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Framing Development Policy in the Post-2015 Development Agenda[1]

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[1] Vicente Paolo Yu III, Programme Coordinator, South Centre. This paper is based on, draws from, and extracts liberally from South Centre research produced by Mr. Martin Khor, Dr. Yilmaz Akyuz, Dr. Isabel Ortiz, Dr. Matthew Cummins, Dr. Mariama Williams, and Dr. Manuel Montes; and also draws on data and reports published by the World Bank (on poverty figures) and by the Netherlands Environmental Assessment Agency (on trends in global CO2 emissions). All errors and omissions are, however, solely my responsibility.

I. Introduction

The international community, through the UN General Assembly and the UN system, is now deeply engaged in multilateral discussions on what should be the content of a post-2015 development agenda. This is linked to the follow-up work currently being undertaken after the Rio+20 Conference on Sustainable Development that took place in 2012 in relation to the crafting of a set of Sustainable Development Goals (SDGs) and the creation of a High-Level Political Forum (HLPF) on Sustainable Development.

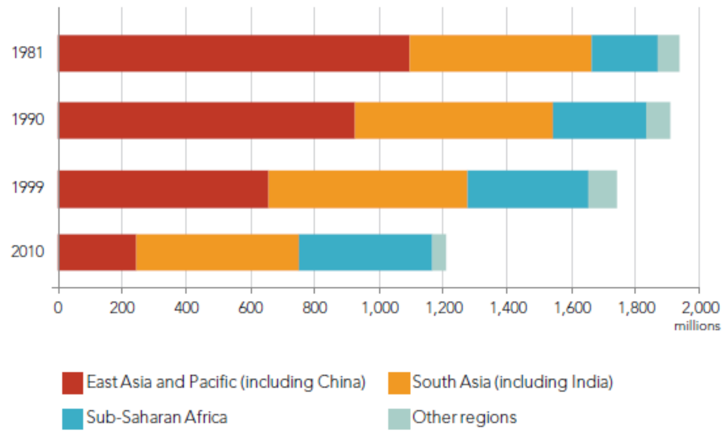
This research paper looks at the various development challenges – including continued global poverty, the adverse impacts of climate change, the global economic crisis, and the unstable conditions under which some developing countries are growing – that still need to be addressed in both areas of work being undertaken in the UN system and seeks to frame the development policy approach that can be taken in the context of these development challenges for purposes of defining a post-2015 development agenda.

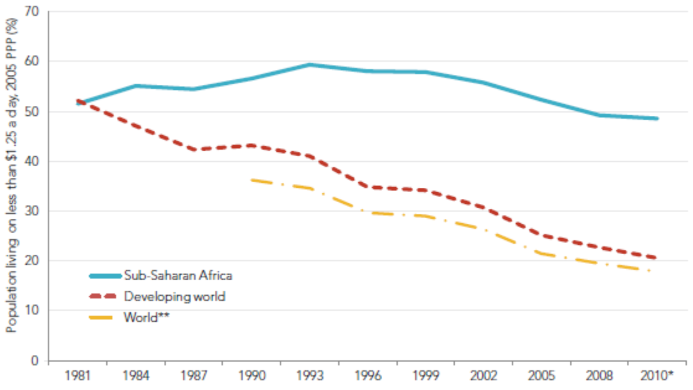
II. Poverty crisis

MDG 1 set out a goal of halving extreme poverty by 2015. According to the World Bank, this was achieved as of 2010, but that still leaves 2.4 billion people living in poverty (around 35% of the global population).

Many will recall that in the run-up to the 2005 Gleneagles Summit of the G8, two major international advocacy campaigns were launched to end poverty – the Make Poverty History campaign and the Global Call to Action Against Poverty (GCAAP). Many of us wore white wristbands to express our support for these campaigns.

Despite the current global economic crisis and other shocks, the developing countries as a whole continued to make progress on poverty reduction but in an uneven manner. East Asia (primarily in China and Southeast Asia) saw the most progress followed by South Asia (India) and Latin America. Half of Sub-Saharan Africa's population continued to live in extreme poverty rate despite the progress made.

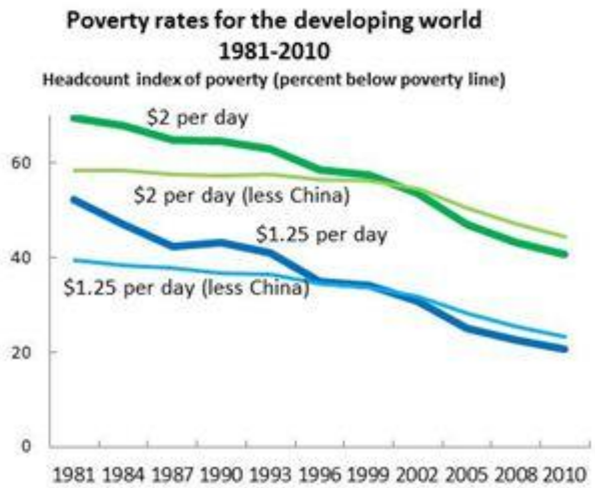


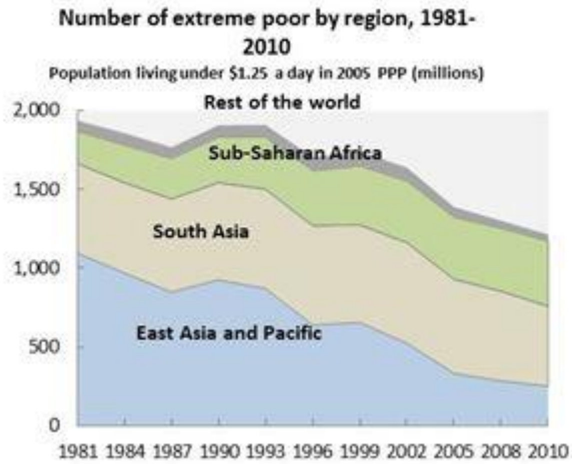


* Preliminary
** World Bank staff calculations assuming extreme poverty in high-income countries to be near-zero.
Source: World Bank database, based on household surveys from countries.

The result has been that MDG1 to halve extreme poverty by 2015 was achieved by 2010, largely on the back of strong growth in the decade of the 2000s in China (which pulled 510 million out of this poverty level), Brazil, and India, but for many other developing countries, gains in reducing poverty were reduced due to continued population growth.

However, the crisis of poverty still exists. Around 1.25 billion people still live below $1.25/day, and 2.4 billion people live below $2 a day – it is not simply about low levels of income, but also but living under conditions that breed sickness, social instability, lack of jobs, loss of hope, rise of despair.





Source: World Bank (2013)

The poverty crisis is compounded by other challenges to achieving development and thereby eradicating poverty. The most salient among these today would be the climate change and financial crises.

III. Climate change crisis

We now have a very complex situation following the launch of a new round of negotiations in Durban aimed at reaching agreement on enhancing climate action by all countries in the mid-term (before 2020) and the long-term (after 2020). The key issue is

how to combine the environmental imperative with equity so that development prospects are not compromised, particularly for developing countries

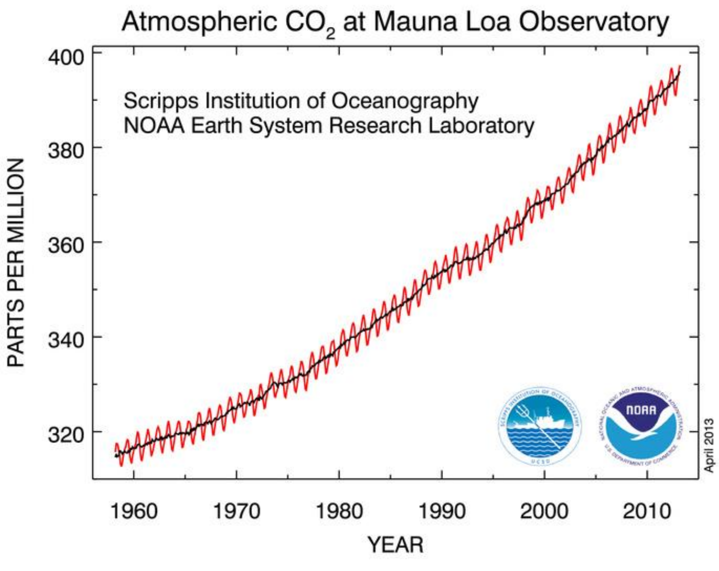
A. Breaching 400ppm, heading for a warmer climate

The impacts of climate change (such as extreme weather events) and response measures on developing and least-developed countries deeply and adversely affect the prospects of billions of poor people in these countries to have better living standards and overcome poverty.

Already the impacts of climate change are being felt in dramatic ways in the increase in extreme weather events, ranging from higher rainfall and extensive flooding in Pakistan, China, Southeast Asia and United Kingdom, drought in parts of Africa and the United States, raging fires in Australia and Russia and big storms or hurricanes in the Philippines, Central America and the United States.

These climate change impacts in many countries have killed thousands of people and set back poverty eradication and sustainable development efforts. These are also the impacts that affect other developing and least-developed countries. In many ways, these impacts make more difficult the situation of small island developing states, least-developed countries, and African countries given the multiple challenges that they already face, even if developing countries contributed the least to the problem.

