Globalisation

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Executive Summary

Introduction

Global economic integration poses the greatest development challenge of the 21st Century. The expansion of world markets through increased flows of trade and finance has created unprecedented opportunities for wealth creation, yet the human development gains have been disappointing. The benefits of globalisation have been disproportionately captured by rich countries and powerful transnational companies, while poor countries and poor people have been left behind. The gap between winners and losers is widening at an alarming rate. What is needed is a system of global governance capable of narrowing this gap and distributing opportunity more widely.

Failure to develop more equitable patterns of globalisation will result in the 2015 target of halving world poverty being missed. Contrary to the claims of some that the benefits of globalisation are automatic, and automatically good for poverty reduction, the 1990s ended with 70 million more people in the developing world (excluding China) in poverty than at the start of the decade[i]. Progress has been most disappointing in Africa. But even higher growth regions such as South Asia and Latin America have failed to convert the economic benefits of integrating into global markets into poverty reduction.

Rising inequality has been a hallmark of globalisation. The income gap between rich and poor countries has reached record levels – and continues to widen. Income distribution is also worsening in a large group of developing countries. At the same time, inequality in intra-household distribution may also be exacerbated by globalisation, and care should be taken to consider the distribution of benefits between men and women.

Increased inequality is primarily responsible for the failure to convert growth into poverty reduction. If the 2015 targets are to be met, poor countries need to capture a larger share of global GDP and world markets; and poor people need to capture a larger share of the national economic cake. Inequality at current levels represents a 'lose-lose' scenario: it is bad for poverty reduction and bad for growth.

Policies associated with globalisation have skewed the benefits of economic growth in favour of rich countries. Protectionism costs poor countries over $700bn[ii] a year, along with opportunities for growth and employment. Intellectual property rules are raising the cost of technology transfer. Meanwhile, the failure of northern governments to regulate international financial markets more effectively has contributed to mass poverty in East Asia. The problem is not so much the absence of regulation, as regulation in favour of the wealthy. International aid, which is important in creating more equitable patterns of globalisation, has been cut. If the credibility of multilateralism is to be restored, more equitable systems of trade and financial rules must be developed. The British Government has a central role to play.

National policies associated with globalisation have frequently been bad for poverty. Trade liberalisation has created opportunities for those with assets, while exposing the poor to increased – and often unfair – competition. The deregulation of capital markets, assiduously promoted by northern governments and the IMF, has destroyed livelihoods on a massive scale. More generally, governments have failed to back market reforms, which are often long overdue, with the redistributive measures needed to make a dent in poverty.

Reforms are needed across a wide range of issues to be covered in the White Paper. More fundamentally, global markets need to be underpinned by global rules and institutions that place human development and the public good above the pursuit of corporate self-interest and national advantage.

Finance and capital flows

Capital market liberalisation has wrought havoc since the mid-1990s. It has brought poverty and instability to a large group of developing countries, many of which had established a successful track-record in human development. The IMF, supported by the US Treasury, has played a central role in promoting the opening of capital markets. Many of the winners are located on Wall Street. Most of the losers are included in the statistics of people living on less than $1 a day. The development of global capital markets has also increased opportunities for tax evasion, costing developing countries billions of dollars.

The British Government should:

- **Press for effective capital controls and seek to stop IMF support for capital account liberalisation**
- **Work for the development of multilateral debt relief rules under which private creditors are required to reduce their claims on debtors**
- **Press for more effective management of institutional investors in the global capital market**

Foreign Direct Investment

Foreign direct investment has the potential to make an important contribution to poverty reduction. It can provide scarce capital and act as a conduit for transferring skills and technology. However, unregulated foreign investment is unlikely to generate growth with equity. National policies are needed to build linkages between foreign investors and the local economy – and international policies are needed to set standards for corporate behaviour.

The British Government should:

- **Work for an effective multilateral agreement to establish guidelines for corporate behaviour**
- **Seek the reform of international rules restricting the right of governments to control foreign investment**
- **Press for international action to combat problems such as transfer pricing and tax avoidance**

Trade

International trade is far more important than aid in defining opportunities for poverty reduction. Yet poor countries are excluded from opportunities in international markets by protectionist policies in northern markets. At the same time, the livelihoods of poor producers have often been undermined through poorly designed trade liberalisation.

The British Government should:

- **Continue to press for free access to industrial country markets for all exports from the least developed countries**
- **Demand urgent action to reduce trade barriers in areas of special importance to the poorest countries, including agriculture and textiles**
- **Press for an end to dumping and reform of the WTO agreement on agriculture to allow poor countries to protect their food systems in the interests of rural livelihoods and food security.**
- **Support international efforts to stabilise commodity prices at remunerative levels, and use the aid programme to support risk sharing schemes for commodity producers**
- **Press for reform of the TRIPs agreement to reduce the length and scope of patent protection**

Insecurity, conflict, and illicit trade

Inequality fuels conflict, and the unequal spread of the benefits of globalisation have left some regions marginalised and unstable. In the war economies of Sierra Leone, Angola, and elsewhere, illicit trade in diamonds and drugs pays for the arms which sustain war. These conflicts have left millions dead, and driven many more from their homes. Although globalisation has helped nurture the global consciousness which demands that something should be done to help the victims of conflict, the response of the international community is biased by economic and political interests.

Britain, as the 3rd largest exporter of arms, a centre for the diamonds trade, and a member of the Security Council, has a key role to play. The Government should:

- **Enact new legislation on arms covering loopholes on brokering, licensed production, and end-use controls. Work for an international code of conduct on arms sales**
- **Ensure full transparency and regulation of the diamond trade**
- **Establish transparent principles for future peace enforcement and other Security Council actions, and their consistent implementation**
- **Ratify the statute of the International Criminal Court**

Domestic policies

Better global governance would help to achieve a wider dispersion of opportunity in the international economy. It would create an enabling environment for economic growth. But the rate at which growth is converted into poverty reduction will depend on national development strategies. One of the reasons that globalisation has produced such disappointing outcomes for poverty reduction is that governments in poor countries have failed to combine market reforms with measures to extend market opportunities to poor people. Lacking the assets and skills they need to participate in markets on reasonable terms, the poor are often bypassed by growth. There is no single blueprint for a successful poverty reduction strategy – including the blueprint offered by those who see free markets as a panacea for poverty.

Among the key ingredients for achieving economic growth with equity:

- **An effective national poverty reduction strategy at the centre of macro-economic and budget planning**
- **Redistributive policies in areas such as taxation and land reform**
- **Budget priorities that reflect a commitment to health and education**

Debt relief and aid

Debt relief and aid are of great importance to the development efforts of a large group of the world's poorest countries. The Heavily Indebted Poor Countries (HIPC) Initiative improved prospects for a resolution of the debt crisis in low-income countries, though the pace of implementation remains disappointing. Meanwhile, aid flows have been cut at a time when policy reforms in many recipient countries have improved the potential for effective development co-operation.

The British Government has a strong record on debt relief, having led the HIPC Initiative, and on aid. Among the important future priorities:

- **More rapid implementation of the HIPC Initiative and a stronger link between debt relief and poverty reduction**
- **Leadership in pressing for accelerated progress towards the UN aid target of 0.7 per cent of GDP and improved quality of aid, especially EU aid**
- **Ensure that export credits are screened to guarantee that they will contribute to sustainable development and poverty reduction**

Global institutions

The institutions created to oversee the global economy after the end of the Second World War are failing to meet the challenges of globalisation. Multilateralism is vital to the stability and prosperity of the global economy, and to global poverty reduction efforts. But existing multilateralism is failing. It is rightly perceived as being ineffective, lacking in credibility, and oriented towards the interests of powerful countries and corporations. Major reforms are needed, especially in the IMF and the WTO.

The British Government should:

- **Use its influence to press for more poverty-focussed IMF programmes, both in low-income countries and in countries affected by financial crisis**
- **Press for the democratisation of multilateral institutions and for increased accountability and transparency**
- **Support efforts to enhance the 'voice' and representation of the least developed countries in the WTO**

Section 1. An Overview of Globalisation

Introduction

Oxfam welcomes the Government's decision to prepare a White Paper on the theme of globalisation. In 1997, the White Paper on International Development helped to define a new course for national policy. It made poverty reduction and achievement of the key 2015 development targets the centrepiece of development co-operation. It also recognised that, in an increasingly complex and integrated international economy, international trade, capital flows and global governance are far more important than aid in defining prospects for poverty reduction. The new White Paper provides an opportunity to assess whether current policies in these areas are consistent with the international community's commitment to the 2015 targets. More importantly, it provides an opportunity to define a new role for Britain in championing the interests of the world's poorest countries and poorest people. As a member of one of the world's most powerful trading blocs, as a major source of private capital, and as an important player in institutions such as the UN, IMF and the World Bank, Britain has special responsibilities and it has the capacity to make a difference.

Inevitably, perspectives on globalisation are shaped by the vantage point of those viewing the phenomenon. Globalisation has opened new markets and investment opportunities for British companies, but British citizens have not been immune to the insecurity created by capital mobility - a fact underlined by the recent vicissitudes of the car industry. The same theme of 'winners' and 'losers' pervades the experience of poor countries. Women textile workers in Bangladesh, workers in the hi-technology industries of Bangalore, and millions of workers in countries as diverse as China, the Dominican Republic and Malaysia have benefited from export opportunities and foreign investment. At the other end of the spectrum, poor farmers in Mexico and the Philippines have seen their livelihoods destroyed by competition from imports, and millions of Indonesians have seen the human development gains made over a generation wiped out by instability of capital markets.

Northern governments, including the British Government, have tended to stress the enormous potential inherent in globalisation. They have also promoted the spread of global markets, not least through the World Trade Organisation, the World Bank and the IMF. The potential gains are real, but they are not automatic – and in many cases the policies promoted in the name of globalisation have not addressed human development problems. As Joseph Stiglitz, the former Chief Economist at the World Bank has commented, the received wisdom took "privatisation and trade liberalisation as ends in themselves, rather than means to more sustainable, equitable and democratic growth." It is precisely this approach, and a failure to develop more equitable strategies for global governance, that is failing the poor. The end result is a process of globalisation that is redistributing wealth and opportunity in the wrong direction, from the poor to the rich. This is morally indefensible, economically inefficient, and socially unsustainable. Left unattended, extreme inequalities between countries will generate political instability and

undermine the very foundations of multilateralism. What is needed is a system of global governance capable of managing a process of globalisation with redistribution in favour of the poor.

Global integration is proceeding at breakneck speed as barriers to trade and capital come down and new technologies come on stream. The benefits are obvious: faster growth, more choice, higher average incomes, and new opportunities. But the process is uneven and unbalanced, as is the distribution of opportunity. As the UN Secretary General has put it: "How can we say that the half of the human race which has yet to make or receive a telephone call, let alone use a computer, is taking part in globalisation? We cannot without insulting their poverty."[iii] Poor countries and poor people are being left behind in increasingly marginalised enclaves of deprivation within an ever more prosperous global economy. The rules of globalisation have neglected the needs of those least equipped to benefit from new opportunities. In fact, they have been written by rich countries and powerful transnational companies, primarily with a view to their own advantage.

The consequences are reflected in the ever more obscene income gap separating rich and poor countries – and in growing income inequalities within countries. While the benefits of globalisation have been disproportionately captured by the rich, the poor bear the costs of increased vulnerability. Failure to change this picture through a major redistribution in favour of the poor will undermine national and international efforts to reduce poverty, restrict opportunities for economic growth, and - ultimately - generate instability. But globalisation with redistribution will require new approaches to multilateralism. Global markets, like national markets, must be underpinned by rules based on shared ideas about social justice, rather than the unrelenting pursuit of corporate profit and national self-interest.

Globalisation and poverty?

Current debates suffer from three widespread globalisation myths. The first is that there is nothing new or distinctive about globalisation at all. The second is that globalisation is an inherently benign motor driving increased prosperity and accelerated poverty reduction – a view that remains widespread among governments and international financial institutions. The third myth is the flip-side of the second. It holds that globalisation is inherently bad, and that it will necessarily increase poverty, aggravate inequalities and jeopardise social rights.

Contrary to the first myth, Globalisation does in fact represent a new era in international economic relations. Global integration has a chequered history over the past century. Trade and investment flows expanded rapidly before the First World War, but declined in

the 1920s and 1930s in the face of trade barriers and national controls. For three decades after the 1950s, global integration and liberalisation in trade proceeded slowly (and even more slowly in investment), before taking off in the 1980s. What has happened since then represents a qualitative break with the past.

