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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: (41 22) 9173020
Fax: (41 22) 9170650
E-mail: info@unrisd.org
Web: http://www.unrisd.org

International Economic Policy

Manuel MONTES

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Introduction

The overall goal of this portfolio is an expanded capability of developing countries to undertake development policy that reduces inequities and increases the share of economic benefits of the poor. Understanding that, in the forseeable future, developing countries must undertake these efforts in the context of the rapid international integration of their economies and that accelerated international integration can in fact contribute to these efforts, the portfolio seeks to realize the goal of international economic policymaking shaped by a greater concern for equity and participation. Two specific objectives guide the grantmaking:

- in the developing countries, the reinvigoration of the theory and practice of development economics, with renewed analytical and historical rigor; and
- at the international level, the reform, reconfiguration, and emergence of international trade and finance regimes which are advantageous to development efforts.

Because accelerating economic integration enlarges the size of markets and expands the prospects of overall economic growth, there is an enormous potential at the present time, both in the developing countries and at the global level, for creating the additional means for pursuing development to enlarge the choice sets of peoples and to reduce poverty, inequity and conflict. Proponents of the global economy point to these potentials but the analysis indicates that without a fundamental reshaping of current trends increasing impoverization and conflict are in prospect. The interventions suggested in this portfolio seek the promotion of peace and economic and social advancement of all peoples through effective international strategies.

To use more contemporary but more ambiguous terms, the objectives seek to make "globalization" safe for economic development. If worsening imbalances in access to and in benefits derived from the international economy constitute the greatest threat to the sustainability of "globalization" and if economic development is a critical antidote to widening imbalances, then these objectives arguably enhance the sustainability of "globalization" itself.

Context and Recent History

The struggles of the new nations that emerged in the previous century to develop their peoples and the stressful link between these struggles and their integration into the international economy constitute the basic ground for the context and recent history. These struggles involve overcoming "structural" disadvantages in the sense that there are basic socio-economic barriers that have to be overcome and that there has been no continuum of development like an escalator that countries can smoothly ride up to higher levels. The term "developing country" in this text is used as a short-hand for the set of countries also called "less-developed," "middle-level," and "transition" which must overcome socio-economic constraints, political, institutional, and private sector weaknesses to develop themselves. Whether or not increased dependence on the international economy assists these aspirants in overcoming these obstacles is part of the intellectual fabric of the past and the unfinished weaving of future policy innovation.

In the 1950s, during the era of the disassembly of colonial systems, the question of how to reduce poverty and redress the imbalance against developing countries was answered through programs of national development, including extensive state intervention to create modern industries and a marked disengagement of the domestic economy from international markets. The configuration of international markets and institutions, such as the International Monetary Fund (IMF) and the World Bank, set in place based on the lessons learned from the worldwide depression of the 1930s, conformed to the theories and practices of the new field of development economics, which emerged in this period.

The initial post-War global financial system, managed through the IMF under fixed exchange rates, for example, provided national governments with the means to independently inflate or deflate their economies, as appropriate. This system began to break down in 1971, when the United States suspended the convertibility of dollar into gold.

Failures in many national development programs and the developing country debt crisis of the 1980s instigated a rethinking of the old approach. Beginning in the early 1980s, the World Bank, instead of focusing solely on financing investment projects in developing countries, began to assist these countries in undertaking policy reform packages under the rubric of "structural adjustment programs." This new approach sought to promote greater productivity (and consequently development) by permitting economic pressures, including those from international competition, to determine which industries a developing country would retain.

Programs of "economic liberalization" reduced state-intervention in the areas of industrial policy, trade and finance. As many states retreated from their roles of providing guidance, protection and finance - and given the weak capacity of the domestic private sector - international actors – the donor community and the international private sector - became indispensable to national development prospects. While former colonies had been highly integrated internationally through raw material trade, these reform programs sought a more intensive mode of "economic integration" by attempting to bring the manufacturing sectors of these countries into international production chains, permitting their domestic labor forces to assemble goods, from imported intermediate products, for sale in international markets. The subsequent and numerous failures of these programs and conflicts even where they have succeeded can be traced to the missing socio-political institutions (such as the use of private force to substitute for the enforceability of contractual obligations and the squandering of wealth by a politically isolated domestic elite), all of which arise from the challenges of development itself, that these more highly integrated modes presume to already exist.

Since the 1980s, the external trade of developing countries has been growing at twice the rate as their income, permanently increasing the dependence of national development efforts on the international economy. The arenas where economic outcomes are determined such as the division of responsibilities between national states and the international economy and between the public and the private sector are being permanently redrawn. By the 1990s, the profound reshaping of the scale and nature of relations between and among countries as a result of the unleashed forces of international economic integration has become the most demanding if not most contentious matter in international relations and international governance.