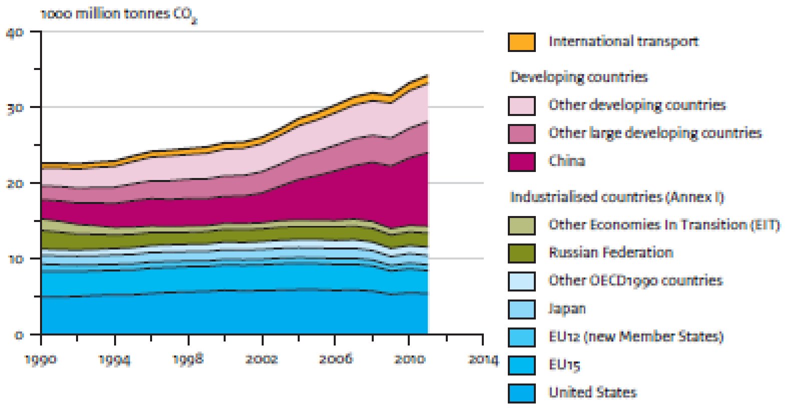
As many of you know, the climate change negotiations have been slow, complex, and not delivering on what urgently needs to be done with respect to climate change. Just last week, the average concentration of CO2 in the atmosphere breached the 400 ppm mark. The last time CO2 concentrations in the atmosphere were this high was during the Pliocene period 5.3-2.5 million years ago. At that time, sea levels were, on average, between 15-25 meters higher than today's (the equivalent of a building 5-8 floors high); temperatures were 2-3˚C higher than they are today with temperatures in the Artic between 10-20 ˚C hotter; the tropical regions extended north to the latitudes of the Mediterranean and south to the latitudes of Botswana, Buenos Aires, and Sydney; the world was warmer and wetter in the tropics and drier in the sub-tropical regions.



Before the rise of today's fossil-fuel guzzling societies in developed countries and, now increasingly also in today's developing countries, with coal-fired power plants, petroleum burning cars, etc., CO2 levels were only at 280 ppm. In 1958, it was 315ppm. In the 1970s and 1980s, CO2 levels were at around 340-350ppm. Between the 1800s and1980s, humans—mostly in the United States and Europe—had built enough carbon-belching power plants and factories, and driven enough gas-guzzling vehicles, to add 70 ppm to the atmosphere. CO2 concentrations rose to around 375ppm in 2000 before jumping to 400ppm this month. In only 30 or so years since the 1980s, human activity – both in developed countries and, increasingly, in developing countries, has pumped enough CO2 into the atmosphere to increase its concentrations by 50ppm.

Developed country emissions of GHGs from 1850 to 2005 accounted for around 7 tons of every 10 tons of emissions from human activity during this period, even as developed countries accounted on average for only 2 of every 10 people on the planet in the same period. From 1990 to the present, more than half of annual global emissions came from developed countries. It was only from the late-2000s (since around 2007), on the back of strong economic growth and industrialization in some developing countries such as China, India, Brazil, and South Africa, that annual aggregate developing country emissions became higher than those of developed countries.

Global CO_2 emissions per region from fossil fuel use and cement production



Source: EDGAR 4.2 (1970–2008); IEA, 2011; USGS, 2012; WSA, 2012; NOAA, 2012

B. The link between emissions, energy, and economic growth

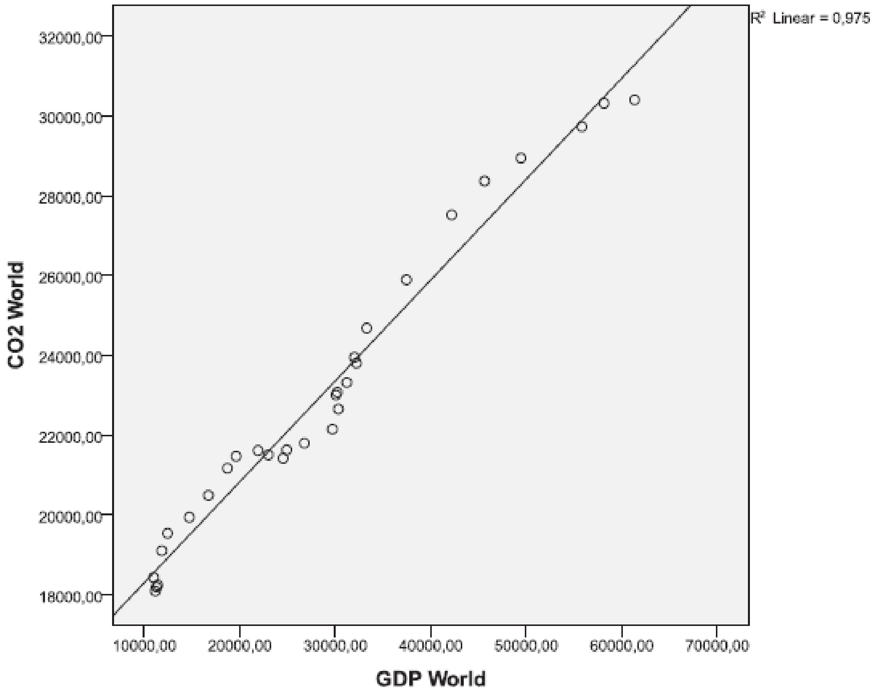
The increase in aggregate emissions from developing countries happened because they, by and large, continue to imitate the fossil fueled economic development patterns of the developed countries, as a result of the availability, low cost, and utility of fossil fuel-based energy production and consumption technologies which they need for their own industrial and economic development.

In both developed and developing countries, the link between economic growth and development and the use of fossil fuels as the energy sources for such growth and development has not yet been broken.[2] Because of this link, especially for developing

[2] "Today, the conversion factor between economic output and CO2 emissions stand as high as .45, meaning that one unit of output results in almost 0.5 unit of emission. To stabilise the CO2 emissions, only two options are

countries, cutting emissions will mean cutting economic growth, as cutting emissions would require cutting the use of fossil fuels. Renewable energy alternatives are still, for the most part, far from providing the reliability and energy capacity that fossil fuels have.

Total emissions 1980-2008 against global economic output (Million tons and billions)



Source: CO2 emissions + Population: EIA (2011) International Energy Statistics; data available from: http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm;
GDP data: World Bank (2011) World Development Indicators; data available from http://databank.worldbank.org/ddp/home.do

Source: http://cdn.intechopen.com/pdfs/21320/InTech-The_co2_equivalent_emissions_and_total_economic_output.pdf

Last year, 2012, saw global CO2 emissions reach a new record high of 35.6 billion tons, compared to 23 billion tons of CO2 emissions in 1990, largely due to the continued and widespread use of fossil fuels (coal, oil) to meet energy needs in both developed and developing countries. Counting other greenhouse gases such as methane, over 50 billion tons of CO2 equivalent were emitted last year. The CO2 equivalent emission level has been rising rapidly; it was 40 billion tons in 2000 before climbing to 50.1 billion tons in 2011. This means that the annual global emission has risen by 10 billion tons or by 25% in just a decade.

The UNEP "Emissions Gap" report (the update for 2012) estimates that if the world's temperature increase is to be limited to 2 degrees below the pre-industrial level, the annual global emissions must be brought down to 44 billion tons by 2020 and then continue to decrease thereafter to as far below 15 billion tons as possible by 2050.

After short dips arising from the current recession, emissions in developed countries are likely to rise again once economic recovery starts taking place (particularly in the US as shale oil becomes commercially viable for both domestic use and export – in fact, the IEA has

available: (a) reducing economic growth, or (b) moving to a green economy where energy consumption does not result in CO2 emissions. Realistically, only the second alternative is feasible, reducing the conversion factor between energy-output-CO2 emissions." See Jan-Erik Lane, at http://cdn.intechopen.com/pdfs/21320/InTech-The_co2_equivalent_emissions_and_total_economic_output.pdf projected that by 2020, the US will be the biggest oil exporter). If emissions in both developed and developing countries keep increasing as they had in the past 30 years (increasing around 2% a year) – that is, if there are no policy changes, the emissions are projected to rise to 58 billion tons by 2020 – then we are likely to exceed 450ppm of CO_2 in the atmosphere in the next 10 years.

As a consequence of the rapid increase of CO_2 concentrations in the atmosphere since pre-industrial times to 400ppm today, global average temperatures have increased by 0.8C above the pre-industrial average. Breaching the 450ppm mark will consign us and our descendants to having to live in, adapt to, and try to develop economically, in a world that is much hotter (on average around 3-4C above pre-industrial levels (or 2-3C above today's temperatures) by the end of this century.

This is likely to be a world in which today's extreme weather events will become the new normal. This will likely be a world that is more volatile, unstable, and violent, as massive population movements take place across borders as people seek to escape battered coastal cities, encroaching deserts, flooded farmlands, droughts, pestilence, and wars over natural resources. Given the differences in populations, economic capacity, and technological resources, developed countries and their populations are much more likely able to adapt to the new normal than will developing countries. This is a world in which the poor will become poorer, in which those who are least capable of adapting will be the ones most adversely hit.

But there is still a small window of opportunity for the global community to get its act together and address climate change in an effective and equitable manner by ensuring that the current multilateral regime on climate change – the UNFCCC – is fully implemented and strengthened.

