, the financing functions



were channelled to the International Development Association (IDA), a sister organisation of the World Bank responsible for providing grants to the poorest countries while ensuring financial control remained with the largest Western donors.<sup>14</sup> Until the 1950s, early development thinking was dominated by Latin America and South and Southeast Asia.<sup>15</sup> By the late 1960s, however, many newly independent African countries became UN members and added heft to the Third World representation. Between 1960 and 1969, 33 African countries became independent, which added not only to the numbers in the global South but also to a heightened sense of urgency about economic transformation.

Incipient shifts in the world order were first manifested in the formation of the UN Conference on Trade and Development (UNCTAD) in 1964. The importance of the global South and the role of its founder Raúl Prebisch have been documented in a recent series of revisionist and influential research<sup>16</sup> and is well recognised in many other sources.<sup>17</sup>

UNCTAD's establishment was preceded by the declaration of the first Decade of Development in 1961 by the General Assembly and followed by the second Development Decade a decade later. Both of these declarations were underpinned by the need to provide gainful economic employment in the agriculture and rural sectors. UNCTAD negotiated for better terms of trade for commodity-producing developing countries while calling for industrial development to move from developed to developing countries. The 1970s were momentous for South-South cooperation within the ambit of the UN and set at least some of the collective bargaining benchmarks that were to follow in later years, especially in climate change negotiations.<sup>18</sup> Other UN organisations such as the United Nations Development Programme (UNDP) and the United Nations Industrial Development Organization (UNIDO) have played a significant role in reaching out to the UN's Southern members.. The UNIDO has played an important role in helping government and private sector organizations in developing countries create relevant technology policies. The UNDP has been instrumental in

helping capacity building for human development especially in least developed countries. Despite these efforts, there is no formal and centralised UN ‘development system’.<sup>19</sup> While the World Bank tried to promote growth through large infrastructure investments with the help of developing country governments, the idea of structural transformation was inadequately formulated within mainstream development strategies.

## **The hope and reality of the NIEO**

In the first few years of the 1970s developing countries were buffeted by an unfortunate combination of lowered import demand and prices for primary commodities<sup>20</sup> accompanied by higher prices for processed exports from developed countries. With most industrialised countries struggling to keep their economies afloat after the collapse of Bretton Woods System, developing countries came together in a manner not seen since the UNCTAD’s beginning and would not be seen again until the negotiations on emissions in Kyoto some two decades later.<sup>21</sup> The movement began with member states pronouncing the Second Development Decade a failure at a summit of the Non-Aligned Movement in 1973 in Algiers. In 1974 the Algerian president and the driving force behind the NIEO, Houari Boumediene, along with Mexican president Luis Eccheverría, called for a special meeting of the UN General Assembly to discuss the price of raw materials and problems related to underdevelopment. Meeting from 9 April to 2 May 1974, member states adopted a Declaration on the Establishment of a New International Economic Order and a Programme for Action. The declaration was not necessarily one in the tone of cooperation but was one of ‘correction’ of the harm done by economic and political systems of the past dominated by colonial powers.<sup>22</sup>

The NIEO’s demands included compensation for exploitation under colonial rule, complete sovereignty over natural resources and industrialisation, and increased technology

transfer in order to redress the gap in development between the developed and developing countries. The 'Green Revolution' had only been able to increase agricultural production in a few developing countries, and growth based on agriculture was not just constrained by unfair terms of trade in the export market as posited by Hans Singer and Prebisch<sup>23</sup> but also by the failure to achieve increasing returns. Hence, the declaration's insistence on strategies for industrialisation that could help countries derive Kaldorean increasing returns to scale.<sup>24</sup> The USA voiced its reservations about the NIEO, but the General Assembly's adoption of the Charter of the Economic Rights and Duties of the States in December 1974 solidified anew solidarity among industrialised countries that had been temporarily disrupted by the oil-price increases imposed by the Organization of the Petroleum Exporting Countries (OPEC). Most OECD countries voted against the charter.<sup>25</sup>

Yet the need for formulating policies for growth and ensuring redistribution remained an agenda item. In the late 1970s, the poorest 70 per cent of the global population were living in 115 countries.<sup>26</sup> The Programme of Action incidentally had a provision for special assistance for the poorest countries and insisted on debt relief as well. These calls were long before the World Bank and the IMF initiated the HIPC programme in 1996, or even before the IMF started lending to indebted African countries in the early 1980s and without the raft of conditionalities associated with them.

