World Vision

Reflections on Australia's Positions at Monterrey

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Note: In Monterrey I was on the Australian Government's delegation representing ACFOA and I prepared and presented to Mrs Gallus a response to the confidential government "Briefing Papers" for the meeting. This paper is a revised version of that document with all confidential quotes and references excised. Only Australia's public positions are referred to.

1. The Scale of the Challenge: The Millennium Development Goals (MDGs)

Costing the achievement of the MDGs is becoming the dominant way of focussing minds on the task ahead and the resources it will require. The 0.7 target is still held up as a legitimate target, and several European countries are committed to achieving it in addition to the six who already do: Denmark, Sweden, Norway, the Netherlands, Luxembourg and now Belgium. The UN, World Bank, IMF, OECD are all supportive of the MDGs, having published a progress report *A Better World for All* in 2000.

Millennium Development Goals (1990-2015)

1. Eradicate extreme poverty and hunger
• Halve the proportion of people with less than one dollar a day.
• Halve the proportion of people who suffer from hunger.

2. Achieve universal primary education
• Ensure that boys and girls alike complete primary schooling.

3. Promote gender equality and empower women
• Eliminate gender disparity at all levels of education.

4. Reduce child mortality
• Reduce by two thirds the under-five mortality rate.

5. Improve maternal health
• Reduce by three quarters the maternal mortality ratio.

6. Combat HIV/AIDS, malaria and other diseases
• Reverse the spread of HIV/AIDS.

7. Ensure environmental sustainability
• Integrate sustainable development into country policies and reverse loss of environmental resources.
• Halve the proportion of people without access to potable water.
• Significantly improve the lives of at least 100 million slum dwellers.

8. Develop a global partnership for development
• Raise official development assistance.
• Expand market access.
• Encourage debt sustainability.

The World Bank recently costed achievement of these goals at around US$40-60 billion per annum and stated that a doubling of ODA was needed. Similarly, the WHO's 18-member Commission on Macroeconomics and Health (CMH) – which worked for two years under the direction of Harvard economics professor Jeffrey Sachs, found that an extra investment of USD66 billion in health each year in developing countries would save eight million lives per year and would pump an extra USD360 billion into the world economy.[1] The report wryly notes that this would yield a six-fold return on the investment - in case the lives saved were insufficient motivation. About half the increase would have to come from increased aid funding and half from developing countries re-prioritising their budgets.

Given these estimates, Australia's reluctance to support the increases in ODA levels required to achieve the MDGs is disappointing. If AusAID and DFAT have prepared alternative costings showing how the MDGs can be achieved for less than the Bank's and CMH's estimates, we would appreciate these being made public.

The MDGs started life as the OECD Development Assistance Committee's International Development Goals, adopted at its 34th High Level Meeting in May 1996. Australia is an active DAC member, so the fact that Australia has not come out strongly in support of the MDGs is puzzling.[2]

It is also worth remembering that the costs of *failing* to invest adequately in developing countries can be astonishing. In the early 1990s the United States spent nearly USD 1 billion treating just 350 cases of multi-resistant tuberculosis in New York from a strain which had migrated from Russia and Asia. Drug resistance thrives under the poor drug control regimes that are endemic in countries with gutted health systems and it is a problem that will grow unless action is taken.[3] Australia cannot assume that it can insulate itself from these effects.

2. Australia's Aid Levels and Long-Term versus Short-Term Interests

Australia has one of the strongest growing and most robust economies in the OECD. Yet for the last 30 years in real per capita terms, our levels of ODA have remained virtually stagnant while we have been getting substantially richer. As a percentage of our national income, we have been getting steadily meaner while we've been getting richer. In short, we are about 71.7% richer in real terms ($19381 per capita GDP in 1971-2, versus $33281 in 2000-01 in constant 1999-2000 dollars), but we give 12.8% *less* ($92.16 per capita ODA in 1971-2, versus $80.38 in 2000-01). Since our wealth has increased by about 72% over this period, as a percentage of our wealth, our giving has in fact declined dramatically. In 1971-2 we gave 0.49 percent of our incomes as measured by GDP. For the 2000-01 budget, the figure was just 0.25 percent – a decline of 49%.[4] The same percentage is budgeted for FY02-03.(See attached charts).