However, developed countries are intent on breaking down the Convention as the basis for multilateral cooperation on climate change. They are seeking to progressively shift the responsibility for taking the lead to address climate change to developing countries, pressing developing countries to reduce their emissions more (even if doing so would not be compatible with their development objectives) without ensuring that developing countries are provided with the necessary financing and technology that would enable them to do so in a manner that will not compromise the attainment of their development objectives. This is taking place even as developed countries continue to have per capita levels of emissions that are on average four to five times greater than the average per capita emissions of developing countries, and with per capita incomes that are on average five to six times greater than those of developing countries.

C. Implementing the UNFCCC

The way forward for addressing climate change effectively, urgently, equitably, and in a manner that supports sustainable development particularly in developing countries, is to ensure that the UNFCCC is fully implemented now, up to, and beyond 2015.

This will require that developed countries to take the lead, as stated under the Climate Convention, in reducing greenhouse gas emissions (at levels that also reflect their historical responsibility and the principle of common but differentiated responsibilities) and to provide climate financing and technology access to developing countries to assist them in doing mitigation and adaptation actions; even as developing countries also step up their own national actions to reduce the growth of their own emissions. This is consistent with seeking to ensure that developing countries are assisted in bearing the financial costs arising from the impacts of, and adapting to climate change. Additionally, access to and transfer of technology for both mitigation and adaptation, particularly new and emerging technologies that do not rely on fossil fuels, should be greatly facilitated and provisions in the international intellectual property regime impeding such transfers should be revised.

The good news is that governments of many countries have pledged under the UNFCCC from Cancun in 2010 to take actions to cut their emissions. The bad news is that these pledges are not enough. In the best scenario (if governments succeed in keeping their best pledges and in the best conditions), the 2020 emission level will be 52 billion tons. That is way higher than the 44 billion tons limit required to keep temperatures below the 2 degree level, though lower than business-as-usual. In the worst scenario (governments take actions but in the lower end of the range in their pledge, and with bad conditions), the 2020 emission level will be 57 billion tons, which is almost the same as the business-as-usual level of 58 billion tons. In any case, the projected emissions in 2020 will miss the 2 degree boat. They are in line with boats going towards 3 to 5 degrees, in other words, towards a climate disaster.

The technical solutions are not that difficult to conceptualize. The UNEP report provides suggestions on cutting emissions through changes in buildings, transport and forestry practices and policies. To that can be added policies in energy, industry and agriculture. The problem is the politics and costs of change. A global climate agreement under the UNFCCC is difficult to achieve because of differing perspectives on what is a fair distribution of effort and who will bear the costs.

While the science of what is happening to our climate is getting clearer, and the technical solutions as to how to curb emissions in various sectors are being developed, it is the politics of climate change that needs to be resolved.

Developing countries believe that the rich countries have a historical responsibility to take the lead in emissions cutting, and to pay (at least significantly) for the expenses incurred by developing countries in switching to low-carbon technologies and policies. This historical responsibility is due to the fact that the developed countries are responsible for putting most of the CO_2 in the atmosphere so far. They have grown rich partly because of their economies grew on the basis of cheap fossil fuels. And they have richer economies.

The developing countries fear that if they are to take on the full burden of changes, their economic growth will be affected and their development efforts will be diverted from food and health care and from economic development towards climate measures. Thus, they want the rich countries to transfer funds and technology to support their switch to a climate-friendly growth path.

Developed countries, on the other hand, are reluctant to accept “historical responsibility”, arguing that they cannot be held responsible for what their forefathers, in ignorance, did. They are willing, in theory, to provide funds and technology. But in practice, little funds and very little (if any) technology have been transferred to the developing countries. The developed countries also want all countries (not only themselves) to sign on to the same type of obligations in emission cuts. This is seen by developing countries to be contrary to the principles of equity and common but differentiated responsibilities that are central to the UN Climate Change Convention.

This is why, for developing countries, given the low levels of mitigation ambition from developed countries, the lack of financing and technology coming from them, the policy priority with respect to climate change will most likely increasingly be on adaptation rather than on mitigation. Effective climate change adaptation strategies will have to become essential components in any national development plans or programs of developing countries going into the post-2015 world, given the distinct possibility that the 2C benchmark will likely not be met and that, by the end of the century, global average temperatures will be 3-5C higher than pre-industrial levels.

IV. Global economic crisis

The global economic crisis that was caused by financial deregulation in developed countries has affected the low income and middle income developing countries. Its impacts on the lives of the poor and on wages are continuing as a result of the austerity-focused policy responses that have become dominant in developed countries.

A. Austerity across the board

More than five years since the outbreak of the global financial crisis, the world economy has shown little signs of stabilizing and moving towards strong and sustained growth. Following a mediocre growth of 2.2 per cent in 2012, lowest since the height of the crisis in 2009, the growth forecast for the world economy in 2013 is no more than 2.4 per cent. In advanced economies (AEs) output and employment gaps still remain high. With the exception of the US, all major advanced economies, the Eurozone (EZ), Japan and UK have gone into second dips.

Because of policy shortcomings in removing the debt overhang and providing strong fiscal stimulus to make up for private sector retrenchment, the crisis in the US and Europe has been taking too long to resolve. While deleveraging continues to stifle private demand, economic activity is further restrained by fiscal drag in these two epicentres of the crisis as governments have turned to fiscal orthodoxy – i.e."austerity" – after an initial reflation ("stimulus"). There has been excessive reliance on monetary policy through provision of large amounts of liquidity to financial markets and institutions at close-to-zero interest rates, using unconventional means, generating financial fragility and exchange rate instability in emerging economies, as well as potential unintended and not well-understood consequences for future financial stability in developed countries.

In a first phase of the global economic crisis (2008-09), most governments introduced fiscal stimulus programs and ramped up public spending, as the world was able to coordinate policies. 144 countries ramped up public expenditures during the first phase of the global economic crisis, with the average expansion amounting to nearly 4.0% of GDP. The G20 alone provided US$11.7 trillion to bail out the financial sector, and nearly 50 countries committed US$2.4 trillion in fiscal stimulus. But the deployment of vast public resources to rescue private institutions considered "too big to fail" forced taxpayers to absorb the losses, caused sovereign debt to increase, and, ultimately, hindered global economic growth.

However, premature expenditure contraction became widespread in 2010, which marked the beginning of the second phase of the crisis, despite vulnerable populations' urgent and significant need of public assistance. Since 2010, the cost of adjustment has been passed on to populations, many who have been coping with fewer jobs, lower income and reduced access to public goods and services for more than five years. In short, vulnerable households are most impacted by austerity measures, and are bearing the costs of a "recovery" that has largely excluded them.

In 2013, the scope of public expenditure consolidation is expected to intensify significantly, impacting 119 countries in terms of GDP, and then steadily increase to reach 132 countries in 2015. The latest IMF projections suggest that this trend will continue at least through 2016.

One of the key findings of this analysis is that fiscal contraction is most severe in the developing world. Overall, 68 developing countries are projected to cut public spending by 3.7% of GDP, on average, in the third phase of the crisis (2013-15) compared to 26 high-income countries, which are expected to contract by 2.2% of GDP, on average. Moreover, comparing the 2013-15 and 2005-07 periods suggest that a quarter of countries are undergoing excessive contraction, defined as cutting expenditures below pre-crisis levels. In terms of population, austerity will be affecting 5.8 billion people or 80% of the global population in 2013; this is expected to increase to 6.3 billion or 90% of persons worldwide by 2015.

Table 4: Changes in Total Government Spending, 2010-12 avg. over 2008-09 avg.
(in % of GDP)

Developing Region / Income Group	Total Sample		Contracted		Expanded	
	# of countries	Avg. spending Δ	# of countries	Avg. spending Δ	# of countries	Avg. spending Δ
East Asia and Pacific	19	2.2	6	-1.5	13	3.8
Eastern Europe and Central Asia	23	-0.9	17	-2.1	6	2.5
Latin America and Caribbean	28	1.2	9	-1.9	19	2.6
Middle East and North Africa	11	-2.1	8	-4.3	3	3.8
South Asia	8	0.8	3	-1.6	5	2.3
Sub-Saharan Africa	43	1.0	13	-3.7	30	3.0
Low-income	32	1.7	8	-2.2	24	3.1
Lower-middle-income	49	0.2	23	-2.9	26	3.0
Upper-middle-income	51	0.2	25	-2.6	26	2.9
Developing countries	132	0.6	56	-2.7	76	3.0
High-income countries	49	0.7	17	-1.0	32	1.7
All countries	181	0.6	73	-2.3	108	2.6

Regarding austerity measures, a desk review of IMF country reports published since 2010 indicates that governments are weighing various adjustment strategies. These include:

(i) elimination or reduction of subsidies, including on fuel, agriculture and food products (in 100 countries);
(ii) wage bill cuts/caps, including the salaries of education, health and other public sector workers (in 98 countries);
(iii) rationalizing and further targeting of safety nets (in 80 countries);
(iv) pension reform (in 86 countries);
(v) healthcare reform (in 37 countries); and
(vi) labor flexibilization (in 32 countries).

Many governments are also considering revenue-side measures that can adversely impact vulnerable populations, mainly through introducing or broadening consumption taxes, such as value added taxes (VATs), on basic products that are disproportionately consumed by poor households (in 94 countries). Contrary to public perception, austerity measures are not limited to Europe[3]; in fact, many of the principal adjustment measures feature most prominently in developing countries.

