Obstacles to Development in the International Economic Architecture

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[1] The author is solely responsible for the information and analyses in this paper, which should not necessarily be associated with the South Centre. The author gratefully acknowledges comments from Pedro Martins, two referees, and Mr. Martin Khor.

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List of Acronyms

ACP	African Caribbean and Pacific
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FLEX	Fluctuation in Export Earnings
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
IMF	International Monetary Fund
LDC	Least Developed Country
LIC	Low Income Country
MDG	Millennium Development Goal
MIC	Middle Income Country
MFN	Most Favored Nation
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
STABEX	Système de Stabilisation des Recettes d'Exportation
TRIMS	Agreement on Trade-Related Investment Measures
PRSP	Poverty Reduction Strategy Paper
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNU-WIDER	United Nations University – World Institute for Development Economics Research
US	United States
V-FLEX	Vulnerability FLEX
WB	World Bank

1. The Main Challenges

Development is a contested intellectual arena. Significant shifts[1] in positions of what constitutes development have produced enormous changes in policies and reshaped international cooperation in trade, aid, and finance. The eras associated with these shifts have created a lexicon of development orthodoxies – import substitution industrialization, basic needs, structural adjustment, Washington Consensus, and Millennium Development Goals (MDGs). It is not surprising that each shift has been a reaction to the elements perceived to be missing from and failings of the predecessor. Structural adjustment programmes (SAPs) were a response to the perceived lack of reliance on private risk-taking and investment in state-led development strategies. In turn, SAPs were seen as blind to the employment- and livelihood-dislocationing impacts of trade liberalisation, deregulation, privatisation and fiscal adjustment. The era of the MDGs, the latest incarnation of the "big idea" in development, was a reaction to lack of attention to the poverty impacts of SAPs.

Poverty eradication is a desired outcome of development. Poverty eradication goals as embodied in the MDGs have mobilised policy initiatives and actions (Nayyar 2011), most notably in the recovery of official development assistance (ODA) at the international level. In discussing obstacles in development embodied in the international economic architecture, this paper proposes a more expansive view of the meaning of development beyond poverty reduction. This position is yet another reaction to the prevailing orthodoxy. When development is associated mainly with poverty reduction, which is in turn associated with numerical goals, there is a distinct possibility that making numerical progress in poverty reduction does not represent the desired result. For example, achievement of poverty targets can be illusory if many of poor cross the poverty line by taking on livelihoods that are likely to disappear with the onset of another macreconomic crisis, recognising that developing countries are vulnerable to such crises. Associating development mainly with poverty reduction risks associating development cooperation principally with ODA and its procedures, particularly in the form of

[1] For a summary of evolving conceptions of development since the end of World War II see Chapter 2 of United Nations (2010). .

"concessional aid" (Nayyar 2011, p. 22), and de-emphasizes the impact of trade, international finance, access to technology and the resolution of sovereign debt, among a list of other issues. This de-emphasis is reflected in the clustering of these issues in "MDG 8" (Develop a global partnership for development').

It is useful to note a historical precedent[2] in the emphasis on poverty as the basis for international cooperation, and as the basic design principle for the international economic architecture, especially to provide a backdrop to the governance reforms discussed later in this paper. As the frontier of unalienated land closed, the end of the European scramble for territories in the late 19th century spawned government concerns to justify external control and hold the support of colonized populations (Arndt 1987, p. 27). Colonial policy 'sounded a new note of responsibility' for "native welfare . . .regarded as quite distinct from that of economic progress or development" (Arndt 1987, p. 27). In 1939, in a revision of the earlier British Colonial Development Act of 1929, the Colonial Development and Welfare Act provided for minimum standards of nutrition, health, and education (Arndt 1987, p. 28) in territories and trusteeships. Arndt (1987, p. 29) refers to W. Arthur Lewis criticism of a World War II British economic plan for Jamaica, for a failure to distinguish between "social welfare" as the raising the standard of living in the colony and 'economic development'.

Thus it is important to define development for the purposes of this paper. We start from a standard definition of development. The process of development involves the large-scale transformation in the pattern and composition of economic activity and the achievement of a substantial rise in productivity in the domestic economy through the absorption and movement of underutilized labour and capital. This structural transformation has been 'associated with a shift of the population from rural to urban areas and a constant reallocation of labour within the urban economy to higher-productivity activities' (UNCTAD 2011, p. 6.). An extensive economic transformation is necessary to obtain higher standards of living and involves a permanent change in a nation's role in the global economy. In this formulation, the reduction of poverty or the achievement of higher standards of living is a consequence of the transformation of economic activities. Development is not just "human development" meaning higher levels of income, nutrition,

[2] I am grateful to Richard Kozul-Wright of UNCTAD for pointing out this precedent.

education, and health outcomes but instead human development entails higher levels of productivity and capabilities[3] achieved by societies and the individuals that comprise them. This differentiation of development as being more than higher incomes, nutrition, education, and health outcomes is not an idle one. Development requires the introduction of new and more productive jobs for people. Thus, significant investment in new activities and products, not just anti-poverty programs, is indispensable. The obstacles to development in the international economic architecture that will be discussed in this paper are those that hinder investment in new economic activities.in developing countries.

Understanding the obstacles to development in the international economic architecture is essential in a non-welfarist view of development. For example, the paper will draw on earlier findings (Kharas 2008) of the negative macroeconomic impact of the aid volatility through the channel of volatility in domestic demand. Aid as a voluntary act on the part of developed countries is a feature of the international economic architecture and actions to make such flows more 'predictable'must be seen mitigating one of these obstacles.

It is also useful note here the implications of the view of development as increasing domestic productivity through economic investment. For example, it means that paying more for the commodities exported by developing countries – which are needed as inputs in production processes in developed countries – is not development. Paying more for commodity imports has the potential to raise the standard of living in developing countries but is not associated with development. The introduction of mass manufacturing as a way of raising domestic productivity was historically important. Whether such a strategy is feasible using current technologies or whether services can serve as a comparable substitute is beyond the scope of this paper which confines itself to the problem of macroeconomic growth and investment.

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[3] Sen's (1985) first use of this word as a technical technical term imbedded in a discourse in the field of welfare economics does not exclude higher productivity from improved human skills and higher labor productivity through higher capital per worker, which is the (old) notion of capability that we prefer. The main policy application of Sen's use of the term has been as a poverty eradication principle, a natural extension of the philosophical approach which expanded on concepts such as "freedom" and "functionings" (an elaboration of the concept of individual choice). The question that the concept of human development raises is extent to which welfare economics is a practical guide to development policy in poor countries.

The rest of this section discusses the obstacles to development that underlies the analysis in the subsequent sections. It develops the notion that the international economic system is unable to provide access to and mechanisms for long-term, stable resources required by developing countries to upgrade their capabilities. Section 2 discusses the topic areas where these obstacles and constraints to development exist. The discussion is divided into two sub-sections – the first on external obstacles and the second on constraints on domestic policy space. Section 3 discusses the problems of governance structures that have a bearing on the responsiveness of the international economic architecture to development needs of developing countries. Section 4 concludes with an overall summary of the obstacles to development.

Developing countries, and low-income countries (LICs) in particular, are hampered by low policy and human skills capacities, unstable and inadequate export earnings from over-dependence on commodity trade and limited policy space. Domestic strategies and reforming international cooperation can loosen the last two constraints, which are also critical in in addressing the first one. For purposes of this study, 'policy space' or 'policy autonomy' refers to the effectiveness of national policy instruments in achieving national policy objectives (Akyüz 2008).

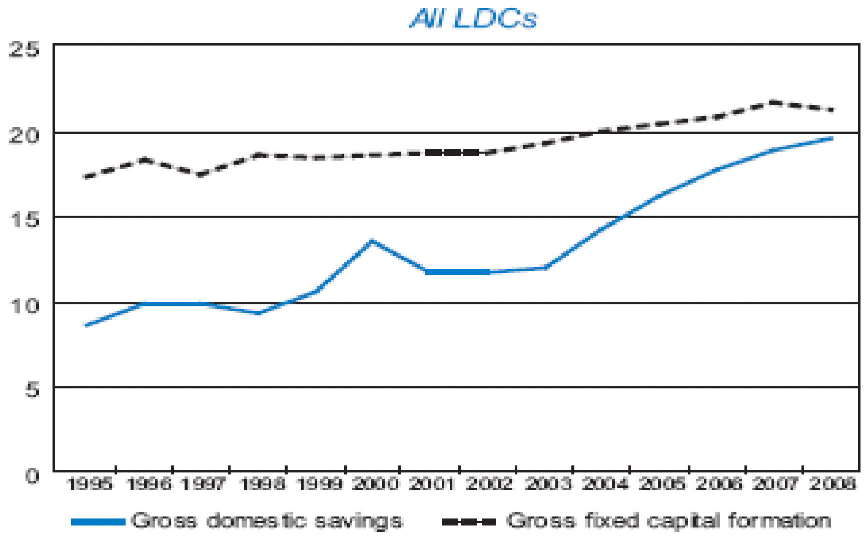
An enormous productivity gap between developing and developed countries characterises the world economy. In 2008, the average Gross National Income (GNI) per worker in the least developed countries (LDCs) was US$3,022 (at current purchasing parity dollars), compared with US$68,607 in OECD countries — a ratio of 22:1 in favour of OECD countries (UNCTAD, 2010: 174). In the nineteenth century, taking the Netherlands and the United Kingdom (UK) as the richest countries and Finland and Japan as the poorest, the productivity gap was only between 2 to 1 and 4 to 1 (Chang 2003). The challenges involved in ensuring that developing countries benefit from international economic interactions are now five times greater than they were when the first capitalist economies emerged.

Unstable and inadequate export earnings undermine macroeconomic balances and overall economic growth. For the majority of developing countries, the commodity price boom in 2000s did not produce any enduring improvement in macroeconomic balances, especially for LICs. Izquierdo et al. (2007) suggest that in Latin America the commodity boom masks the lack of structural improvement in fiscal and current account balances in most of the region. Moreover, while LDCs experienced the strongest growth rates since

1970s, more than a quarter of LDCs actually saw GDP per capita decline or grow slowly in the 2002-2007 global boom (UNCTAD, 2010).

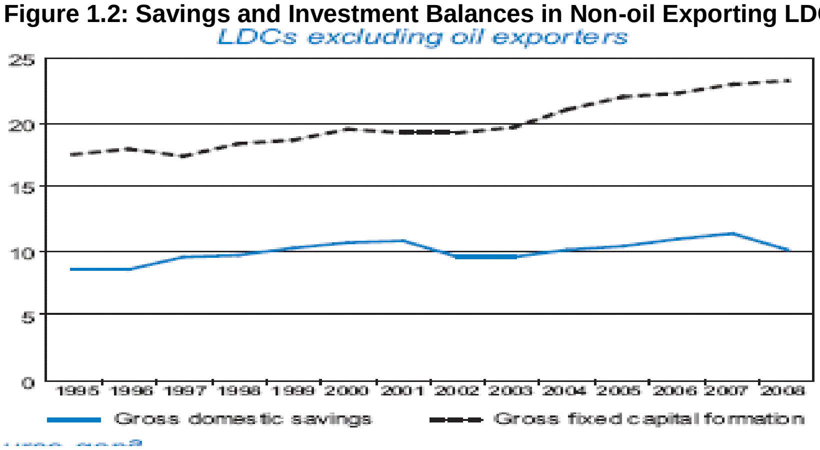
In the case of LDCs, Figure 1.1 suggests that the resource gap has been narrowing. However, by including only non-oil exporting LDCs, Figure 1.2 suggests that since the 1990s, the gap persists for these LDCs. The performance in oil-exporting LDCs can be interpreted as the exception that proves the rule of LDC overdependence on commodity prices to close these countries' resource gap.