The Australian government is of course entitled and indeed expected to act in Australia's best interests. But sometimes long run interests can be compromised by short-term budgetary considerations.

Australia is known to have opposed time-bound commitments such as those promoted by the EU. The reasons for this are unclear. Why should commitments to future aid funding be any different from specific targets to increase spending on domestic health, education, infrastructure or defence projects?

The progressive decline in the level of Australia's overall aid commitments (however good the quality of programs within those constraints) do not reflect a serious effort on Australia's part to really grapple with how and *when* poverty can be eradicated in the Asia-Pacific region, let alone in Africa.

Australia's interests would be far better served if the economies of our neighbours such as Indonesia were strongly growing, wealthy and dynamic, rather than impoverished. This would also reduce our risk due to excessive reliance on exports to Japan, Korea and China. ODA should be considered an investment in our future, not a cost.

3. Time Lags

There is no question that growth, facilitated by good governance, trade and investment is essential for poverty reduction. But critically, growth takes *time*.

For example, in 1998 Australia's GDP per capita was US$22,452, compared with Uganda's US$1,074 in Purchasing Power Parity terms (taking into account cost of living differences). Uganda has been a major reformer, and its government is widely regarded as one of the best in Africa, but even so, at an (optimistic) uninterrupted, compound real per capita growth rate of 5% p.a. (i.e. 5% *above* the combined population growth and inflation rates) it would take 60 years for Uganda to catch up to Australia's 1998 standard of living. If Uganda could only do *better* than the US average over the last 100 years and achieve about 2% real per capita growth – it would take them 150 years to catch up.

ODA remains *essential*, in particular to fund the rapid development of sound institutions, to build the basic infrastructure to facilitate trade, and to develop a skilled and healthy workforce. But all this takes time. Reducing childhood malnourishment and disease, and improving education levels (especially of women and girls), is essential for development - but even then, the resulting quality improvements in the workforce and institutions will not show up for another 10-20 years.

The point is that trade and FDI-driven development is not instantaneous. Increased ODA is required to get there and to manage the inevitable social stresses resulting from the lengthy time-lags in a world where rich country TV programs are beamed into millions of poor villages. The poor today face a choice: shall I wait 100 years for growth to improve my situation or should I try to cross a border?

4. Governance versus ODA?

In its statement in Monterrey, Australia stated:

> The continuing importance of ODA is undeniable. But it is only one of a number of interrelated responses that, together, contribute to development.
>
> Sound domestic economic policy settings and strong domestic institutions are crucial to attracting investment and sustaining growth. So is sound governance, both public and corporate. And international economic and financial frameworks have to allow developing countries to compete for investment and gain access to markets.

While the second paragraph is undeniable, the first is also true but, as used, it seems to understate the fundamental link between ODA and sound governance and institutions.

Good governance and sound institutions are unquestionably essential for development, but they cost money. To continue to speak (rightly) of the need for better governance, but without adequate acknowledgement that good governance itself *requires* a significant increase in resources, risks making Australia appear unsophisticated in its approach. Attracting and training competent officials, improving the rule of law, fighting corruption, building institutions, and raising technical, sanitary and phytosanitary standards all require major investments of time and money. The resources required for *creating* a favourable trade and investment environment do not come out of thin air.

