THE *TDR* APPROACH TO DEVELOPMENT STRATEGIES

Introductory remarks

by

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At UNCTAD, we believe that our research and analysis is the backbone of our work on trade and development and on the various related issues that the organization addresses. The aim is to provide ahead-of-the-curve and innovative analysis and policy advice. And, as Yilmaz Akyüz was saying, passion for independence is always there, with a critical mind and a focus on development – an approach which is our pride. If there is any report coming out of UNCTAD that symbolizes and embodies the spirit of this objective, it is the *TDR*. In UNCTAD, we talk about a number of flagship publications, but I think that deep down we all know that there is only one flagship publication, and that is the *TDR*.

In my personal opinion, the *TDR* has been at its best when examining issues at the international level, and analysing the impact of the international economic environment on developing countries. It is in this area that the Report can be said to be "ahead of the curve". It is very interesting to read *TDR* 1997 or 1998 and some chapters from *TDR* 2002 after the recent crisis; these reports could have been reissued just changing the year, and most likely nobody would have noticed.

As noted in the background document, it is since 1992 that the *TDR* began to examine national development policies and strategies by reviewing largely the East Asian experience (or what the World Bank termed, the East Asian "miracle"). In the 1990s and early 2000s, various *TDR* issues highlighted lessons from East Asian experiences and their implications for other developing countries. However, from these analyses, in my view it is clear that most of the lessons are more relevant for emerging economies and economies with fairly well developed institutions and markets than for the poorer developing countries. Of course, UNCTAD has always been fully cognizant of the fact that policy lessons from the East and South- East Asian experiences cannot be drawn in a mechanical way or applied to other countries automatically. At any given moment in time each country faces a unique situation, which depends on a host of factors, including its size, starting position, cultural mix, level of development and past history, as well as the external environment which can sometimes be a constraining factor. Accordingly, and as noted in the background document, the *TDR* has always been mindful of the fact that the search for lessons from a successful country (or group of countries) should not be guided by a desire to exactly replicate that country's experience elsewhere. Indeed, such efforts can sometimes be counterproductive. The real question is whether other countries can construct their own policy regimes and supporting institutions based on development principles that have been a helpful guide to policymakers and other actors involved in successful development experiences. In this respect, UNCTAD found the development experiences of countries in the East Asian and South-East Asian subregions to be instructive and useful for many other developing countries in Asia, Africa and Latin America where the basic institutional infrastructure to manage complex economic policies are arguably lacking.

In contrast to the mainstream perspective presented by the World Bank, what was striking for UNCTAD was how the concept of "market failure" was understood in the South-East Asian context. It was not defined in relation to the efficient allocation of resources, as the existing conventional wisdom dictated, but rather in relation to the ability of the market mechanism to achieve specific development goals set by the government. Furthermore, unlike in many other developing countries, government intervention in many South-East Asian countries was influenced by the logic of pragmatism and by a clear development vision. This of course does not mean that governments in this region got policies right all the time, nor that the policy decisions made always achieved the desired objectives; far from it – in some cases it was a question of trial and error and learning from mistakes and trying again with different policies. Nevertheless, there were consistent efforts to design policies that would promote the interests of the nation as a whole and in a manner consistent with the broader national interest. Whether these policy lessons are relevant for countries with weak business sectors, less developed markets and institutions and limited resources is hard to say.

Nevertheless, I am very pleased that, in his response to questions, Mr. Ricupero mentioned the commodities issue and how it has been resurfacing since 2002. We talk about amazing and sustained growth in Africa and in the least developed countries between 2000 and 2008 – just before the recent crisis erupted. That growth was driven by a commodity price boom, which, on the one hand is good news, since it enabled some poor economies to generate surplus revenues for investment. But, on the other hand, what this has also done is to reinforce dependence on commodities. In fact, we have noticed a process of deindustrialization in some LDCs during this period. Perhaps a challenge for the *TDR* in the future is to address the prospects for sustained growth in these types of countries, and to examine the role of commodities in the development process of the poorest economies in the developing world.

Statement

by

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The publication of UNCTAD's *Trade and Development Report* coincides quite closely with my own career as a teacher and researcher in economics, which began in the mid-1980s. Most of that period has been spent in a university in India, where over these decades I have been a constant, regular and appreciative user of these Reports. The information and analysis in these Reports has generally been directly relevant to my own areas of research. The Reports over the years provide a concise and interesting history of global trends that are relevant for developing countries. In addition, because they have highlighted particular issues in ways that provide new insights or open up questions that deserve further investigation, they often point to fruitful directions for further research. And because they are so policy-oriented, they have often fed directly into policy discussions and debates that I have been involved in, not just in India but in several other developing countries.

The Reports have also been extremely useful for teaching graduate students in courses relating to international trade and finance, open economy macroeconomics and development. Students, and particularly those engaged in research on development or international economics, have responded to these Reports enthusiastically. There are several reasons for this positive response. First, the *TDRs* typically include insightful analyses of macroeconomic trends and processes that are based on sound theoretical principles and rigorous and careful empirical work. Second, the analysis is not just empirically grounded but nuanced and sensible, avoiding dogmatic positions and knee-jerk responses in favour of a more pragmatic approach. This has often meant combining results and insights that originally come from rather different perspectives, but usually within a coherent logical framework. Third, the focus of *TDR* analyses has been not only on identifying constraints and warning about potential dangers of particular policies and processes, but also discovering possibilities and noting feasible policy options even given various constraints. Fourth, the *TDRs* have often been ahead of the curve – not only in noting the implications of strategies such as financial deregulation and capital account liberalization, but also in capturing trends well before they have become more widely evident, such as in the behaviour of commodity prices or export prices of developing countries. This prescience is not only remarkable in itself, but also ensures that the *TDRs* remain relevant well after they are first produced, such that earlier editions of the Report continue to have a freshness and contemporary application that are sometimes startling.