Figure 11: Savings and Investments Balances in LDCs



Source: UNCTAD, 2010: 11, Chart 3

Figure 1.2: Savings and Investment Balances in Non-oil Exporting LDCs



Source: UNCTAD, 2010: 11, Chart 3

Developing countries, including the LDCs, shared in the growth spurt of the 2000s, which followed the pattern of previous episodes characterised by abundant liquidity along with high commodity prices. Akyuz (2012) points out that previous global liquidity booms have consistently led to serious economic crises in developing countries. The most recent liquidity boom differs from previous ones in that the subsequent crisis is centred in the developed countries.

Both the downturn and the tentative and fragile recovery indicate that the pattern of previous episodes could still end in serious economic downturns in developing countries. For almost a year, these recoiled from the negative impact of the crisis through trade and financing channels. Subsequently, the reliance on monetary easing on the part of the developed countries and the ramping up of investment spending in major developing countries, notably China, restored global liquidity and propped up commodity prices. This helped to arrest the collapse of growth in developing economies but also restored the unsustainable patterns of commodity and liquidity booms of the 2000s.

The recent experience is consistent with those in previous boom periods, when LDCs did not succeed in developing productive capacities necessary for catch-up growth and to reduce their vulnerability to external economic events. Catch-up growth requires a strong investment.. During the boom, the investment ratio for LDCs as a group rose from 19.5% of GDP in 2000 to 23.2% in 2008 (UNCTAD, 2010: 10). Changes in inventories accounted for more than a third of the higher ratio, highlighting difficulties in channelling investment to productive capital. Even with the higher ratio, gross fixed capital formation (GFCF) was lower than for other developing countries. For 19 LDCs, GFCF actually fell. Economic vulnerability to external developments can be alleviated only with greater productivity and successful economic diversification.

This vulnerability has been exacerbated since the 1990s. As the main subject of Poverty Reduction Policy Strategy papers (PRSPs), LDC economic strategies have been particularly prone to a continued focus on liberalisation, attracting external resources and increasing social sector spending (UNCTAD, 2009:.8). PRSPs emphasized upgrading public sector governance processes through improved alignment of expenditure and revenue performance to agreed targets. The upgraded governance process involved working within a total 'resource envelope' estimated from trade surpluses, government revenues, official development assistance (ODA), and foreign investment. The underlying economic model, in line with prevailing mainstream views, viewed the problem as one of the effective allocation of resources to competing requirements. Keynesian-style macroeconomics, for example, might have provided for the possibility that investment, both private and government, could have multiplier impacts on economic activity consistent with a more flexible total resource envelope coming from mobilising investment in new productive capabilities and new economic sectors.

In comparison to so-called first generation PRSPs, second generation PRSPs reflected a broader agenda and have taken the effort to incorporate growth in formal planning activities and documents. However, the level of financing for productive sectors has remained low and limited 'change in the relative share of aid disbursements going to productive sectors'(UNCTAD 2008, p. x). Partly as a result inadequate technical capacity of aid-recipient country governments and partly as a reflection of donor preferences, donors' orientation toward funding social sectors combined with policy conditionality on stabilisation, liberalisation and privatisation have shapedt the overall character of economic policy under PRSPs even in the second generation. For example, an increased emphasis on infrastructure spending can have an impact on private sector risk-taking and investment. This can be contradictory to and has to be reconciled with a strategy that attempts to crowd-in private sector investment in which the main policy initiatives are low fiscal deficits and low rates of inflation.

Between the 1970s and 1997, manufacturing as a proportion of GDP increased by less than two percentage points in LDCs as a group, a period which saw various episodes of commodity and debt booms (UNCTAD, 2009: 145, Table 17). For the group of LDCs from Africa and also Haiti, manufacturing fell from 11% to 8% of GDP during the same period. Most of the slight increase in the manufacturing proportion of GDP can be attributed to the performance of Asian LDCs.

The depth and global nature of the current crisis have reinforced voices which question the paradigm underlying national economic policies and international arrangements. In the first blush of the revolutionary application in SAPs and PRSPs, the new paradigm was distinguished by its almost exclusive reliance on private incentives and markets to address social problems and underdevelopment and its profound scepticism concerning the capacity of other institutions, particularly the government, to deal with these issues. State-owned enterprises and the agricultural support programs came under intense suspicion and eventual contraction. 'Industrial protection and subsidies for many basic needs were perceived as distorting the proper functioning of markets, hampering not only output and employment growth, but also efficiency in the delivery of social services and poverty reduction" (United Nations, 2010: 19). The MDG framework assigned to public authorities the important and enclave responsibilities in investments in social sectors, aligned with meeting the MDGs, while keeping the original policies of lower tariff and tax rates and fiscal deficits, the emphasis on achieving international competitiveness, and progressive opening of the capital account in place. Nayyar (2011, p. 19) characterized the resulting division of responsibilities thus: 'In fact, the emphasis on social development meant that governments in LDCs relied on external resources to finance expenditure on social sectors but did not mobilise domestic resources to finance investment in infrastructure, agriculture or productive activities. There is need to transform such thinking.'

While the PRSPs were intended as an integrated approach to development, they failed 'in practice to make macroeconomic, trade and financial policies integral and explicit parts of a strategy aiming to generate sufficient productive employment, reduce poverty and enhance access to social services' (United Nations, 2010: 20). . Resources made available specifically in relation to PRSPs, both through ODA and debt relief, proved important in compensating for the negative impacts of liberalisation programmes – and not as resources for economic diversification or improved productivity.

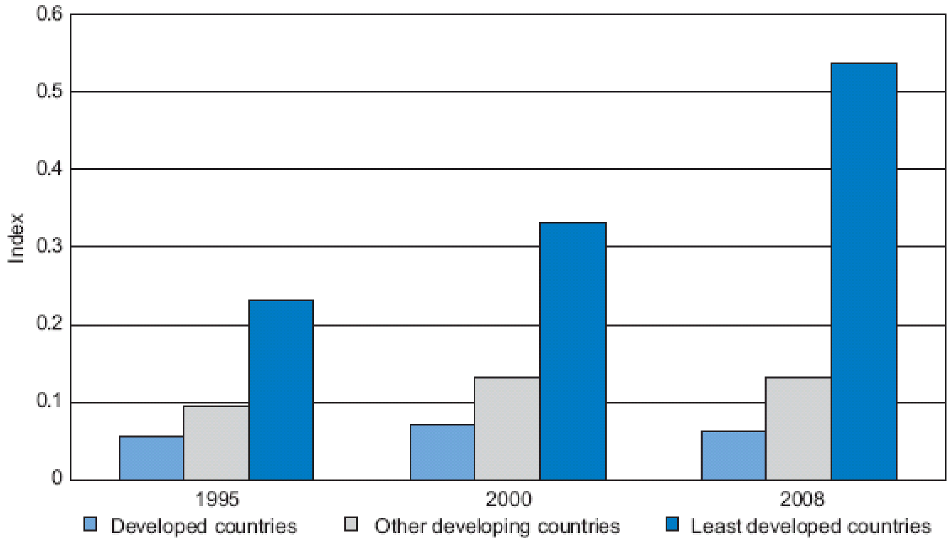
Under the prevailing framework, government economic actions to promote development are seen as serious encroachments on the capacity of private agents and markets to address social problems and meet development objectives. As a result, the contraction of public policy space in developing countries is seen as a desired responsibility of political authorities in economic reform programs (Wade 1990) – legislative, executive, and judicial. Because of this framework, explanations of declines or low levels in economic growth rates are associated with the slowing of 'reform' activities toward reducing government policy space and installing an 'enabling environment' for private initiative.

Especially since the 1980s, rapid integration with the international economy became a desired development policy (in contrast with earlier era associated with import liberalization). Developing countries pursued this through a combination of unilateral measures (including those undertaken within reform programmes under the aegis of international financial institutions and accession to international arrangements, such as the World Trade Organisation (WTO). These 'reforms' unleashed a proliferation of "international rules, obligations and practices" with the result that many standard instruments of development and macroeconomic policy became "ineffective or simply unavailable" (Akyüz 2008, p.3).

The new analytical framework encouraged developing countries to take on international obligations to subject themselves to market disciplines provided by the international private sector. 'Large differences between applied and bound tariffs in developing countries show that an important part of trade liberalization has occurred outside the WTO' (Akyüz, 2008: 6) for the most part under conditionality in programmes with the IMF and World Bank. Developing countries have undertaken unilateral trade and financial liberalisation while accelerating commitments in multilateral and free-trade agreements and investment treaties.

Since the 1980s, developing countries have extensively liberalised their trade regimes. For LDCs, this period culminates in a situation where some of them have more open trade regimes than other developing countries, and others are more open than even developed countries (UNCTAD, 2010: 174). For developing countries, the anticipated economic diversification has not been readily achieved. Figure 1.3 indicates that a more concentrated structure of exports appears to have accompanied more liberalised trade regimes.

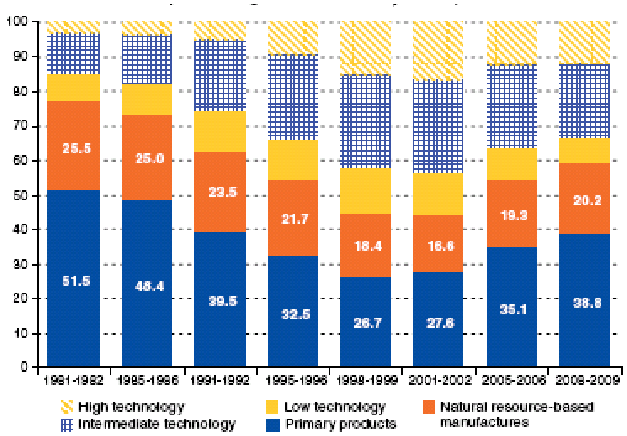
Figure 1.3: Concentration of Exports
(Indices of Concentration)



Source: UNCTAD, 2010: 17, Chart 8,

The experience of Latin American countries is an indicator of the trade trends in other middle income countries (MICs). If a dynamic trade sector is the key to successful development, the dynamic trade sector in Latin American and Caribbean has seen what is called in the region as 'reprimarización', a restoration of reliance on primary exports. Figure 1.4 suggests in the 2000s, there was a clear-cut trend toward primary exports and natural-source based manufactured exports. Part of this trend is due to the increased demand for commodities by China (Erten and Ocampo 2012). There are two questions that the trend raises: (1) how long will China's need for commodity imports continue and (2) what kind of policies will be required in the region to restore the reduced dependence on primary exports that had previously been achieved?

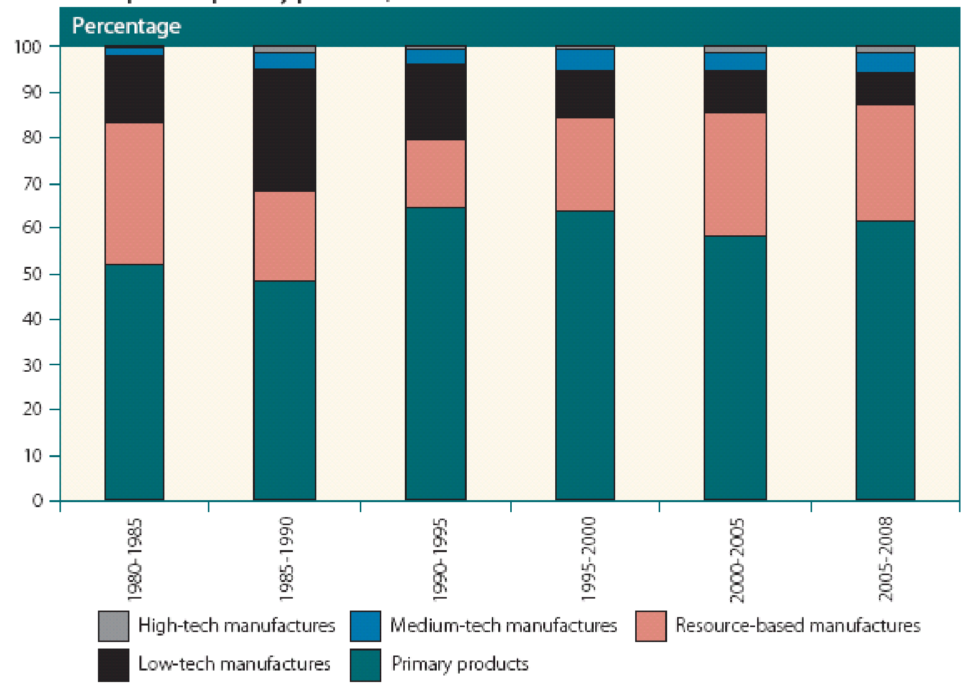
Figure 1.4: Structure of Exports, Latin America and Caribbean since 1980
(percentages of total value)



Source: Table II.12, CEPAL 2010, p. 74 .