Broadly defined, globalisation is a process of rapid economic integration driven by the liberalisation of trade, investment and capital flows, as well as by rapid technological change and the 'Information Revolution'. International trade growth has consistently outstripped global GDP growth for almost two decades, so that almost all countries are now more dependent on trade. World financial markets and capital flows have expanded rapidly, further integrating national economies. The growth of money markets has been even more spectacular, with over one trillion dollars a day traded in currency transactions. Today, we are all more immediately affected by distant economic events than ever before. At the same time, new technologies have led to the development of increasingly knowledge-based systems of trade and production. In the future, national wealth, and the distribution of income, will increasingly reflect the distribution of human capital and the ability of populations to absorb and assimilate knowledge.

The second myth, which holds the globalisation has unleashed a new era of rising prosperity and accelerating poverty reduction, is increasingly difficult to square with the facts. Economic growth in the world economy was modest in the 1990s, and while the 'growth gap' between rich and poor countries narrowed this was almost entirely due to the dynamism of pre-crisis economies in East Asia. The income gap between the world's poorest region, sub-Saharan Africa, and the industrial countries continued to widen, albeit at a reduced pace.

What do current growth trends mean for the 2015 target of halving income poverty? Recent estimates from the World Bank suggest that the proportion of people living on less than $1 a day declined from 32 per cent in 1987 to 26 per cent in 1998[iv]. Projecting this trend forward to 2015 produces a headcount index of 17 per cent, which is broadly in line with the 2015 target. However, almost the entire gain is due to East Asia, where growth estimates have been revised downwards following the 1997 financial crisis. If this region is excluded, the incidence of income poverty has declined by less than 2 per cent in the 1990s, from 35 per cent to 33 per cent.

If current trends continue there will be a massive shortfall in relation to the 2015 goals, with the incidence of poverty in non-East Asian countries declining by 20 per cent, compared to the target rate of 50 per cent. In terms of overall numbers, the population affected by poverty declined only marginally during the 1990s, with 1.2 billion living below the poverty line. Excluding China, the number of poor people *increased* by 70 million in the 1990s[v]. If current growth trends continue, this number is projected to increase over the next decade.

Overall trends obscure important regional variations. During the 1990s per capita incomes in sub-Saharan Africa have increased by only 0.1 per cent per annum, following a decade of declining real incomes. The incidence of poverty has remained static, while the headcount has increased by almost 50 million. Latin America has integrated into the

global economy more rapidly than any other developing region. Trade barriers have fallen and foreign investment regimes have been liberalised. Yet despite a strong economic recovery, the incidence of poverty remained the same, with another 5 million joining the ranks of those living on less than $1 a day[vi]. In South Asia average incomes increased by almost one third, while the incidence of poverty fell by only 4 per cent. At the end of the 1990s, the region had around 27 million more people living on less than $1 a day than at the start of the decade. There are also worrying signs for the future. In India, home to almost half of the world's poor, the rate of poverty reduction has slowed in the 1990s, suggesting that the linkage between growth and poverty reduction is weakening[vii].

But if globalisation has failed to generate the automatic benefits predicted by some, it would be wrong to caricature it, as in the third myth, as an inherently destructive force. It is true that international trade creates winners and losers, and that the losers are often poor, but the poor also figure in the ranks of the winners. In Bangladesh, textile exports have created jobs for hundreds of thousands of desperately poor women. Access to northern markets has generated income needed to raise nutritional standards, meet health needs, and educate children. East Asia has recorded the most rapid reduction in poverty in history, partly as a result of rapid export growth. In China, that growth has been supported through sustained increased in foreign investment. The new technologies associated with globalisation also have the potential to improve the lives of the poor. In Latin America and South Asia, Oxfam is working with groups of producers using simple computer software to improve access to market information. All this suggests that the view that globalisation is inherently bad for the poor is wrong, what matters is that globalisation is managed in a way that extends opportunities for poor people by overcoming the disadvantages linked to their poverty.

Growth with equity: the missing link

Widening inequalities are at the heart of the failure of globalisation to usher in a new phase of rapid human development. Inequalities matter for poverty reduction for an obvious reason: the larger the share of the economic cake and increments to growth captured by the poor, the faster the rate of poverty reduction. But extreme inequality is not just bad for poverty reduction – it is also bad for growth. This is because it restricts the size of markets and the potential for investment and innovation. Unfortunately, current patterns of globalisation are reinforcing already wide income inequalities, both at the global level and at the national level. These trends must be addressed by a redistribution of opportunity both within and between countries.[viii]

Inequalities are most pronounced at the global level. Today, the ratio of average GNP of the richest countries with one fifth of the world's population to the GNP per capita of countries with the poorest fifth, is 74:1. In 1990 it was 60:1, which was twice the ratio in 1960. While some countries in East Asia have closed the income gap, the poorest

countries in particular have lost out. At the end of the 1990s, seen by some as the first decade of globalisation, the richest fifth of the world's population accounted for[ix]:

- 86 per cent of GDP (compared to 1 per cent for the poorest)
- 80 per cent of exports (compared to less than 1 per cent for the poorest)
- 70 per cent of foreign investment (compared to 0.8 per cent for the poorest)

Three decades ago an International Commission chaired by the former Canadian Prime Minister Lester Pearson concluded that: "the widening gap between the developed and the developing countries has become the central problem of our time." As the above facts suggest that problem remains unresolved.

The distribution of benefits from integrating into global markets within countries has also been increasingly skewed in favour of the wealthy. The widening income gaps between rich and poor states in India, between coastal and inland areas in China, between the educated and the uneducated in Latin America, and between commercial and food staple crop producing areas in Africa are all testament to this problem. This includes countries that were already highly unequal (such as Mexico), countries that were previously more egalitarian (such as China and Thailand), poor countries (like Ethiopia) and rich countries (including the US and Britain)[x]. The most comprehensive recent review of national income inequality trends (the WIDER database) covers 77 countries, in 45 of which inequality is increasing[xi]. This calls into question previous - and current - World Bank research, which claims that growth during globalisation has been distribution neutral[xii]. National income distribution trends have profound implications for poverty reduction. For instance, highly unequal countries such as Brazil have to grow at three times the rate of more equal countries such as Indonesia to increase average income of the poorest 20 per cent by a similar amount[xiii].

It is sometimes argued that increasing inequality is a natural corollary of market-led growth. This conveniently ignores the role of governments in shaping distributional outcomes. The process of globalisation has often been presented as a triumph for free markets, both in the international economy and in national economies. In fact, markets have been carefully managed in a way that has produced anti-poor distributional outcomes.

Nowhere is this more apparent than in matters of international trade and finance. International trade is far more important to developing countries than aid, not least because it can provide the foundations for more self-reliant development. Yet protectionist barriers maintained by northern governments cost developing countries an estimated $700bn[xiv] a year – fourteen times the amount they receive in aid.
While northern governments preach free trade, they practice protectionism. The double standards are reflected in WTO rules. These allow northern governments to subsidise farmers on an epic scale, while demanding that poor countries liberalise their markets. This helps to explain why two decades of liberalisation by poor countries has produced disappointing results, with average trade deficits increasing by 3 per cent of GDP.[xv]

Trade policy is not the only problem. International aid could play an important role in supporting more equitable patterns of globalisation. Yet the past decade has witnessed unparalleled cuts in aid budget, now at their lowest levels in real terms for over twenty years. Similarly, failure to resolve the debt crisis in poor countries has crippled prospects for growth and poverty reduction. The management of private capital markets has also been highly disadvantageous for poor countries. Inadequate market regulation has left powerful financial conglomerates controlling vast sums in institutional savings free to move capital into high-risk developing country environments. When the East Asian crisis erupted in 1997, the same corporations were bailed-out by the IMF, which in turn imposed swingeing austerity measures responsible for a massive increase in poverty.

At a national level, globalisation has been accompanied by a familiar mix of policies: trade liberalisation, privatisation and financial market deregulation. While market reforms have often been long overdue, the pace, sequencing and design of reform has frequently widened the gap between rich and poor. For example, rapid trade liberalisation and economic growth in Mexico has been accompanied by an increase in poverty, with 12 million more people living below the poverty line. Much of the growth has been concentrated among large-scale manufacturing industry and commercial farming, linked in both cases to export opportunities in the US economy. The increase in poverty has been concentrated in the 'poverty-belt' states of the South, where the livelihoods of rural households have been undermined by subsidised agricultural imports.[xvi]

Making Globalisation Work for the Poor

The White Paper on globalisation needs to start from a recognition that current patterns of globalisation are inconsistent with the 2015 targets for human development - targets to which the British Government is committed. This is not to suggest withdrawal from global markets is an option for poor countries, even if it were possible. As Amartya Sen has written: "to be generically against markets would be almost as odd as being generically against conversations between people."[xvii] This applies per force to global markets. But acceptance of the reality of globalisation does not imply that global markets can be allowed to operate as they are at present. Principles of social justice and human development must be brought to the centre of the multilateral system, from where they are currently conspicuous by their absence. This is not just in the interests of poverty reduction and the world's poorest people. Ultimately, the concentration of power and wealth produced by the past ten years of global economic integration, coupled with the instability of the global financial system, makes present arrangements unsustainable.

What is needed is a reinvigorated system of global governance through which opportunities are more widely distributed. The survival of multilateralism is vital both to contain the systemic risks associated with globalisation, and to produce more equitable outcomes. But what currently passes for multilateralism, especially in the WTO and the International Monetary Fund, is unacceptable. Indeed, it is little more than a smokescreen for the pursuit of national and corporate self-interest.

The British Government is well placed to take the lead. It has championed the interests of the poorest countries in debt relief and trade, and it has a good record on aid. In other areas it is under-performing. Britain should be doing far more to reform the international financial system, pressing for new rules to protect the interests of poor countries against private creditors, to regulate institutional investors, and to reform the IMF. Similarly, there are areas in which more joined-up government is needed. In seeking to advance the interests and investment rights of British companies through the Multilateral Agreement on Investment, Britain directly threatened the development of national poverty reduction strategies. Similarly, the benefits associated with increased aid may be much smaller than the potential costs of the WTO's intellectual property regime, for which the UK has been a powerful advocate.

Fifty years ago, at the end of the Second World War, the founding fathers of the Bretton Woods institutions sought to create a system of global governance that would provide the foundations for future peace and stability. Their vision was extraordinarily ambitious. It was shaped by the experience of the 1920s, when the collapse of the international economic order ushered in a period of instability and depression that, in the eyes of many, had led to war. Above all, they recognised the destructive power of markets that were not underpinned by institutions and rules prioritising the public good over the pursuit of corporate profit and narrowly-defined national advantage. The global economy of the 21st century is urgently in need of precisely such institutions and rules.

Section 2. Finance and Capital Flows

The rapid growth of private capital markets has been a defining feature of globalisation. In 1997, before the East Asian financial crisis, private capital flows to developing countries had climbed to almost $300bn – seven times the level in 1990. In that year, official aid flows were twice as large as private capital flows. Today, private capital flows represent five times aid flows. Although the financial crisis of 1997 has reduced the access of developing countries to international capital markets, integration into these markets will continue to create opportunities and threats for development. The opportunities derive from access to a vast potential pool of savings that could be used to support long-term investment and poverty reduction. The threat is rooted in the instability and inequity inherent in global capital markets as they are currently regulated. The British Government has a key role to play in maximising the opportunities and minimising the risks.

Capital market liberalisation

Since the 1980s many developing countries have liberalised their capital markets, often in the face of pressure from northern governments and the IMF. As with trade in goods, the assumption has been that private capital markets allocate resources efficiently. In reality, international financial markets simply do not behave like markets for goods and services. They are riddled with market imperfections (for example, information asymmetries that lead to problems such as adverse selection, moral hazard, and herd behaviour). As lenders and investors in London or New York lack full information on borrowers in emerging markets, investment decisions are often based on prevailing fashions rather than on good analysis, as witnessed by the crisis in East Asia.

From an equity perspective, private capital markets have tended to widen the opportunity gap between countries – and within countries. This is for a variety of reasons. First, over 80 per cent of North-South capital flows have gone to a small group of around 12 developing countries, mainly in East Asia and Latin America. The vast majority of poor countries have remained starved of foreign investment. Second, financial crises have undermined growth and poverty reduction efforts across a wide swathe of countries. This is linked to another problem associated with the growth of capital markets: namely, the high level of speculative capital flows to poor countries. High levels of short-term and volatile foreign capital inflows can be difficult to manage and can drive boom-bust cycles that end in crises. Much of this investment has not gone to the most productive uses. In Latin America, foreign capital inflows fuelled a consumption boom. In East Asia in the mid 1990s, an increasing proportion of capital inflows went into speculative investment assets, driving up property and share prices.