All these positive features were revealed to me as even more remarkable, when I realized that the *TDRs* have been produced all along with a tiny fraction of the human and financial resources that are regularly expended in producing the flagship reports of the multilateral lending institutions. Just a handful of core staff and a few consultants are usually involved, yet the Reports have shown impressive breadth of knowledge, depth of analysis and consistent quality.

Over the decades the *TDR* has evolved an approach to development strategies that is clear, systematic and distinctive from what could be described as the more mainstream or "Washington Consensus" approach. Broadly speaking, this approach could be described as one that views development most fundamentally as economic diversification, a process involving the shift of both income and employment away from lower value added to higher value added activities. Such a process is not seen as automatic, but rather one that requires proactive state policies and intervention in different ways. Greater economic openness and reliance on market-determined prices and incentives are viewed as unlikely to produce desired outcomes in this regard, because the resulting patterns of specialization and growth are more likely to be based on static comparative advantage, which would deprive economies of the potential dynamic comparative advantages coming from scale economies of different kinds.

Therefore, instead of seeing diversification to higher value added activities simply as a by-product of trade and investment openness, the *TDRs* have generally viewed this as something that requires state intervention. In general the Reports have advocated policies and forms of intervention that are flexible and imaginative, that respond and adjust to changing global circumstances, as well as policies that can be tailored to specific domestic requirements of particular countries. One important insight that UNCTAD highlighted quite early on (and was only recognized by other institutions like the World Bank very much later) is that the often cited dichotomy between export-led growth and import-substituting growth is a false one, because the successful exporters that also managed to diversify their economies were precisely the countries that had also benefited from selective and strategic policies to protect certain kinds of activities. The *TDR*'s approach to trade protection has generally been non-canonical, accepting the need for certain kinds of protection in particular situations but not advocating one uniform pattern for all countries.

More recently, the *TDRs* have made important contributions in highlighting the difficulties and pitfalls in strategic attempts at diversification into higher value added exporting activities for developing countries that are forced to get into areas where there are low or no barriers to entry. Some important work on the fallacy of composition and deteriorating terms of trade even for manufactured goods exporters showed how even so-called "sunrise" industries that have relatively low barriers to entry can easily get overcrowded in global markets, leading to declining relative prices and reduced unit values of such exports.

Another area in which the *TDRs* have been strong is in establishing the link between macroeconomic policies and overall development strategies. For several decades now, *TDRs* have been identifying the problems of stabilization and adjustment policies that are procyclical in nature, and emphasizing that attempts to enforce further austerity in the midst of a slump (especially one that is characterized by asset deflation) may not only worsen the slump but have adverse medium-term and long-term implications for growth and structural transformation. This analysis has often come in the form of warnings that have then been only too severely realized through the bitter experience of developing countries in post-crisis scenarios. Unfortunately, much of the same analysis has had to be repeated in the most recent *TDRs*, with a different set of countries but with the same pessimistic predictions likely to be realized. It does seem somewhat surprising that despite the rather impressive track record the *TDR* has shown thus far in terms of assessing the likely dynamic outcomes of particular macroeconomic policy choices, its voice is still less widely recognized and heard in the international policy debate.

The *TDRs* have also been good at exploring the ways in which public and private debt problems can be resolved. The need for orderly debt workouts has been a recurrent theme, and several of the proposals and suggestions for such mechanisms that have been elaborated in older *TDRs* could still be very usefully dusted off and resurrected to good effect in the current international financial system. The critical role played by finance in development has also been frequently recognized, and the need for proactive strategies in this regard – through development banking and other measures that ensure both greater diversification and better inclusion – have been constantly highlighted concerns.

The ways in which the *TDRs* have dealt with the external context for developing countries has also been extremely important. In the past decade in particular, there have been several significant contributions, for example in isolating the effect of liberalized capital flows and the globalization of finance in determining exchange rate movements, thereby changing domestic incentives between tradable and non-tradable activities and therefore affecting macroeconomic processes. The financialization of commodity markets, and the consequent impact of price volatility in global food and fuel markets, has also been an area in which major insights have been thrown up by both analytical and empirical work described in the *TDRs*. Very recently, *TDRs* have taken up the important issue of control over natural resources, the significance of patterns of control over such resources and how countries can avoid the "resource curse" through specific policies that affect both production and distribution.

There are many other areas in which *TDRs* have contributed, which may be only natural in a period spanning three decades. What is remarkable about these documents, however, is how eminently sensible they have been. So it is surprising remarkable that the empirically substantiated analysis and reasoned arguments in the *TDRs* are somehow still seen as opposed to the dominant "mainstream" view. One can only hope that eventually, the very logical, nuanced and yet pragmatic economic perspective embodied in the *TDRs* does eventually become the mainstream way of thinking, for the economics discipline and for those concerned with development.