What induced the change in fiscal policy stances between 2008-09 (expansion) and the period since 2010 (contraction)? In developed country governments, it was a rising concern over increasing levels of debt and fiscal deficits that were seen to come as a result of the stimulus packages in the first phase. This concern came about as a result of a major change in 2010 in IMF and OECD advice to developed countries. Two IMF Board papers approved in February 2010—"Exiting from Crisis Intervention Policies" and "Strategies for Fiscal Consolidation in the Post-Crisis World"—called for large-scale fiscal adjustment "when the recovery is securely underway" and for structural reforms in public finance to be initiated immediately "even in countries where the recovery is not yet securely underway" (IMF 2010a and 2010b). The OECD 2010 Economic Outlook also focused on the urgent need for fiscal consolidation and structural reforms (such as labor and product market reforms), pointing that in OECD and non-OECD countries the economic slack was disappearing rapidly. While these documents generally focused on higher income countries, they also urged fiscal adjustment in developing countries given that the risk of debt distress was increasing—they were the first signs of a worldwide policy reversal, which had the implicit support of the G20.

Thus the sovereign debt crises in Europe raised concerns about debt levels in governments everywhere, and public attention focused on government spending as if it had caused the crisis. Yet debt and deficits were symptoms of the crisis, not the cause.

In reality, rising debts and deficits resulted from: (i) bank bailouts to rescue the financial sector from bankruptcy estimated at US$11.7 trillion in G20 countries alone (IMF 2010c); (ii) lower government revenue due to the slowdown in economic activity; and, to a lesser degree, (iii) stimulus packages, estimated at US$2.4 trillion. The austerity arguments focused on deep cutbacks to public policies and shrinking the state as a main way to fix the deficit, calm the markets and revitalize the economy; following this logic, the social welfare state was depicted as unaffordable and burdensome, which ultimately reduced competitiveness and discouraged growth.

It is less clear, though, why the drive to slash budgets in developing countries was as quick, intense and prolonged as our analysis of spending data reveals. The IMF's role in influencing policy appears as a main contributing factor (Molina 2010; Van Waeyenberge, Bargawi and McKinley 2010; Weisbrot and Montecino 2010). Here it is important to recognize that few governments actually have IMF programs, and the IMF's influence of global and national policy debates is mostly through its policy advice and surveillance (Box 1). Other international institutions also played a role, such as the Bank of International Settlements (BIS)—the bank for central bankers—joining the IMF in advocating for front-loaded fiscal consolidation and structural reforms as the limits to fiscal stimulus had been reached in a number of countries (BIS 2010 and 2011). Nonetheless, the earlier international coordination of economic policies—that can enhance policy effectiveness—disappeared in 2010, and governments started to address their fiscal balances in isolation.

[3] All of these austerity-oriented are being discussed in governments in Belgium, Greece, Ireland, Italy, Netherlands, Portugal, Slovakia, and Spain. In the US, austerity has focused on increasing consumption taxes, pension and healthcare reform. In Germany, austerity has involved increases in consumption taxes, pension reform, rationalization of social safety nets, healthcare reform, and labor reform. In Germany, austerity has involved increases in consumption taxes, pension reform, and rationalization of social safety nets.

B. Impact on the poor and social welfare – increased social unrest and instability

However, it is now increasingly clear that the projected fiscal contraction trajectory—in terms of timing, scope and magnitude—as well as the specific austerity measures being considered are NOT conducive to socio-economic recovery and the achievement of development goals. The worldwide propensity toward fiscal consolidation can be expected to aggravate the employment crisis and diminish public support at a time when it is most needed. The costs of adjustment are being thrust upon populations who have been relentlessly coping with fewer and lower-paying job opportunities, higher food and fuel costs, and reduced access to essential services since the crisis began. In short, millions of households continue to bear the costs of a “recovery” that has largely excluded them.

Prioritizing fiscal austerity will not help to promote robust employment-generating growth, improve living standards or social cohesion. In the short term, austerity depresses incomes and jobs, hinders domestic demand and ultimately recovery efforts. Austerity also has negative impacts on employment, economic activity and development over the long term.

The world was shaken in 2011 by outbreaks of civil unrest in response to the combined and lingering effects of high unemployment, worsening living conditions, eroding confidence in governments and perceptions that the burden of the crisis is being unequally shared. This was clearly visible in the Arab Spring, the Occupy Wall Street movement in the United States, and the “*indignados*” (outraged) in Spain and other European countries, as well as in the violent food riots that erupted across Bangladesh, Burkina Faso, India, Iraq, Mozambique, Nigeria, Senegal, Uganda and Yemen, to name but a few. The ILO’s index of social unrest further documents the rising levels of worldwide discontent, as the *World of Work Report 2012* warned that social unrest was being aggravated in 57 of the 106 countries surveyed.

The United Nations has repeatedly warned that austerity is likely to bring the global economy into further recession and increase inequality. In doing so, it has called on governments for forceful and concerted policy action at the global level to make fiscal policy more countercyclical, more equitable and supportive of job creation; to tackle financial market instability and accelerate regulatory reforms; and to support development goals. In 2013, however, the earlier mentioned fiscal fallacies remain prominent among high-level policy discussions across the globe.

C. Impact on employment and wages – jobless growth, reduction of wage shares in national and global income, increasing concentration of wealth in the wealthy

Furthermore, beyond the downside risks posed by the austerity-focused policy responses to the global financial crisis, longer-term global growth prospects are also clouded by persistent structural imbalances and fragilities that culminated in the current crisis. The world economy suffers from underconsumption because of low and declining share of wages in national income in all major AEs including the US, Germany and Japan, as well as China, all countries that have disproportionately large impact on global economic conditions. For example, for the

OECD countries as a whole, at the end of 2012 the employment rate - the share of people of working age who are employed - was 1.4 percentage points below its pre-crisis level.[4]

There has also been an increased concentration of wealth and growing inequality in the distribution of income earned on financial assets. Financialization, welfare state retrenchment and globalisation are the most important factors accounting for these trends. Still, until the Great Recession the threat of global deflation was avoided thanks to consumption binges and property booms driven by credit and asset bubbles in the US and a number of other AEs, particularly in Europe. Several Asian DCs, notably China, also experienced investment and property bubbles while private consumption grew strongly in many DCs elsewhere, often supported by the surge in capital flows and asset and credit bubbles. This process of debt-driven expansion, in its turn, led to mounting financial fragility in the US and the EU and growing global trade imbalances, with the US acting as a locomotive to major surplus countries, Germany, Japan and China, as well as to imbalances within the EZ, culminating in the most serious post-war economic crisis with which the world is still grappling.

In none of the major AEs and China is there a tendency for a significant reversal of the downward trend in the share of wages in national income and a more equitable allocation of wealth so as to allow rapid economic expansion based on income-supported, as opposed to debt-driven, consumer spending.

In the US where the downward trend in wage share started in the 1980s, in the past two decades consumption and property booms and economic expansions were driven primarily by asset and credit bubbles – first the dot-com bubble in the 1990s and then the subprime bubble in the 2000s. The current crisis has reduced the wage share further and led to a greater concentration of wealth in the hands of the already wealthy.

On current policies the US cannot move to wage-led or export-led growth. It may thus succumb to the temptation of letting the current ultra-easy monetary policy to degenerate into credit and asset bubbles and produce a rapid expansion, very much in the same way as its policy response to the bursting of the dot-com bubble gave rise to the sub-prime boom, while exploiting the "exorbitant privilege" it enjoys as the issuer of the dominant reserve currency and running growing external deficits. Such a return to business-as-usual could be disastrous for the world economy, not just for the US. If, on the other hand, asset and credit bubbles are not allowed to develop and boost aggregate spending, the outcome could be sluggish growth, sharply increased interest rates and stronger dollar – a combination that often breeds problems for DCs.

The EZ appears to be mired in economic weakness for an indefinite period. The resolution of the underlying problems of debt overhang in the periphery and intra-EZ imbalances in trade and competitiveness requires a wage-led growth in Germany, but this is quite unlikely under its current policy approach. In all likelihood, the structural reforms that are now being advocated would extend wage suppression from the core to the periphery and widen the deflationary gap. The periphery may find it necessary to join Germany in the search for export-led growth. Thus, the region cannot be expected to generate expansionary impulses for the rest of the world even if it manages to restore stability in the crisis-hit periphery.

[4] Growth numbers are from the 2013 UN World Economic and Social Prospects in market exchange rates, not the Purchasing Power Parity (PPP); employment numbers from OECD.

China has moved to investment-led growth as its exports slowed sharply as a result of the crisis and contraction in AEs, and this has added to credit and property bubbles already under way. This pattern of growth cannot be sustained indefinitely. Despite the recognition of the need to raise the share of the household income in GDP and move to a consumption-led growth, the distributional rebalancing is progressing very slowly. Whether or not China can avoid the bursting of the bubbles and a hard-landing, over the medium-term it is likely to settle on a lower growth path with a gradual rebalancing of external and domestic sources of demand and domestic investment and consumption. Given the central role it has played in the commodity boom in the 2000s, and as a new source of investment in the resource-rich DCs, notably after the onset of the global crisis, a permanent slowdown in China, together with a strong dollar, would not bode well for commodity-dependent DCs.