AusAID has some excellent programmes focussed on governance, but there is just not enough money being put into the ODA budget overall. For example, the World Bank's own calculations show that implementing just *three* of the WTO Uruguay Round agreements would cost many of the poorest developing countries about A$300 million – more than the total annual development budget for many of the Least Developed Countries.[5]

By way of comparison, for FY2000-01, Australian Commonwealth (*not* including State) expenses included:

General Public Services	$10.3 billion
Defence:	$11.36 billion
Public order and safety:	$1.559 billion
Education:	$10.966 billion
Health:	$25.2 billion
Transport & Communication	$1.724 billion

To take just one example, DFAT's total resourcing of outputs in FY00-01 was around $864 million, including $186.5 million on administered expenses alone.[6]

Many of the poorest countries do not have the resources for effective governance and institution-building. Directing aid *away* from countries with poor performance (rather than helping them to improve) will only compound the problem.

5. Trade Liberalisation – What Does Australia Really Believe?

The Australian government rightly champions the liberalisation of world agricultural markets, emphasising the benefits to developing countries of opening EU and US markets.

However, while telling developing countries to rely more on trade than ODA, Australia continues to levy tariffs of up to 25% on textiles, clothing and footwear exports from the Least Developed Countries (LDCs) – the UN classification for the 49 poorest countries in the world.

This inconsistent stance exposes Australia to legitimate charges of hypocrisy and clearly indicates that our arguments on agriculture derive primarily from self-interest, rather than the purported benefits of free trade. If we are going to continue to protect "sensitive" areas against exports from the *poorest* countries, why should we expect the EU and US to open their "sensitive" sectors to a rich country like Australia?

Granting tariff-free access to all LDC exports (except for arms) would greatly enhance the credibility of Australia's arguments for free trade in agriculture, and would ensure greater support from LDCs in the WTO. Without granting such access, calls for developing countries to open their markets ring hollow.

Any domestic jobs *directly* threatened by increased LDC imports could be protected by targetted subsidies or tax breaks to affected firms, rather than tariffs on goods. Eliminating the tariffs on LDC goods would effectively increase the real wages of poorer Australians by lowering prices on certain goods. It would also the lower input costs for industries such as furniture manufacturing, enabling more jobs to be created.

Australia's approach to the question of trade liberalisation seems to reflect a greater interest in gaining increased access to developing country markets for Australian exports, rather than what may be best for their own development. There is a vigorous, ongoing debate among economists in the academic community, UNCTAD, UNDP and the World Bank on the pros and cons of complete, blanket liberalisation verses more nuanced strategies which may include a time-limited, targetted, infant industry protection approach to economic diversification. However, publications by the WTO and DFAT generally do not generally reflect the nuances of this debate (eg. in DFAT's 2001 report *Globalisation and Poverty: Turning the Corner*). Sometimes, it seems that no matter what the question is, the answer is liberalisation.

There is no space to go into this debate here, but it should be noted that things are not as simple as is made out in DFAT's *Globalisation and Poverty*. Many top international economists such as Dani Rodrik from Harvard and former World Bank Chief Economist and last year's Nobel Prize winner Joseph Stiglitz, argue for a much more sophisticated, country-specific response.[7]

Liberalisation recommendations and projections of gains from trade are often based on general equilibrium models. These assume a great deal – things like perfect competition, perfect information, complete markets, perfect contract enforcement, and costless transactions. But is analysis based on these highly restrictive assumptions really appropriate for real-world developing country problems? Stiglitz, thinks not:

> "The standard models (underlying the Washington consensus) assumed a fixed technology; yet the essence of development is an improvement in technology… Industrial policies, though widely vilified under neo-liberal doctrines, have played an important role in the development of almost all of the successful countries. ... The standard model that was used [in the past] was the competitive equilibrium model. Today, the limitations of that model are widely recognised; it provides an inadequate model for developed countries, and therefore a poor starting point for the construction of a model for developing economies. There is no single, overarching model to replace the competitive equilibrium model: the world is too complex, But there are a set of tools and perspectives (such as those that derive from models of imperfect information and incomplete markets) that can be used".[8]

In the same lecture he also reminded his audience of what economic historians have long known:

> "Industrial policies, though widely vilified under neo-liberal doctrines, have played an important role in the development of almost all of the successful countries"

Commodity price volatility and long-term terms of trade declines are a well-known problem for poor countries – hence their desire to diversify their economic bases. Currently developing countries are urged to liberalise and narrowly specialise in their area of *current* comparative advantage (even if that's just coffee, cocoa or bananas), rather than trying to acquire new areas of comparative advantage (like South Korea did with ship building and steel production for example).