The Seventh Special Session reaffirmed a demand in the Programme for Action that outlined how the IMF's Special Drawing Rights (SDR)<sup>27</sup> should be linked to development financing. The demand for such a linkage prompted a number of similar demands across various groupings in the global South. At heart was the issue that international liquidity was increasingly in the form of national currencies that were termed 'hard', to which the monetary authorities of the developing countries had scant access. This absence of access effectively kept them out of money markets and reduced access to liquidity. The crucial fact

underpinning this state of affairs was the acute lack of financing for development, a gap that developing countries had tried to cover with aid and then trade but were still unable to overcome.

The General Assembly's regular session in 1975 sought to link the NIEO more closely to the Conference on International Economic Cooperation (CIEC) or the so-called Paris Talks of the North-South Dialogue, an ongoing process from 1975 to 1977 to open up areas of cooperation between the North and the global South. However, the underlying reason for the Paris Talks was the temporary leverage provided to oil exporters in the global South in the middle and late 1970s. There was a short-lived hope that OPEC's successful oil embargo in 1973–1974 had showed the way for leveraging collective bargaining by other primary producers. The reality that other commodities did not have the same importance as oil was a setback to the NIEO. The multilateral talks involving 26 countries and the European Community—a mix of developed, less developed and oil producing countries—were supposed to provide some direction towards energy security for less developed countries but ended up laying the foundation for weakening support for the NIEO.<sup>28</sup> A paper written by the Overseas Development Institute commenting on the talks at the time describes the CIEC as being 'less traumatic' for the developed countries than UNCTAD,<sup>29</sup> which had succeeded in extracting some gains for developing countries, especially with reference to trade. By the mid-1980s, the NIEO was no longer the point of reference for multilateral economic conversations. Ironically, the World Bank backed by the USA assumed the mantle of supporting the poorest among developing economies.

The NIEO lost momentum due to concerted opposition from developed countries and a breaking of ranks by OPEC countries that were not willing to provide either oil at concessional prices or financing (from their trade surplus) at concessional rates.<sup>30</sup> In the Western world, the elections of Ronald Reagan, Margaret Thatcher and Helmut Kohl resulted

in the rise of the discourse about free markets and the demise of state-led development discourse. American foreign policy dictated World Bank lending even though the institution came under much criticism in the rhetorical attacks of the NIEO.<sup>31</sup> It was, however, the Latin American financial crisis that required emergency bailouts of near bankrupt countries such as Mexico and Brazil that re-established the primacy of the BWI in the international financial system. This brought on the so-called Washington Consensus that gave rise to the good governance paradigm.<sup>32</sup> This BWI policy prescription for developing economies linked growth to free markets, rule of law, property rights and democracy. Developing countries quickly fell in line, and these policies were accepted widely as many faced slowing growth and debt crises. Moreover, state-led policies had provided little or no results. It is worth noting that the increased lending to highly-indebted least developed countries for structural adjustment<sup>33</sup> through the SAF and ESAF still accounted for a small portion of the IMF's lending that was still dominated by loans to middle-income countries such as Brazil and Mexico.<sup>34</sup> It should however be noted that , the problem with state-led growth was not state involvement but policies that were too ambitious given the state's capacity to enforce them.

One reason for the NIEO's failure was that it was more a demand for political recognition than a realistic policy framework; in addition, there were enormous collective action problems within the coalition of the global South. It began by helping developing countries deal with commodity prices, especially oil, but then it lost its way. Major oil producers such as Saudi Arabia were willing to break ranks and not supply oil at concessional rates to other developing countries, which in fact were bankrupted in many cases by the debt resulting from skyrocketing oil prices. The other crucial reason was that the NIEO did not link the demand for more financing and on better terms with a credible strategy for making the financing effective in terms of delivering such results as greater competitiveness, productivity and diversification. There was little interest from developed countries to

abandon the successful contract-enforcement arrangements of the World Bank with debtor developing countries. In addition, the World Bank had successfully created infrastructure in countries where little had existed under existing contracting arrangements for financing.

The NIEO attempted structural transformation, a process tied to the internal political dynamics of a country. Policies attempting to change the structure of the economy would tend to move the economy from a pre- or proto-capitalist structure to a more formal broad-based (or relatively less iniquitous) capitalistic structure. Hence, such a transformation is about changing the distribution of benefits across the economy; and it creates winners and losers as those benefiting from extra incomes or 'rents' in the older economic structure would either lose out or have to invest in becoming competitive. This process is an intensely political one in developing countries as governments too are tied to economic factions or groups on whom they rely for support. If the impact on their interests is negative, such groups either strongly oppose change or simply block it.<sup>35</sup> Developing country governments have been unwilling to interfere in one other's political structures, yet another reason why the NIEO failed.