From a longer historical perspective, global economic integration is in its second coming: global (net) capital flows among countries as a proportion of economic activity, while accelerating, are now only half the peak value reached in 1911 subsequent to which the world plunged into economic volatility, wars and armed camps. Preventing a repeat of this pattern, including the pauperization of vast segments of the population and the economic subjugation of nations by other nations during the rapid growth phase, motivated - at least rhetorically - the international cooperation efforts of all the parties to the Cold War. Prudence suggests that the failed attempts by developing countries to overcome poverty, low productivity, and social conflict must be interpreted as warning signs of the repeat of this pattern.

As in other historical periods, these outcomes are, of course, the result of the complex interaction of natural resource, demographic, cultural, socio-political, and economic pressures and *realpolitik.* This makes it even more critical to support efforts that ensure that the participation and influence of countries and people who bear the greatest risk in the process of economic integration are commensurate to the risk that they bear. This identifies the importance of interventions to correct existing imbalances in transparency, in bargaining power, and in accountablity in international economic regimes.

The complexity of the process also demands that public policy choices be based on the full range of technically feasible approaches, grounded in the most current and rigorous analysis and beyond those that are economically and politically expedient for prevailing countries and groups. This identifies the need for analytical and technical work to diversify policy choices, especially in developing countries and among marginalized groups where the determination for identifying and advocating a wider range of strategies is the most intense.

Problems and Opportunities

Recent events have generated a broad range of critiques of global economic institutions from a diverse set of social forces. A wide arena for promoting reform of international regimes that are conducive to development is the key opportunity of this work.

Since the 1980s, the waves of national deregulation and privatization programs have accelerated the integration of developing countries into the international economy. Poverty and economic exclusion have been reduced in many areas, such as in Southeastern China and technologically connected parts of India. The 1990s, however, saw the economic crisis in East Asia among countries long considered to be successful and steady integrators into the international economy and the collapse in the economic transition efforts, designed under the general guidelines of structural adjustment, in the former Soviet economies.

Developing countries in the Americas coming out of almost 20 years of structural reform programs find themselves succeeding in integrating internationally but living with conspicuously lower economic growth rates and a larger proportion of their workforce in informal employment. African states have progessively reduced their economic intervention, but this has been matched by a progressive deterioration of the incomes they obtain from external trade on which their economies have long heavily depended and a ballooning of external debt.

There are two problems in the current context that will be addressed by this portfolio, each drawing from the evolving failures in development and integration policy seen in earlier work:

1. The still incomplete and inadequate understanding of the political economy of the development process and the disadvantages borne by developing country citizens in formalizing, articulating, and utilizing such knowledge to their own interest;
2. The inadequacy and, in some instances, the non-existence of, markets, institutions, norms of conduct, and regulatory frameworks to address issues of development, equity, stability, and responsibility in the international economy.

Both problems are inter-related and mutually reinforcing.

1. In the case of the first, knowledge-building in the political economy of development is hobbled by the following realities: In the U.S., the dominant locale for training in public policy, development economics is not considered a prime academic career path and economic problems in developing economies are generally considered not to require analytical effort different from those applicable to industrial economies.

2. The bulk of the research is mostly carried out in international financial institutions, which themselves are involved in development policy design and project funding. The recent controversies over the resignation of World Bank chief economist Joseph Stiglitz and over its development report on the causes of poverty illustrate the

difficulties of portraying, if not actually achieving, a preferred independence between research and political interest.

There is an unmet need for new interpretations, new measurements, and greater intellectual diversity on development approaches. Developing country economics departments are most often organized along the lines of U.S. departments and the dominance in research funding, in countries where such funding is rare, from the World Bank and the IMF bends research priorities to those of these international institutions.

Practically all developing country programs of international economic integration are carried out in the context of projects designed and funded by international donors. There is an inherent imbalance in negotiating position between developing countries and its donors often, as the level of bilateral aid has declined, represented by international financial institutions; this imbalance is heightened because many of these programs are negotiated during times of economic crisis, when the developing country is in need of immediate financial support. More important, lessons from the failures of these programs tend to be mostly laid at the door of inadequacy of implementation by developing countries. Without the domestic analysts who can match the ability of the staff of international agencies to design, critique the design, and to raise a broader range of alternatives, developing countries find themselves as guinea pigs of failed experiments that have been repeated elsewhere.

Knowledge building demands that the issues be analyzed and debated beyond the incriminated public agencies and that failures interrogate not just the implementation shortcomings but the theory itself and whether the theoretical approach is inherently incapable of adequately incorporating implementation issues. This also suggests that knowledge building in this field needs to be multidisciplinary.

In the case of second problem, the inadequacies in international markets and institutional arrangements have been to the disadvantage of developing countries:

1. The failures associated with the structural adjustment programs have seen the world's poorest economies, heavily aid-dependent since independence for their development projects, become the most heavily externally indebted. Even oil exporters such as Nigeria are heavily indebted. The newly launched G-7 initiative to write off the