There is little empirical evidence to support the case for capital market liberalisation as a catalyst for increased growth, investment and low inflation. What is clear, however, is that countries' integration into global capital markets poses the risk of huge reversals in capital inflows, accompanied by exchange rate crises and economic recession. The current functioning of international capital markets means not only that such a chain of events can be set off almost overnight, but also that the trigger may have little to do with any change in economic fundamentals. A recent IMF Working Paper concluded that capital account opening has been a key contributory factor in financial and banking crises.[xviii]

The potentially adverse consequences of capital account liberalisation are most apparent in East Asia. During the crisis, the five worst affected countries suffered a swing in the net supply of private capital flows of $US 110 billion[xix] – equivalent to 11 per cent of GDP. The crisis-hit countries have undergone a brutal adjustment and a deep recession. In Thailand GDP fell by 9.4% in 1998. While some countries are now experiencing a recovery, the long-term growth losses have jeopardised the region's prospects of achieving the 2015 human development targets.

IMF programmes have tended to prolong and deepen the recessions caused by financial crisis. Instead of seeking to promote recovery, Fund lending was accompanied by conditionality imposing public spending cuts, high interest rates, increased taxes and widespread structural reforms. Rather than restore investor confidence as intended, these policies pushed countries further into recession, with attendant consequences for poverty. Macro-economic shocks have been transmitted to poor people as firms go bankrupt, demand for labour falls bringing lower employment levels and wage rates, prices rise, and cutbacks are made in government spending and the provision of basic services. All the countries in East Asia suffered major setbacks in human development as a result of the crisis. In Indonesia, between 1996 and 1998, the number of people living in poverty doubled to 40 million and about 1.3 million children dropped out of school.[xx]

East Asia's experience has highlighted the inadequacy of existing international rules, both for managing global capital markets; and for responding to financial crises. International rescue funds have been used to bail-out private creditors, creating problems of moral hazard. Much of the private sector debt burden has been transferred to the budgets of the countries concerned. The absence of agreed rules for ensuring that private creditors contribute to debt relief has compounded wider problems associated with the inadequacy of IMF resources and inappropriate loan conditions. While the IMF made some effort to co-ordinate debt restructuring, results were –at best - mixed. The Korean deal has since been held up as an example of how well voluntary restructuring can work, Indonesia did not fare so well. By 1998, Indonesia's external debt stock represented 146 per cent of GDP, and the government's debt profile worsened considerably, further hampering recovery.

Reforms to the Global Financial Architecture

Proposals for the reform of the global financial architecture have become less ambitious as the immediacy of the latest series of financial crises has faded. Reform efforts have shifted away from addressing systemic failures in international capital markets towards a focus on improved transparency and standards in developing and transition economies. These kinds of reforms are important, but they do not represent anything like the scope of change necessary to make financial integration a safe option for poor countries. More radical reforms are needed.

Recommendations

- **More effective management of global capital markets, through regulation in the financial systems of countries supplying capital, is urgently needed. The UK should push for improved disclosure requirements for all financial actors, proper monitoring of international capital flows (including those channelled offshore) and adequate regulation of short-term bank lending, institutional investors, hedge funds and other users of sophisticated financial instruments.**

- **The IMF and the US Treasury continue to argue for capital account liberalisation, despite evidence that the economic benefits are limited, while the risks are high. Britain should openly reject the US case for reforming the IMF's Article of Agreement to allow for more aggressive support of capital market liberalisation. Instead the Government should use its influential position in the International Monetary and Financial Committee to promote the use of capital inflow management tools. These include prudential controls on the banking system, and market-based measures such as taxes on some types of inflow (as in Brazil) and requirements on firms to place reserve deposits against foreign currency borrowing (as in Chile).**

- **The UK should push for the institutions which oversee the global financial system (the IMFC, the Financial Stability Forum, and the Bank for International Settlements) to involve all countries in their decision-making and to be insulated from the private financial sector lobby.**

- **Several European governments, including France and Germany, have argued for a clear multilateral framework under which private sector creditors are required to contribute to debt relief in cases where debt sustainability threatens to undermine recovery. The US has proposed a more cautious case-by-case approach, which runs the risk of strategic interest over-riding other considerations. Britain should strongly support the European case for reform.**

Section 3. Investment

Introduction

The growth of foreign direct investment (FDI) has been another central feature of globalisation. FDI expanded six-fold in the 1990s, to over $155bn. This growth reflects the development of new technologies, falling transport costs, and the emergence of global production systems under the auspices of transnational companies (TNCs). These companies are now a dominant feature of the global economy – yet many of their actions go unrecorded. They have no accountability, except to their shareholders. And while TNCs have the potential to generate enormous gains for development, the potential benefits are often lost in the pursuit of narrowly-defined corporate self-interest. If globalisation is to proceed on a more equitable footing, TNCs need to be brought within the frame of multilateral governance, instead of the current patchwork of voluntary codes, national rules and weak global regulation.

Foreign direct investment is potentially the most valuable source of private capital transfer. At its best, it can be used to provide long-term finance, transfer skills, build linkages with the local economy, and promote export expansion. At its worst, it can exploit unfair labour practices, evade taxes, and produce high profits with few benefits for the local economy. In Malaysia, FDI represented almost one quarter of gross fixed capital formation in the mid-1990s[xxi]. This investment contributed to per capita growth rates in excess of 4 percent per annum after 1980, and a decline in income poverty from 29 per cent to 13 per cent. Elsewhere, especially in sub-Saharan Africa and Latin America, the linkages between foreign investment, growth and poverty reduction have been far weaker. The challenge is to harness foreign investment to national strategies for economic growth and poverty reduction. Unfortunately, there has been a global trend towards reduced regulatory controls on investors, often enabling transnational companies to escape both their tax and their wider development obligations.

It is sometimes argued that ethical consideration should take a back seat to the rights of foreign investors. More generally, northern governments have actively sought to limit the scope of southern governments to regulate the investment activities of TNCs. This has happened at a multilateral level through the investment regime of the WTO and bilaterally through the conditions attached to IMF and World Bank loans. The British Government was an active proponent of the Multilateral Agreement on Investment, which would have further strengthened the rights of foreign investors in relation to national governments.

That FDI can generate important benefits is not in doubt. Oxfam works in many countries where foreign investors have played an important role in supporting growth, employment and technology transfer. However, the liberalisation envisaged under the MAI and other market liberalisation rules are unwarranted. Not all FDI is good for poverty reduction – and some forms of investment activity are reinforcing global inequalities.

The quality of investment

As with economic growth more generally, what matters with foreign investment is its quality. In the worst cases, where TNCs invest in repressive regimes, collusion in government violations of human rights can follow. Oxfam's research into the impact of foreign oil companies in a Colombia shows that investment exacerbated violence and did nothing to alleviate poverty[xxii]. Elsewhere, as in Indonesia, foreign investors have eroded land rights and caused environmental destruction on a massive scale. The FDI record includes many examples of human rights violations, including the use of slave labour to build infrastructure to support extractive industries[xxiii]; extra-judicial killings where TNC operations require protection from rebel movements; and forced displacement of indigenous populations from their land. In situations of violent conflict, TNC operations can exacerbate violence through supplying local armies with transport or arms[xxiv], funding rebel groups[xxv], or through their presence or extraction of disputed resources[xxvi].

The abuse of basic rights extends to the work place. Production conditions often include sweatshop operations in factories producing ready-made garments[xxvii], sporting goods and electronic equipment. We do not suggest that such practices are the norm. But it is clear that exploitation of differences in living standards and employment rights has led to excesses, which have in turn helped to fuel a protectionist backlash in some developed countries.

Bad employment practices predate globalisation. But competition to attract foreign investment has led to downward pressure on employment conditions in some cases. Governments have come under pressure to deregulate labour markets in an attempt to win foreign investment. The effects can be seen in the significant recent growth in free trade zones, where fundamental labour rights are often denied. Research carried out by Oxfam's partners in the Dominican Republic indicates that although government legislation protects the right to freedom of association and collective bargaining, in practice foreign companies have resorted to a variety of tactics to deter unionisation, including temporary recruitment, black listing, intimidation, and the promotion of solidarity associations as substitutes for trade unions. Such practices limit the benefits of foreign investment to workers and contribute to unacceptable exploitation and suffering, as evidence from Oxfam's programme in countries such as the Dominican Republic, Chile and Peru shows.

Looking beyond human rights considerations, the potential of FDI to support economic growth with equity is often eroded by TNC operations. Associated problems include:

Tax competition. Governments often adopt low tax regimes in an effort to attract foreign investment. Average tax rates on US affiliates in developing countries fell from 54 per cent to 28 per cent between 1993 and 1996. Notwithstanding possible efficiency losses associated with high marginal tax rates, tax competition has undermined government revenue (with attendant losses of public investment in poverty-focussed service provision) and led to increasingly regressive local tax systems. In Zambia, Anglo American has secured a reduction in corporate tax from 35 per cent to 25 per cent. Meanwhile, local taxes on poor households have increased, and the state's capacity to maintain even the most basic services – including those previously provided directly by the mining industry – has collapsed.

Tax evasion. Another consequence of capital mobility is that it increases the capacity of foreign investors to evade taxes. The use of offshore centres is an extreme form of this problem. Oxfam estimates that developing countries may be losing up to $90bn a year in tax revenue through this source. The globalisation of production and rise of intra-company trade, which now represents over one-third of all trade, has also increased the scope for tax evasion through transfer pricing.

Inequity in basic service provision. TNCs are often efficient producers with a capacity to facilitate exports into complex markets. They are less obviously efficient at providing basic services to communities characterised by high levels of poverty. The transfer of utilities to private operators has frequently led to increased charges for poor communities. When International Water Ltd, an affiliate of Bechtel, increased the price of water by 35 per cent in the Bolivian city of Cochamba in an effort to recoup its investments, the resulting riots left six people dead. Unfortunately, several northern governments have actively promoted the privatisation of basic services on ideological grounds, even where equity and efficiency considerations might point to a more central role for the state.

Weak links with the local economy. Successful developing countries have integrated foreign investment into active industrial development policies. Such policies have included local sourcing requirements (which help to build forward and backward linkages with local industry), export performance requirements (so that companies cover the foreign exchange costs of imports), restrictions on majority ownership, and technology transfer requirements. As recent research on the jean industry in Mexico has shown[xxviii], foreign investment is most successful at adding value locally and creating jobs where it creates local linkages. However, the right of government to enforce the development of these linkages is being eroded through trade and investment rules.

The ability of governments to generate linkages between foreign investment and the local economy is heavily influenced by international regulatory regimes. However,

globalisation has been accompanied by a distinctive bias in favour of deregulation. The MAI represented a particularly egregious form of deregulation. It aimed to significantly extend binding legal rights, and open markets, for investors. How investment rules might contribute to poverty reduction was barely considered. Similarly, the WTO investment agreement prohibits performance requirements while doing nothing to help developing countries prevent TNCs engaging in restrictive business practices or limit the huge incentive packages with which industrial countries attract investors. Corporate responsibility to communities, workers, consumers and the environment is absent in the WTO.

The EC, and UK government, insist that lessons from MAI have been learnt and that a more flexible approach to investment rules is envisaged. However, the lack of trust in the WTO, its narrow liberalising mandate, and its failure to date to include any rules on business responsibilities in existing investment agreements such as trade-related investment measures (TRIMs) and services, weighs against developing an investment agreement at the WTO.

Responsible Investment: A corporate imperative

As public consciousness about the power and impact of TNCs has increased, corporations have responded by proclaiming their attachment to ethical standards, preferably as expressed through non-enforceable codes of conduct. High profile cases involving oil and biotechnology companies in which billions of dollars have been wiped off from share values because of public concern over corporate practices have added impetus to this process.

At their best, voluntary codes of conduct can act as a guide to corporate practice and set standards for others to follow. They have changed corporate attitudes towards their responsibilities and helped improve conditions in global supply-chains. At their worst, they are little more than a public relations exercise. But the deeper point is that corporate behaviour is too important for poverty reduction to be left in the field of voluntary codes and standards defined by the corporate sector itself.

Oxfam has worked directly with poor communities to establish good standards for corporate behaviour, especially in the extractive and retail sectors. The Oxfam ‘Clothes Code Campaign’ helped persuade the UK’s top 5 retailers to adopt minimum labour standards. The Ethical Trading Initiative brings together Trade Unions, NGOs, and companies to promote core ILO Labour Standards throughout the supply chain[xxix]. Oxfam has also been involved in impact assessment, for example of the Levis’ code of conduct in the Dominican Republic. In some cases, codes have helped to raise standards along the supply chain. However, voluntary codes are insufficient. What is needed is a set of verifiable and enforceable guidelines covering all aspects of corporate activity.