Statement

by

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(Financial) globalization and work

As various issues of the *TDR* have documented, the end of the eighties and the beginning of the nineties can be seen as a turning point for financial globalization. The fall of the Berlin Wall brought scholars as Francis Fukuyama to declare the end of history: democratic free market thinking has gained the ideological battle forever.[1] John Williamson published in 1989 for the first time his ideas of a 'Washington Consensus'[2] – a list of policy recommendations for developing countries mainly based on experiences with Structural Adjustment Programmes in Latin America at the end of the eighties. The term globalization gets familiar in the public press.[3] Banks in the United States of America gained more freedom as the Clinton Administration repealed the Glass-Steagall Act in 1999. Internationally, the IMF and World Bank, supported by the United States of America and European governments flexed their muscles for liberalization of the capital market. The percentage IMF Member States, both developed and developing, that removed restrictions on capital flows increased strongly between 1990 and 2004.[4] The United States of America did not only push for the inclusion of clauses on 'decent work' in trade agreements with many countries, but also for capital market liberalization. In the beginning of the 21st century free capital should become the engine for substantial growth and progress of nations: financialization became 'the only game in town'.[5]

What was the result? In any case it was not higher economic growth as promised.[6] On the contrary: growth took place mostly in countries which participated in globalization but on their own terms, with continuing restrictions on capital flows and with political decisions which were often not those of the Washington Consensus. An example is the steady growth in India, China and Brazil. Financialization has almost thrown the rest of the world in a deep financial, economic and social hole. Despite courageous promises by national and international policy makers after the crisis in 2008, the beacons have not yet changed. In 2012, a second crisis or recession cannot be excluded.

The continuing globalization and especially the financial globalization has a major influence on work, work conditions and work security of workers all over the world. Globalization makes the power lines and tensions that dominate the national and international labour markets clear and sharpens the contrast between workers which profit from globalization and those who have difficulties to make ends meet.

The nature of work changes: more flexible work in developed countries and continuing, sometimes even increasing, informal work in many developing and emerging countries. There is more work in some of the fast growing countries, but its remuneration and the security it offers are very unequally distributed. Averages of well-being in countries hide often more than they reveal: most poor people do not live anymore in poor countries.

Trends at international labour markets

Since the beginning of financial globalization, at least eight important international labour market trends are noticeable:[7]

1. *Lower employment to population ratios*. The Asian and sub-Saharan African regions had the highest employment to population ratio but since 1990 this is declining. The only regions where the ratio increased – because of increased female employment to population ratio – from an extreme low to a somewhat higher level are the Middle East and North Africa regions.

2. *A shift from employment in industry to employment in services*. Globally the share of employment in services increased from 33.5 to 43.5 per cent. And in the developed regions even from 61 to 71 per cent. There is however an important distinction between services in developing and developed countries. In the first group of countries activities in the informal sector, with low value added, are often an important component of the service sector.

3. *More precarious work*. This a noticeable trend both in developed and developing countries. In developed countries, it takes the form of temporary contracts, often for less than 40 hours a week. For example in Europe, 70 per cent of the working population between 25 and 49 years cannot find a permanent job; they work involuntarily in temporary or part-time jobs.[8] In developing countries, precarious work takes the form of a relative big informal sector, which, against earlier expectations, is not getting smaller soon.

4. *Continuing or increasing youth unemployment*. In many regions in the world, youth unemployment is high, on average two and a half times as high as for other age groups. The highest rate of youth unemployment is in the Middle East and North Africa, where 25 per cent or more of all youth do not have a job. In countries with lower youth unemployment, it is nevertheless often difficult for youth to find a decent job. In the European Union, the first job is often a part-time job or a job without any form of social security.

5. *A decreasing labour share in the national income*. According to the ILO, this is the case for 75 per cent of all countries, including major emerging countries. Thus the number of people which live in countries with a declining labour share is well over 80 per cent.

6. *Increasing wage differentiation*. Not only did the labour share decrease, but also the differences between wage earners have vastly increased. The ratio of incomes between the 10 per cent highest and lowest wage earners has increased in 70 per cent of all countries. Some countries in Latin America form an exception, but inequalities in these countries were the highest of the world and are still very high.

7. *Enterprises become transnational and production processes change*. At the moment, there are about 82,000 transnational enterprises with 810,000 partners over the whole world. Exports of these enterprises have grown from a quarter to one third of all world's exports. Also employment in these enterprises has grown fast to about 100 million workers. Trade now mainly takes place between subsidiaries of these enterprises which form parts of global production chains with special production techniques.

8. *Migration*. Globalization also has affected migration but to a lesser extent. Global figures about migration do not show a rising trend (migrants form about 2.7 per cent of the world population) but there are nevertheless regional shifts. In Europe, the share of migrants increased from 3 per cent in 1960 to 8.8 per cent in 2005, in the United States of America from 6.75 per cent to 13.8 per cent and in Oceania, from 13.5 per cent to 16.4 per cent. The biggest increase was in the Gulf States from 4.9 per cent to 37.1 per cent. In regions with a rapid increase in migration, one observes increasing social tension, but 'remittances' are often an important source of income for sending countries.