In the case of LDCs, the intensified concentration of exports has been accompanied by the continued reliance on primary commody exports (see Figure 1.5).

Figure 1.5: Continued reliance of LDCs on primary commodities



Source: United Nations (2010), Figure IV.7, p. 79.

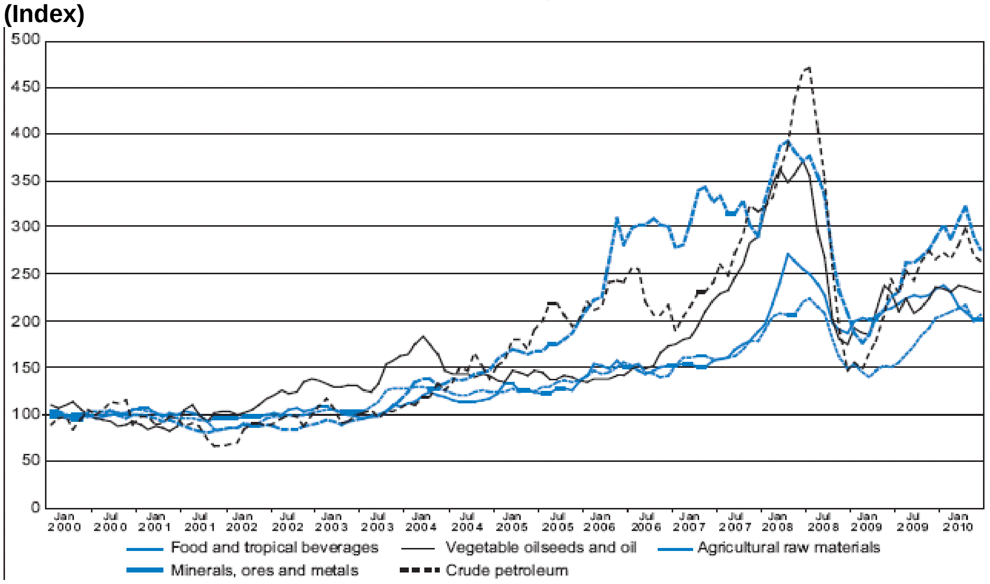
In developing countries growth discontinuities have a long-term impact on the development process; in contrast, except possibly during the Great Depression in the 1930s, developed countries rebound from downturns with much of their productive and institutional capabilities intact, The developing country experience suggests development (populated by growth patterns which Pritchett (2000) has called hills, plateaus, mountains, plains) is path[4] dependent. For more than half of developing countries, Pritchett (2000) finds that subsequent growth slowed down after a structural break. More than a decade after the 1997Asian financial crisis , investment rates in the Southeast economies of Thailand, Indonesia, Malaysia, and the Philippines have not recovered long-term averages before the crisis.

[4] This also suggests that cross country regressions with growth as the dependent variable and a "kitchen sink" (Rodriguez 2006) of explanatory variables on the right hand side sidestep

Instability in macroeconomic performance in developing countries is mostly explained by external influences, from both trade and financing (United Nations, 2008:viii–x,) Ocampo and Parra (2006, p. 2) present evidence that 'major breaks in the growth process in the developing world tend to cluster around specific time periods, indicating that developing countries' economies tend to follow a common cycle, with major breaks clearly associated with the world economy'. Not only are smaller economies more susceptible to growth collapses (Ros 2005), butexternal shocks are a larger proportion of their achieved economic size. Disorderly debt restructuring, disruptive balance-of-payments (BOP) adjustments, widespread private bankruptcies, social conflict and extensive institutional and political changes and policy experimentation often amplify these breaks in the growth process. The 1950s and early 1960s when the incidence of international economic crises were a minor can be seen as a 'golden age' of development (Ocampo and Parra (2006).

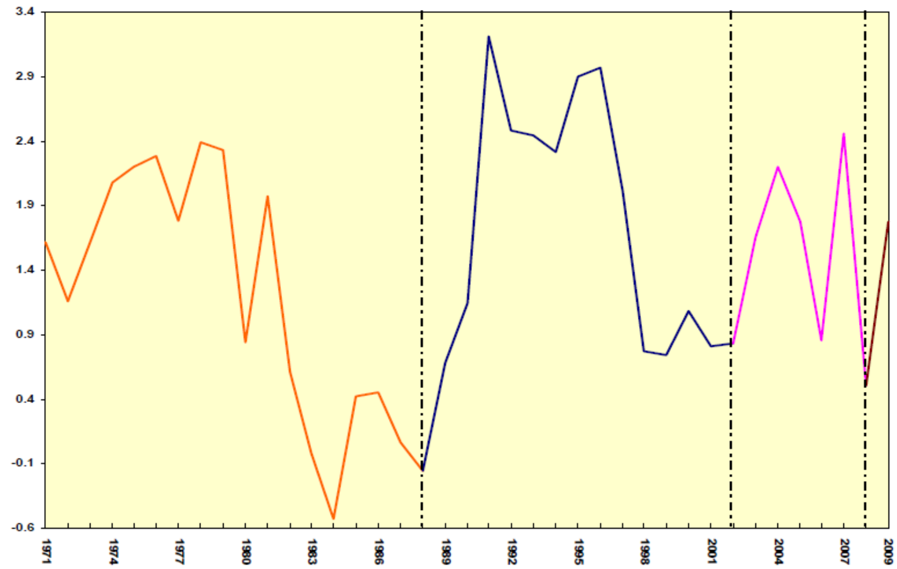
Reforms in the international governance architecture have not significantly addressed this problem. International trade is a major source of instability. 'Moreover, in some of these regions, notably Latin America, capital-account liberalization has greatly amplified trade shocks by attracting pro-cyclical capital flows'(United Nations, 2008: viii-–x). Commodity price volatility (Figure 1.6) and ODA volality (Figure 1.8) have the greatest impact on LDCs.

Figure 1.6: Price Volatility of Commodity Groups (Index)



Source: UNCTAD 2010, Chart 36, p. 191.

Figure 1.7: Net Private Capital Flows to Developing Countries (per cent of GDP)

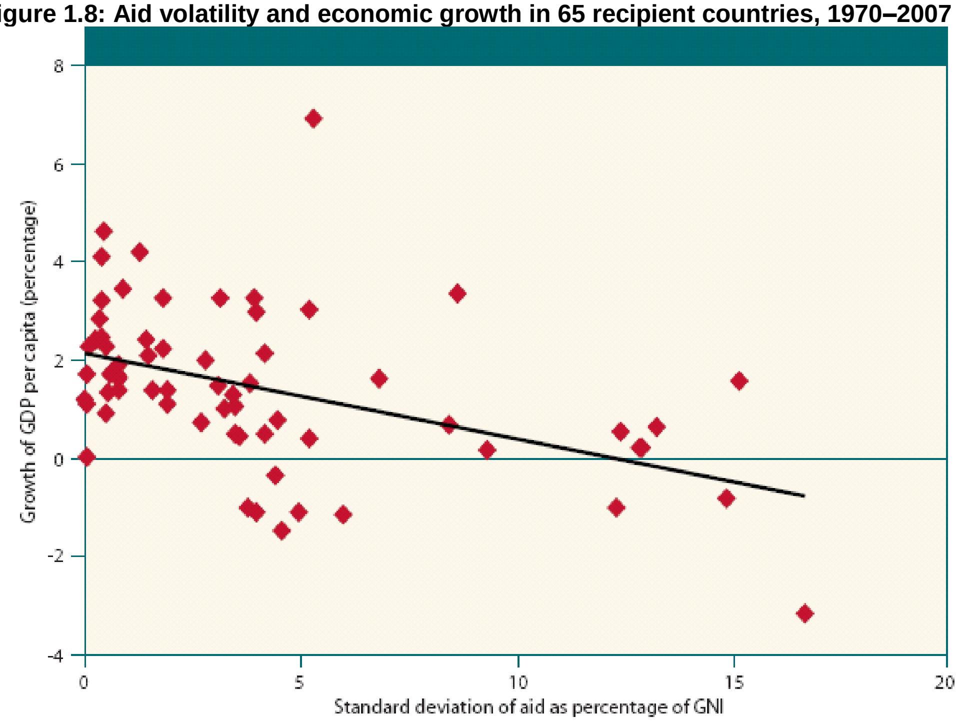


Source: Akyüz (2012a), Figure 2, p. 68.

The volatility of interest rates in developed countries and global liquidity have the strongest impact on developing countries, especially the so-called emerging economies (Akyüz, 2012a). Figure 1.7 indicates that there have been three distinct boom-bust periods, measured thorugh the pattern of net private capital flows to developing countries: the first ended with the Mexican debt crisis in 1982, the second with the Asian financial crisis in 1997, and the third with the Lehman collapse in 2008. Figure 1.7 also suggests that2009, there is also an emerging boom as a result of the quantitative easing in Europe and the USA and the investment-led crisis response in China. How long the current boom can be sustained is an open question.

In the aftermath of the 1997,Asian financial crisis major emerging economies have sought to accumulate international reserves both as self-insurance against volatile private portfolio flows and as a way to protect export earnings which provide the means to accumulate reserves. These self-insurance policies by the authorities in e merging countries handicap their ability to undertake counter-cyclical policy anddevelop their domestic financial sectors, and represent an opportunity cost in terms of forgone financing for domestic investment. The same public policies resulted in the net flow of financial resources from developing countries to developed countries in the years immediately preceding the global economic crisis (Figure 1.9). Figure 1. 9 indicates that in 2008, developing countries, mainly through central bank authorities via the accumulation of international reserves, had invested almost $900 billion net in developed country assets before the onset of the sub-prime crisis in the US.