The likelihood for the world economy to reverse the increased inequality and move to a path of growth that is both stable and strong is slim. In the US the crisis has widened income inequality. In the EZ, the structural reforms advocated for removing intra-regional imbalances are likely to extend wage suppression to the periphery and widen the deflationary gap. In China, despite the recognition of the problem of underconsumption due to low shares of wages and household income in GDP, the distributional rebalancing is progressing very slowly

The crisis in AEs has aggravated the problem of underconsumption that the world economy has been facing due to low and declining share of wages in income and greater concentration of wealth. Rising inequality is no longer only a social problem. It has also become a serious macroeconomic problem, compromising the ability of the world economy to achieve strong and sustained growth and financial stability.

The solution calls for strong action on its causes – financialization, the retrenchment of welfare state and globalization of production. However, the likelihood of fundamental changes in these areas is slim. Thus, the post-crisis world economy will either go back to finance-driven boom-bust cycles, enjoying unsustainable expansions followed by deep and prolonged crises, or will have to settle at a slow growth path.

It is against this background that developing countries need to rethink their development policies.

D. Emerging policy shift from austerity in developing countries?

It is time that the world takes leadership to coordinate global socio-economic recovery - a recovery for all persons. This requires shedding the myopic scope of macroeconomic and fiscal policy decisions and, instead, basing them on their potential to achieve full employment, human development and sustainable growth.

The crisis has already triggered a policy shift in some regions. Policymakers in Asia are increasingly moving away from unsustainable export-led growth models toward more inclusive employment-intensive recovery strategies that are centered on building internal markets and improving social protection systems. Latin America, another region much affected by financial crises in the 1990s, has pursued regional integration to expand internal markets and invested significantly in social protection systems to improve living standards; indeed, much of the region's relative resilience to the contagion effects of the current crisis is due to these recent policy stances. Moreover, in 2012, some countries concerned with low growth and demand for their exports announced a new round of fiscal stimulus. While the amounts are small for sustained recovery—compare the US$0.38 trillion in 2012 to the US$2.4 trillion of fiscal stimuli in 2008—they are a sign of policy change.

In both high-income and developing countries, there is a strong need to continue countercyclical policies and higher public spending to avert recession, revitalize the economy, generate productive employment, support development needs and repair the social contract. Further, the focus on fiscal balances diverts public attention from the unsolved root cause of the crisis, which is excessive deregulation of financial markets, as well as from logical global solutions, like a sovereign debt workout mechanism that deals fairly with both lenders and borrowers.

V. The “Rise of the South”?

One often hears of the “Rise of the South” in the 2000s, pointing towards the impressive growth rates of a few developing countries in the past decade and their consequent growing shares in the global economy. Their continued growth, albeit at a slower pace, suggested to some that developing countries have decoupled their economies from those of the developed countries whose economies were going into recession. However, this was likely a one-off event and is in peril, and should not be expected to be the engine of global economic development.

A. Continued inter-dependence and no decoupling has impacted the South adversely

However, developing countries (DCs) are not decoupled from AEs, contrary to what was widely believed during their unprecedented growth in the run-up to the global crisis. That growth was driven mainly by exceptional but unsustainable global economic conditions rather than improvements in growth fundamentals in the South.

There is ample evidence that improved performance of commodity-exporting DCs which account for much of the acceleration in the South after 2002 was the result of the twin booms in commodity prices and capital flows which also created space for subsequent counter-cyclical policies in response to fallouts from the global crisis. These *positive* shocks provide a better explanation of the exceptional performance of many DCs in the past decade than “good” orthodox policies such as inflation targeting, single-digit inflation and flexible exchange rates.

This has been recognized by the IMF, which in April 2013 estimated the growth outcome for developing countries at 5.1 per cent, almost 1.5 points below its original projection, and recognizes the possibility that “recent forecast disappointments are symptomatic of deeper, structural problems”, revising downward the medium-term prospects of these economies. Another IMF report estimates the average potential growth rate of Latin American and Caribbean DCs at slightly over 3 per cent, far below what is required for a genuine “rise of the South” and catch-up with AEs, and recognizes that the above-potential growth achieved during 2003-12 is not sustainable without fundamental changes.

The financial crisis in AEs has led to considerable instability of private capital inflows, yield spreads, equity prices and exchange rates in DCs. Thus, with continued instability and downturn in AEs, the structural weaknesses in DCs are exposed. Although conditions in global financial and commodity markets have generally remained favourable since 2009, the strong upward trends in capital flows and commodity prices that had started in 2003 have come to an end and exports to AEs have slowed considerably. Growth in most major DCs has now decelerated significantly compared to the rates achieved before the onset of the crisis, after showing some resilience in the first couple of years of the crisis thanks to a strong countercyclical policy response made possible by their improved macroeconomic conditions during the earlier expansion. In Asia, the most dynamic developing region, growth in 2012 was some 5 percentage points below the rate achieved before the onset of the crisis; in Latin America it was almost half of the pre-crisis rate.

Although, despite adverse fallouts from the most severe post-war economic crisis and downturn in AEs, on average, DCs have so far managed to sustain an acceptable pace of economic growth for the reasons discussed above. Compared to the beginning of the crisis, total income in the developing world is now higher by almost one-third whereas AEs have barely managed to maintain their pre-crisis level of income. Although growth in many major DCs is now considerable slower than the rates achieved before the onset of the crisis, there are widespread expectations, notably among policy makers, that prospects are brighter in the coming years, once the worst post-war crisis is fully overcome, economic activity is stabilized and employment and output gaps are reduced in AEs. These would allow DCs to go back to catch-up growth and continue to converge towards income levels of AEs, very much as in the period before the onset of the crisis.

There are, however, important question marks regarding these expectations. First, it is not clear when the crisis will be over and if DCs can sustain a reasonable pace of growth in the event of protracted instability and weakness in AEs. There are still serious downside risks, notably from the EZ and China, and global economic conditions could worsen considerably before starting to improve. Second, the exit of AEs from the crisis may not necessarily improve global economic environment in all areas that affect the performance of DCs. AEs may not be able to move to a high-growth path and global financial conditions may tighten considerably with their exit from the ultra-easy monetary policy. Third, growth prospects of most DCs also depend crucially on China. Although China has withstood severe fallouts from the crisis, there is considerable uncertainty whether it can maintain strong growth over the longer term.

So, not only has the "Great Recession" led to a "Great Slowdown" in DCs, pushing growth rates possibly below stalling speeds in some, but also medium-term prospects for global economic conditions look unfavourable compared to pre-crisis years and, in some respects, even compared to the period since the onset of the crisis. Thus the rapid rise of the South that began in the early years of the new millennium appears to have come to an end.[5] This should not come as a surprise since the exceptional performance of DCs in the run up to the crisis was driven primarily by exceptional global conditions. There were little signs of tangible improvements in the underlying growth fundamentals or dynamics in DCs experiencing acceleration.

[5] Still the hype about the "Rise of the South" continues unabated without much research on growth fundamentals and dynamics of DCs; see, e.g., UNDP's 2013 Human Development Report entitled "The Rise of the South: Human Progress in a Diverse World", at http://hdr.undp.org/en/reports/global/hdr2013/

B. *One-off unsustainable growth without long-term structural industrialization*

That acceleration took place without any significant progress in industrialization without which most DCs cannot converge and graduate to the levels of productivity and living standards of AEs.

Of the so-called BRICS, only China promises sustained catch-up growth and graduation even though it faces a bumpy road. Brazil, Russia and South Africa continue to depend heavily on commodities and have indeed deepened their dependence by expanding the commodity sector relative to industry. The two key determinants of growth in Latin America and Africa, commodity prices and capital flows, are largely beyond national control and susceptible to sharp and unexpected swings. At a bare 3 per cent estimated by the IMF, the average potential growth rate of Latin America is far too low, even if constantly realized, to close the income gap with AEs. Many second-tier NIEs in Asia are caught in the middle-income trap, facing growing competition from below without being able to upgrade and join those above – the first-tier NIEs. India has been relying on supplying labour to the rest of the world, not by converting them into higher-value manufactures, but by exporting unskilled workers and IT and other labour services of a very small proportion of its total labour force.

For DCs it would now be "unwise to count on tail winds; they will likely weaken, become more volatile, or both". The remarkable performance of most DCs in the past decade is in danger of remaining a "one-off success" unless they raise productive investment, accelerate productivity growth and make significant progress in industrialization. Globalization has been oversold to DCs who have largely left their development to international market forces shaped mainly by policies in AEs and their financial conglomerates and transnational corporations in control of international production chains.

All these imply that there will be no more Southern tail winds. Even if the crisis in the North is fully resolved, DCs are likely to encounter a much less favourable global economic environment in the coming years than they did before the onset of the Great Recession, including weaker and unstable growth in major AEs and China, higher interest rates, stronger dollar and weaker commodity prices. Indeed, they may even face less favourable conditions than those prevailing since the onset of the crisis, notably with respect to interest rates, capital flows and commodity prices.

Consequently, in order to repeat the spectacular growth they had enjoyed in the run-up to the crisis and catch up with the industrial world, DCs need to improve their own growth fundamentals, rebalance domestic and external sources of growth and reduce dependence on foreign markets and capital.