The NIEO's rejection by the West and the BWI was the result of a Cold War reality by which the BWI represented Western interests (the primary financial sources) and quickly sought to reassert their primacy and maintain their position as the superior alternative to the communist bloc.<sup>36</sup> The hope was that asking for corrective economic measures would somehow provide a foundation from which to build greater political unity among the global South.<sup>37</sup> The UN General Assembly was an apt forum to host a multilateral movement through which developing countries challenged Western dominance of the global order. While the BWI remained largely within the purview of Western interests, the UN had both a normative and practical basis for creating the NIEO because of its membership and organisational structure as well as its founding principles.

## **The future of South-South economic cooperation: brick by BRICS?**

The question posed at the outset brings us to consider whether the growing dominance of the global South led by China can signal the beginning of an alternative framework for financing in the global South. The need for growth-oriented policies in the developing world financed by capital from more advanced economies has not grown weaker since the signing of the UN Charter. But before moving on to what such policies require to succeed, recent developments in South-South cooperation should be analysed. The NDB, popularly known as the ‘BRICS Bank’—Brazil, Russia, India, China and South Africa constitute the BRICS—was set up in July 2014 and is part of the alternative discourse challenging the primacy of the Western economies in global financing. The NDB is a multilateral development bank that will first attempt to address some of the members’ development funding gaps and later lend to other developing countries. The coming together of five countries to form the bank has a sound basis. They only have 11 % of the votes at the IMF despite recent reforms in voting rights that were finally endorsed by the US Congress. However, together they account for 40 % of the world’s population and their combined gross domestic product (GDP) is over 25 % of global GDP. China has also set up the Asian Infrastructure Investment Bank, which has a much wider membership than the NDB (close to 60 countries) and includes advanced and middle-income economies. This makes it much more multilateral than the NDB, and the AIIB in fact is seen as a direct rival of the Asian Development Bank, which is dominated by Japan and to a lesser extent the IMF and World Bank. Significantly, the USA and Japan have not joined the AIIB, although the United Kingdom and other Western countries have.

It is too early to say if Washington will concede and join the AIIB; and even if it does, it is unlikely to signify a real challenge to the position of the BWI. Despite the rise of China, the dominance of the IMF and the World Bank accurately reflects the fact that despite its

relative decline, the USA continues to dominate global power structures of all types. It is unlikely that the IMF or the World Bank will be significantly challenged by the NDB or even the AIIB. The rules of the global financial architecture that underpin and guarantee the global flows of capital have to be consistent with global politics and the distribution of global power. Until emerging economies demonstrate a willingness to play a global enforcement role, their greater ability to provide finance will not on its own give them the ability to change the ground rules of global finance that the IMF and the World Bank follow and that appear closely aligned with Western financial interests. They remain dominant because these global rules are widely perceived to be enforceable. Any threat of a breakdown is likely to invoke moves to shore up the system by many of the (still) most powerful states in the world, and this perception leads participants in global markets to adhere to these rules—whether from the North or the global South. The relative power of the US-led West is less than it used to be, but the challenges are not yet enough for an alternative global political settlement to be discernible. Thus, while China is certainly becoming much more powerful in its economic might, the paradox is that the effects on the global financial architecture are less dramatic and slower than one might imagine.

Two reasons stand out as explanations. Even though China is the second largest economy in the world and is poised to take over the leading position from the USA in the next few decades, per capita income in China (about \$ 7,600 in 2014) still lags far behind the USA (about \$ 55,000 in that year). Thus, even when China overtakes the USA in aggregate GDP, it will remain far behind in per capita terms, which means that it will be a long time before China can match the USA in productivity and innovation. Thus, it is unlikely that China will achieve technological leadership over the USA within the next half or even full century. Moreover, China does not have an alternative ideology that it wants the world to adopt unlike the USA at the end of World War II. China does not have an interest in



spreading its particular political and economic ideology or to define a global financial architecture based on alternative economic or political principles.