Figure 1.8: Aid volatility and economic growth in 65 recipient countries, 1970–2007

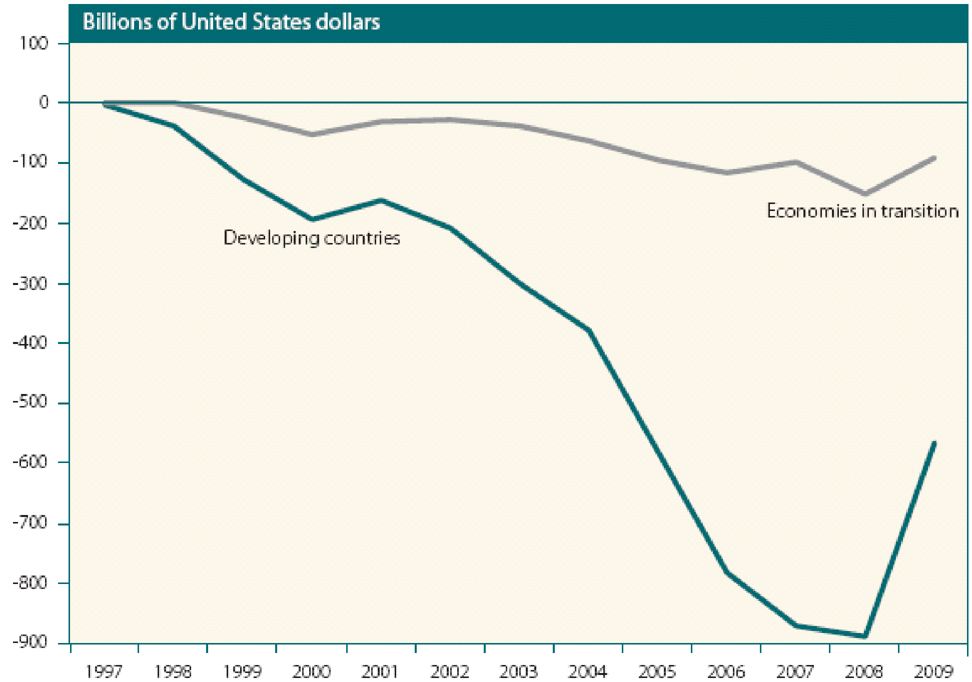


Source: United Nations 2010, Figure V.6, page 111 from Kharas (2008).

The volatility of earnings from trade and aid in LDCs lies behind their external debt cycles and crises. The negative impact of the volatility of aid is shown in Figure 1.8. Even in emerging markets, aid is as volatile as ‘private flows and the volatility increases with aid dependence’ (Akyüz, 2008: 15–16; also United Nations, 2005, Chapter IV).   Akyüz (2008:16) considers aid for the most part to be more volatile than ‘either output or fiscal revenues', citing IMF-commisioned studies Robe and Pallage (2001) for volatility and procyclicality with respect to output (especially for African countries) and Bulíŕ and Hamann (2003), Bulíŕ and Lane (2004) and Hill (2005) with respect to fiscal revenues. Kharas (2008) study indicates that aid volatility imposes through the channel of macroeconomic volatility deadweight losses of 15% to 20%of the total value aid, or about 1.9% of GDP for the average aid recipient. In 2005, led by the OECD, Western donors introduced the framework of 'aid effectiveness' which among other principles sought to improve the predictability of aid.

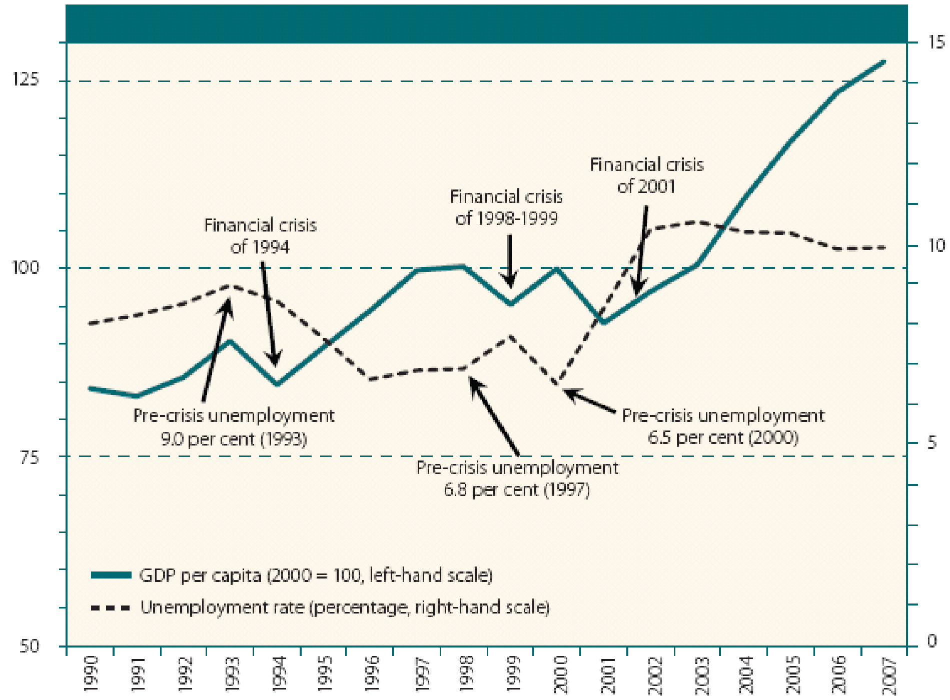
The volatility of macroeconomic imbalances in developing countries has long-lasting impact on growth and employment, in contrast to the case of developed countries. Figure 1.10 demonstrates this in the case of Turkey, but similar patterns are found for Brazil, Chile, Indonesia and Malaysia,(United Nations, 2010, Chapter V). Growth volatility and investment volatility interact strongly and undermine efforts to spark sustainable private investment. These crises also destabilise public sector balances.

Figure 1.9: Net financial transfers to developing countries and economies in transition, 1997–2009.



Source: United Nations (2010), Figure V.7, p. 113)

Figure 1.10: Medium-term employment impact of crises in Turkey



Source: United Nations, 2010, Figure II.4, p. 31.

Investment volatility has a close relationship with the variability in GDP growth rates (Figure 1.11). It is difficult to resolve the direction of causality, particularly across different levels of development. One might expect that for LICs and LDCs, unstable government spending, both in current expenditures and infrastructure investment induced by commodity price changes and ODA instability, would perhaps have the strongest macroeconomic impact on GDP growth. In MICs with a larger role for private investment, the causation could flow both ways, either originating from the instability of financing or the cyclicality of growth itself shaping private investment activities.

Figure 1.11: Growth of GDP and investment volatility among developing countries, 1971–2000

Source: United Nations (2010), Figure III.5, p. 61.

2. Approaches to Overcoming Constraints Facing Developing Countries

Apart from laying bare serious weaknesses in the world economy, the continuing economic crisis exposed deep-seated gaps in the global governance of capital flows. The build-up of unsustainable imbalances, in national current accounts and private debt, permitted an almost decade-long growth spurt in the international economy, which as demonstrated in the previous section did not actually secure higher investment rates globally or in most developing countries. Financial flows enabled a pattern of growing imbalances among countries. Existing international public mechanisms did not provide the policy framework for counteracting these imbalances before they exploded into global proportions.

The shift toward more limited government economic intervention since 1980s was accompanied by the deregulation of financial markets, a process in which both developed and developing countries participated.. The result is that financial markets are much more decisive determinants of real sector outcomes than in the 1950s. The economic system created in the midst of World War II in July 1944 actually incorporated a definite preference for the real sector, as opposed to the financial sector, as the driver of growth. The system intended to restore international commerce in a manner that ensured its sustainability by achieving and income and employment objectives. Article I.2 of the IMF Articles of Agreement is an expression of this intention:

> To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

Subsequently, these objectives have been restated in slightly different forms in the creation of other international institutions, such as the WTO. A practical concern is to ensure that the rules and arrangements do not instead result in marginalising weaker economies.

As will be elaborated in the following sub-sections, shifts since the 1980s in practice in international economic policy, away from policies that promote expanded employment, trade, and production – which are nevertheless still the official *raison d'etre* of existing international arrangements - can be seen to tighten the constraints facing developing countries. For example, as will be discussed below, FTAs, exemplified by negotiations in Economic Partnership Agreements, tend to restrict the scope of developing country authorities build domestic industries as a basis for expanded external trade. The accompanying shift in the practice of international economy policy towards a decisive control by private financial markets over economic decisions as a result of national and international policies towards financial deregulation has reduced public resources and mechanisms for addressing international. boom- -bust cycles. As shown above, these have enormous influence on commodity prices and access to credit, constraining global imbalances, minimizing financing instabilities from debt distress, and ensuring access to long-term finance – all of which the developing countries need in order to to conserve and expand resources requiredto invest in economic development.

2.1 Mitigating the impact of external deficits and instability

Section 1 argued that instabilities in trade and financing coming from the international economy have a strong impact on investment and growth stability in developing countries. This section surveys proposals to mitigate these influences. For developing countries the sources of instability can be grouped into the following areas: (1) commodities and (2) trade and (3) external finance, including ODA and private flows. These areas are the key source of macroeconomic instability in developing countries. As will be seen below, there is a multifaceted set of reforms is required to mitigate these weaknesses because developing countries are affected in different ways.

2.1.1 Commodities

In the case of commodities, developing countries fall into different categories, from differences in commodity needs and whether the country imports or exports them.

The recent food crises have spurred some interest and helped create a global coalition towards addressing the external issues. The main deficiencies that have been identified (Khor 2012, South Centre 2007, FAO 2010), in this area are the following:

(1) A pattern of decades-long insufficient investment in food production and in rural areas, which has in turn been linked to

   a. an over-emphasis on external trade to cover domestic food requirements; and

   b. low prospective returns on investment in the face of continuing agricultural subsidies in developed countries

(2) A publicly subsidised shift to biofuel production since the early 2000s, which have now significantly reduced the capacity for food production

(3) Increasing dependence on events emanating from the financial markets for the determination of international prices of basic food

For the petroleum, minerals and metals area sector, the question of commodity booms and busts and the differentiation between short-term and long-terms trends are critical (Erten and Ocampo 2012). Financial markets have also been seen to have an important impact in the volatility of prices in these sectors.

Developing countries, and most especially LDCs, have unsuccessfully sought the establishment of international arrangements that would mitigate the negative impacts of these gaps and deliver access to stable current-account trends to facilitate investment and growth. Booms and busts in commodity prices have strong macroeconomic cyclical effects on commodity-dependent exporters. Busts in commodity prices (or increases in international food and energy prices) provoke periods of external borrowing on the part of commodity exports (or net importers of food and energy). In 1963, the IMF established a compensatory fund facility which permitted non-conditional financing for periods of falling commodity prices to be paid back when commodity prices recovered. It was the largest special IMF facility and accounted for a quarter of total IMF credit extended between 1976 and 1985 (Kumar, 1988).

Although it is only available to ACP countries, and thus not truly international, another precedent is STABEX (from French *Système de Stabilisation des Recettes d'Exportation)* which the EU had set up as a compensatory finance scheme to stabilise export earnings of the ACP countries in 1975 in the first Lomé convention. Since 2000, the EU has the Fluctuation in Export Earnings (FLEX) mechanism for ACP countries to assist governments facing sudden loses of revenues through additional budgetary support when countries have registered at least a 10% loss in export earnings and a 10% worsening of the programmed public deficit. As a response to the present global financial crisis, the EU proposed the Vulnerability FLEX (VFLEX) in 2009 to assist developing countries protect their spending on social safety nets.

The compensatory non-conditional financing from the facility for shocks that were purely external in nature were increasingly in conflict with SAPs and poverty-reduction programmes which were oriented toward expanding the long-term export capabilities of developing countries based on appropriate domestic policies, a view unsympathetic to global cyclical effects on current account performance. By 1998, this facility was effectively folded into the poverty-reduction strategy programmes, which transformed them into conditional financing carrying interest, a modality inappropriate to the purpose and expensive to potential users. Following the 2009 G20 summit, rules were amended to relax conditionality procedures and an increase in borrowing levels. What is still lacking is a stable, non-conditional, international facility for compensatory financing for external shocks. .

Comment [MM1]: Did not succeed in finding work by te Velde and/or Massa on compensatory finance directly. I have added a para on STABEX before this para.

Four recommendations in UNCTAD (2010: xvii) on the kinds of reforms perceived to be critical on issue of commodity dependence are worth considering. The first is establishing ‘a counter-cyclical financing facility for low income commodity dependent countries to deal with external shocks’. Chile, a MIC, has set up a counter-cyclical mechanism that permits the accumulation of revenues beyond a target price during booms and their drawdowns during period of low prices. A global facility for developing countries could strengthen counter-cyclical policies particularly in LICs. The approach could include a feature of the STABEX approach which required contributions to the fund during periods of boom.