VI. Reviving the development state to promote strategic development policy

Addressing the poverty crisis in the context of the financial and climate crises requires a more strategic, pragmatic, and holistic approach to development policy at the national level. It requires having a developmental state that promotes a national development policy approach that prioritizes the generation of employment, which includes jobs in the urban areas and livelihoods in the rural areas. This requires job-intensive economic growth rather than finance-led growth

A. The role of the development state

Development is, first and foremost, a national government responsibility. Macro-economic development policies should seek to pursue wage-led growth, not jobless growth. These should focus on eradicating income inequality by fostering upward income convergence. Ending poverty requires social, economic, and institutional arrangements that increase welfare, provide jobs and economic opportunities, and lead to income growth for the poor, as well as providing for the achievement and full enjoyment of the people's right to food, water, health, shelter, and development. In particular, the energies and potential of women should be enabled to contribute to the development process fully.

Empirical economic evidence, particularly in recent decades of growth in East Asia, suggests that poverty reduction is higher when labor-intensive sectors are developed and subsequently diversification across multiple sectors is undertaken. The government in this regard has a key role in creating the overall environment for economic growth and poverty eradication.

In this context, development policy-making should not be ideological, but rather should be strategic, pragmatic, and holistic in seeking to foster the establishment and strengthening of national industrial, agricultural, and services sectors that can generate jobs.

This will require having a developmental state, in which the government plays a key role in shaping and guiding market conditions and the actions of market actors and the private sector. It recognizes that, learning from history and empirical analysis, markets are inherently imperfect; that complete deregulation does not always redound to the public good; and that the state can play a role in jumpstarting the creation of a robust, competitive and dynamic national private sector that can provide greater levels of economic opportunities and income to the people across multiple economic sectors. At the same time, it recognizes that depending on national development priorities, certain areas of the economy might need more or less or no government intervention and regulation at different times and conditions. It understands that finance-led development which equates growth with increased capital flows is not a sustainable development model because it does not generate jobs and does not deliver increases in productive capacity which creates jobs.

A developmental state, because of the key market regulatory role of government, will therefore require the existence of a strong public services sector to provide institutional stability, policy predictability and flexibility, and an institutional mechanism through which strategic regulation and policy direction can be implemented. A strong public service sector enables the state to undertake strategic guidance and regulation of both public and private sector market activities to support productive growth and capacity development rather than finance–led jobless growth.

B. Strategic national development policy

Hence, in the national context, a strategic national development policy that could address the multiple development challenges described above should be marked by:

1. Employment-oriented macro-economic development policies

- macro-economic policies that are oriented towards domestic economic growth and job creation, and place highest priority on income growth, employment generation and development, including:
  - promoting full and gainful domestic employment and increase of economic opportunities and livelihood as the priority goal, including in the formal and informal employment sectors, securing livelihoods in small agriculture, and making labor migration optional rather than necessary, through:
    - fiscal, trade, industrial, and other policies that promote full employment-generating and job-intensive economic growth
    - the prioritising of small and medium industries and of small farmers as the focus of policy attention and incentives for growth
    - employment and livelihoods be of a socially and economically decent and sustainable level
    - environment and health related concerns are taken fully into account in the policies for generating employment
    - a special focus given to reducing youth unemployment
  - shift away from deflationary austerity, pursue countercyclical policies and higher public spending to avert recession, revitalize the economy, generate productive employment, support development needs, improve living standards, reduce inequalities and promote political stability

2. Financing development of productive capacity, rather than financing speculative finance

- Fiscal and monetary policies should re-establish the link between finance and the development of domestic productive industrial capacity, ensuring that capital is used to develop physically productive capacity (e.g. factories, farms) rather than for financial speculation

3. Strategic and development-oriented trade and investment policies to promote domestic industries

- Trade and investment policies should be flexible enough to allow for the development of competitive domestic industries and sectors, taking full advantage of flexibilities for developing countries that currently exist under WTO rules, and ensuring diversification of the economy to less climate change-sensitive sectors

4. Strategic and flexible use of intellectual property rights

- Adopting a strategic approach to the enforcement of intellectual property rights is needed, maximizing multilateral treaty flexibilities and avoiding stronger enforcement initiatives, in order to foster domestic technological innovation of and access to foreign technologies that could be used to spur domestic industrial and economic development, particularly in strategic technologies that may needed to enhance adaptation to and mitigation of climate change

5. Ensuring food security

- Ensuring the right to food and freedom from hunger, with targets for improving the food and nutrition status of the population, including through:
    - promoting food production and addressing needs of rural producers through enhancing access, credit, markets, secure land tenure, health care, social services, affordable technologies
    - boosting productive capacity of small farmers in developing countries through proper functioning of markets, storage, rural infrastructure, research, post-harvest practices, etc.
    - promote and enhance sustainable agriculture practices in crops, livestock and the marine sector including through ecological processes that support food production systems and research and extension work among farmers for environmentally sound production systems

6. Industrial policy geared towards development and diversification of domestic industries, particularly into climate change-adapted or –resilient sectors

- longer-term industrial development policies that involve the development of productive industrial capacity, particularly in developing countries, that would lead to the establishment and expansion of domestic (or intra-regional) production of manufactured goods that go up the value-added chain (from basic industrial such as steel to high-technology products) and which is diversified across different industrial sectors, including research and development, industrial promotion, market segmentation, etc.

7. Science and technology development for industrialization and climate adaptation

- the development, transfer and access to affordable technology in developing countries, enabling them to innovate and move up the industrial technology value chain, particularly in strategic technologies that may needed to enhance adaptation to and mitigation of climate change

8. Providing social protection floors

- The provision of social protection floors through public sector investments and mechanisms to ensure that vulnerable and marginalized sectors of the population are provided with the basic economic and social human rights – food, shelter, health, education – and the means for achieving their right to individual development through increased economic livelihood opportunities and access to and participation in their governance[6]

[6] Increased public-sector spending on health, education, food security, water and a policy to employment generation and rural livelihoods, including ensuring an adequate supply of social services, is necessary. An aspiration is the universal access of the public to basic services such as health care and education, and to food. A method is for the government to provide income transfers or the provision of food and health care which are targeted at the poor families, as introduced in some countries. However we must recognise that such an aspiration to universal access to services or to such transfers is dependent on the governments of developing

9. Ensuring gender equality

- Enabling women to contribute to fully in development, by dismantling barriers to their participation in the economic, social, and political spheres will be essential in any national development policy. The creative energies of the female half of the population need to be harnessed in order to both guide and support the national development process.

10. Ensuring environmental and natural resource protection and sustainability

- It is essential to have improved and more resource-efficient, less polluting, production and consumption patterns, through a coherent package of policies and measures designed to encourage the use of public transportation, energy efficiency, integrated compact land use planning, sustainable and efficient built environment, re-use and recycling of materials, sound waste management, and use of low-emission and renewable energy technologies. Destruction of the natural resource and environmental base for the domestic economy will only damage long-term development prospects. For countries with a limited natural resource or environmental base (such as SIDS), increased resource efficiency will be provide economic benefits through more efficient utilization of scarce resources.

11. Strengthening domestic governance institutions, including the public services sector

- Domestic governance institutions and their ability to play a developmental role in shaping and implementing strategic development policy, should be strengthened by enhancing and preserving the role of public sector as a market regulator and actor. Furthermore, domestic governance institutions should open up appropriate avenues for the engagement and involvement of domestic sectoral stakeholders in governance and policymaking and implementation.

VII. Ensuring an enabling environment for sustainable development and poverty eradication

The inclusion of a strong development agenda and the promotion of the developmental state at the national level require an international framework and cooperation that promotes it. This means a new international financial and economic system is going to be crucial, in order to ensure that the global economic system is more effective, transparent, legitimate; provides appropriate regulatory safeguards against excessive and speculative corporate and market behavior; gives developing countries an increased voice in global economic governance; and provides developing countries with adequate

countries having (1) adequate policy space that is not hindered by inappropriate loan and aid conditionalities, including austerity measures; and (2) the required funds.

policy space

A. *Moving away from ideological policy-making*

The prime responsibility for economic development lies with each individual country. However, ultimate success depends on not only on the effective design and implementation of industrial, macroeconomic and social policies at the national level, but also on ensuring an appropriate pace and pattern of national economic integration into the global economic system.

This calls for a genuine departure from policies fashioned on the Washington Consensus over the past two decades. Industrialization and development cannot be left to market forces alone and least of all to global markets. Given that the basic assumptions underlying the neoliberal economic theory behind the Washington Consensus do not reflect reality[7] or have been proven to be fallacious[8], which means that policy measures based on such a theory would be inherently flawed, the continued use of neoliberal economic policy approaches indicates an ideological rather than a pragmatic and empirical policymaking approach.

Successful development is associated neither with autarky nor with full integration into world markets dominated by developed countries, but strategic integration in trade, investment and finance designed to use foreign markets, technology and finance in pursuit of national industrial development. However developing countries can implement such economic policies only if they are supported by a positive and enabling international environment.

As history has shown, to succeed in development, developing countries need to have adequate policy space. However, their policy space is now considerably narrower than that enjoyed by today's developed economies in the course of their industrialization because of the tendency of those who reach the top to "kick away the ladder" and deny the followers the kind of policies they had pursued in the course of their development. It is hence necessary to reform multilateral and bilateral arrangements to allow developing countries as much economic policy space as those enjoyed by today's developed countries in the course of their industrialization and development.