On the contrary, it appears willing to engage with any country from which it can benefit, without attempting to change its internal workings; and China appears largely willing to work within the existing global financial architecture with only minor modifications. Washington's tacit support is still important for Beijing and is and likely to remain important because that would provide greater credibility of contract enforcement for both borrowers and lenders, even if the terms of the lending and the sources of financing are different from those of the World Bank or IMF. If the USA does become a member of the AIIB, the question is whether it will employ its global enforcement capacity. The Chinese adhere to contract enforcement rules laid out by the USA because global enforcement is still impossible without Washington's support. For instance, a country could default on a Chinese loan but not with the IMF. And even if it did, the repercussions for that country would be damaging, as was the case for Argentina.

It is moot whether the NDB or AIIB will provide funds on terms very different from the World Bank or IMF: that will depend on whether the Chinese can control who gets the resources, and what a debtor does with them. But if these organisations do become more multilateral, and if a more viable set of criteria for developmental lending do not emerge, then the NDB and AIIB may well adopt World Bank-like conditionalities to govern lending. The fact that China has recently joined the European Bank for Reconstruction and Development (EBRD) also signals its willingness to play by the West's enforcement contracts. Nevertheless compared to the USA, China is closer to developing countries structurally and more in tune with the governance conditions in many of them having relatively recently become an 'emerging power'. It thus may be easier for the Chinese to

understand the imperatives of developing countries better and design financing that is more suitable. However, they will also have to ensure contract enforcement.

It would in theory be in China's interest to foster a new multilateralism that helps other developing economies to accelerate their development, to adopt and adapt technologies for rapid productivity growth. While such growth can happen in any sector, in most developing countries manufacturing drives productivity. As explained earlier, manufacturing provides greater scope for achieving dynamic increasing returns to scale (higher growth leading to higher productivity growth that leads to further growth, a virtuous cycle). It is also easier to organise manufacturing than agricultural growth in developing countries. Rapid productivity growth in agriculture necessarily means moving away from peasant agriculture to 'capitalist' farming on large tracts of land. Given the problems of contested land rights and the political difficulty of aggregating small parcels in developing countries on which marginal farmers subsist, high rates of productivity growth in agriculture are typically very difficult to achieve. Services can appear to be an attractive alternative, but high-value services require large pools of very educated people. Some countries such as India had such pools and underemployed people at particular points in their history for very specific reasons, but the vast majority of people in developing countries have levels of skills that are too low to drive service-driven productivity growth. In contrast, it has been possible for even low and lower-middle income countries such as Bangladesh and Vietnam to develop successful manufacturing sectors in such segments as garments. The challenge for most developing countries is to diversify their manufacturing and move up the productivity ladder.

That challenge requires assistance from credible financial institutions so that investments can be channelled to potential growth sectors while disciplining the use of resources to avoid misappropriation or waste. Appropriate institutional rules have to be consistent with local politics so that the conditions of financing are credible and recipients

feel compelled to put in high levels of effort in developing economic entities that can be competitive.<sup>38</sup> Such a global structure of financial institutions clearly does not exist, which explains why sources of finance often do not feel safe in lending to countries and firms in which the borrowing firms do not already have organisational structures that can engage in competitive productive activities.<sup>39</sup> The development of a global financial architecture that would make these types of financial flows easier would require multilateral action, but it would also require new thinking about the development of monitoring and enforcement capacities of global financial institutions engaged in development lending well beyond the 1945 debates at Bretton Woods.

## **Conclusion**

The global South has made several attempts to change the global order that has structured development finance, but with very limited success. One reason has been the interests and dominance of the North but another equally important reason has been the failure to articulate and identify the conditions under which effective development financing could dramatically accelerate productivity growth and structural transformation in developing countries. It is increasingly clear, however, that a sustainable world system can only be possible through an overhaul of current financing. Ultimately, economic governance is as much about global political capacities because global economic governance has to be underpinned by agreements and enforcement. Hence, the dissonance between global US and Chinese interests make it unlikely for a comprehensive pact to be reached soon about global financing arrangements. However if they were to agree on incremental changes to the financial architecture, developmental prospects and outcomes would benefit. Even such changes on the margin would still be of a magnitude to ensure a more dramatic global financial system for development.

## Notes

<sup>1</sup> Khan, "Political Settlements," 1-20.

<sup>2</sup> Nilman, *New International Economic Order*, 2.

<sup>3</sup> Khan, "Technology Policies, 3-15.

<sup>4</sup> DFID, Statistics on International Development, 36; OECD, Statistics.

<sup>5</sup> Roy, "Financing Gaps," 8.

<sup>6</sup> Khan, "Political Settlements," 1-20.

<sup>7</sup> Jolly et al., *UN Contributions*.