The trends presented above have contributed to the fact that the global labour market is today rather different than 30 years ago. An important element is growing inequality. Also the definition of work is changing. The continuing poverty, including for families where all family members work, has led to the concept of 'working poor': work that does not generate sufficient income to live from and to place one's family above the poverty line. UNDP and ILO use statistics to measure the quality of work.[9] The World Bank distinguishes between: "good jobs" and "bad jobs",[10] largely based on income criteria. The ILO goes further and uses decent work, where work is approached from four vantage points: employment, labour rights, social security and social dialogue. When the concept was introduced, it was the intention to construct a decent work index, but as different members of the ILO could not agree on the precise elements of an index and the measurement and weighting factors of these, the index was never introduced.[11] Progress in decent work is now analysed through yearly thematic reports at the international labour conference.

The crisis of 2008

The crisis of 2008 had major consequences for labour markets all over the world. In developing countries employment in the export sectors decreased, with negative consequences for other sectors in the economy. Studies of earlier 'business cycles' and earlier financial crises have demonstrated that employment recovered more slowly and to a lesser degree than other economic variables ('jobless recovery'). [12] This was also the case with the crisis of 2008. However, this crisis was different because the boom before the crisis already produced less decent jobs than normally would have been expected. On top of that the very fragile recovery phase is characterized by a slow growth in decent jobs.[13] This was and is of great consequence for millions of families all over the world.[14]

In comparison with the 1930s it could however have even been worse. Right after the outbreak of the crisis, many governments took robust measures to avoid a repeat of the experiences of the 1930s. Countries that had fiscal space decreased taxes to stimulate demand. This amounted to 1.7 per cent of world GDP. A joint monetary policy resulted in historically low interest rates and banks were massively supported by their governments. The bill for the United States of America and Europe was $11.5 trillion, about a sixth of world GDP. These measures supported the economy and according to the ILO helped to save about 20 million jobs. Some countries also used their stimulus measures to expand their system of social security (Brazil, India), to increase or extend unemployment benefits (Japan, United States of America) and to implement working time reductions (France, Germany, the Netherlands).[15]

The crisis of 2008 and its consequences could have therefore been a signal to arrest the globalization trends indicated above and to arrive at a more stable and fair economic development, for the crisis in 2008 was to a very large extent the consequence of financial globalization and the ensuing increase in inequality, which, for example, left many American families indebted. As the governments of developed and of developing countries forcefully stimulated the economy and supported their banks to avoid a massive depression, one could have expected also stronger measures to combat the deeper causes of the crisis, particularly financial globalization and growing income inequality. In the first phase of the crisis this hope was frequently expressed[16] but soon it turned out that the political constellation was not (yet) mature enough to intervene more vigorously. It is therefore the poorer groups that are often hit double or triple (see table 1.1). First, because they did not profit from the boom leading up to the crisis; second, because they were hit by the crisis; and third, because they suffer from lower public spending, especially in social areas, as a consequence of fiscal tightening to lower public budget deficits which were largely caused by support to the banking system and stimulus measures.[17]

Table 1.1

EFFECTS ON VARIOUS SOCIO-ECONOMIC GROUPS IN DIFFERENT COUNTRIES

	Pre-crisis	*Crisis*	*Post-crisis stimulus*	*Post-crisis fiscal austerity*	*Back on track*
Developed countries					
Capital owners	++	–	++	+	?
Skilled workers	++	–	+	–	?
Unskilled workers	–	–	+	–	?
Excluded	–	0	0	–	?
Emerging developing countries					
Capital owners	++	+	++	+	?
Skilled workers	++	–	+	+	?
Unskilled workers	+	–	+	–	?
Peasants	–	–	+	–	?
Poor developing countries					
Capital owners	+	0	+	+	?
Skilled workers	+	–	+	–	?
Unskilled workers	–	–	+	–	?
Peasants	–	0	+	–	?

Globalization and financialization

It is clear that many feel the threat of globalization for decent work. In recent surveys, people in developing and in developed countries clearly indicated what concerns them most: work and work for their children. Why have politicians or the political system often not taken these concerns seriously? Why is the concern that so many people have for a decent job neglected in politicians mind? Why could governments (rightfully) act as bankers of last resort, which engaged trillions of dollars, but could governments not act as employer of last resort? Why such an asymmetric approach to capital and labour?

One reason is ideological: the thinking of a broad group of politicians, both in developing and in developed countries is still based on neo-classical thinking that was the basis for the earlier mentioned Washington Consensus: trust financial and economic markets and make labour market more flexible.

A second reason is that political parties are afraid to put employment at the centre. They are afraid to fall back to class antagonism or afraid to be regarded as old fashioned.

A third reason is that continuing liberalization is a politically easy solution. It requires less: less public sector which acts in a reactive way, spends money to keep up the financial system and translates social policies into safety nets. Attention to work and to decent work requires, however, more involvement from governments in these times of globalization and greater policy coherence among almost all aspects of socio-economic policy: macroeconomic policy, sectoral and structural policies, education policies and social security policies. This requires attention to work and especially decent work to be not only of concern to the ministry of labour – in many countries, especially in developing countries, not always an influential ministry – but also to the highest political level. International financial agencies should not only be accountable on how they contribute to growth and stability but also on how many decent jobs have been created[18] as the *Trade and Development Report* of 2010 clearly demonstrated.

It is imperative to have an integrated and global vision on labour markets. It does not make sense to speak of a national labour market. But this requires another way of thinking. Blueprints are not available, but if rethinking does not start now it could be too late. The world is changing very rapidly in the context of globalization.