[7] "Neoliberalism is now used as a generic term to characterize an economic ideology that favors unrestricted "free" markets, "free trade", macro-economic stability, and a set of related economic policies. Neoliberal ideology favors unrestricted freedom of private corporations to pursue profit, the privatization of public enterprises and services, and the elimination or reduction of public or government control, regulation, and guidance of economic activity. Neoliberal policy prescriptions give priority to the prevention and control of inflation over economic growth and employment. In some versions of neoliberalism, there are also prescriptions for tax reductions for corporations and upper income groups under the assumption extra income retained after tax reduction will be reinvested in productive capacity. The ideology also calls for free trade and the elimination of tariffs or government support of domestic manufacturing. The ideology assumes that unregulated markets will correct themselves and produce optimal outcomes for society as a whole." See Alan Fogelquist, at http://www.realpoliticaleconomy.com/an/2012/06/12/neoliberalism-and-the-neoliberal-order-regressive-economics-on-a-global-scale/

[8] The free market model is based on the assumption that perfect competition exists, which in turn depends on the following assumptions: 1. That the flow of information regarding the prices and quality of goods and services is perfect; that is, free and accessible to everybody in the market; 2. Consumers and producers always make rational decisions when purchasing or producing goods and services (i.e., buy at the optimal price and produce at optimal levels); 3. Entry to and exit from the marketplace is easy (low "barriers to entry"); 4. There are a large number of firms within a given industry, each selling a single or homogenous product; and 5. The actions of an individual firm have little to no effect on market price. All of these assumptions are, however, fallacious. See http://www.triplepundit.com/2011/12/fallacies-free-markets/

Despite growing disillusionment in the South, the Washington Consensus is dead only in rhetoric. There is little roll back of policies pursued and institutions created on the basis of that consensus in the past two decades. On the contrary, the role and impact of global market forces in the development of DCs has been greatly enhanced by continued liberalization of trade, investment and finance unilaterally or through bilateral investment treaties and free trade agreements with developed countries.

Furthermore, there is also a concerted effort among developed countries to move away from multilateral policy discussions and commitments (such as in climate change, biodiversity, chemicals and wastes, ODA, trade facilitation, sustainable development) to provide increased levels of development-related governmental financing and technology access and transfer to developing countries, virtually across the board, preferring to rely instead on market-based solutions and modalities (such as trade and investment agreements) as the channels through which financing and technology would be provided to DCs. At the same time, there are on-going attempts to create a greater web of multilateral rules and policies – including BITs, FTAs, RTAs, climate change, etc. - that could have the impact of restricting the development policy space of DCs and forestalling their ability to embark on a strategic industrialization and development plan, and to become selective, pragmatic and strategic about their integration into the global economy.

DCs need to be as selective about globalization as AEs, and reconsider their integration into the global economic system, in recognition that successful development is associated neither with autarky nor with full integration, but strategic integration designed to use foreign markets, technology and finance to pursue industrial development.

This implies the need for rebalancing external and domestic forces of growth and development. Since the end of the so-called import-substitution, inward-oriented policies, the pendulum has swung too far. Dependence on foreign markets and capital should be reduced. There is also a need to redefine the role of the state and markets, not only in finance but also in all key areas affecting industrialization and development, keeping in mind that there is no industrialization without active policy.

B. Systemic reforms at the international level for policy space and effective international cooperation on development and poverty eradication

Creating adequate policy space and building a development-friendly and enabling global economic environment will require systemic reforms at the international level for which the post-2015 development agenda discourse would be well suited. It is clear that current international financial and monetary systems need urgent deep-set systemic reform to make them more effective, transparent and legitimate, and gives developing countries an increased voice in global economic governance. It is critically important that the financial sector is transparent and properly regulated so that capital markets can be mobilized to achieve sustainable growth and play a constructive role in the global development agenda

The international environment or international institutions and factors had previously placed conditions or rules that had adverse impacts on developing countries. This had been done through loan conditionalities (that included structural adjustment policies), aid conditionalities, and some of the rules in WTO and bilateral trade and investment agreements. Some examples of international factors that have impacted on poverty in developing countries are as follows:

- In the past many developing countries had been affected by structural adjustment policies that included growth-contracting macro-economic policies, better known today as austerity measures including severe budget cuts that depressed effective demand and prevented spending for social development; these austerity measures are still advocated by the IMF to many developing countries.
- The structural adjustment policies also included sudden and extreme trade liberalisation policies that reduced tariffs in developing countries, which led to the closure or reduction of small farms and local industries in many developing countries. The loss of jobs and livelihoods was a major cause of poverty. This extreme import liberalisation is still on the agenda of free trade agreements, that asks the developing countries to cut 80 to 100 per cent of all their tariffs to zero, over a ten-year implementation period, with a significant number upfront.
- The TRIPS agreement in the WTO also mandated that developing countries introduce strict IPR regimes, that affected prices of essentials especially medicines, making some of them beyond the reach of the low and middle income groups.
- The global financial crisis in 2007-2010 that originated in the Western countries had a significant adverse effect on developing countries through reduction in exports, fall in commodity prices, reduced tourism, and reduced commercial credit. The growth rates of most developing countries were significantly reduced.

To address these factors, multilateral rules and agreements should be reviewed and reformed with a view to improving the policy space in developing countries in pursuit of economic growth and social development. Therefore there should also be development goals at the level of the international system that include:

<u>For the economic pillar:</u>

1. **<u>Employment and upward income convergence as global goals</u>**

- Full employment should be declared as a global objective, to be pursued by all countries without resort to beggar-my-neighbour exchange rate, trade and labour-market policies
    - Developed countries in formulating national economic policies shall take fully into account the effects of these policies on the employment level and future employment prospects of developing countries. They should not adopt policies that adversely affect the employment and employment prospects of developing countries.
- Reversal of the universal trend of growing income inequality should also be a global goal. This calls for reversing the secular decline in the share of labour in income in most countries. This goal could be pursued through various means to establish a level playing field between labour and capital, including greater international mobility of labour, regulation of international financial markets and capital movements, more equitable taxation of wage income and incomes from capital and financial assets, prevention of tax competition and a code of conduct for TNCs. Pursuit of such a goal calls for breaking the dominance of finance and corporate interests in the formulation

of policies and operation of the global markets. No single country alone can do this – it should be pursued collectively at the global level.

- International financial institutions and aid agencies should comprehensively consider the impact on employment and livelihoods in developing counties of their policy advice and conditions linked to their loans or aid. Such policy advice or conditions should aim at generating employment and contribute to full employment in the developing countries.
    - In the consideration of priorities of objectives of macro-economic policy, the attainment of full employment should be adopted as a top priority objective, in the policies of international agencies, especially as they pertain to developing countries.

2. Providing policy space to developing countries in the global trade, investment, and aid regimes

- Loan and aid conditions including during bailouts that provide policy space to be provided to developing countries to have macro-economic policies and fiscal policies that give priority to growth and social development, and not one-dimensional in inflation-targeting or "austerity policies" and steep cuts in budgets;
- A favourable trading system including multilateral trade rules and bilateral/regional trade arrangements that are oriented towards the needs of the poor (such as small farmers and the urban poor) in developing countries needs to be fostered. Thus goals such as promoting small farmers' livelihoods, food security and rural development and permitting subsidies for poor farmers in developing countries in trade rules are important. There should be a goal to reduce global trade imbalances through faster growth of domestic demand, income and imports in countries with slow growth and large current account surpluses in order to allow greater space for expansionary policies in deficit DCs. In this regard, there needs to be changes in the way that multilateral and regional trade rules and arrangements, such as the WTO[9], the EPAs[10], the TPPA, are made, in particular shifting the focus away from pushing across-the-board trade liberalization on developing countries to an approach that recognizes and reflects the need for developing countries to maintain their trade policy space and flexibility
- Industrial, macroeconomic and financial policies of DCs are severely constrained by BITs and FTAs signed with AEs. These agreements are designed on the basis of a corporate perspective rather than a development perspective and they give considerable leverage to foreign investors and firms in DCs, including giving investors the right to sue host states. They need to be revised or dismantled.

3. Reviewing and relaxing the global IPR regime

[9] Developed countries in the WTO have, since MC8 in 2010, shifted away from talking about an LDC package, towards having an LDC+SDT+TF package, to currently a TF+ package. This prioritizes developed countries market access' agenda and completely ignores the development mandate of the Doha Round.

[10] Despite the concerns of the highest political authorities of ACP States regarding the EPAs and the inherent dangers for regional integration, industrialization, and the development of ACP States, the EU continues to push to conclude the EPAs. In some EPA regions, negotiations have intensified; in particular in the West African region, EAC as well as the SADC EPA region. The EU has now decided to remove by 1 October 2014 those countries that have not signed or ratified their EPA from being recipients of EU preferences provided under the EC market access regulation 1528/2007.