The revision of the 1976 OECD Guidelines for Multinational Enterprises provides the British Government with an opportunity to promote such a code, which would cover:

Human rights – to ensure compliance with internationally recognised basic rights
Equity and poverty reduction – to ensure that governments retain the right to regulate foreign investment in the interest of human development
Anti-trust provisions – to ensure that TNCs do not abuse their monopoly power in local and global markets
Environmental sustainability – to hold companies to account financially and legally for environmental degradation and pollution
Taxation – to ensure that TNCs do not use their global operations to escape tax liability

Recommendations

- **The UK Government should support moves to develop multilaterally agreed guidelines for business as a precondition to further investment liberalisation.**

- **Existing official and voluntary codes of conduct for TNCs should contain clear standards for TNCs to refrain from aggressive tax planning or making use of transfer pricing. The tax planning industry should draw up a code of conduct to provide an ethical dimension to the tax advice they offer to companies and wealthy individuals.**

- **A register of forward-looking companies should be established to enable them to gain a profile from the public adoption of the OECD guidelines.**

- **The UK government should ensure that revision of OECD guidelines for TNCs produces a more effective and transparent complaints mechanism. It should also support the use of provisions in the WTO GATs agreement which allow governments to attach market access conditions on companies aimed at achieving technology transfer and the avoidance of restrictive business practices.**

- **The Government should seek to ensure that all its bilateral, and any future multilateral, investment agreements should be designed around the promotion of human development and equitable growth, rather than market access objectives, and balance investor rights with their responsibilities and governments' rights to regulate.**

Section 4. Trade

Introduction

Increasing international trade flows are a third key characteristic of globalisation. In contrast to financial market liberalisation, there are strong efficiency grounds to support the case for trade liberalisation. Trade is an important engine of growth and can play an important role in poverty reduction. Unfortunately, the rules governing international trade are geared towards the corporate and political interests of industrialised countries, resulting in a highly unequal distribution of the benefits of world trade.

At the international level, inequality is increasing between countries alongside the expansion of world trade. The world's poorest countries have seen their share of world trade decline by more than 40 per cent since 1980 to a mere 0.4 per cent[xxx]. Inequality is also increasing within countries, as some sectors and communities are better able to take advantage of market opportunities than others. Opportunities for economic growth in Mexico arising from trade liberalisation under NAFTA are concentrated in the north of the country, with few benefits reaching poverty-stricken regions in the south. One recent World Bank study concludes that trade liberalisation is negatively correlated with income growth among the poorest 40 per cent of the population, but positively correlated with income growth among higher income groups[xxxi]. The costs of trade reform are thus borne disproportionately by the poor, while the benefits are captured by the relatively wealthy.

Inequalities in intra-household income distribution may also be exacerbated by participation in international markets. Research has shown that in Malawi, the expansion of maize production for export has tended to push women's food production onto the poorer land. Such outcomes draw attention to the need to consider the distribution of benefits from trade between men and women, as well as between rich and poor countries.[xxxii]

The wider challenge is to ensure that poor countries capture a greater share of world trade flows, and that poor people are able to participate in international markets on favourable terms.

Market access

Increased access to the markets of industrialised countries is a key priority for poor countries. While the WTO demands that poor countries expose vulnerable producers to global markets, trade barriers in the North cost developing countries US$700 billion a year in lost export earnings[xxxiii]. To put this figure in context, it is some fourteen times the amount that poor countries receive in aid.

The agriculture and textiles sectors, in which poor countries are most competitive, are subject to a prohibitive array of high and escalating tariffs, quotas and seasonal

restrictions. This is an example of how rich countries suspend their belief in the laws of comparative advantage when it suits their perceived interests. The recent failure of the most powerful trading nations, the Quad[xxxiv], to agree to provide tariff and quota free access for all exports from the 48 poorest countries[xxxv] starkly illustrates the way northern protectionist pressures block improvements in market access.

Improving market access matters because it has the potential to change the distribution of benefits from world trade in favour of poor countries. This in turn would act as far more of a catalyst for poverty reduction than an increase in aid. Even small changes in the distribution of trade have the potential to produce significant gains for poverty reduction. In sub-Saharan Africa, exports of goods and services account for almost one-third of GNP. Increasing the region's share of world exports from 4 per cent to 6 per cent would have the effect of raising average incomes by 15 per cent, dramatically increasing the potential for poverty reduction.

Agricultural policies

Current World Trade Organisation (WTO) rules on agriculture require poor countries to liberalise their markets, while allowing industrialised countries to subsidise and dump their agricultural exports. Export dumping, most notably by the European Union and United States is destroying livelihoods in poor countries, and must be rapidly phased out. In West Africa, for example, a flood of cheap European tomato concentrate has undermined local tomato production and processing, while heavily subsidised EU dairy products have caused loss of income for dairy producers in Brazil and Jamaica.[xxxvi]

Rich country governments, notably the US, frequently proclaim their commitment to the development of a level playing field in agriculture. Collectively, however, the OECD countries spend some $350bn subsidising their farmers. In the US, this translates into a subsidy per farmer of around $20,000. The globalisation of agricultural markets means that these farmers are competing with smallholder producers in developing countries, many of whom are living on less than $1 per day[xxxvii]. While smallholders are highly efficient and adept at operating in high-risk environments, they are not able to compete with the US Treasury, as witnessed by the continued loss of food self-reliance, and dependence on imports in many poor countries.

Developing countries should not be required to liberalise their food imports while northern governments subsidise their exports. They should be allowed flexibility under WTO agreements to protect and support their agricultural sectors in the interests of promoting food security and rural employment. The British Government should be pressing for this right to be entrenched in the WTO, perhaps in the form of a food security clause.

Intellectual property

The WTO agreement on intellectual property rights significantly increases the length and scope of patent protection for many countries. Its rules grant companies a 20-year monopoly on knowledge, far beyond the useful life of most new technologies, creating an unfair barrier to new competitors from poor countries.

The agreement also threatens to fuel the knowledge gap between rich and poor countries. Access to knowledge is increasingly important for poor people and countries to compete on equal terms in global markets. Yet the TRIPs agreement, which was instigated by northern governments, will undermine the efforts of poor countries to get access to new technologies.[xxxviii]

The evolution of intellectual property rights rules graphically illustrates how globalisation is being managed in the interests of powerful corporations. The agenda has been driven by powerful TNCs – the same TNCs that stand to benefit from the monopoly rents created through patents. Over 90 per cent of patents are held in the North, and over 80 per cent of those operative in developing countries are held by northern companies.

Tighter intellectual property rights will raise the cost of technology transfer, and risk blocking innovation in developing countries. In turn, this will undermine the capacity of poor countries to compete in an increasingly knowledge-based global economy. Tighter control of innovation in the hands of TNCs will place corporate interests over the wider development interest of millions of the poorest people, and produce increasingly inequitable patterns of globalisation. Meanwhile, new patent laws have paid scant regard to the interests of indigenous people, many of whom produced the innovations now being exploited for commercial profit in northern laboratories. More than half of the world's most frequently prescribed drugs are derived from plants or synthetic copies of plant chemicals. It is estimated that if just a 2% royalty were charged on genetic resources that had been developed by local innovators in the South, the North would owe more than $5 billion in unpaid royalties for medicinal plants. One such example is the patenting of the Neem tree, which flourishes all over Asia, Africa, Central and South America.

Nowhere is the threat starker than in relation to essential drugs. In India, a strong generic industry has been developed which produces cheaper drugs and forces decreased in prices of branded names. An IMF economist has noted that drug prices in Malaysia, where patent protection existed, are up to 760% higher than in India. The HIV treatment Zidovudine (AZT), produced by Glaxo Wellcome, costs $239 in the US while the same drug costs $48 in India. The application of the TRIPs agreement will increase the costs of essential drugs for poor people. This poses acute health risks. Oxfam research in Uganda, India, and Yemen has confirmed findings from a range of studies showing that health services are already being placed beyond he means of the poor.

Commodities

Many of the poorest developing countries face serious problems as a result of their dependence on a narrow range of primary commodities. Despite the rapid growth of trade in manufactured goods, primary commodities still account for over 40 per cent of the export earnings of developing countries. In sub-Saharan Africa, they account for around 75 per cent of export earnings, and the share of commodities in the exports of individual countries frequently exceeds 90 per cent. Price trends for primary commodities have remained highly volatile in the 1990s, maintaining a downward trend in relation to manufactured goods.

Boom-bust cycles in commodity markets have damaging implications for the economies of poor countries and for the livelihoods of producers. From 1993-1997, non-oil commodity prices rose sharply, before falling sharply between 1997-1999. International prices for coffee and cocoa, products of vital important to some of the world's poorest

producers, were some 40 per cent lower in 1999 than in 1997. In Haiti and the Dominican Republic, where Oxfam supports smallholder coffee co-operatives, this has caused severe hardship among poor producers, with women farmers being forced to work long hours in off-farm employment to supplement household income.

Falling export prices translate into falling public investment in vital areas such as health, education and economic infrastructure. They also mean sharp reductions in consumption among sections of the population suffering from high levels of poverty. Policies to smooth consumption over the commodity price cycle can help to maintain welfare and sustain the conditions for long-term growth. Equally important, however, is action to maintain commodity prices at levels that do not consign producers to poverty. Unfortunately, the regulation of primary commodity markets dropped off the international agenda in the 1980s (except in a select group of countries where low commodity prices is deemed by the US to pose a threat in terms of drugs production) - and it shows no signs of reappearing.

The British Government should be playing a far more active role in addressing the problems facing primary commodity producers. At a national level, it should be supporting measures aimed at insuring against risk. One way of smoothing consumption is to use the savings generated during periods of high prices to guard against adverse price trends in the future. But poor communities typically lack access to the financial institutions needed to facilitate such action. The World Bank has developed an innovative strategy for smoothing consumption across the commodity cycle through a range of market-based instruments - and the British Government should be pressing for the extension of this approach.

Turning to the international market, it would be unrealistic to return to the international commodity management programmes envisaged in the 1960s and 1970s. However, international action to support prices and contain price volatility is vital. This could be achieved through agreement between consumers and producers on prices, backed by a combination of supply-control on the part of suppliers and support for storage policies on the part of consumers. The key challenge is to ensure that commodity production does not consign producers to poverty, without allowing price-support strategies to become de-linked from market realities.

Trade and Labour

Trade has a direct impact on workers lives. This may be positive when exports lead to increased employment and productivity, or negative when trade liberalisation undermines jobs, contributes to increasing income inequality, or leads to cuts in labour rights.

There is international consensus that the prime responsibility for protecting and promoting workers rights should remain with governments and the ILO. Nevertheless, there has also been a controversial debate over the role of the WTO in enforcing these rights. The International Confederation of Free Trade Unions has argued that WTO trade preferences should be made conditional on countries' compliance with core labour rights. However, this idea has been strongly opposed by developing countries because of

legitimate fears that such an arrangement would be abused by powerful protectionist interests and could exacerbate poverty. While Oxfam fully supports the core ILO conventions, it does not necessarily follow that they should all be promoted by trade measures. We have, however, argued that respect for freedom of association and collective bargaining should be made a precondition for participation in the international trading system. These rights are preconditions for achieving other workers rights, are essential to allow workers to bargain for a fair share of the wealth they help produce, and would help to spread the benefits of trade more evenly within countries. As a recent World Bank review of literature[xxxix] revealed, they also reduce the wage differential between skilled and unskilled workers and do not impede company or economic performance. However, discussion on trade and labour is likely to be blocked at the WTO unless current inequalities are ironed out and new governance structures built which garner the trust of developing countries and civil society.

Another step which would help trade work for poor workers, would be the reform of the TRIPs agreement to facilitate technology transfer. This would do much to help poor countries pursue the high road to competitiveness through increasing productivity rather than by keeping down labour costs.

Negotiating power

In the aftermath of Seattle, most WTO Members agree that institutional reform of the WTO is essential to produce decisions that are both effective, legitimate, and contribute to achieving the 2015 development targets. Section 8 includes Oxfam's views on reforming the WTO.

Complementary policies

Trade liberalisation produces both winners and losers, and the costs of adjustment to more open trade policies frequently fall most heavily on the poor and vulnerable. This is because poor producers who face increased competition from cheap imports are least likely to be able to take advantage of new market opportunities due to a combination of poor health and education, inadequate infrastructure, and a lack of access to resources, credit and information. Changing this picture, and empowering poor people to benefit from market opportunities, requires substantial public investment in health and education, marketing skills and infrastructure, and frequently redistribution of, or increased security over, assets such as land. These policies are explored in more detail in section 6.

Multilateral rules could supplement national policies in achieving a wider dispersion of benefits from trade. For instance, there is a growing concern that all countries are being drawn into a 'race to the bottom', with low wages and poor labour standards being used by companies to create a competitive advantage. While in some cases this view may act as a smokescreen for protectionist interests, in others it represents a legitimate concern – and a threat to public support for the multilateral system. Developing country governments fear that any attempt to address this problem through the WTO could open the door to arbitrary trade sanctions. However, the WTO and the International Labour Organisation could jointly oversee an approach that made freedom of association and free collective bargaining preconditions for participation in the multilateral trading system.

Enforcement of these rights is a precondition for workers achieving improvements in employment conditions.