Second, UNCTAD (2010) proposes the creation of some ‘innovative commodity price stabilization schemes, including physical and virtual reserves’ (p. xvii). This is a proposal dating from the 1970s which has not prospered partly because of perceived technical problems, partly from weak international will to pursue the idea, and partly from resistance from developed countries. Updated studies are required to address the technical issues. Countries could consider a greater dose of South–South cooperation (SCC), with a degree of acquiescence on the part of developed countries to make progress on stabilising the prices of specific commodities.

Third, UNCTAD (2010) advocates the imposition of financial transaction taxes[5] for commodity-derivative markets. This could help reduce volatility of prices by reducing high frequency trading. Regulating markets which set international commodity prices, including financial transactions taxes, is an important way forward, and probably more so than just the imposition of transactions taxes. For example, a proposal to increase margin requirements on portfolio positions is thought to mitigate highly speculative trading in international commodities. Because of their impact on hedging capacities in developing countries, it is important that the latter have input into the regulation of commodities market and derivatives trading.

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[5] An important argument against such kinds of taxes had been that these could easily be evaded by coursing transactions through non-cooperating tax jurisdictions, despite the fact that the UK successfully collects a stamp tax on financial transactions. The possibility of evasion is reduced by the fact that most commodity derivatives are transacted in large established exchanges.

The fourth proposal in UNCTAD (2010) is the establishment of a 'counter-cyclical loan facility indexed to debtors' capacity to pay'. This is a significant recommendation with the potential to improve not only macroeconomic policy space in developing countries but also the efficiency of sovereign debt markets (Nissanke and Ferrarini, 2004). Donors could institute this reform for aid-recipient countries. In the long run, what is required is the creation of predictable, equitable, non-arbitrary approaches to sovereign debt resolution, which will be discussed below.

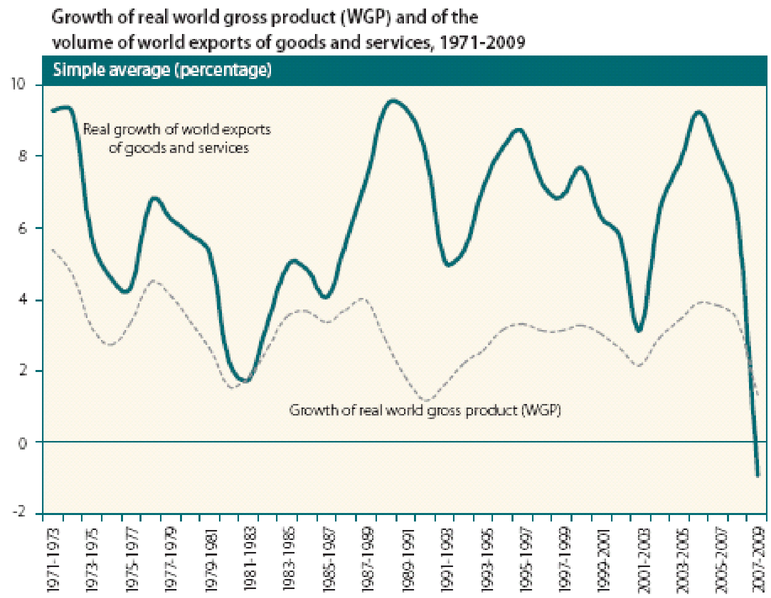
Comment [JM2]: While outlining the proposals from UNCTAD is helpful it would be good to subject them to some critical appraisal that indicates how these proposals are received by other authors

Comment [MM3]: I am not sure I can find comments quickly enough since the Bank and Fund tend not to work on these issues (by order of their board) directly. With more time, I could find comments from academics, NGOs, and the Common Fund for Commodities but they would be mostly supportive

2.1.2 Trade

The expansion of the volume of international trade at historically unexpected rates of 8% in the two decades before the mid-1970s mirrored the equally unprecedented high rates of economic growth in developing countries of between 6% and 7% in the same period (Lewis 1979). After falling to as low as 2% in the early 1980s, trade recovered to average over 6% per year in the subsequent period, give or take the cyclical patterns in global economic growth (Figure 2.1), until the Great Recession of 2007–2008. Given the high rates of growth in global trade, Lewis (1979) suggested that moving towards export-led growth would be a reasonable gamble and this challenge had been taken up by most developing countries since start of the 1980s. While the volume of trade is much higher than in 1980 and the size of the developing economies as a proportion of the total world economy has increased, only a few countries have succeeded in changing the structure of their economic relationship with the global economy,(as reflected for example in Figures 1.4 and 1.5 above.) In the aftermath of the Great Recession, there is great uncertainty whether trade and output growth will recover the growth rates of the previous decades on which the 'free trade' gamble is based.

Figure 2.1 Growth Rates of World Trade and World GDP



Source: United Nations (2010), Figure IV.1, p. 74.

Whether or not previous levels of output and trade growth can be restored depends also on the impact of the responses to crisis, particularly those of developed countries. In the medium term, recovery will also hinge on longer-term reforms in financial regulation and on international economic arrangements.

The net outcome of these developments should affect decisions taken in developing countries on whether it is once again reasonable for them in general to undertake the same gamble in favour of export-dependent growth. For example, if the volume of trade in the next decade does not reach annual rates of over 3%, then the export-dependent gamble becomes more daring and developing countries must reconsider fostering greater reliance on domestic demand.

In some countries, such as China – which is counted among those whose venture into export-dependent[6] growth has 'paid off' – there are serious concerns that this pattern

6 China's exports destined for developed countries are heavily dependent on imported inputs from other developing countries (Akyüz 2012a). China's domestic demand is less

of growth is unsustainable (Akyüz, 2012) and that a reorientation towards domestic demand is already required. A reorientation of strongly export-driven economies such as those of China and Germany is consistent with facilitating the recovery of global growth in the aftermath of the continuing crisis. It is ironic that the unprecedented growth rates in output and income recognised by Lewis (1979) were those achieved in the era of import-substitution and internationally sanctioned state controls over private capital flows.

Export-reliant growth for most countries did not ensure realising the scale and timing of economic diversification. It is important for developing countries to reconsider what kind of international mechanisms and rules they deem suitable for their development ambitions.

At present, progress in the multilateral system is at an impasse, if measured by the state of WTO negotiations under the Doha Development Round. The most dynamic system and rule-making arena has been in FTA and bilateral investment treaties (BITs), both of which proceed on the basis of the 'gamble' in favour of free trade, involving reductions in tariff rates, lower state regulation, and strengthened protection for intellectual property and investors' rights.

The process of negotiation and accession toward EPA is one of these growing issues and exemplifies the developmental framework from the early 1980s. This approach, which has been signed and has started to be put into force in many Caribbean countries, requires participating countries to eliminate tariffs on 80% of the value of trade within 15 years. African countries offered instead to liberalise 60% over 20 years, the European Commission rejected the proposal. The EU interprets 80% as its benchmark for meeting the 'substantially all trade' standard for the WTO-compatibility as its negotiating demand.The EU has accepted less coverage in agreements with countries, such as Moldova, on its periphery even though these countries enjoy higher levels of per capita incomes than those in the ACP countries.

In many countries in Africa, between 50% and 70% of exports to the EU 'are made up of only one product – petroleum accounting for 90 per cent of Nigerian exports, gold

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dependent on imports and could have an impact on the export performance of other developing coutries.

and diamonds are 96 per cent of Botswana's exports; coffee is 67 per cent of Burundi's exports (South Centre, 2010: 2). The challenge posed by the EPA tariff coverage is that African countries must rapidly establish competitive industries in other products and sectors within 15 years. The danger is that the EPA will 'lock African countries into their current patterns of production i.e. low levels of manufacturing capacity' (South Centre, 2010:. 2).

Akyüz (2009) argues that the structure of economic openness should depend on the level of development, which the present free-trade paradigm does not recognise. This would have to involve a degree of non-reciprocity, so that countries could shield some economic activities from external competition until they are ready. This could involve low or no tariffs on imports for machinery and other inputs to new production activities while having protective tariffs for activities that are being developed. Later, these tariffs could be restructured as the country establishes capabilities to begin entering into areas that were imported at the start of the process and lower tariffs for built-up industries that have attained international competitiveness.

The inclusion of most-favored nation (MFN) clauses in FTAs such as the EPA conflicts with the multilateral Enabling Cause approach, which accepts preferential agreements among developing countries. MFN clauses require developing countries to accord other countries the same preferences given to potential regional partners and thus diminish the value of regional preference to spur regional integration efforts, in the same spirit as that of the EU itself.

Recent studies suggest that preferential trade arrangements (PTAs) among developing countries can be more conducive to their industrial development than North–South PTAs (Demir and Dahi 2012). These studies indicate that North–South PTAs have no statistically measurable impact on industrial development in developing countries. It has been argued that greater similarity in production patterns and resource bases would facilitate appropriate technology transfer among Southern countries. South–South commerce may allow developing countries to avoid accepting techniques, including production methods to meet the requirements from sanitary and phyto-sanitary standards, which are capital-intensive and biased to serve high-income markets (Amsden 1984; Lall 1984). Imports from other developing countries are more likely to embody technologies, facilitating domestic upgrading; such an alternative upgrading path can lead to different technologies which are more competitive for penetrating Northern markets (Amsden 1980).

WTO obligations limit policies that have been traditionally applied for structural transformation and catch-up, a situation Chang (2003) has characterized as “kicking away the ladder” since the now developed countries had the scope to apply these policies in their own development.

Disciplines on investment measures under the Agreement on Trade-Related Investment Measures (TRIMS) inhibit WTO members from imposing domestic content requirements on investors. Intellectual property rights enforceable under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) through trade sanctions hinder reverse engineering and other activities to adapt foreign technologies to local conditions. At the same time, foreign investors do insist on rights guaranteed in the treaty obligations of developing countries. Moreover, the threat of trade sanctions on key exports of discourage initiatives that would test the limits of the corresponding restrictions even when such actions could potentially reduce the import bill or foreign exchange outflow and/or are supportive of the start-up of new economic activities.

There are few signs that these developing country obligations, undertaken in exchange for promised but unrealised actions on the part of developed countries particularly in the elimination of agricultural subsidies, can be moderated or renegotiated soon. The Doha Development Round could in principle have been the venue, but these removal of agricultural subsidies has not emerged as a priority and in any case the Doha negotiations are at a standstill.

Based on these considerations, the following elements are key considerations in reshaping the international trade regime:

1. *There is an urgent need to discipline, if not eliminate, subsidies* in developed countries that disadvantage developing countries through trade. The most flagrant of these are agricultural subsidies.

2. *The principle of non-reciprocity on the basis of development level* must *be revived and strengthened in trade*. This is an application of the principle of common but differentiated responsibilities in the area of trade.

    a. *As an application of the general principle that trade obligations should be a function of a country’s level of development*, there is need for real progress in establishing duty-free and quota-free market access for LDCs.

b. *There is need to elaborate and expand special and differential treatment facilities,* such as permitting developing countries to require foreign investors to balance the value of their imports with their exports earnings.