It is striking to note that this advice to liberalise and specialise is precisely the *opposite* of advice given to investors in managing their portfolios where diversification is fundamental to stability and risk management.

While Australia has been supportive of Special and Differential treatment for Developing Countries, the S&D provisions in the WTO do not go far enough and are not flexible enough to account for of widely differing situations and capacities of developing countries.

We would far prefer to see Australia adopt a pragmatic, nuanced stance, supportive of whatever trade policies would best help developing countries to reduce poverty, broaden their economic bases, and so be able to afford more Australian exports in the future. This would benefit us far more in the long-run than advocating market-cracking blanket trade liberalisation out of short-term self interest.

6. Foreign Direct Investment

FDI is clearly important for development, but FDI is highly concentrated in just a few countries. UNCTAD notes that the world's top 30 host countries (including the OECD countries) account for 95% of total world FDI inflows and 90% of stocks.[9]

The vast majority of developing countries, especially the poorest are able to attract very little FDI. This is by no means due entirely to lack of investment-friendly policies, but also due to general scarcity of investment funds, imperfect information and global over-capacity. There are only so many profitable plants that current world markets can support in several sectors - eg. steel, ship-building, microchips, etc. Moreover a very large proportion of FDI in recent years has come from mergers and acquisitions rather than new or greenfield investments.

FDI *cannot* replace ODA in most of the poorest countries – especially for social sector projects such as health, education and even infrastructure, which do not generally have high rates of return if they are to benefit the poor.

7. Capital Flows, Hedge Funds and a Currency Transaction Tax

The Treasury line is that Australia came through the Asian Financial crisis largely unscathed essentially because of its sound economic fundamentals. But Stephen Grenville, former Deputy-Governor of the Reserve Bank of Australia disagrees. He has argued that Australia was actually extremely vulnerable to a significant attack on our currency and that we were saved largely by the effects of the Russian debt default in August 1998 and subsequent collapse of the Long Term Capital Management hedge fund.[10]

> "Some of the players themselves told us, at the time, that their objective was to push down the yen to the stage where the renminbi was under irresistible pressure to devalue, which would have broken the Hong Kong dollar peg. The Australian dollar was a minor secondary target – collateral damage – for these Masters of the Universe. As things turned out, we came through this episode quite well. **But it is a matter of historical record that this episode came to an end because of the combined effects of the LTCM near-meltdown and the financial crisis in Russia – we were saved by crises elsewhere**. … There are those who deny, even now, that the hedge funds played any significant role. For these pundits, it may be enough simply to observe that the hedge funds themselves do not deny their actions … But the movement of exchange rates over the period – even large currencies such as the yen – provides more evidence. As the hedge funds cut their short positions in yen to cover their disasters in the rouble, the yen rose 15 per cent in a little over a day, driven by events unrelated to any Japanese 'fundamentals '. Is this a well-functioning market?" (Emphasis added).

A currency transaction tax, may or may not be the best vehicle to address the problem of the functioning of currency markets – which are well known to be subject to herd behaviour and 'overshooting'. However, technical financial infrastructure developments in the last couple of years have made such a tax feasible, *without* every country having to adopt it.[11]

Given the RBA's views on Australia's narrow brush with volatile currency markets, we would urge the Australian Government to be open to fresh ideas and play a constructive role in this debate.

8. Follow-up to FFD

a) Australia's representations regarding Poverty Reduction Strategy Papers (PRSPs)

The PRSPs are fundamental to the World Bank's, IMF's and DAC's framework for dealing with developing countries.[12] The recent PRSP review was very strong on analysis of the problems. But rather than making many recommendations for improvement it mainly just pointed to examples of good practice. But these don't adequately reflect the bulk of the analysis, or offer much discussion of how to make raise standard practice to best practice.