Recommendations

The UK government can play a vital leadership role in promoting international trade policies that favour poverty reduction by:

- **Encouraging the EU and its powerful trading partners to open their markets to developing country exports, particularly all products exported by the world's least developed countries.**

- **Vigorously lobbying its EU and other partners to eliminate subsidies on agricultural exports. Domestic agricultural subsidies should be re-designed so that they promote social and environmental objectives, without damaging developing country producers.**

- **Supporting changes in WTO agreements to allow poor countries greater flexibility to pursue national development strategies, for example by protecting and supporting their agricultural sectors in the interests of promoting food security and rural employment.**
- **Supporting research to improve understanding of the linkages between trade liberalisation and poverty reduction. This is essential to ensure that future WTO negotiations and trade policy reforms proposed by donors (for example, under the new WB/IMF poverty reduction strategies) benefit the poor.**

- **Pushing for reform of the TRIPs agreement to reduce the length and scope of patent protection and create patent-free zones in least developed countries. Measures such as parallel imports, compulsory licensing and price control should be promoted in order to ensure that poor people have access to essential medicines.**

- **Supporting international action aimed at stabilising commodity prices at more remunerative levels, and national schemes to protect producers against excessive risk.**

- **Promoting the proposal by the Cabinet Office PIU team for a superior referral body to resolve disputes between trade law, multilateral agreements and international customary law such as the Human Rights Conventions. At the same time it should promote, under the leadership of the ILO, a multilateral agreement, or international action plan on labour. The agreement/plan would set targets and identify the measures needed to achieve the core labour rights including financial support, reform of WTO, IMF and World Bank policies and possible use of trade measures.**

Section 5. Insecurity, Conflict and Illicit Trade

Introduction

The increased economic integration between countries that is at the heart of the trends we have been discussing can massively reduce incentives towards conflict. Regional economic integration, as in the European Union, and economic globalisation have contributed to a substantial decline in inter-state conflicts.

Today's conflicts are almost entirely within states. Although their causes remain diverse[xl], the majority of conflicts are being fought in those marginalised regions which face major obstacles to the eradication poverty, and which are isolated from the positive elements of economic integration.

An Alternative Global Economy

The greatest economic opportunity for the businessmen-cum-warlords who drive the continuing conflicts in Sierra Leone, Angola, and elsewhere, is to trade, through what amounts to an alternative global economy. In part, this trade is criminal, such as the Afghan and Colombian drugs suppliers; in part, it is merely unregulated such as the legal parts of the global arms and diamond industries[xli]. For large numbers of the population the only means for economic survival may be to cooperate in such 'war economies'.

This alternative form of global trade often provides both the incentive and the means for continued conflicts, with the export of illegal or under-regulated commodities such as drugs and diamonds, and the import of illegal or under-regulated arms. In this sense, some part of globalisation has fuelled conflict. Until the destructive global trade in arms is controlled, and until the benefits of globalisation are more evenly shared, it will continue to do so. The UK, as the world's 3rd largest arms exporter, and as an international centre for arms brokers trading in arms from Eastern Europe to Africa, has a huge responsibility in this area. Though the Government has taken important steps to ensure tighter, and somewhat more transparent, control on where UK arms are exported, significantly more needs to be done.

This malign globalisation contributes to global insecurity, which cost 5 million lives in the 1990s[xlii]. A further 30 million people have been displaced in the past 5 years. Partly as a result of the less tolerant approach to asylum-seekers in the UK and most other traditional countries of refuge, the total number of refugees and asylum seekers has continued its general downward trend, reaching a ten-year low in 1998. In contrast, the numbers of people displaced within their state borders has risen to approximately two-thirds of the total number forced to flee their homes because of conflicts.

The Growing (Uneven) Global Consciousness

Another aspect of globalisation, has been the emergence of genuinely global communications. Real time TV pictures and the use of the internet by human rights groups have contributed to a growing global consciousness that the victims of conflict should be protected. In part, this is the popular dimension of the growth of international law, and the gradual sense of what Kofi Annan calls 'individual sovereignty', the right of individuals to effectively require the outside world to help protect them if their own government is unable or unwilling to do so.

Perhaps because the global media coverage is so inconsistent between one conflict and another, this emerging global ethic is not reflected by what happens on the ground. Relatively little is done to protect civilians in many conflicts, or prevent future ones. At present, the major Western governments, multilateral institutions, and the UN Security Council, do not prioritise the areas of greatest insecurity for their attention. They prioritise the areas of greatest economic and political importance. The contrast between the interest in, on the one hand, Kosovo and East Timor in 1999, and, on the other, everywhere in Africa, illustrates this point.

The challenge is to translate the growing global ethic that the global community has obligations to protect civilians in armed conflicts into consistently meaningful policies. We welcome the approach set out by the Foreign Secretary at Chatham House in January 2000[xliii], and the continued efforts of the UN Secretary General in his report to the Millennium Assembly[xliv] to this end.

Recommendations

- **The Government should ensure the full transparency and regulation of diamond purchasing, valuation and oversight to prevent diamonds from illicit sources being polished, cut or traded in the UK.**

- **The Government should enact new legislation on arms, building upon the 1998 White Paper, before the next general election, including the provision that all arms brokering should require export licences. On this basis, the government would be in a strong position to press for stronger international regulation, including at the 2001 UN conference on the illegal arms trade.**

- **The Government should ratify the statute of the International Criminal Court before the next general election.**

- **The Government should continue its work in the UN to establish transparent principles for future peace enforcement and other Security Council actions, and their consistent implementation. The Government should lobby other UN members, particularly those with the relevant military capacity, to swiftly and generously contribute to authorised peace support operations, wherever they**

are. Though the UK can not be expected to contribute to all operations, it should lead by example in deploying British troops.

- **The trend to create joined up thinking and policy on Africa is welcome. The challenge is to ensure that those unstable regions of the world, particularly in Africa, which do not represent major current economic interests for the UK, are not marginalised as the government seeks to rationalise its international priorities. This would be against the longer term, enlightened self-interest of Britain.**

Section 6. National Policies

Introduction

The term 'globalisation' describes a process of market deepening and integration at the global level. But this process has not been policy-neutral. It has been facilitated through a specific set of policies at a national level. During the 1980s and 1990s, most developing countries abandoned the interventionist policies associated with import substitution in favour of market-led approaches. There was a widely shared consensus, strongly promoted by the World Bank and the IMF, that lowering barriers to capital and trade would generate increased growth. It was further assumed that increased openness would bring automatic benefits for the poor, generating employment, investment and export-led growth. The results have been mixed. While integration into global markets has stimulated growth in many countries, reality has been more prosaic than predicted in the old consensus. Similarly, there is a broad acknowledgement that gains for poverty reduction have been less than anticipated.

Today, the broad consensus in favour of market-friendly reforms remains. So, too, does the recognition that macro-economic instability is bad for growth and for poverty reduction. Imprudent fiscal and monetary policy invariably hurt the poor most. There is, however, a growing recognition that national policies shaping the pace, pattern and sequencing of reforms, and - crucially - the distribution of income, are crucial to successful integration into global markets. As one recent study by Dani Rodrik[xlv] has shown, greater openness does not necessarily mean that a country will automatically capture the potential benefits of integration into global markets. The study shows that of the 25 countries with the largest increases in their ratios of exports to GDP over the two decades up to 1994, 11 averaged per capita GDP growth rates of less than 1 per cent. Five of these countries experienced negative growth rates. The point of Rodrik's study is not to contest the potential benefits of greater openness, but to point out that countries need to manage openness in order to minimise the risks and maximise the benefits.

It is instructive to recall the experience of pre-crisis East Asia, which managed global integration more effectively than other regions. Almost every country in the region that did well was highly interventionist, protecting and subsidising some industries, directing credit, and supporting agricultural development. Two aspects of the East Asian story are relevant to the White Paper. First, there were wide variations in the mix of policies applied. In other words, there was no single blueprint for successful integration. Second, many of the policies applied would today be deemed inconsistent with the rules of the WTO, or with the standard policy advice of the IMF-World Bank. Similarly, the regulatory policies applied to foreign investment would certainly have fallen foul of the regime envisaged under the MAI. This suggests a strong case both for reconsidering the content of existing rules on trade and investment, and for allowing a greater degree of autonomy for governments in making policy choices.

The experience of the 1990s has brought a previously forgotten dimension of reform into the spotlight. Markets are governed not just by price signals and government policies, but by institutions, norms and codes of behaviour. This is one of the reasons why similar policies can produce different outcomes in different contexts. The disasters produced by the ill-conceived rush to privatisation and deregulation in Russia, have drawn attention to the need for market reforms to be underpinned by institutional reform. Once again, this is an area where the British Government has a crucial role to play in supporting the development of capacity for running democratic and accountable institutions.

National policies and poverty reduction

Just as there is no blueprint for successful integration into global markets, there is no simple recipe for converting greater openness into poverty reduction. There are, however, some broad lessons. Perhaps the most obvious - and most important - is that the linkages between market reform and poverty reduction are not automatic. While it is invariably the case that growth raises the average income of the poor, the rate at which growth is converted into poverty reduction depends on national policies influencing income distribution. The challenge facing governments is to develop more equitable patterns of growth. This implies both that poor people should have access to the assets and opportunities needed to contribute to growth, and that the benefits of growth should be distributed with a degree of equity consistent with rapid poverty reduction.

Some countries have been far more successful than others in combining greater openness with poverty reduction. In Uganda, the government embarked on a programme of macro-economic stabilisation and adjustment in 1987. Since then, it has achieved real per capita growth rates of around 4 per cent a year. The incidence of poverty has declined from 56 per cent in 1992 to 44 per cent in 1996, or by over 1 million in headcount terms. Like Uganda, Mexico has been one of the developing world's radical reformers of the past decade. It has introduced sweeping trade liberalisation measures in the context of NAFTA and beyond, along with measures to liberalise foreign investment and financial markets. The results have been disappointing. Per capita growth rates have averaged less than 2 per cent a year in the 1990s. Despite this growth, the number of absolute poor has increased from 30 million to over 41 million. Much of this increase is concentrated in southern 'poverty belt' states where Oxfam is working with smallholder producers.

These contrasting experiences reflect differences in national contexts and national policies. Some of the gains in Uganda can be attributed to the lifting of controls that had suppressed market activity, notably exchange rate over-valuation and excessive taxation on coffee. However, the Ugandan government has also combined macro-economic reform with policies designed to achieve a wider dispersion of benefits from growth. Heavy investment in rural feeder roads, increased spending on health, and the withdrawal of charges for primary education have all served to increase opportunities for poor households. At the same time, economic reform has generated strong benefits for the smallholder coffee sector, which is characterised by a high concentration of poverty.

Since 1997, the Ugandan government has reinforced its commitment to achieving more equitable patterns of economic growth through the Poverty Eradication Action Plan. This has targeted the eradication of mass poverty by 2017. The PEAP is not a collection of discrete policies aimed at addressing the poorest members of society. It is an integral part of a national planning framework geared towards achieving high growth with equity. Among the key elements of that framework:

The Medium-Term Expenditure Framework. This integrates policy making with economic planning across a multi-year budget cycle, ensuring that expenditure programmes are driven by strategic priorities - and that budgets are geared towards attainment of the 2017 target. Continued macro-economic stability is a core objective

Sectoral Programmes. The MTEF sets budget parameters for sectoral programmes in areas such as health, education and food security, helping to provide continuity and predictably across annual budget cycles

The Poverty Eradication Action Plan. This provides the framework for the development of detailed sector plans and investment programmes. It is geared towards increasing the production and earnings potential of the poor through investment in rural infrastructure and agro-processing and improving the delivery of basic services.

As UNDP has argued, a separate anti-poverty plan has distinct advantages[xlvi]. It can place poverty on the national agenda and underscores the need to integrate anti-poverty interventions into a comprehensive framework. The danger is that a separate plan will lead to a fragmented approach. That is why the Ugandan example is important. The PEAP has a focal point for the development of a national consensus. But poverty has also been placed at the heart of the budget process and macro-economic planning.

The contrast between Uganda and Mexico could hardly be more striking. In the latter case, economic reform has not been accompanied by the development of a credible national poverty reduction strategy. To the extent that such a strategy exists, it is based on targeted social welfare, rather than the development of the productive capacities of poor households. Poverty reduction continues to be seen as a matter of getting the macro-economic fundamental rights, and then supplementing rapid growth with targeted social spending and safety nets. This ‘two track’ strategy of growth plus social sector proviso is inadequate. In fact, liberalisation was accompanied by the withdrawal of rural poverty programmes. Meanwhile, increased openness created a pattern of winners and losers: increased opportunities for export and foreign investment were captured by large scale industries and commercial farmers, whilst in the southern poverty-belt states, increased competition from subsidised US agricultural exports undermined rural livelihoods, and increased poverty.