The principal challenge is the revival and elaboration of non-reciprocity based on the level of development, which can take many forms. One well-known approach is the provision of longer adjustment periods. Unfortunately, conditions for accession often ignore the applicant's country's level of development. Moreover, adjustment periods have been stated as fixed number of years, rather than being based on the development level, as is the case at present for the intellectual property exemption for LDCs. It is also important that MICs have access to special treatment based on the level of development to help them avoid the middle-income trap and move up the production ladder to vacate spaces that lower income countries can fill. Another problem is that exclusions from international disciplines, such as those for environment and research and development (R & D), actually tilt the playing field in favor of developed countries since these have more resources and human capacities to undertake such interventions. The underlying issue is that the expansion of international commerce requires a steady increase in the number of countries that can participate in trade without increasing their debt to other countries. As argued in Vos and Montes (forthcoming), special and differential treatment is not by nature an accommodation on the part of developed countries but rather a necessary element to enlarging the global economy and trade:

> Retooling the rules of the game for a fair and sustainable global development is necessary, but not sufficient. Retooling is also about the players. Providing developing countries having weaker initial conditions with more of the time, resources and policy space needed for them to become full participants is to be regarded not as an act of charity or goodwill on the part of the powerful but as an imperative for realizing the shared goal of expanding international commerce. The principle of common-but-differentiated rights and obligations, which are to be defined as a function of level of development, will need to be applied in practice and embedded within a system of clear-cut rules. (p. 170)

3. Restoring flexibility in the setting of tariff rates by developing countries is critical.

This can be done within a framework of progressive trade openness in the long term by returning to earlier approaches of measuring openness based on average rates across tariff lines. This will allow countries to raise or lower tariff rates according to which industries they seek to promote at a particular stage of development. The current approaches of setting percentages of tariff lines that either must be bound or set to zero within a particular timeframe is either inimical to development or requires high government capabilities to undertake rapid sectoral development if the country is to escape being locked into its current pattern of production.

2.1.3 Financial flows

At the global level, capital and financial market liberalisation were expected to enable developing countries to acquire increased access to investment financing (United Nations 2010, Chapters 2 and 5). Based on investment rates on fixed capital, there is no evidence that the increased volume of capital flows can be associated with increased investment. Instead, since the 1980s in response to the removal of capital account controls, private flows have been mostly short term leading to increased volatility and uncertainty, which appears to have undermined the long-term investment critical for structural transformation and development.

If the issue is one of public flows, as stated earlier, ODA, which can be a significant proportion of budgetary resources in poor countries, has also proved very volatile and have inflicted macroeconomic volatility.

Significant reforms are required if the international financial system is to avoid becoming an obstacle to development policies in developing countries.Akyüz (2009a) suggests two main categories for the required reforms: mechanisms for crisis prevention and crisis intervention and resolution.

- Crisis prevention

Crisis prevention mechanisms are crucial to reducing the vulnerability of developing countries to external financial instability, while preserving their national policy autonomy to set their pace of trade integration. Three areas require attention for crisis prevention (Akyüz (2009); see also United Nations (2009), Ocampo (2011) :,

1. Effective multilateral discipline over financial, macroeconomic and exchange rate policies in systemically important countries.
2. Establishment of an international reserves system not based on a national currency or currencies.
3. Effective regulation and supervision of financial markets and capital flows.

To achieve the first goal, the international system must establish monetary and financial disciplines on reserve- issuing economies. Large swings in macroeconomic policies and financial conditions in developed economies have imposed boom–bust cycles on developing economies. ‘International spillovers from macroeconomic, exchange rate and financial policies in advanced economies are much more damaging . . . than shocks from their trade policies. But, unlike trade, there is no effective multilateral discipline in money and finance’ (Akyüz, 2009a: 12). In the run-up to the present crisis, for example, the IMF’s surveillance of the USA failed to recognise the unsustainable build-up of leverage in the financial sector whose collapse triggered the crisis.

The IMF’s failure to assess the risks in the US financial sector before the global crisis is consistent with the view that imbalances in freely functioning markets are self-correcting. This view is strongly held among policy makers in developed economies, which also have enormous influence over the IMF. It will be necessary to locate surveillance work over important economies in more independent agencies outside the IMF, since Executive Directors of the IMF, while nominally responsible for the IMF’s effective operation, do also represent the interest of their countries (Akyüz, 2009a).

A fundamental change in the reserve system is the second key requirement of crisis prevention. Effectively, the current global reserve system depends on the national currency of the USA. Liquidity booms and busts experienced by developing countries have been induced by policy changes in the USA in pursuit of its own macroeconomic imperatives. The system is also inherently unstable due to the ‘Triffin dilemma’, which requires the reserve-issuing country to run current account deficits to provide liquidity to underpin increasing global trade. This system had been anchored in a fixed rate of gold convertibility and unsurprisingly collapsed in 1971 when the USA abandoned convertibility because of the threat of running out of its gold stock.

Exchange rate adjustment to external imbalances became more important in the subsequent period. The access to international finance in the new system enabled developing countries to borrow more and led to increased international liabilities, often dominated by short-term private debt. The Asian crisis in the second half of 1990s demonstrated the inherent instability of the system and the vulnerability of developing countries to financial flows. Instability in international financial flows has resulted in developing countries undertaking significant self-insurance by accumulating reserves. This is itself a source of additional instability since it provided financing for deficits undertaken by the USA in the lead-up to the crisis.

The crisis has restarted discussion on increasing the use of the Special Drawing Rights (SDRs) of the IMF to uncouple global liquidity from the US dollar. There are technical and governance issues that must be addressed in increasing the use of SDRs (United Nations 2010, 2012;, Akyüz, 2009a) but this approach provides the most accessible path to reducing dependence on a national currency and removing a source of imbalances leading to a crisis.

The effective regulation of financial markets and capital flows is the third pillar of crisis prevention. The present crisis demonstrates that markettrade financial claims are highly vulnerable to cumulative processes that do not correct themselves except through discontinuous crises with large policy and social dislocation. Moreover, financial instability emanating from large financial centres has adverse international spillovers, in both the boom and bust phases. Akyüz (2009aa) considers and dismisses as unfeasible and not in the interest of developing countries the idea of a global financial authority, with the same kind of obligation and enforcement capabilities as the WTO has in international trade.

A version of common but differentiated responsibility principle could be effective element of a global regulatory regime. Authorities in advanced financial centres will need to match the diversity of the assets traded in their markets with their regulatory capability. A reputation for reliability and safety can attract outside parties to use these markets. In reality, current financial centers compete through tax reductions and deregulatory actions, which was part of the recipe for financial collapse. Global standards on regulatory approaches will be necessary. Because their economies are downstream from the adverse impacts of regulatory gaps and failures in source countries, developing country officials need to participate in standard-setting work on financial re-regulation. The new Financial Stability Board now includes the G-20 developing country members but there is no representation of the poorest countries.

In practice, applying common but differentiated responsibility in international financial regulation will require that developing countries do not undertake the same degree of financial liberalisation of financial services under the WTO; at a minimum, this will require that the positive list approach in listing international services to be liberalised must be continued. In practice, developing countries must also maintain the sovereign right to impose controls on capital flows as provided for in the IMF's Articles of Agreement. The IMF (2012) recently published an "institutional view" of capital account liberalisation and management which recognized this right. Developing countries will need to exercise this right in the face of the the generally "hostile" (Gallagher 2011, p. 12) view that IMF staff have of capital account management tools since the 1990s.

- 2.1.2 Financial crisis resolution

Financial crises have been occasions for precipitous development reversals in the developing world. Avoiding these reversals will require orderly and equitable approaches to crisis resolution which the international system does not provide at present.

The standard approach has been fraught with controversy. IMF-led programmes involve new financial injections and public sector austerity, which are mainly intended to keep debtor countries up to date on their debt service obligations with private debtors. With the recent IMF-sanctioned case of Iceland as an exception, these programmes insist on keeping the capital account open, even with significant capital outflows and losses in reserves. Under these programmes, the burden of adjustment falls almost exclusively on debtor countries. These programmes often require the public sector to assume the external debt obligations of the private sector (often including those of operations of foreign companies resident in the debtor country). This approach exempts external creditors from market discipline and propagates moral hazard in private financial lending activities to developing countries. (The ongoing eurozone crisis suggests that moral hazard applies to all private-sector sovereign lending.)

The underlying objective of crisis resolution must be to restore as quickly as possible the ability of the affected country to resume economic activities, as is the case in crisis resolution in domestic contexts. This will require the sanctioning of standstills during the period of debt-resolution negotiation and the provision of resources for critical current account needs (Akyüz, 2009a). Beyond a standstill, a growth-oriented resolution could also require restrictions on capital account flows and import restrictions during the period of debt resolution in order to conserve foreign exchange.

The absence of an orderly, non-arbitrary process of sovereign debt resolution is an important development obstacle. Countries are subjected to litigation which ties up their external economic transactions; a proper crisis-resolution mechanism will include a standstill on such litigation. There is a need to involve neutral parties in the resolution process, such as arbitration panels made up of experts, as in the WTO's dispute settlement process, since the lead role played by the IMF in these episodes creates conflict-of-interest concerns as the IMF and its sister organisation the World Bank are themselves creditors.

The resolution of official debt handled by Paris Club committees, whose technical inputs are supplied mainly by the IMF and the World Bank, suffers from similar austerity and conflict-of-interest deficiencies against the objective of restoring economic activity. Debt sustainability considerations have been dominated by the ability to service debt, instead of requirements for meeting development and poverty objectives.

2.2. Expanding domestic policy space

Policy space 'enables experimentation, trial and error, pragmatism and policy pluralism' (UNCTAD, 2010:162). The original use of the phrase policy space in an official document was in paragraph 16 of the Accra Accord of UNCTAD XII (UNCTAD 2008):

> While development is the primary responsibility of each country, domestic efforts should be facilitated and complemented by an enabling international environment based on multilaterally agreed and applied rules. It is for each Government to evaluate the trade-off between the benefits of accepting international rules and commitments, and the constraints posed by the loss of policy space.

In this formulation, policy space is defined in terms of the impact of international rules and arrangements. Policy space is essential to have the scope for introducing 'a range of policies for building domestic productive capacities and local technologies, and to establish the institutions and support measures to spread the resulting gains' (UNCTAD, 2011: 41). The pendulum of development thinking has swung once again to recognizing 'the critical importance of public action' (Nayyar 2011, p. 16) in development beyond operating social services.

There are two sources of restrictions to policy space in developing countries: (1) constraints arising from international commitments and (2) restraints originating in the overall status of openness to the international economy. In an ethos that privileges openness, these two sources, of course, interact. For example, the openness of commodity-dependent economies makes them more susceptible to the procyclicality of international prices. During price booms, many commodity-exporting countries have greater access to take on external debt, and many do so. During periods of commodity-price downturns, these economies are more subject to conditionalities in standby programmes with international financial institutions, which has most often resulted in restrictions on policy space in the name of enhancing openness to the international economy.

2.2.1 International commitments

Taking on international obligations is a sovereign national decision.. In theory, these commitments sustain the value of the multilateral system for all participants in the system, although some benefit more than others. In exchange for a derogation of sovereign powers, global rules protect countries from arbitrary treatment in economic matters, such as treatment of their exports in foreign markets. The issue of international commitments arises when they are inequitable in nature, application, or practice[7], meaning they demand more in terms of performance and contribution on the part of poorer and weaker economies compared to the developed economies.

Ongoing discussions on the post-2015 international cooperation framework have elicited widespread interest in introducing "equity" among international norms and objectives. This paper takes the view that beyond inequality among classes and people, inequitable rules among nations are an obstacle to development and poverty eradication.

[7] Here "practice" refers to the degree states adhere to international obligations, including to the extent that they can be effectively sanctioned when they do not perform on their obligations.

“It is also clear that unfair rules of the game in the contemporary world economy would encroach upon policy space so essential for development” (Nayyar (2011, p. 19).