A different globalization

Contrary to what many think or argue, globalization is not an accomplished fact.

The negative outcomes from the current globalization process (including greater inequality and greater insecurity) can well cause counterforces and ultimately lead to a rejection of all forms of globalization as happened in the 1930s. The World Commission on the Social Dimension of Globalization did look at various alternatives and came to the following conclusions:

> Ours is a critical but positive message for changing the current path of globalization. We believe the benefits of globalization can be extended to more people and better shared between and within countries, with many more voices having an influence on its course. The resources and the means are at hand. Our proposals are ambitious but feasible. We are certain that a better world is possible. We seek a process of globalization with a strong social dimension based on universally shared values, and respect for human rights and individual dignity; one that is fair, inclusive, democratically governed and provides opportunities and tangible benefits for all countries and people.[19]

A point which the Commission underscores is that changes are by no means without friction: the integration of markets has losers and winners. The often-used expression of a "win-win" situation is certainly not applicable, leads to troubled political thinking and circumvents necessary and difficult political decisions.

A different globalization needs therefore to be crafted upon national and international solidarity, not only from a moral principle but also from long-term thinking: a growing polarization between winners and losers will lead to increasing dissatisfaction, especially when the losers belong to the younger generations, which then can lead to national and international chaos. A different globalization needs therefore to be based upon a number of principles in which people and work, with a number of economic, ecological and democratic boundary conditions, are central.[20]

Work in 2012

The conclusion is that work has to become central in national and international politics. It concerns in effect decent work, including labour rights, social security and social dialogue. In economic crises, an emergency break is sometimes used to reduce labour rights and as such to create more employment. However, research on fundamental labour rights – elimination of child labour, freedom of association, social dialogue, equal treatment and remuneration for women and abolishment of forced labour – has shown that a positive correlation exists between economic development and fundamental labour rights.[21]

But progress in labour rights in developed countries that are now integrated in the world market does not come automatically. It was the outcome of action by concerned citizens, trade unions and an engaged middle class. This will not be different in the future. International cooperation should therefore not only focus on integrating poor countries in the world economy and strengthening the position of the poor in those countries but also in strengthening groups which stand for an improvement in labour rights. International cooperation has to be placed in the context of increased solidarity as the past 30 issues of the *Trade and Development Reports* have so amply demonstrated.

Notes

1 Fukuyama F (1992). *The End of History and the Last Man*, Free Press.

2 Williamson J (1989). *What Washington Means by Policy Reform*. In: Williamson J, ed., *Latin American Readjustment: How Much has Happened*, Washington, Institute for International Economics.

3 German Bundestag (2002). *Globalization of the World Economy: Challenges and Answers*, 14th legislative period; references to 'globalization' in the Franfurter Allgemeine Zeitung increased from 34 in 1993 to 1136 in 2001.

4 Van der Hoeven R and Lübker M (2007). *Financial Openness and Employment: The Need for Coherent National and International Policies.* In: Ocampo JA and Jomo KS, *Towards Full and Decent Employment*, Zed books, New York.

5 Shiller RJ (2003). *The New Financial Order: Risks in the 21st Century*: The risks to individual business are blended into large international portfolios where they are diversified away to almost nothing among the ultimate bearer of risks, the international investor (p.3). Princeton, NJ, Princeton University Press.

6 Freeman RB (2010). It's Financialization, *International Labour Review*, 149(2): 163–184.

7 Van der Hoeven R (2010). *Labour Markets Trends: Financial Globalization and the Current Crisis in Developing Countries*, UNDESA Working Paper No. 99, New York, United Nations, October.

8 ILO (2011). *A new Era of Social Justice,* Geneva, ILO: 23.

9 ILO (yearly). *Global Employment Trends*, Geneva, ILO.

10 Bourguignon F (2005). *Development Strategies for More and Better Jobs,* Presentation at the Conference on Help Wanted: More and Better Jobs in a Globalized Economy, organized by the ILO and the Carnegie Endowment for International Peace, Washington, DC, April.

11 Ghai D (2003). Decent Work: Concepts and Indicators, *International Labour Review*, Vol. 142–2.

12 Reinhart CM and Rogoff KS (2009).*This Time it is different: Eight centuries of Financial Folies*, Princeton, Princeton University Press.

13 Ghosh J (2011). Reorienting Development in Uncertain Times. In: van Bergeijk PAG, de Haan A and Van der Hoeven R, eds., *The Financial Crisis and Developing Countries: A global Multidisciplinary Perspective*, Cheltenham, Edward Elgar.

14 Green D and King R (2011). *How have Poor Women and Men experienced the Global Economic Crisis*. In: van Bergeijk PAG, de Haan A and van der Hoeven, op. cit.

15 Torres R (2010). Incomplete Crisis responses: Socio-Economic Costs and Policy Implications. In: *International Labour Review*, 149(2): 227–237.

16 Van der Hoeven R (2010). Employment, Inequality and Globalization: A Continuous Concern. In: *Journal of Human Development and Capabilities*, February.