Redistribution for Growth

As noted earlier, inequality is one of the main impediments to growth with rapid poverty reduction. In regions with high levels of inequality – such as Latin America and sub-Saharan Africa – there is no chance of the 2015 targets being met without significant redistribution. This is also true of countries (such as India) where regional inequalities are widening) and countries (such as China, Vietnam and Thailand) where rapid growth has been accompanied by increasing income inequalities. The most efficient escape route from poverty is for people to produce their way into higher incomes. This in turn implies an active role for the state in improving the access of poor people to productive assets and marketing infrastructure.

Once again, there is no blueprint. But the following are among the most important areas for national policy:

Land redistribution. Poverty strategies seldom deal with inequality in the distribution of land, which is the most important asset of the rural poor. In countries such as Brazil, the Philippines and South Africa, land redistribution is among the most critical requirements for poverty reduction.

Protecting land rights. Poor people often lack security of tenure, especially where land rights are based on customary practices. It is sometimes assumed that the privatisation of land rights is the automatic answer. However, Oxfam works in several countries – including Kenya, Zambia and Uganda – where the combination of commercialisation in agriculture and the privatisation of land has threatened the land rights of the poor.

Protecting labour rights. As the World Bank has pointed out, labour is the main asset of the poor. Promoting full employment objectives and protecting labour rights is therefore an important way of reducing poverty and inequality. Labour market deregulation has sometimes been promoted as a way of improving competetiveness and reducing unemployment without due regard to the protection of fundamental labour rights resulting in negative human, social and economic impacts. So called labour market 'rigidities' are anyway rarely the most important cause of unemployment. In poor countries the main causes of unemployment are often linked to inequalities in land and capital markets, deflationary macro economic and high interest rate policies, and overly rapid and unselective opening of the economy into unequal world markets. Internal reforms mentioned in this section, along with investment in education and skills, are a better route to competetiveness and employment creation.

Access to credit. Lack of access to credit and insurance bears heavily on the poor, partly because it constrains productivity; and partly because crops failures - and hence income losses - are more likely. State support for micro-credit programmes – such as the Grameen Bank - is one option. Savings schemes – such as those developed by the Bank Rayat Indonesia - offer another route to smoothing consumption.

Infrastructural support. Poor producers are often cut-off from market opportunities by the absence of rural feeder roads, weak extension services, and distance from markets. This in turn increases marketing costs and lowers household income. Public investment in infrastructure can address these problems, as witnessed by the success of market liberalisation programmes in Vietnam and China. Roads, irrigation systems, flood control, and rural electrification can all make inroads against poverty.

Progressive taxation is a vital requirement for strategies aimed at promoting growth with redistribution. It provides a vehicle for redistributing opportunity in the market place, whether through long-term investment in education, or the development of marketing infrastructure in poor areas. While the overall trend is mixed, globalisation has been accompanied by a distinctive shift towards increasingly regressive low tax systems.

This trend is particularly marked in Latin America. According to the Inter-American Development Bank, governments in the region collect 5 per cent less revenue in taxation than would be expected on the basis of average income levels. Combined with inequitable public spending, this helps to explain the income distribution patterns that have produced rising poverty in the midst of economic recovery. In some cases, the reduction of taxes on trade and high income, allied to the decentralisation of government, has led to increased taxes on lower income groups. For instance, in Tanzania Oxfam is working with smallholder cotton farmers in Shinyanga, who have experienced a marked increase in taxation from local government, especially in the form of transport taxes[xlvii]. Similarly, the taxation of local services – including primary education – has been used as a revenue raising device. These developments help to explain the increasing difficulties faced by poor households in keeping children in school. They also explain why the liberalisation of coffee markets in Tanzania has not produced the benefits in terms of poverty reduction achieved in Uganda.

Public investment can achieve redistributive outcomes by addressing problems that undermine production (such as poor health), or limit the access of poor people to the skills they need to operate in markets on more equitable terms (such as the skills generated through education). Most governments now pay lip service to the importance of health and education in national poverty reduction strategies. Few, however, have brought budget priorities into line with rhetorical commitments.

In education, the opportunity is heavily weighted against the poor. In Latin America, over 90 per cent of children from the richest ten per cent of households complete primary school, compared to less than 40 per cent completion for the bottom 10 per cent. Similarly, in sub-Saharan Africa and South Asia it is overwhelmingly the children of the poor – and, within the group, girls – who are the most deprived. In Senegal, enrolment rates for children from the wealthiest fifth of households are eight times higher than for the poorest fifth.

These education gaps are of direct relevance to the challenge posed by globalisation. Because the global economy is becoming more knowledge based, it creates opportunities for those with education. According to the Inter-American development Bank, education differences are the primary motor driving income inequalities in Latin America. More broadly, educational deprivation is now a passport for poverty in most countries[xlviii]. And the consequences of deprivation do not stop at the household. In sub-Saharan Africa almost half of the primary school age group is out of school and the numbers are growing. This has potentially devastating implications for Africa's ability to take advantage of opportunities for trade and investment in the global economy.

Because most governments under-invest in basic health and education, the costs are often passed to the poor in the form of cost-recovery. The World Bank actively encourages this financing option on efficiency grounds. However, there is strong evidence to suggest that cost is now one of the main barriers denying children from poor households an opportunity for education. Where governments have withdrawn user-charges, as in Uganda and Malawi, enrolment has increased dramatically.

In many countries the problem is not just inadequate public spending, but also inequitable spending. In India, the Government spends 11 per cent of GDP on subsidies for agriculture and industry. The benefits are largely captured by higher income groups. Meanwhile, less than 5 per cent of GDP is spent on health and education – and programmes to combat poverty are massively under-financed. This partially explains why many of the benefits of globalisation and liberalisation have bypassed poor states such as Bihar and Orissa.

Recommendations

- **The British Government should prioritise budget transparency and equity in public spending in its aid dialogue with governments in developing countries.**

- **The British Government should promote learning about effective poverty reduction strategies, drawing on the experiences of success stories such as Uganda.**

- **The British Government should place taxation at the centre of its policy dialogue with governments, arguing for more progressive and more efficient tax collection systems.**

- **The aid programme should prioritise support for the development of micro-credit facilities serving poor communities.**

- **The British Government should adopt a more cautious approach to the privatisation of land rights and take a more active stance in promoting land redistribution.**

- **The British Government should be using its influence with the World Bank to demand an unequivocal commitment to the principle of free and compulsory basic education – a principle enshrined in the Universal Declaration on Human Rights.**

Section 7. Debt Relief and Aid

Introduction

International aid and debt relief have a central role to play in redistributing opportunity within the international economy. For almost three decades, unsustainable debt has been allowed to undermine development efforts in many of the poorest countries. Government revenue has been diverted from essential investments in areas such as health and education to repay foreign creditors, and excessive debt stocks have deterred investors. Like debt relief, aid flows increase the foreign exchange resources available to governments. At its most effective, aid can help to provide the foundations for more self-reliant and more equitable economic growth. It can be viewed as analogous to social welfare programmes aimed not just at protecting the most vulnerable, but also extending the opportunity to participate in markets on more equitable terms. The Sure Start programme in the UK, which seeks through health and education interventions to break the transmission of poverty across generation in Britain, enshrines principles that are central to good aid. Unfortunately, much of what passes for aid is not good aid. Too often donor priorities have been driven by strategic consideration and commercial self-interest, rather than by a concern for poverty reduction. At the same time globalisation has been accompanied by an unprecedented decline in aid flows, which fell to a record low in 1997.

Debt relief

One of the reasons that governments in many of the poorest countries have under-invested in areas vital to achieving sustained growth with equity, is that they have been crippled by debt. In many heavily indebted countries in sub-Saharan Africa, debt repayments have absorbed over one quarter of the national budget. The region as a whole has been allocating an average of over $12bn annually to debt servicing for the past decade – double spending on basic education. For governments to spend more repaying their creditors than they spend on basic services is both morally wrong and economically senseless. As a recent UNICEF report puts it: "hunger, disease and ignorance have never been a foundation for rapid and sustained growth."[xlix]

The British Government has championed international debt relief efforts. The reform of the Heavily Indebted Poor Countries (HIPC) Initiative, agreed in 1999, marked a breakthrough in two respects. First, it significantly increased the scale of debt relief, with a pledge to reduce debt stocks by $100bn. Second, it created a mechanism for linking debt relief to poverty reduction.

Serious problems remain despite this positive development. Only five countries have so far entered HIPC2 and are receiving debt relief. Furthermore, there is a large financing gap. Only $400 million out of the $100 billion promised has been transferred to the HIPC trust fund.

Failure to address these problems and to provide debt relief to a wider group of countries will undermine the credibility of the entire initiative. At the same time, an urgent review is required of the coverage provided. Countries facing chronic debt problems – including Haiti and Nigeria – are not currently in line for debt relief.

Linked to the problem of slow implementation has been a series of difficulties related to the linkage between debt relief and poverty reduction. All governments are now required to prepare a Poverty Reduction Strategy Paper (PRSP) in order to qualify for HIPC. The intention is to identify, in consultation with civil society, strategies for ensuring that debt reduction contributes to poverty reduction. In practice, some of the PRSP papers reviewed so far by Oxfam – notably those for Tanzania and Honduras – read like old-style IMF documents, with no distinctive focus on poverty reduction. In other cases, there is evidence that the PRSP process has been rushed through by governments and the IMF, with scant regard for the participation of civil society.

As the primary mover of the reformed HIPC, the British Government should be pressing for more effective implementation. The balance has to be struck between ensuring early debt relief on the one side, and the development of an effective and participatory poverty reduction strategy on the other. One approach is to develop interim PRSPs that set clear and monitorable poverty reduction targets, building on existing sectoral strategies in areas such as health, education and food security. These documents would act as a trigger for debt relief, while at the same time setting out a clear framework for the development of a more comprehensive PRSP linked to the national poverty reduction strategy.

Aid flows

With almost one in five of the world's population living in poverty and wealth gaps between rich and poor countries widening, the moral case for overseas development assistance is stronger than ever before. So, too, is the economic case. Ultimately it is in all of our interests to build an economic order that combines stability with shared prosperity. At the right levels, and properly targeted, aid can help people who are not reached by other capital flows. Aid can also act as a catalyst for long-term development and growth. Yet international aid levels fell throughout the 1990s, exacerbating the inequalities associated with globalisation. While this trend appears to have stopped, there is little evidence to suggest that donors are preparing a sustained increase in aid. The decline in aid has been particularly damaging to the interests of the world's poorest countries, not least because many have developed policy environments more conducive to the effective use of aid.

Net concessional assistance to poor countries stood at $33bn in 1998 – almost one-third down on the 1990 level. The increasing share of development assistance allocated to emergencies means that the amount devoted to long-term development has declined even more rapidly than is suggested by the data. All developing regions experienced a loss of aid in relation to GDP.

The biggest donors have been among the worst offenders in cutting aid, with the G8 countries making the deepest reductions. Collectively, these countries now allocate only 0.19 per cent of their GDP to aid, compared to a non-G8 average of 0.46 per cent and a UN target of 0.7 per cent. The UK Government aims to buck these trends with the ODA/GNP ratio predicted to rise to 0.3% of GNP in 2001.

The damaging consequences of this overall decline have been compounded by three other problems. First, the decline has been steepest in the poorest countries, with the share of aid gong to low-income countries falling from 45% in 1991 to 28% in 1996. This is clearly inconsistent with the goal of halving world poverty. Second, basic education and health, two of the greatest priorities in terms of developing more equitable patterns of globalisation, account for less than 5 per cent of the overall aid effort. While donors rightly insist that poor countries should prioritise basic services in the sectoral budgets, they frequently fail to follow their own advice. Almost four times as much is spent supporting higher levels of education as is spent on basic education - a distribution of spending that donors would regard as intolerable if duplicated by national governments. Third, a large share of development assistance - some 40 per cent of the total - is spent on technical assistance, much of it in donor countries.

The changing environment for aid

The new forces associated with globalisation pose important questions for aid donors. With inequalities between countries and within countries widening, it is vital that aid - supported by reforms in trade and investment - becomes a more effective instrument for redistributing opportunity in the global economy, and for supporting equitable growth in poor countries. In terms of sectoral priorities, globalisation has cast in stark relief the importance of skills and knowledge-based resources. Failure to close the education gap separating rich from poor countries and people will undermine efforts to develop more equitable patterns of globalisation. As noted in the Framework for Action adopted at the World Forum on Education held in Dakar during 2000, meaningful action to achieve education for all should be the starting point for international efforts aimed at developing globalisation with a human face.

There has in fact been a marked shift in the consensus on aid. One recent influential study prepared by the World Bank concluded that aid has the largest effect on poverty where it is channelled into high growth environments marked by "stable macro-economic environments, as well as efficient public bureaucracies that can deliver education, health and other public services."[1] The study also stressed the importance of national ownership. Unfortunately, this is of little help to policy makers. National ownership and efficient public institutions are clearly beneficial for poverty reduction, but the deeper question that donors must address is how can they promote their development. In addition, there are a number of empirical problems with the World Bank study.