In trade, developed countries have retained their agricultural subsidies. Developing countries have fewer resources to sustain agricultural subsidies and have taken on commitments to limit import restrictions on agricultural products. Newly acceding countries to the WTO have been required to place a ceiling on and to eliminate agricultural subsidies. The international trading system is known as a rule-based system, but being rule-based does not guarantee that the system is equitable. In the specific case of the WTO, existing members have the right to impose obligations on countries seeking membership which they themselves do not follow. Most important, members have differential sizes of economies, markets, and levels of development. Developing countries in the WTO, trying to draw from GATT’s well-defined tradition of ‘special and differential treatment”’(SDT), have found it difficult to make measurable progress in the Doha Declaration’s agreement ‘that all special and differential treatment provisions shall be reviewed with a view to strengthening them and making them more precise, effective and operational’ (WTO 2001, paragraph 44).

It is worthy of note that in the original Millennium declaration (United Nations 2000, paragraph 13), UN member countries declared: “We are committed to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system,” thus incorporating equity as a standard for the international system. When the MDGs were formulated, which in theory these goals were drawn from the Millennium Declaration, the standard of equity was not carried over and target 8A under MDG8 requires only to ’[d]evelop further an open, rule-based, predictable, non-discriminatory trading and financial system’. If not a disregard for equity, a clear lacuna in the international system is the poorly developed conception of what equity in the design, application and practice of a rule-based international trade and financial system entails,

In the case of external imbalances, the international financial system provides for enforceable adjustments only on debtor countries, the category most populated by developing countries. Adjustment programmes for debtor countries are the favored domain of policy conditionality, which has garnered extensive international discussion within the framework of aid effectiveness. Particularly under SAPs, occasioned by the developing country debt crises of the 1980s, conditionality proliferated and reached extensively into development policies and strategies, going beyond what might be considered donors' legitimate concern to prevent the wasteful use of resources provided to debtors in support of their adjustment programmes. The OECD-led aid-effectiveness effort initially appeared to incorporate ambitious intentions to reform the system of conditionality toward genuine partnership between donors and recipients and the realization of "country ownership" of development programmes. These intentions included "streamlining" conditionalities. A review of the effort indicates (UNCTAD 2011, p. 163)

> "[o]nly a very slight decline in the number of structural conditions, but policy reforms in sensitive areas – those which limit fiscal space or require public sector restructuring, involve banking liberalization and privatization, or other types of liberalization – remain important features of the conditionalities."

The framework for country ownership starts with debtor/recipient countries taking the lead in deciding and designing their own development programmes. In practice, the design of many of the programmes involved aligning country policies to policies favored by international financial institutions (UNCTAD 2011) An earlier, delicately worded, finding of a report of the World Bank's (2004, p. viii) evaluation office on PRSP states: "The Bank management's process for presenting a PRSP to the Board undermines ownership. Stakeholders perceive this practice as "Washington signing off"' on a supposedly country-owned strategy'. Some realignment of voting weights on the board of the World Bank have occurred since that time, making it possible that the 'perception' may have dissipated somewhat, but the reality is that donor countries continue to have dominant influence..

Since 'ownership' has in practice involved aid-recipient countries signalling commitment to SAPs, most of the progress in country ownership has been in the process area. Recipient countries are required to have 'an operational development strategy' with indicators on expected results and projected financing flows. The authorities in developing countries have the responsibility to coordinate aid at all levels in consultation with individual donors, and to undertake broad consultation with all national stakeholders in the design of development programs. With this kind of process conditionality 'deeper issues of freedom of choice of national Governments, as well as their exercise of leadership, are sidelined' (UNCTAD 2010 p. 163). There was a moment in September 2008 when, in the aftermath of intense negotiations on the Accra Agenda for Action to reconcile the meaning of country leadership with conditionality, formulations were considered to basically restrict if not end *ex ante* policy conditionality. There were proposals in the near-final negotiating drafts to the effect of ending *such* policy conditionality as the basis of aid. In the 27 June

2008 draft, the heading relating to conditionality was formulated as DDonors will not impose conditions‘ (OECD 2008a, paragraph 24). In fact , the operative phrase in the final outcome document reads: “We will continue to change the nature of conditionality to support ownership” (OECD 2008b, paragraph 25). This moment has passed, but a reconsideration of the post-2015 development agenda provides a new opportunity to realize the conceptual potential of the aid-effectiveness framework, to make ODA flows more predictable and stable and less subject to geopolitical considerations.

A very important form of inequity comes from the growing area of investment treaties and investor protections incorporated in the FTAs. The main type of asymmetry here arises from the granting of status to private investors to lodge disputes directly against states for violations of investors' rights they have obtained as nationals of one of the parties in a bilateral investment treaty (BIT) or the investment chapters of FTAs. This permits the private parties, mostly international companies, prodigious influence over policies of their host governments, beyond domestic political processes and accountability. The examples proliferate but documentation is difficult because both parties involved – the private company and the country being sued – are reluctant to disclose details to the public. For example, in October 2012, an arbitration panel hosted by the World Bank awarded $1.8 billion to Occidential Petroleum under the US-Ecuador BIT. Ecuador annulled its contract with Occidental, accusing the company of violating a clause that it would not sell its rights to another firm without permission. The tribunal agreed the violation took place but judged that the annulment was not fair and equitable treatment to the company (Khor 2012b). While both developing and developed countries are party to these treaties, the asymmetry derives from the more limited resources of developing countries, the greater incidence of international companies which are in fact based in developed countries, and the greater need for development interventions in poorer countries. Obligations under these treaties can subject developing countries to penalties if, for example, a government imposed restrictions on capital outflows during a BOP crisis (Montes 2012).

India and South Africa are reviewing their obligations under these treaties because of recent unfavorable experiences. BITS and investment provisions in trade treaties have expansive definitions of what constitutes investment and what constitutes expropriation. “The definition of investments and investors could be narrowed to leave the most unstable types of investment (such as sovereign debt, short-term debt and equity, currency trade, and derivatives) to the realm of national and global regulators, not trade treaties" (Gallagher and Stanley 2012, p. 4). Another remedy is for countries not to provide for investor-state arbitration resolution, which will then require investors to use judicial remedies in the host country. In 2011, Australia renounced investor-state resolution after the experience of a suit brought by tobacco companies as a result of its plain packaging legislation (Easton 2012).

The situation that developing countries face is that developed countries, notably the United States and European countries have required investor protection in negotiating FTAs and EPAs. On 21 June 2012, the European Commission proposed the establishment of a legal and financial framework for investor-state dispute settlement as part of the broad investment policy to lodge at the Commission exclusive competence under the Lisbon Treaty. The Commission will be charged with negotiating new rules on investment with key trading partners.

Asymmetrical and inequitable treatment in global rules presents an important set of development obstacles in the international architecture. For the most part, recovering policy space for developing countries in these asymmetries must begin with their own national actions. In the case of investor protections from treaties, national authorities must balance the disadvantage of constraining their domestic space by protecting investosr versus the the possible benefit of receiving an increased flow of foreign investment. For most countries, there is little evidence that greater investor protection through investment treaties have been an important factor in obtaining foreign investment.

The international community must acknowledge the role of these asymmetries as obstacles to development, recognising that national policy space is indispensable for all countries, developed or developing. Scoring trends using indicators of these asymmetries would be a valuable activity for civil society and international research institutes.

2.2.2 Nature and degree of economic openness

International trade and investment provide important advantages to developing countries. However, the nature and degree of economic openness themselves have a direct impact on the amount of policy space available to authorities in developing countries.

The most significant loss of policy tools on developing countries have come from liberalisation of the capital account. The degree of capital-account openness severely restricts the scope for monetary policy and exchange rate policy. While it would be preferable to use exchange-rate policy to achieve exchange rate stability in order to meet trade and domestic industrial development objectives, surges in external capital flows can overwhelm the resources of monetary authorities to intervene in exchange-rate markets. With fully open capital accounts, authorities also lose the ability to use interest rates to determine credit availability and adopt a countercyclical policy.

Domestic authorities need to determine the degree of capital-account openness required to restore monetary policy and exchange-rate setting. Under the IMF Articles of Agreement, capital controls remain a sovereign right of member states. However, member states have given up some of these rights via BITs. They have also given up many of the tools to regulate capital accounts as part of SAP commitments.

In many emerging markets, authorities have shown reluctance to recover capital-account management tools. In the years after their economic crises in the late 1990s, capital accounts in Asian countries are more open than they were before (Akyüz, 2012a). For many countries in Latin America, accepting exchange appreciation through open capital accounts has played a role in meeting inflation targets but this is at the sacrifice of medium- and long-term goals in productivity growth, employment and industrial development. Since open capital accounts increase 'the elasticity of the supply of capital, it reduces the ability of countries to set their preferred tax schedule, induces a shift towards taxes on labour, and encourages a race to the bottom in which several countries try to attract capital by lowering taxation, and, eventually, end up with lower tax revenues and no change in their capital stock' (UNCTAD, 2011: 41). Capital-account openness thus has long-term impact on labour markets and fiscal revenue capacity.

There is a channel through which open capital accounts increase the risk of lending to developing countries, which is contrary to the widely held view that open capital accounts reduce risks to lenders by offering greater assurance of being able to recover their claims. Because most developing countries cannot borrow abroad in their own currencies, 'during recessions the real value of their currency tends to decline, raising the cost of servicing foreign debt exactly when the capacity to pay is diminished' (UNCTAD, 2011: 41).

Developing countries must recover a capacity to regulate their capital accounts. Among regulations on capital accountw, 'macro-prudential' tools and policies apply to protecting the prudential integrity of their domestic financial system. However, a significant proportion of capital flows, such as portfolio positions in the local stock markets and theforeign purchase of local bonds, are not undertaken in the banking system (though banks might serve as conduits for these transactions) and are not normally part of financial supervisory activities. In fact, drawing on patterns from previous BOP crises which were followed by widespread collapses in financial sectors in developing countries, it would be advisable that even 'macro-prudential' policies to be undertaken beyond prudential reasons with a view to eliminating the build-up of external imbalances and an increased risk of BOP crises. During capital flow surges, developing countries have tried to maintain some control over their exchange rate and domestic liquidity through a variety of interventions, such as sterilisation, financial transactions taxes, unremunerated reserves, and minimum holding periods.

Capital controls are the most critical when countries are facing a payments crisis since international reserves are necessarily finite. As discussed in the section on crisis resolution, developing countries must have the capacity to impose orderly standstills and have access to external finance in these situations.

At the international level, improved regulation of source markets and greater stability in exchange rates and interest rates in reserve-issuing countries have the potential significantly to reduce capital surge pressures in developing countries and facilitate capital account regulation.

3. Improving the responsiveness of international governance structures

Heightened global economic interdependence intensifies the importance of improving responsiveness of international governance structures to developing countries.

3.1 Updating voice and representation to reflect global economic structure

In the 2000s, there were predictions mainly from analysts (for example, Kose et al., 2008) working in Bretton Woods institutions that the developing economies had 'decoupled' from rich countries. These discussions tended to suggest a diminished vulnerability of developing countries to a potentially large financial adjustment in the wake of rapid credit expansion and macroeconomic deficits[8] in the US economy in the mid-2000s. The sharp and immediate impact on developing economies of the Lehman collapse in 2008 through trade and financial retrenchment have raised doubts on cyclical decoupling as a basis for international economic cooperation and coordination. As parties affected parties, international mechanisms must guarantee sufficient voice to developing countries, as a matter of good governance,

Beyond cyclicality, much has been made of the changing structure of the global economy, with developing countries accounting for a greater proportion of global output and trade. In one sense, these observations have not found their way into reforms in voting weight and influence in international bodies, most particularly the Bretton Woods institutions (see below). In another sense, these increased proportions could have been fully anticipated since higher growth rates in developing as opposed to developed countries would eventually result in their accounting for a bigger proportion of global income – as long as the international economic environment remained reasonably favourable. For some countries, such as China and India, the trend towards contributing a larger share of world output is in the direction of regaining the share they enjoyed in the 1500s before the onset of European colonisation. Asian economies have not yet regained these historical shares. China accounted for around 20% of world output in 1500 and it has barely reached 10% today. The per capita incomes of the leading developing countries are still only 25% or less than the per capita incomes of developed countries.