We would have preferred to see stronger recommendations with a clear plan for progressing the learning from the study. More importantly, the review of the IMF's Poverty Reduction and Growth Facility (PRGF) indicated that there needs to be a significant increase in openness of the PRGF process. There is a problem of reverse causality, which means that the PRGF is often negotiated first, and largely determines the macroeconomic framework for the PRSP rather than the other way around. This puts the PRSPs in a straightjacket.

The PRGF review also demonstrated a failure to come up with alternative policies. Despite dialogues with governments, there is no corresponding evidence of changes in policies in the PRGF agreements.

Finally, the PRSP review doesn't mention important issues such as user charges and land reform. Nor does it pick up on the submissions regarding human rights and good governance. The Bank says it is outside its mandate, yet the PRSPs all have sections on governance, rule of law etc, but only in relation to creating a better environment for investment. Issues such as increased access for the poor to recourse to law on land entitlements, should also be included. Opening the PRSP and PRGF processes to greater civil society participation would help ensure greater progress on these issues.

b) Follow up in Australia (ACFOA Recommendations)

1. ACFOA would continue to encourage a whole of government approach to sustainable development and poverty reduction processes with appropriate representation across all government departments who are stakeholders to the broad range of objectives involved in meeting the MDG's.

2. ACFOA acknowledges and commends the Government for its consultation process with ACFOA and its appointment of an ACFOA representative to the official delegation. ACFOA respectfully requests that this process be continued with report back sessions from Monterrey and with a clear linking of the Financing for Development process with the World Summit for Sustainable Development process.

3. ACFOA would specifically recommend the establishment of a high level committee of government, trade union, private sector and community representatives to continue to monitor FfD and WSSD processes and to encourage achievement of the Millennium Development Goals. This committee would also be charged with overseeing the broader consultation process with the Australian community including the communication of the importance of achieving long term global sustainable development goals.

NOTES:

[1] Sachs, J.D. (Ed.) (2001) *Macroeconomics and Health: Investing in Health for Development,* Report of the Commission on Macroeconomics and Health; World Health Organisation, Geneva, 200 pp.
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[2] DAC, (1996) "Shaping the 21st Century: the Contribution of Development Co-operation", May, Development Assistance Committee of the OECD, Paris, 20 pp.
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[3] Parris, B., (2001) "In the Eye of the Storm", *OECD Observer,* No. 229, pp. 40-41, (November).

[4] Sources: AusAID (2001) Australia's Overseas Aid Program Statistical Summary 1999-2000, Table 3: Australian Official Development Assistance (ODA), 1971–72 to 1999–2000; and ABS Data.

[5] Finger, J.M. and Schuler, P., (1999) "Implementation of Uruguay Round Commitments: The Development Challenge", World Bank Working Paper No. 2215, Washington DC, World Bank, 1 October, 53 pp.
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[6] Department of Foreign Affairs and Trade Annual Report 2000-2001, Appendix 2, Table 10.
http://www.dfat.gov.au/dept/annual_reports/00_01/s05/05_a02.html#Table%2010

[7] See for example:

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http://www.ilo.org/public/english/employment/geforum/download/stiglitz.pdf

[8] Stiglitz, J.E., (2001) "An Agenda for the New Development Economics", Draft paper prepared for the discussion at the UNRISD meeting on "The Need to Rethink Development Economics", Cape Town, UNRISD, 7-8 September, p. 5.

[9] UNCTAD, (2001a) *World Investment Report 2001: Promoting Linkages,* UNCTAD, Geneva.