17 Van Bergeijk PAG, de Haan A and Van der Hoeven R (2011). *What crisis? For Whom?* Op. cit.

18 International Financial Institutions have become more sensitive to this issue (see, for instance, *The Challenges of Growth, Employment and Social Cohesion , Joint ILO-IMF Conference in Cooperation with the Office of the Prime Minister of Norway,* Bergen,13 September 2010) but at a country level this is often less noticeable,

19 World Commission on the Social Dimension of Globalization (2004). *A Fair Globalization: Creating Opportunities for All*, Geneva, ILO: ix.

20 World Commission on the Social Dimension of Globalization (2004). *A Fair Globalization, Creating Opportunities for All*, Geneve, ILO: ix–x.

21 Berg J and Kucera D, eds. (2008). *In Defense of Labour market Institutions: Cultivating Justice in the Developing World*, Houndsmill, Palgrave Mac Millan. In: Ghose A, Majid N and Ernst C, The Global Employment Challenge, Geneva, ILO.

Statement

by

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30 years of the UNCTAD *Trade and Development Report* – A South African perspective

Introduction

Before I discuss the influence of the *TDR* on the new Democratic South Africa, please allow me some personal reflections. What has been the impact of the *TDR* on me personally as a student of development studies, a policy maker and a trade negotiator? During the 1980s, the first decade of the *TDR*, I was an activist in the mass democratic movement working to get beyond the Apartheid regime. It was only with the release of Nelson Mandela in February 1990, that many of us could focus on reconstruction and development. I was fortunate to have gained a scholarship to do a two year M. Phil in Development Studies at IDS Sussex and participate in the many debates and discussions on Development. Williamson had written his famous paper in 1989 describing the Washington Consensus and its success.[1] In essence this paradigm called for fiscal discipline, de-regulation of financial markets, trade liberalization, devaluation of exchange rates and privatization. The Reagan and Thatcher regimes in the United States and the United Kingdom in the 1980s had advanced and strengthened these views as the prevailing dogma.

This neoliberal paradigm was encroaching upon all the academic institutions in Britain. However, IDS was able to resist the power of this new fashion. It had within its portals none other than Hans Singer, who had worked with Keynes and then Raul Prebisch on the famous (or infamous) theory of Import Substitution and the theory of declining terms of trade of commodities (the main product of most developing countries). In addition, there were a group of development economists – Raphie Kaplinsky, John Humphrey and Hubert Schmitz – that were working on how developing countries could beneficiate their commodities (to get out of the terms of trade decline syndrome) and industrialize thus creating a more sustainable basis for their development process. There were also a number of development economists, such as Robert Wade, that had published several books on the development experiences of East Asia – first tier and second tier Newly Industrializing Countries (NICs) – and demonstrated how these countries had used a mix of Import Substitution Industrialization (ISI) and export oriented strategies to industrialize and grow. Robert Wade, Gordon White, Robin Murray and others showed how almost all successful industrializers including, the United Kingdom, the United States, Germany and Japan had relied not only on market forces but on a strong state to advance their development – contributing to the theory of the Developmental State. David Evans, Chris Stevens and Adrian Wood taught that there was no automatic relationship between trade liberalization and economic growth, contrary to the views and policy advice of the Washington Consensus and Structural Adjustment Programmes of the World Bank and IMF that were being implemented in several countries in Africa and Latin America. In the two years that I spent at Sussex the *TDR* was prescribed reading for all our coursework. Indeed, several of our lecturers were also contributors to the Reports. I thus became deeply immersed in the development approaches and policy recommendations of UNCTAD and the *TDR*.

There were a significant number of South Africans that studied at Sussex who went on to become policy makers in several new government departments. However, many South Africans were also trained in other institutions in Britain and in the United States, including short training programmes in the World Bank and IMF, where the Washington Consensus had become the dominant paradigm. In the World Bank and IMF indeed the view of the so-called market of the Washington Consensus was supreme. In his book[2], entitled: *The Roaring Nineties*, Joseph Stiglitz argues that the United States continued to advance this free-market "Washington Consensus" internationally, calling for free trade, de-regulated financial markets and the privatization of state enterprises. The new South African Government could not escape the power and influence of the Washington Consensus as it was advocated by the Washington institutions, academia and lobbyists from the private sector.

The first decade of the new Government was thus one of contending views and perspectives. Nevertheless, the challenges arising from its Apartheid legacy and the high expectations of its people for delivery, coupled with a vibrant civil society and a strong trade union movement meant that the new South Africa could not be shackled by any ideological orthodoxies; be it from the left or right – a state led or statist ("dirigist") view of development or a market fundamentalist and Washington Consensus view of development. It was in this context that South Africa readily agreed to host UNCTAD IX, held in Midrand, in April/May 1996. What are the principles, concepts and approaches of the *TDR* approach to development? How did the new democratic South Africa relate to these concepts? I have identified 10 development concepts drawn from various issues of the *TDR* over the past 3 decades that I will briefly discuss below. In each case, I will draw out the learning and lessons drawn by South African policy makers and civil society activists.