The numbers speak to the need for enlarging the role of the population variable in designing the mechanisms.for global economic governance They insinuate that in per capita terms the gap between developing and developed countries remains wide even for the most successful countries. One argument for expanding voice for developing countries in international governance is precisely that assuring representation to those with the greatest need for convergence offsets the international's community's imperfect knowledge about how to shrink the per capita development gap.

[8] The idea of a diminished vulnerability of developing countries assuaged fears that policy consultations by IMF staff with a member country, the United States, were inadequate to facilitate a timely and orderly adjustment in its deficits.

In fact, the proper question to ask is whether the global environment could have been better arranged to provide faster growth and catch-up for developing countries than has in fact happened. We know that recently there have been disturbing trends, such as the tightening of restrictions enforced through trade sanctions on access to modern technology for developing countries. Many developing countries that managed to increase their manufacturing output in previous decades have fallen back into relying on commodity exports (Figures 1.3 and 1.4), whose prices are volatile, and on remittance earnings. As demonstrated above, a worrying pattern is that the diversity of export products of developing countries has significantly declined since the 1980s when liberalisation and deregulation policies became paramount. The final destination of many goods is still the developed countries and we are still waiting for the day when domestic markets in developing countries become important markets themselves for the goods they produce.

Comment [JM4]: Is this not starting to happen in some of the emerging economies? Eg India or Brazil?

Comment [MM5]: I do not have evidence of this happening in Brazil or India, both of which had come from highly protectionist regimes in the past..

Comment [DE6]: Is this not already so **in** Brazil?

Thoroughgoing reforms intended to address the deficiencies of international governance structures must first address the conundrum that many current arrangements violate standard norms of good governance and policy accountability. Voting weights in the Bretton Woods institutions, which, *effectively* take on the gatekeeping function for developing countries to gain access to external aid and finance, are out of kilter with the structure of the world economy. The 2008 package of voice and quota reforms, finally ratified in March 2011, provided for only a 2.7% increase in voting weight for emerging and developing economies as a whole. The increase in the weights of faster growing developing countries was achieved by reducing that of less successful developing countries. There was no change in the number of seats on the board. Many experts and developing countries regard the package as inadequate (Bryant 2008). A further reallocation was called for to be completed by January 2013. In October 2010, the G20 Gyeongju communiqué called for an increase of 6%in quota shares to dynamic developing countries and underrepresented countries, while keeping the shares of the poorest countries constant. The annual meetings of the Bretton Woods institutions in Tokyo in October 2012 did not see a decision towards meeting the January 2013 reallocation. Discussions continue on the design of the quota formula, which determines which countries are currently 'over represented' and must give up[9] voting weight. The downward adjustment of the voting weights of European countries has been contentious.

The credibility of these institutions is undermined by the prodigious influence of developed countries in setting policy standards. For example, the IMF adjustment programmes in the Republic of Korea pointedly included measures to ease foreign investment entry in line with the interests of dominant industrial groups in the USA and Europe. In the wider context, the importance of these interests lies behind the pressures against capital-account regulations and for the liberalisation trade in financial services at the multilateral level.

3.2 Accountability and representation

The rise of the G-20 as a high-level caucus of global economic decision-making to respond to the global financial crisis represents a test case of the impact of increased participation of developing countries in global processes of rule- and policy-making. The role of the G-20 is conceptually equivalent to that of the G-8 with the addition of developing country participation. As a caucus, the G-8 and G-20 do not make official decisions; these agreements only take effect when endorsed in official bodies such as the Executive Boards of the Bretton Woods institutions. As a caucus, the G-20 is meant to facilitate decisions in the existing official bodies. Without a permanent secretariat, the G-20 has nevertheless become the locus of an expanding agenda and the target of solicited and volunteered proposals from international organizations for improving the international mechanisms. For example, 'development' is now a G-20 agenda (ODI 2009). The items for discussion the June 2012 G20 meeting in Mexico included sustainable development, green growth, climate change, employment and the social dimension of globalisation, food security, anti-corruption, micro-credit and inclusive finance, local bond markets, multilateral trade aside from items on economic recovery and financial architecture. The Mexico meeting occurred when the Eurozone was in an existential crisis; the meeting managed to urge 'Euro Area members of the G20 to take all necessary policy measures to safeguard the integrity and stability of the area, improve the functioning of financial markets and break the feedback loop between sovereigns and banks' (Mexican G20 Presidency, 2012 paragraph

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[9] of There are proposed formulae in which European countries could actually be

6,), intentions at the core self-interest of eurozone countries. Side events around the G20 meeting included a 'B20' of business leaders from member countries and a labor ministers meeting.

Until the April 2009 London meeting, the G-20 had an initial flurry of success in coordinating expenditure and financial rescue programmes in response to the crisis. It has settled into a moveable agenda, dependent on the ambitions of its annually changing presidency. In the meantime, progress on the most urgent items – coordination for financial re-regulation and economic recovery – has stalled and reflects the political limits faced by developed country authorities. Developing country heads of state have religiously attended meetings in the exclusive grouping but have not built a reputation for espousing systemic reforms.

Thus there is much uncertainty over the G-20's potential role to push forward a reform agenda consistent with system coherence or with redressing imbalances against developing countries, even with the participation of the key developing countries. The representativeness of the developing countries – emerging MICs – in the G-20 is the subject of much dispute.

As the conceptual equivalent of the G8, G-20 extends the preference of developed countries' authorities to settle economic issues among significant economic players outside more representative venues, including the International Monetary and Financial Committee (IMFC). The design of post-World War II global economic governance placed the consideration of these issues at the Economic and Social Council (ECOSOC) of the United Nations, on the principle that representation and accountability should go hand in hand. In recognition of this conundrum, the G-20 has paid special attention to establishing a relationship with the UN.

There have been numerous proposals for creating new bodies to overcome weaknesses in international governance, such as a Global Economic Coordination Council (GECC), supported by an International Panel of Experts proposed by the Stiglitz Commission (United Nations, 2010, p. 87). . A more direct way is the reform and strengthening of existing institutions, which will require a renewed willingness on the part of dominant economic countries to use these bodies. Restoring an effective oversight of

ECOSOC over agencies and mechanisms of global governance can be a clear goal in a post-2015 development agenda.

3.3 South–South and regional cooperation

As has been partly documented in the first section of this paper, the increased economic interdependence has been characterised by a pattern of uneven development. This worsening trend is sustainable neither economically nor environmentally, nor can it be feasible politically over the long-term (Vos and Montes (forthcoming), UNCTAD (2011), and United Nations (2010).

There has been new interest in the potential of economic linkages among the developing countries and greater reliance on regional mechanisms, along the lines of the original intentions of the Generalized System of Trade Preferences (GSTP). The GSTP discussions recognised the need to embed policies to expand and diversify trade among developing countries within a framework of economic diversification and industrial development (UNCTAD, 2011: 88). Regional mechanisms hold the promise of better coordination among regional economies in the treatment of foreign direct investment (FDI), to avoid self-defeating competition and to facilitate complementary location of production activities, but there has been limited success in this regard. Lowering technical barriers to trade at the regional level would make trade more accessible to small- and medium-scale enterprises. Taking advantage of economies of scale in providing trade credits, insurance and other trade-related services, facilitating regional technological sharing among countries with relatively similar levels of development, and coordination in the development of infrastructure to facilitate regional trade offer great promise.

The greatest barrier to increased regional cooperation, despite many announcements to the contrary, has been overcoming a mindset privileging trade and investment linkages with the developed economies. In Africa, actions by the USA and the EU to provide trade accommodation to the region as such throws a spotlight to older intentions to expand regional integration. As mentioned earlier, many proposals coming from outside the region have the potential to derail regional integration. MFN provisions in the EPA proposals, for example, would extend to EU countries should African countries agree to greater trade openness among themselves. Provisions that require sourcing of inputs to production from developed countries, such as textiles, reduce the scope for regional integration. In a Proposal for a Common and Enhanced Trade Preference System for Least Development Countries (LDCs) and Low Income Countries (LICs), Rev. 1',(African Union 2011), proposed that the benefits of non-reciprocal preference schemes be accorded regionally or all members of customs unions, irrespective of the development status of countries involved. The purpose is to ensure that trade can support LDCs and their regional groupings to overcome their low manufacturing capacities. The EU, for example, applied for a waiver at the WTO to provide Moldova with non-reciprocal preferences with the rationale that Moldova being the poorest country on in Europe does not have the competitive strength to take reciprocal obligations of a FTA with the EU. A similar waiver had been made for Western Balkan countries. A South Centre background document suggests WTO compatibility of the proposal can be achieved either through a waiver or by appeal to the enabling clause.

The threatened extended period of slow growth in the developed world as a result of the global crisis increases the pressure on developing countries to find other sources of growth through increased trade within the South and regional cooperation. A reorientation of growth strategies toward increased reliance on domestic demand – as opposed to export reliance – is logically a spur to a new emphasis on expanding South–South and regional trade and investment links because the most accessible markets for genuinely developing country products are in other developing countries.

4. **Summary**

International economic events have had a large and often long-lasting impact on developing countries, which the international economic architecture is unable to prevent or mitigate. Even as developing countries hold primary responsibility for their own development, their economies are now extensively integrated in the international economy. The international system can serve as a hindrance to development from two sources: (1) missing, defective, or perverse international institutional arrangements and (2) restrictions on national policies from the proliferation of international obligations and policy rules. The paper has discussed different proposals to better ensure that the international economic architecture facilitates development efforts

On the issue of international mechanisms, the paper emphasized the following areas:

1. Strengthening compensatory finance for commodities-dependent developing countries;
2. Strengthening special and differential treatment in WTO rules and enlarging the non-reciprocal content of trade agreements, including FTAs to permit developing countries greater ability to diversify their domestic economies;
3. Restoring flexibility in the setting of tariff rates, within reasonable ranges, to enable developing countries to raise or lower tariff rates in line with shifting priorities to develop specific sectors, as opposed to permanently bound tariff ceilings;
4. Creating effective arrangements to reduce the probability and size of international financial crises
5. Establishing orderly and equitable international financial crisis resolution mechanisms.

In protecting and enhancing space for national policies in developing countries, the paper presented proposals including:

1. Revising the structure of international commitments so that, based equity and common but differentiated responsibilities, developed countries bear a greater burden than at present in international obligations and restrictions in the area of domestic subsidies, aid conditionalities, and macroeconomic adjustments; the most problematic of these are developed countries' agricultural subsidies;
2. Reforming current approaches to bilateral BITs and FTAs that limit the ability of developing countries to undertake changes in policies and regulations which might change the profit expectations of foreign investors;
3. Restoring the capacity of developing countries to regulate their capital account.

The international economic architecture labours under the constraint that the highest decision-making bodies in key institutions, such as the IMF, do not provide sufficient voting weight and policy influence to countries most affected by their operations. One approach now underway but with great political difficulty is to update voting weights in line with the changed economic structure or to set up the G20 which now includes developing countries. With reference to the experience of the G20, this paper discussed the shortfalls of this approach and argued in favor of restoring accountability and responsiveness by strengthening existing institutions in representative bodies such as the IMFC and the ECOSOC.

With the approach of the 2015, by when the MDGs were to have been achieved, there is a general view that ‘[s]ome framework, even if it is a point of reference, is essential beyond 2015‘ (Nayyar 2011, p. 12). What should this framework contain? Will the international community seize the opportunity to commence a process, which admittedly will take years to complete, to eventually eradicate the obstacles to development in the international economic architecture?

Comment [DE7]: To be dealt with later …

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