- The global IPR regime needs to be made more flexible, and to move away from seeking to strengthen levels of IPR enforcement. The debate over intellectual property, innovation and their links to development continue to have a high profile, as developed countries seek to strengthen IP enforcement. Knowledge accumulation and technology transfer are fundamental to improving productive capacities of developing countries and LDCs. Increasingly stringent intellectual property regimes and privatization of knowledge increase the costs and availability of knowledge goods and services.[11]

4. Increasing the provision of development financing

- Sufficient financing for development, including during periods of external shocks or unfavourable conditions such as commodity price declines and natural disasters;
- Meeting and exceeding the 0.7% of GNI ODA target for OECD-DAC countries no later than 2020

5. Avoiding a new debt crisis for developing countries

- Establishing an effective system for resolution of external debt problems of developing countries, including having a multilateral sovereign debt workout mechanism in which countries facing risks of debt distress can have recourse to a debt standstill, so as to prevent economic meltdown in developing countries facing balance-of-payments and debt crises. This is particularly important in light of the Report of the Secretary-General to the Sixty-Seventh session of the General Assembly that the total external debt of developing countries reached $4.5 trillion over the year 2010-2011
- The criteria for debt sustainability for developing countries should fully take account of the requirements for generating sufficient employment as a major SDG.

6. Ensuring commodity price stability to protect commodity export-dependent developing countries

- International mechanism to assist developing countries address significant falls in commodity prices. This should include removal of terms unfavourable to commodity-dependent DCs in contracts with TNCs to enable them to add more value to commodities and obtain more revenues from commodity-related activities, and regulating systemically important financial institutions and markets, including

[11] Developing countries that are already party to the WTO TRIPS Agreement should be making use of the flexibilities the agreement contains to address development needs. The continued pressure by developed countries via free trade agreements and the TTP negotiations on increasing TRIPS standards and IP enforcement is contrary to a development-friendly technology and IPR regime. The growth in patents and other IPRs on key technological inputs such as seeds and medicines risk development of sustainable agriculture, food security and health. In agriculture, IPRs promote orientation of research and development towards commercially attractive crops that may lead to loss of crop diversity due to the uniformization resulting from the spread of commercial varieties and leading farmers more dependent on these varieties. Moreover, they contribute to the erosion of traditional seed supply systems that are a source of economic independence and resilience in the face of threats such as pests, diseases and climate change. There is also continued misappropriation by way of patents of the traditional knowledge and the genetic resources of developing countries and their local communities.

international banks and rating agencies and markets for commodity derivatives with a view to reducing international financial instability and instability of commodity prices.

7. **Multilateral surveillance and discipline over policies of systemically important reserve currency countries**

- International mechanisms to assist developing countries affected by the global recessionary conditions, including:
    - Building new multilateral mechanisms to prevent adverse spillovers and shocks to developing countries from policies in developed countries or destabilizing impulses from international financial markets.
        - Introduce multilateral mechanisms to bring discipline policies in AEs to prevent adverse consequences for and spillovers to DCs, including agricultural subsidies, restrictions over labour movements and transfer of technology and beggar-my-neighbour monetary and exchange rates policies.
        - Establish mechanisms to bring greater stability to exchange rates of reserve currencies and prevent competitive devaluations and currency wars, such as those seen during the current crisis.
    - Addressing the substantial increase in the financial stability risks of many developed economies and in particular, their high structural fragilities in financing sovereign debt created as a result of transferring private risk to the public sector, in order to reduce sovereign risk in developed economies to prevent contagion and to mitigate its impact on the international financial system

8. **Regulating TNC behavior through multilateral instruments**

- Establish and effectively implement a legally binding multilateral code of conduct for TNCs to secure social responsibility and accountability and prevent restrictive business practices
- Establishing rules for TNC investor obligations to the host developing country

9. **Reforming global economic governance institutions**

- Reform international economic governance in ways commensurate with the increased participation and role of developing countries in the global economy. Re-examine the role, accountability and governance of specialised institutions such as the IMF, WB and the WTO, and the role that the UN can play in global economic governance.

For the social pillar

10. **International mechanisms for promoting social development in developing countries**

- Poverty eradication should also be addressed at the international level by giving high priority to supporting developing countries in enhancing their ability to promote social development. This includes, for example, setting up of an international social fund to finance social programmes in developing countries, such as that proposal by the UN's Special rapporteur on the right to food.

- Another proposal is to develop or expand international initiatives to enable access to affordable medicines, and access to knowledge and information.

For the environmental pillar

11. **Provision of international financing, technology, and capacity building to developing countries to support the implementation of environmental treaty obligations and of national environmental programmes**

The poor are often the most vulnerable to the effects of pollution and resource depletion or scarcity. The challenge of sheltering the poor and vulnerable groups from the effects of environmental damage needs to be addressed. However many developing countries do not have the adequate resources to adequately address environmental issues as they do not want to divert scarce funds away from social development or economic goals. Therefore the means of implementation are also crucial for them to address the environmental dimension of poverty eradication. This will require the provision of financing, technology, and capacity building to assist developing countries implement environmental programs and their existing obligations under MEAs.

C. *International cooperation arrangements for the provision of the means of implementation (financing, technology, capacity building) for the achievement of development goals*

International cooperation arrangements for the provision of the means of implementation (financing, technology, capacity building) to developing countries will also be crucial elements in creating an enabling environment for the achievement of sustainable development goals and the eradication of poverty. In this regard, three elements are important: the delivery of adequate financing; access to, development of, and transfer of technology; and capacity building. The provision of the means of implementation as a key element in any development agenda has long been recognized, at least since 1992 under Agenda 21.

1. **Mechanisms and flow of international financing support for the implementation of sustainable development, climate change actions, and other development-oriented goals in developing countries**

The delivery of international development financing to developing countries is important in order to ensure that their ability to finance the implementation of new development goals will not compromise their ability to finance existing ones. For example, to address climate change mitigation and adaptation in developing countries, it has been estimated by the South Centre, based on existing studies, that at least US$1.6 trillion per year in terms of climate financing would be needed to be provided to developing countries under the UNFCCC. Such climate financing, for example, should be provided through the UNFCCC's Green Climate Fund in order to ensure that these are consistent with the priorities set by governments under the UNFCCC. In the Rio+20 outcome document, the need to provide financing for sustainable development was recognized and resulted in a decision to set up a process to discuss the establishment of and modalities for a mechanism for sustainable development financing.

2. <u>Easing access to, transfer, and development of technology to support the achievement of development goals, including in the context of climate change actions</u>

Access to and transfer of technologies needed to support the development process in developing countries is also crucial, as doing so will enable developing countries to assist their firms in learning from and innovating on technologies. Barriers to such access and transfers, including cost, infrastructural, institutional, and policy barriers (such as IPRs) need to be addressed and eliminated, if such access and transfer of technologies are to be made effective.

3. <u>Mechanisms and programmes to implement capacity-building for the transfer of appropriate know-how and skills for implementing development policies</u>

Capacity-building is also an important component for an enabling environment because it helps ensure that know-how and skills are also transferred, not just the physical technologies themselves. Capacity-building, however, has to be appropriate to national circumstances and reflect the development priorities of the recipient developing country.

VIII. Putting sustainable development and poverty eradication at the heart of the post-2015 development agenda

The post-2015 development agenda should have a structural, strategic, systemic, and pragmatic, rather an ideological and specific goal-oriented, approach to development policy

The multiple challenges above highlight the key issues that need to be addressed if poverty is to be eradicated as part of the post-2015 development agenda. These issues, in short, are the following:

- Rapid and sustained economic growth, driven by increases in productive capacity rather than finance-led development
- Industrialization and economic diversification, particularly in developing countries
- Targeting full and gainful employment
- Greater distributional equity for income
- Environmental sustainability

These encompass all three areas of sustainable development – economic and social development and environmental protection.

If necessary, an action plan for systemic reforms could be supplemented, but not substituted, by specific goals in some areas of economic and social development. Such goals should better be set for the principal drivers of development, notably growth, employment and distribution, rather than for specific areas of human development as in MDGs. International action for systemic reforms should be formulated as explicit commitments with appropriate time frames, going well beyond the generalities of Goal 8 of the MDGs.

Besides these issues above, which combine goals for countries to aspire to, and global-level goals to support the efforts of developing countries, we believe there should also be a separate section in the issue of poverty eradication devoted to means of implementation, i.e. the provision of international financial resources and technology access and transfer. This could include the issues raised above such as sufficient financing for development, debt issues, meeting the financing shortfall of countries affected by the global economic recession, as well as the provision of technology to support the growth of productive capacity and thus the generation of jobs.

What this implies is that the post-2015 development agenda should not simply extend the MDGs, reformulating the goals, dropping one or two and adding a few in areas such as environment and human rights. It should focus, instead, on:

(1) enhancing national development through strategic wage-led, jobs-generating, sustainable industrialization and development policies implemented by a developmental state, particularly in developing countries;
(2) global systemic reforms to remove structural impediments to development in the global finance, trade, IPR, and investment regimes, and secure an accommodating international environment for sustainable development, particularly for developing countries; and
(3) developing international cooperation arrangements for the provision of the means of implementation – i.e. the provision of international financial resources, technology access and transfer, capacity building – to eradicate poverty rapidly through wage-led, jobs-generating, sustainable development.

Without an enabling international environment, in which systemic reforms are made and the means of implementation are provided, developing countries will find it extremely difficult, if not impossible, to achieve any development goals in the post-2015 agenda. These three elements are linked together. If the enabling environment is not present or not addressed effectively, then the post-2015 development agenda, and the SDGs themselves, run the risk of simply becoming a new set of multilateral obligations that developing countries will be expected to comply with, but which they will not be able to do so without consigning themselves to keeping their countries and their peoples in poverty.