<sup>8</sup> Keynes work focused on the lack of aggregate demand in industrial economies. This problem could be addressed through government spending that could revive sentiment resulting in investment by the private sector. This necessarily implied the presence of existing productive sectors that could be restored by public stimulus.

<sup>9</sup> Jolly et al., *UN Contributions*.

<sup>10</sup> Childers and Urquhart, *Renewing the United Nations*, 56.

<sup>11</sup> *Ibid.*, 58.

<sup>12</sup> In all fairness the BWI did focus on the Third World, but it was in more specific areas of financing balance of payment disequilibria or to help in developing infrastructure. The problem of structural transformation was never seriously addressed.

<sup>13</sup> Bretton Woods Conference established the IMF and World Bank. The General Agreement on Trade and Tariff was signed in Geneva and Havana was meant to be bring into existence the International Trade Organization, the charter for which ultimately did not come into force. [SHOULDN'T THIS BE THE HAVANA CHARTER, a precursor to the General Agreement on Tariffs and Trade, GATT? Please check.]

<sup>14</sup> Burley and Brown, "The United Nations and Development," 9.

<sup>15</sup> Jolly et al., *UN Contributions*.

<sup>16</sup> Toye and Toye, *The UN and Global*; Jolly et al., *UN Contributions*; Burley and Brown, "The United Nations and Development; Emmerij et al., *Ahead of the Curve?*.

<sup>17</sup> McMichael, "Development and Social Change," 56; Meagher, "An International Redistribution," 201; Bockman, "Socialist Globalization," 114.

<sup>18</sup> Nilman, *New International Economic Order*, 10.

<sup>19</sup> Burley and Brown, "The United Nations and Development," 13

<sup>20</sup> Developed countries were facing a severe economic downturn from the early 1970s due to the unravelling of the Bretton Woods System that decreased their exports and therefore lowered commodity prices globally. These countries were also facing severe inflation that increased the prices of their exports to developing countries.

<sup>21</sup> The targets set in the Kyoto Protocol for developing countries were such that they were not subject to commitments on reduction of emissions in the first Kyoto commitment period, a demand made by the G77 and China, which was then yet to be a member of the G77.

<sup>22</sup> Osmanzyck and Mango, "Encyclopaedia of the UN," 1550.

<sup>23</sup> Prebisch, *The Economic Development of Latin America*; Singer, "The Distribution of Gains."

<sup>24</sup> Much of the heterodox research on industrial growth and transformation is based on Nicholas Kaldor's work on increasing returns that links growth in manufacturing to growth in productivity due to increased 'learning' that decreases firm-level costs and drives cumulative causation giving rise to economy-wide growth. Production in agriculture is, however, constrained by decreasing returns when one factor, usually land, is naturally scarce. At some

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point, all fertile land would be already used, and the remaining infertile land would produce less and less.

<sup>25</sup> Osmanzyck and Mango, “Encyclopaedia of the UN,” 1551.

<sup>26</sup> Laszlo et al., “The Objectives,” xxii

<sup>27</sup> The SDR is an international reserve asset created by the IMF in 1969, and its value is linked to the exchange rates of the US dollar, yen, pound sterling and euro. It is not a currency but can be exchanged for the four hard currencies when countries need access to liquidity. Countries can either exchange their SDRs, or the IMF can direct countries with strong foreign exchange reserves to purchase SDRs from members who need hard currency. There have been occasional calls to make SDRs the global reserve currency even after the NIEO demands.

<sup>28</sup> One reason for this was OPEC countries especially large producers such as Saudi Arabia were unwilling to provide oil at concessional rates to developing countries and also wanted to ensure a stable supply relationship with its largest customers, the Western countries.

<sup>29</sup> ODI, “Paris Conference.”

<sup>30</sup> Laszlo et al., “The Objectives”; Sharma, *The World Bank*.

<sup>31</sup> Sharma, *The World Bank*.

<sup>32</sup> **Cite needed**

<sup>33</sup> The IMF lent money through its structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) to many debt-laden African countries in the 1980s on the basis of several conditions of achieving structural adjustment, which essentially meant cutting deficits, trade liberalisation, and privatising industry irrespective of the need or not for these policies.

<sup>34</sup> Bird, *The International Monetary Fund*, 482.

<sup>35</sup> Khan, “Political Settlements,” 7.

<sup>36</sup> Sharma, *The World Bank*.

<sup>37</sup> Gilman, *New International Economic Order*, 5.

<sup>38</sup> Khan, “Technology Policies,” 3–15.

<sup>39</sup> Roy, “Financing Gaps,” 8.

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