Economic growth is not the only avenue through which aid can support poverty reduction. Support for public investment in improving the coverage and efficiency of

basic services is also important. Moreover, detailed reviews of the relationship between aid, poverty reduction and growth have shown what constitutes 'good policies' to be debatable, and raised questions about the model used by the World Bank.

Crude econometric modelling of the type developed by the World Bank is not a helpful guide to policy makers. Certainly the British Government, which is developing a strongly poverty-focussed aid programme, would be well advised to ignore World Bank advice in this area. However, past experience has given rise to some important learning that does raise the potential for aid to play a more dynamic role in the future. Two developments have been of particular importance.

First, the limitations of a project-based approach are now widely acknowledged. There has been a shift away from projects to programmes and an increasing emphasis on policy dialogue, sector investment programmes, and strategic partnerships between donors, recipient countries, and civil society and the need for sound management of public affairs. One review in Tanzania found 40 donors managing more than 2000 projects[li]. Such programmes not only impose unrealistic demands in terms of local capacity and donor co-ordination, but individual projects - even good ones - will produce limited benefits in a bad sectoral policy environment. Second, and in response to these problems, donors have shifted their priorities away from projects and towards sector-wide approaches. These approaches have, in the best cases, enabled aid recipients to develop broad sectoral strategies with the hope of receiving better co-ordinated aid. Sectoral strategies have also helped to overcome problems of fungibility, enabling donors to support sectoral budgets. Experience under sectoral approaches has been mixed, with donors typically continuing to allocate funds to particular programmes rather than to the general budget. However, there is now a framework for translating the principle of national ownership into something meaningful - and Britain should continue to strongly promote sectoral strategies.

Commercialisation and aid quality

Britain has developed a deserved reputation for a high quality aid programme. However, two areas raise cause for concern: namely, export credits and private sector activity linked to aid.

Though not a formal part of the national aid effort, export credit is an important financial link between Britain and the developing world. It is a link that has contributed to debt problems and has been used to advance corporate interests, rather than to promote human development. There is concern that ECAs too often promote the interests of major companies based in industrialised countries while doing little to encourage the emergence of local entrepreneurs able to compete in world markets.

The area of ECGD activity that has most concerned Oxfam is the use of credits to promote the arms trade which account for a substantial proportion of ECGD's business (£763 million or 24% in 1997/98). Too often this support has gone to countries with a poor human rights record. ECGD's exposure for defence related equipment to Indonesia

is £760 million. In Zimbabwe, like Indonesia, ECGD was slow to adjust its relationship with a clearly repressive regime. The unacceptable level of secrecy surrounding ECGD's decision-making processes is another cause for concern.

Despite the G8 Cologne communiqué which called for the development of common social and environmental guidelines for ECAs, there has been remarkably little progress to date. It is hoped, however, that the legal challenge around ECGD support for construction of the Ilisu Dam in Turkey will help provide renewed impetus.

Private companies based in industrialised countries obtain various benefits from official aid programmes. ODA provides an accessible source of public money that is used both to finance the private sector construction of large infrastructure projects or, as is becoming more common, to mitigate the risks of such projects. But the DAC reports that while more aid is now provided on concessional terms or as grants there is a growing tendency to mix ODA and commercial loans in a single package. In 1996 one third of ODA lending had associated commercial funds - underlying the importance of tied aid and the influence of commercial interests in aid flows.

Consultancies are booming - particularly in the area of financial services and banking. One example was the award of some $2 million to British merchant bank, N.M. Rothschild & Sons, for advice on the ill-fated privatisation of Zambia's copper mines. According to the DAC, bilateral donors spend between 25 and 40 per cent of their ODA on technical co-operation. But technical co-operation is no longer included in officially reported figures for tied aid even though it is effectively tied to donor country companies. Many of the same problems apply to multilateral donors. Much of the $25 billion per year lent by the World Bank to developing country governments is returned to richer countries: in 1999, for example, some $3,285 million was disbursed from IBRD and IDA on foreign procurement from OECD countries, 12 per cent of which went to US-based companies.

Humanitarian Aid

The marginalisation of most of sub Saharan Africa from the benefits of current economic globalisation has contributed to the region's continued armed conflicts and consequent demand for humanitarian aid. The same is broadly true of climate-related disasters. Underlying poverty in countries such as Mozambique and Ethiopia has increased their vulnerability to the very different natural challenges they have faced this year. 45% of Ethiopia's population live on below US$1 a day, effectively on the margins of survival, for them the loss of one or two harvests can create widespread starvation.

Unfortunately, the provision of humanitarian aid from donor governments is in fact heavily skewed in favour of relatively wealthy countries. For example, the 1999 UN appeal for former Yugoslavia received US$207.29 per targeted beneficiary, compared to $47.98 in Angola, $16 in Sierra Leone and $8.40 in the Democratic Republic of the Congo.

The European Commission Humanitarian Office (ECHO) has particularly skewed spending. In 1999, it distributed four times as much assistance to the western Balkans as it did to the 70 African, Caribbean and Pacific countries. The UK Government has a somewhat better record, but one which still favours relatively wealthy regions. Over the past five years, an average of 35 per cent of UK bilateral emergency aid has gone to Africa, which has had roughly four times as many people in need as Europe, which received 24.2 per cent of UK assistance in the same period[lii].

Recommendations

- **The Government should continue to push for faster debt relief and for countries to provide 100% bilateral debt cancellation where they have not already done so. The Government should also push for more substantial Interim Debt Relief so that countries are not penalised for taking time to develop clear poverty reduction plans with civil society. More countries should be considered under the HIPC initiative. Nigeria owes over $30bn, Haiti owes $1bn, these are both countries with serious problems of poverty.**

- **The Government should review existing debt relief initiatives to determine whether they will achieve sustainable levels of debt.**

- **The Government should promote the development of more effective strategies for linking debt relief to poverty reduction.**

- **The Government should be congratulated for bucking the international trend of falling overseas development assistance levels. The Government should continue to pursue the UN target of 0.7% GNP.**

- **The quality of UK aid should be improved by increasing the proportion invested in basic social services such as health and education. The Government should vigorously lobby the EU to urgently improve aid quality in this way.**

- **The Government should increase DFID's budget to enable it to provide swift and generous humanitarian assistance on the basis of need without diverting resources from long-term development assistance.**

- **DFID should persuade other OECD donors to commit to a global safety–net to ensure humanitarian assistance and protection for those in need, wherever they are under threat.**

- **The Mauritius Mandate stipulation that ECGD cover should only be given in support of "productive expenditure" extended in January from HIPCs to all LDCs should be further extended to cover all low income countries.**

- **ECGD should draw up a proactive strategy for diversifying its client base and reducing the proportion of business which is connected with defence exports. The Government should play a leading role in negotiations to secure a multilateral agreement to abolish the provision of export credit for military purposes.**

- **OECD governments should develop criteria for export credits and guarantees to ensure that they are compatible with international human rights and sustainable development goals.**

- **Bilateral donors should agree to phasing out tied aid by 2005**

- **Technical co-operation (which is often no more than a thinly disguised form of tied aid) should be demand driven and identified in the context of nationally agreed development priorities.**

Section 8. Global Institutions

International institutions

Globalisation has cast the institutions created in the aftermath of the Second World War to oversee global economic and political governance into stark relief. Increased economic integration has increased the vulnerability of all countries to economic events taking place beyond their borders. Yet governments have failed to develop the global institutions needed to oversee and regulate global markets in the public good. As a result, the inherent tendency of badly regulated markets to produce outcomes inimical to the public good has been left unchecked. These outcomes include increasing levels of inequality and instability. It follows that any attempt to develop a model of globalisation capable of meeting the human development challenges of the 21st Century must include an agenda for institutional reform.

Recently, a number of more radical suggestions for the development of new mechanisms and institutions to manage the global economy have gained prominence. These include proposals for a World Central Bank[liii], a World Financial Authority[liv], and a Global Competition Agency, as well as new forms of global taxation such as the Tobin Tax. Oxfam urges the Government to give these proposals due consideration. There is also clearly an urgent need for reform of existing institutions, and that is the focus of the rest of this section.

The current institutions of global governance were created as part of a conscious attempt to promote growth, stability and prosperity. The initial role of the IMF was to address short-term balance of payments problems in a system of fixed but adjustable exchange rates. The World Bank's role was to lead economic reconstruction and, later, to support infrastructural development in poor countries. The General Agreement on tariffs and Trade, which was succeeded by the WTO in 1995, was to provide a rule-based trading system built on the twin foundations of non-discrimination and liberalisation.

These institutions have evolved radically, and largely without design. The pegged exchange rate system that gave the IMF its purpose ended in 1973. Since then, the IMF has emerged as a source of finance for middle-income and low-income countries, and – in both cases – as the primary gatekeeper for northern aid to poor countries. It has acted as a *de facto* debt collector for northern governments. More recently, the fund has been remoulded to respond to crises in global financial markets.

Like the IMF, the World Bank would scarcely be recognisable to its founding fathers. It has moved from project-based lending to a broad-based programme lending role, playing a major role in driving the reforms that have integrated poor countries into global markets. It provides an important source of concessional finance to low-income countries and non-concessional finance to middle-income countries, linked in both cases to the achievement of structural reforms.

More recently, poverty reduction has been brought to the centre of the Bank's agenda, notably through the Comprehensive Development Framework proposed by its President, James Wolfensohn.

The WTO has also moved beyond the GATTs initial mission. Until the Uruguay Round of trade talks in the 1980s, the focus was primarily on reducing tariff barriers between industrialised countries. Developing countries were, for the most part, marginal participants – and equally marginal beneficiaries. Today, the WTO's remit extends beyond goods to include services, investment and intellectual property rights. Most of its 135 members are now developing countries, and the trade policies of these countries are more directly affected by WTO decisions than ever before.

The respective roles and mandates of the IMF, the World Bank and the WTO are changing, often in a manner that lacks transparency and reinforces inequity. IMF and World Bank loan conditions frequently demand trade liberalisation, yet borrowing countries get no credit for this in WTO negotiations. Meanwhile, the WTO is assuming increasing responsibility in areas linked to investment and financial services. The combined effect of WTO rules and IMF-World Bank loan conditions is to produce a deregulated policy environment where governments lack the tools needed to promote economic growth with equity.

The International Monetary Fund

The IMF is under tremendous pressure to reform. In the US, both the Treasury and the bi-partisan Meltzer report to Congress have called for the Fund to be withdrawn from low-income countries. At the same time, there is mounting pressure for the IMF to play a more active role in managing the international financial system. On the other end of the spectrum, are a large body of critics from left and right who would like to see the Fund closed altogether. In Oxfam's view, the IMF has contributed to policies responsible for causing poverty and inequality under globalisation. The appropriate response is not to abolish the IMF, but to change its policies in a pro-poor direction. Given that the British Government's is one of the most powerful voices on the IMF's Board, it has a central role to play.

The IMF's policy influence is most marked in poor countries, through its Enhanced Structural Adjustment Facility (ESAF) programme (recently rebranded as the Poverty Reduction and Growth Facility). This is less because of the size of its lending than because adherence to Fund loan conditions is a requirement imposed by aid donors on developing country governments. IMF programmes reflect a simplified textbook view of the world, in which inflation appears as the paramount concern. Control over monetary aggregates (usually aimed at converting fiscal deficits into surpluses) is seen as the route to lower inflation and the resolution of balance of payments problems.

While the specific problems faced by the Fund's clients differ, there is a remarkable consistency in the design of its programmes, almost all of which include deflationary

policies, price liberalisation, trade liberalisation, financial market liberalisation and – in many cases- privatisation.

Empirical evidence shows that IMF programmes have brought negligible benefits in terms of economic growth, and investment[lv]. The growth rates achieved have been far too slow to achieve the 2015 targets. Social indicators have improved at a derisory rate – and in many cases health and education performance has deteriorated. It would be wrong to attribute all of these problems to IMF programmes given the parlous state of the economies to which they are applied. But poor programme design has been part of the problem. This includes:

- **Unrealistic fiscal targets**. These have contributed to cuts in government services and the introduction, or raising, of charges for schools, health services and water. The poor suffer both from a loss of basic services and losses of employment. Insufficient attention has been paid to the conditions for reducing inflation through increased supply and productivity, with too much emphasis on demand deflation.

- **Inappropriate treatment of aid**. As noted by the external review of ESAF, the IMF has refused to include long-term aid as part of government revenue. This has reinforced deflationary pressure on public spending. Aid which could be used to finance urgently needed basic service investment, has been left in foreign exchange accounts.

- **Failure to sequence reforms**. In several cases – as in Zimbabwe and Zambia – the liberalisation of financial markets in advance of achieving fiscal sustainability has generated huge increases in public debt servicing, with attendant cuts in social sector provision.