1. The Developmental State

Within a year of his release from Robben Island, Mandela had to confront the debate about the role of the state in the development of South Africa. The Freedom Charter, a visionary document developed in the mass movements of the 1950s and adopted by the Congress of the People in 1955 had stated: *"The mineral wealth beneath the soil, the banks and the monopoly industry shall be transferred to the ownership of the people as a whole"*. The ANC policy of nationalization was thus under severe scrutiny by the private sector and they confronted Mandela with this at his first meeting of the World Economic Forum, in Davos, Switzerland. Whilst the Washington Consensus and the Bretton Woods Institutions were arguing for the rolling back of the state, UNCTAD's research revealed the important role of the state in the successes of the NICs in East Asia. Thus the ANC and then the first Mandela Government took a pragmatic approach in this debate favouring neither a statist/dirigiste approach nor market fundamentalism. UNCTADs approach of a Developmental State became a vision and objective that South Africa's policy makers began to pursue to advance the Reconstruction and Development Programme (RDP) of the first democratic Government.

2. A holistic and integrated approach to development thinking

UNCTAD is unique in the UN system. It integrates various areas of economic and social policies at the national level and encourages a more holistic approach to development thinking. This is precisely what the first democratic Government had attempted in 1994 with the RDP. Although the first Mandela Government attempted to integrate our macroeconomic and fiscal policies with trade and industrial policies, and social policies, the inertia of the state bureaucracy and the culture of working in bureaucratic silos proved to be too challenging and the Ministry of the RDP was disbanded. The current Government has created a new Ministry and Department of Economic Development to make a renewed attempt to build and coordinate development strategies across several line ministries and departments of Government. In addition, there are two new Ministries in the Presidency that play a coordinating role: the National Planning Commission and the Department of Performance Monitoring and Evaluation. The *TDR* approach of integrating the analysis of different areas of development policy and strategy will continue to guide South Africa in its own efforts in this regard.

3. Partnership for Development

The new South Africa recognized from its inception the links between nation building and reconstruction and development and thus it developed a permanent process of engagement and consultation between the new democratic state and the various stakeholders from civil society, including business organizations, trade unions and community organizations. All these stakeholders are well represented in the National Development and Labour Council (NEDLAC). Thus at Midrand, South Africa advocated and supported the need for UNCTAD to invite and engage with NGOs at its formal meetings and deliberations. In addition, the concept of an active engagement with the private sector in the implementation of development programmes became part of the new democratic Governments work style. Leveraging the resources of the state to encourage and foster new private sector investment in infrastructure and development projects was crucial in the success of cross border projects such as the Maputo Corridor. South Africa thus played an important role in contributing to the UNCTAD theme of Partnership for Development at UNCTAD IX.

4. Industrial policy

ANC and COSATU policy makers had begun to think about how to restructure the economy, build its competitiveness and create decent jobs before the onset of South Africa's new Democracy in 1994. Much of the analytical concepts and lessons from other experiences were drawn from the work done by UNCTAD. However, the implementation of industrial strategy in a policy environment that was skeptical of state led or guided approaches to development proved to be challenging for the new Government. There was also a need to roll back some programmes that buttressed the privileges of the Apartheid regime and its patrons in big business. South Africa has adopted a pragmatic approach based on the lessons from the experience of comparator countries and its own experience (a "process of self-discovery") and is implementing an active industrial policy set out in its Industrial Policy Action Plans and New Growth Path.

5. Strategic integration

The new democratic South Africa recognized that the deepening trade and financial flows made possible by the reduced cost of transport and new technologies in telecommunications and the internet would pose many new challenges but also contained new opportunities for development. There was also an awareness that trade and financial liberalization were not the harbingers of growth and jobs but would need to be carefully managed to make the necessary reforms in the economy. The new South Africa would need to build its productive capacity and encourage and nurture the dynamic Schumpeterian innovation required to re-build South Africa's competitiveness. Thus South Africa's new trade policy was to draw on the concept of "strategic trade integration" in the global economy. This required a pragmatic approach to trade liberalization, carefully opening sectors to international competition, sequencing and timing this with complementary policies of industrial development and capacity building progammes.

6. Policy space

The new democratic South Africa came into being on the eve of the conclusion of the Uruguay Round (UR) and adoption of the Marrakesh Agreement. A former World Bank chief economist, Michael Finger argued that the UR outcome was unbalanced and the results were biased against developing countries.[3] UNCTAD research had corroborated this outcome and warned that the "policy space" for development in various areas such as innovation and support for industrial policies was increasingly circumscribed by several UR agreements such as TRIPS, Subsidies and Countervailing Agreement, and the TRIMS agreement. Other writers such as Ha-Joon Chang argued that the ladder was being kicked away for newcomers and late industrializers in the developing world by these new disciplines of the UR round.[4] The so-called Implementation issues, arising from the imbalanced agreements of the UR were to become the core concerns of developing countries as they launched the Doha Round of the negotiations. South Africa supported these efforts. Later, in the course of the Doha Round, South Africa was to lead the effort in several areas to secure policy space for development in areas such as paragraph 6 flexibilities for cheaper medicines for the poor, strengthening of Special and Differential Treatment for developing countries, and flexibilities for developing countries in the NAMA negotiations to preserve their policy space for industrial development.

7. Interdependence: North-South and South-South and regional integration

As it re-integrated with the world economy after 1994, South Africa began to build partnerships with the North and strengthen its South-South relations. In line with the "Partnership for Development" theme of UNTAD IX, the new South Africa understood the need to deepen its relations with the North to secure markets for its value-added exports and tap into the financial flows, investment and technology required for its growth. However, it also recognized that it had to simultaneously diversify and deepen its relations with the dynamic developing countries of the South in search of complementarities and more mutually beneficial trade and investment flows. In addition, it had to deepen its integration with its African neighbours seeking more balanced and sustainable trade and investment relations accompanied by greater economic cooperation in infrastructure and productive development. In short, the new democratic South Africa sought a path of "Development Integration" rather than the more narrow efficiency seeking trade integration approach (associated with the economist Jacob Viner). UNCTAD had already been working on both South-South trade and development integration approaches to regional integration for some time and South Africa was a keen student of its policy advice and lessons drawn from experiences of other developing countries.

8. Growth enhancing ODA and Aid for Trade. South Africa Spatial Development Initiatives – North-South corridor

South Africa was very aware that it could only succeed in its own development if it also contributed to growth and development amongst its neighbours and the African continent as a whole. This is why it played a crucial role in the conceptualization and advancement of the New Partnership for African Development (NEPAD). Thus, South Africa was to contribute to building more mutually beneficial trade and investment relations with its neighbours. The Maputo development corridor was as a flagship project. This experience was to be drawn on to support similar cross border infrastructure projects in other parts of the continent – such as the North-South corridor. Thus, ODA in South Africa's view had to go beyond the traditional social welfare programmes of Northern donors and it had to provide the leverage required to contribute to infrastructure development and stimulate the development of the productive sectors thus contributing to a more sustainable growth path. It was with this perspective that South Africa supported the Aid for Trade initiative in the WTO as Chair of the Committee of Trade and Development Special Session (CTDSS) in 2004–2006.

9. Coherence in policy making: national and global

UNCTAD is a unique UN body that integrates the macroeconomic, productive and social sectors in its analyses and policy dialogue and advice. It has been arguing for the need for greater coherence in policy making both at a national level (discussed above) and also at international levels. At the global level, the Bretton Woods Institutions and the UN institutions showed little enthusiasm for their own coordination. During the peak of the Structural Adjustment Programmes propagated and implemented in many developing countries by the Bretton Woods Institutions in the 1980s and 1990s, many policy errors were made as a result of this lack of coordination, with dire consequences for many developing countries. In many countries, too rapid liberalization unsupported by complementary policy to build supporting institutions, appropriate regulatory framework, infrastructure and supply side support led to the destruction of existing industries and employment, reduced growth and increased levels of poverty and inequality. Thus at the 2005 WTO Hong Kong Ministerial Conference, South Africa as the chair of the WTO CTDSS played a leading role in obtaining the agreement of the WTO that there should be greater policy coherence by donors, multilateral agencies and international financial institutions with WTO agreements in the conditionalities that they often impose on developing country members.

Developing Countries have also been arguing that there needs to be greater reform of the Bretton Woods Institutions and the WTO. In a book launched by the Secretary-General of UNCTAD, Dr. Supachai, titled: *Reforming the WTO, Developing Countries in the WTO*, I have argued that there needs to be greater coherence between the Bretton Woods Institutions and the UN, based on the objective of Sustainable Development, long championed by UNCTAD and other UN bodies.

10. Climate change: embrace link to opportunity and challenge

UNCTAD has advocated that developing countries embrace the challenges of climate change mitigation and adaptation. This is a bold and principled stance that stands in stark contrast to the approaches of denialism and narrow mercantilism and nationalism adopted by some major developed countries. At a recent UNCTAD panel, Prof. Sachs stated that the three big challenges of the global economy today are: (i) poverty reduction; (ii) inequality and the need for more inclusive growth; and (iii) sustainable development. To these challenges we have to add our responses to climate change, or rather mainstreaming our responses to climate change into our economic, social and environmental policies. Each of us has to do this at the national level and we have to act together globally in a coordinated manner for these actions to be effective.

South Africa has declared climate change to be a national priority. South Africa is a relatively significant contributor to global climate change with significant GHG emission levels from its energy intensive fossil-fuel powered economy. However, South Africa is also extremely vulnerable and exposed to the impacts of climate change due to its socio-economic and environmental context. A major effort is thus being made to transition the South African economy away from coal based energy. The Government has decided to include "Green and Energy Efficient Industries" as an additional focus of its industrial strategy, highlighting renewable energy and energy efficiency.

However, South Africa faces many challenges in implementing this climate strategy, including finance and technology and capacity building for its small and medium enterprises. The Unilateral Border Adjustment Taxes contemplated by a number of developed countries (including the recent EU Airlines tax and proposed Maritime tax) will have a devastating impact on the South African economy and compound its challenges as it transitions to a low carbon economy. New rules on these issues, first in the UNFCC and then in WTO, will need to be discussed and debated. Developing countries such as South Africa will look to UNCTAD to provide a forum for such objective research, discussion, and debate.

Conclusion

In sum, my personal experience, and that of South Africa, with UNCTAD and its *TDR* was and remains one that is rich and fruitful. Thus on this occasion – the celebration of three decades of the *TDR* – South Africans would like me to say: Long live the *TDR*! Long Live UNCTAD!

Notes

1 See Williamson J, 2004, "A short history of the Washington Consensus". Available at: http://www.iie.com/publications/papers/williamson0904-2.pdf.

2 See Joseph Stiglitz, 2003, *The Roaring Nineties,* WW Norton and Co. Inc., New York.

3 Michael Finger, 2002, *The Doha Agenda and Development. A View fom the Uruguay Round*, Asian Development Bank.

4 See Ha-Joon Chang, 2002, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, Anthem Press, London.