- **Failure to integrate poverty targets into programme design**. Public spending targets are traditionally set without reference to poverty reduction goals, or to the implications for social sector provision and cost-recovery.

Many of the problems associated with IMF programmes were set out in a Treasury Committee Report of 1997. Since then, the IMF has changed the name of ESAF, but this amounts to little more than a cosmetic repackaging. Unfortunately, the British Government has done little to challenge IMF programme design. The Social Principles developed by the Chancellor in 1998 have not acted as a guide for achieving substantive policy reform. Oxfam believes that reform of the IMF should be a central feature of the British Government's development strategy. Indeed, it is uniquely placed to take a leading role given the combination of fiscal prudence with a concern for social justice that has characterised its budget management in the UK.

Turning to the international financial system, as discussed in Section 2 the IMF has failed to respond effectively to a succession of financial crises in four respects. First, the policy conditions set by the Fund following the East Asian crisis were inappropriate in that they emphasised budget austerity and deflation and thus prolonged and deepened the

recession. Second, IMF funds were unwisely used to bail-out private sector creditors, while the Fund failed to press for debt relief in countries where unsustainable debt threatened economic recovery and the capacity of governments to maintain basic services. Third, IMF intervention in East Asia was too slow and inadequate. Finally, the IMF made financial crisis more likely by promoting the liberalisation of capital accounts in countries with weak financial regulation.

The British Government has done little to address these problems. Over the past year in particular it has tended to focus its attention on improving the IMF's role in surveillance of national financial systems. It has not responded effectively to some of the more systemic challenges facing the Fund. Oxfam believes that it should be acting as a far more vigorous advocate of reform.

The World Bank

The World Bank is the largest source of multilateral development assistance. In 1999 it made new commitments totalling almost $29bn, of which $6bn was allocated through the International Development Association to low-income countries. The World Bank's influence derives both from its loan conditions and, less tangibly, from its intellectual leadership in international development debates. Although poverty reduction has figured with increased prominence on the World Bank's agenda since the current President assumed office, serious policy problems remain.

Some of these relate to broad policy orientation. In its policy statements, the World Bank frequently emphasises the importance of universal access to primary health and basic education. However, it has also actively promoted cost-recovery, or the policy of charging service users to finance service provision. There is now overwhelming evidence that unaffordability is a major factor excluding poor households from both health and education, and that cost-recovery is part of the problem[lvi]. Yet the Bank has failed to adjust its policies. This partially reflects an unhealthy concentration of health economists dedicated to the promotion of US-style private insurance as the resolution to Third World health problems.

At a project level, World Bank operations continue to suffer from problems of poor design and implementation. The 'disbursement culture' identified in the 1990s Wapenhans Report, under which a premium was placed on loan disbursement rather than loan quality, remains in only slightly modified form. Recent analysis carried out by the Operations Evaluation Department point to a high rate of project failure, with around three-quarters of projects failing to meet their specified objectives.

There is also some evidence that the World Bank remains too focussed on its own projects and sectoral programmes, paying insufficient attention to the broader development environment. This has been acknowledged by the Bank's President, James Wolfensohn, whose proposed Comprehensive Development Framework represents a bold strategy for moving beyond sectoral thinking to an integrated poverty reduction policy. Briefly described, the CDF envisages a new management tool to help focus and

organise country-assistance. It recommends a matrix that places national policies across the top axis, and development actors - including government and donors - along the side axis. This would provide a visual presentation of the entire policy framework for poverty reduction. It would also offer scope for a more structured dialogue between governments, donors and civil society. There are, however, legitimate concerns that the CDF process will be driven by the World Bank and donors, rather than by national governments.

World Bank leadership of a CDF-style framework would help to overcome another of its core problems: namely, an overlapping mandate with the IMF. Over recent years, the IMF and the World Bank have developed a highly dysfunctional division of labour. The World Bank has assumed responsibility for poverty reduction, with the IMF continuing to dominate macro-economic policy design. This arrangement, with its artificial separation of poverty reduction policies from macro-economic policies, is one of the anomalies that a successful CDF will help overcome. At the same time, the content of macro-economic reform advanced by the IMF on behalf of the donor community also needs to be considered more seriously by the World Bank. Too often in the past World Bank efforts to support economic recovery have been undermined by the IMF's ideological obsession with fiscal austerity. In this context, the British Government should work with the World Bank to identify macro-economic policies more suited to poverty reduction and sustained growth.

The WTO

Oxfam's belief that markets must be made to work for the poor through regulation and redistribution makes us firmly in favour of a rules-based trading system. Unfortunately, at present, the WTO's rules, processes, and agreements are unfairly rigged against poor countries.

Unequal bargaining power has led to unfair outcomes again and again. As was discussed in the section on trade, trade agreements in areas such as agriculture and intellectual property are unfairly biased against poor countries. The WTO has demanded that poor countries rapidly lift barriers to imports, whilst continuing to pander to northern protectionists who demand that a prohibitive array of high and escalating tariffs, quotas, and seasonal restrictions are left in place.

Although nominally more democratic than the "one dollar one vote" IMF, the WTO is crucially undermined by the age-old fact that money talks. Rich country delegations in Geneva are huge, and include high-powered lawyers and corporate sector advisors. Some poor countries are not even represented at Geneva.
Those that are represented too often lack the resources to develop strong policy, to grapple with legal intricacies, and to make their voices heard. This is reflected at WTO conferences where rich country delegations arrive with armies of policy advisors, lawyers and corporate representatives, whilst poor countries sometimes have no presence at all.

The unequal status of poor countries at the WTO was vividly evident at the Seattle Ministerial Conference in November 1999. Negotiations were fundamentally flawed, and no agreement was reached. Throughout the conference, the EU and US pursued narrow commercial national interests and were largely unprepared to make concessions.

Open discussions in working groups proved too unwieldy to make decisions, and negotiations moved into undemocratic 'green room' meetings attended by delegates hand-picked by a quickly assembled Management Committee. Developing countries felt excluded and made strong demands for their views to be listened to. The feeling of exclusion felt by a united front of African, Latin American and Caribbean countries was one of the factors which led to the collapse of the Conference.

The lessons from Seattle must be learnt, the WTO requires radical reform if it is to be a credible multilateral organisation capable of making markets work for poor countries, rather than a club for rich countries. This will require reforming the WTO mandate to make it explicit that trade is not an end in itself. Poverty reduction should be placed front and centre of everything the WTO does, and mechanisms should be established to monitor the impact of WTO agreements on poverty. The WTO's processes need to be made transparent, and clear avenues of accountability between citizens and decision-makers need to be created. Poor countries must be made de facto as well as de jure equal partners. Delegates should be more open about the contacts they have with different lobby groups.

The UN

The UN exists to uphold the international law which has been built up since the Universal Declaration of Human Rights in 1948. Although envisaged as part of the same system of global governance as the Bretton Woods institutions, which were set up at a similar time, the relationship between the UN and these institutions has often been one of tension rather than co-operation. As the roles of the IMF, WTO and World Bank have expanded, the influence of the UN on economic and social issues has declined. In part, this reflects the ability of rich countries to pursue their interests through the less democratic Bretton Woods institutions. This imbalance needs to be remedied through strengthening the international role of institutions such as UNCTAD, UNDP and the ILO. Their role in analysis and proposition of more equitable forms of development is vital to more effective and legitimate global governance of economic issues.

The one focus of genuine power at the UN, the Security Council, remains the least democratic. This lack of democracy has skewed the response of the UN to the challenge of preventing the violation of human rights in modern conflicts. The UN Security Council spends 60% of its time talking about Africa, but its resolutions, and the way in which they are implemented reflect the world's disinterest towards most of the continent. The unequal response to Sierra Leone and Kosovo illustrate this point well.

Only with a strong United Nations is there a hope for better prevention of wars, and protection of civilians when wars do break out. The UN is the only forum where it will be possible to reach agreement on the criteria on when to use force to protect civilians, or

on when targeted sanctions should be applied. A strong UN implies a more democratic UN which is at the same time robustly backed by all countries. Governments, particularly the most powerful (which, at least in the UN Security Council, includes the UK) are fundamentally responsible for managing and funding the UN, and must do better. The international civil service of the UN has still got a long way to go to accept the individual accountability for performance, and the consequent consistently proficient performance, which should be delivered. A strong UN also implies a change in culture away from the habit of governments blaming each other for the failings of the system towards a greater acceptance of responsibility on all sides.

The encouragement of civil society around the world to inform UN debates was a major advance in the 1990's. Some governments have begun to move against this trend. In the current preparations for the UN's 2001 conference on Illicit Arms Trafficking in All its Aspects, civil society organisations have struggled to be heard. Non-governmental organisations must demonstrate that they are accountable, just like governments. Yet it is important that UN for a, at every level, become increasingly open to the voice of citizens, including independent organisations, as well as governments.

Recommendations

The IMF

- **IMF programmes in poor countries should be reformed to support accelerated economic growth, improved income distribution, and increased investment in basic social services. The IMF should support an end to cost recovery, and allow increases in aid-financed spending. Much more attention should be paid to the sequencing of reforms.**

- **The IMF should be removed from its position as gatekeeper for debt relief under the HIPC initiative. Governments, in consultation with civil society should take the lead in drawing up Poverty Reduction Strategy Papers.**

- **Several European governments have argued for a clear multilateral framework under which private sector creditors are required to contribute to debt relief in cases where debt sustainability threatens to undermine recovery. The US has proposed a more cautious case-by-case approach, which runs the risk of strategic interest over-riding other considerations. Britain should be strongly support the European case for reform.**

- **The IMF and the US Treasury continue to argue for capital account liberalisation, despite evidence that the economic benefits are limited, while the risks are high. Britain should openly reject the US case for reforming the IMF's Article of Agreement to allow for more aggressive support of capital market**

liberalisation. Instead it should be pressing for the Fund to promote the use of appropriate capital controls.

- **Following the 1994 financial crisis in Mexico, the IMF broke its own lending rules at the request of the US Treasury in order to support the rescue package. In East Asia, its loan conditions included market-opening measures geared towards US commercial interests. Such practices have discredited the IMF and eroded confidence in multilateralism. The British Government must not remain silent in the face of abuses of the IMF's authority, and politicisation of its lending.**

- **G8 countries, along with the rest of the EU, account for 57 per cent of the votes on the IMF's Board. Industrialised countries control the IMF, and have got the policies and loan conditions they want. By contrast, sub-Saharan Africa accounts for less than 2 per cent of the votes on the IMF's Board, even though Africa's citizens are profoundly affected by IMF programmes. This lack of democracy at the heart of the multilateral system is hard to square with northern government calls for greater democracy and accountability in the developing world. Here, too, Britain should be championing the case for reforms aimed at giving the poorest countries a greater voice in the IMF.**

The World Bank

- **The Government should vigorously lobby the World Bank to abandon support for cost recovery.**

- **The British Government should use its influence to guarantee that the CDF process is driven by governments.**

The WTO

- **All WTO members should contribute to a common fund, proportionately to their GDP, which will be used to fund representation of those countries unable to afford a significant presence in Geneva.**

- **Developed country governments should be required to replenish and maintain the WTO trust funds for technical cooperation. Technical assistance and capacity building should be massively increased to enable poor countries to formulate effective trade policy, negotiate effectively at the WTO, and to enter into dispute-settlement processes on an equal basis. The**

UK's funding for a legal centre in Geneva is a welcome first step in this direction, but much more needs to be done.

- **The UK Government should push for de-restriction of all documents and draft agendas, papers and minutes of WTO council and committee meetings unless there are strong reasons for maintaining confidentiality. National contact points should be established for dissemination of WTO papers and records of decisions.**

- **National parliamentary scrutiny of WTO policy-making should be increased.**

- **Registers of interests of all delegate members should be made available, and delegation members should disclose all agreements with and payments from private sector bodies, trade unions, NGOs and other groups.**

The UN

- **The UK government should promote a strengthened role for UNCTAD, UNDP and ILO regarding proposition of 'pro-poor' economic development strategies and regulations. In their work programmes, emphasis needs to be placed on the role of TNCs in delivering poverty reduction and technical support to developing country governments to negotiate effectively at international institutions and with major corporations.**

- **The Government should vigorously lobby other UN members to conclude the long-running discussions in New York on how the Security Council should be enlarged. It should press for an additional member each from Africa, Latin America and Asia, as well as Germany and Japan, to sit on the Council, without power of veto.**

- **The Government should continue to press for the inclusion of civil society organisations, including from the South, in formal and informal UN fora, including UN processes negotiating new international agreements.**
- **The Government should continue its work in the UN to establish transparent principles for future peace enforcement and other Security Council actions, and their consistent implementation. The Government should lobby other UN members, particularly those with the relevant military capacity, to swiftly and generously contribute to authorised peace support operations, wherever they are. Though the UK can not be expected to contribute to all operations, it should lead by example in deploying British troops.**

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