[10] Grenville, S., (1999) "Financial Crises and Globalisation", *The Economic and Labour Relations Review,* Vol. 10, No. 2, December, pp. 260-277. Also published as: Grenville, S., (1999) "Financial Crises and Globalisation", *Reserve Bank of Australia Bulletin,* August, pp. 43-54.
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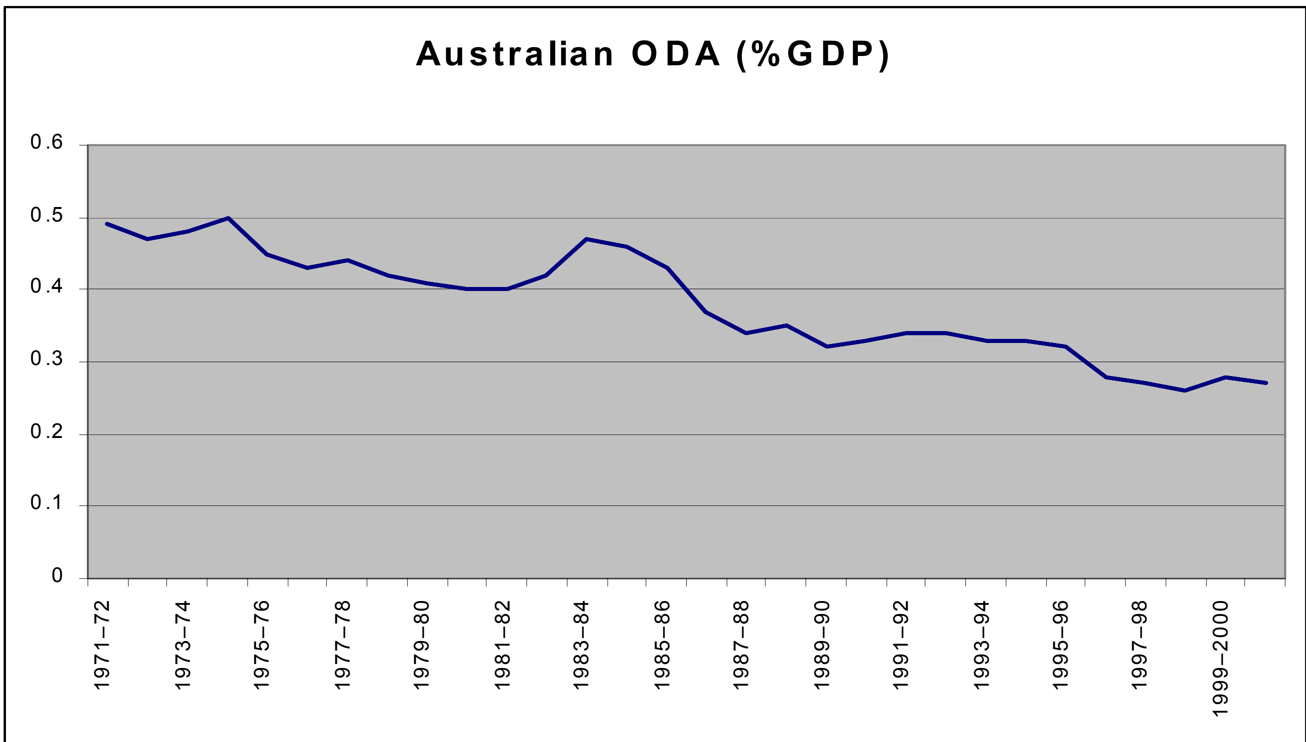
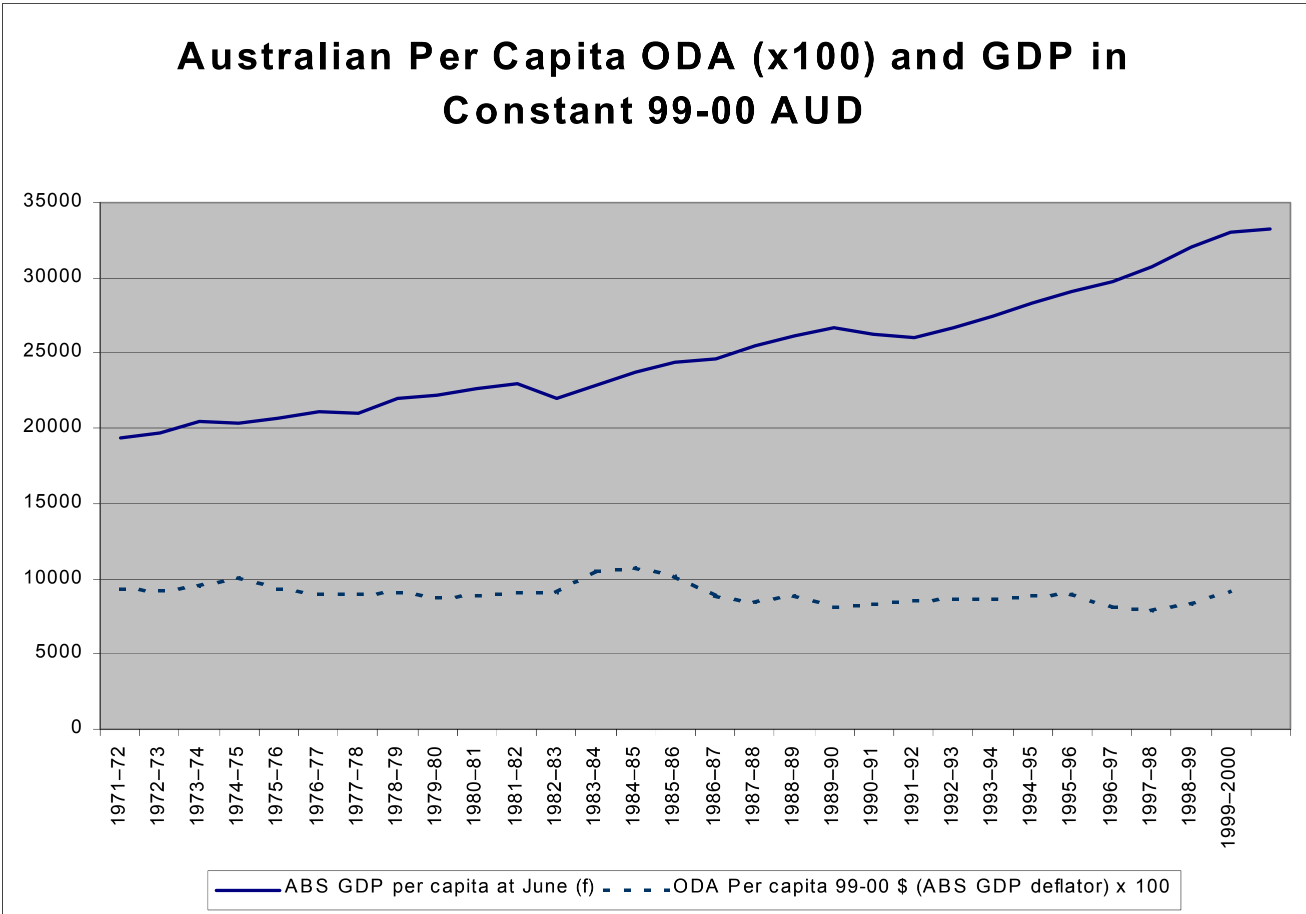
[11] See for example: Schmidt, R., (2001) "Efficient Capital Controls", *Journal of Economic Studies,* Vol. 28, No. 2-3, pp. 199-212.

[12] Whaites, A. (Ed.) (2002) *Masters of their own Development? PRSPs and the Prospects for the Poor,* World Vision International, Monrovia, CA, 137 pp.


Australian ODA (%GDP)
0.6
0.5
0.4
0.3
0.2
0.1
0
1971–72
1973–74
1975–76
1977–78
1979–80
1981–82
1983–84
1985–86
1987–88
1989–90
1991–92
1993–94
1995–96
1997–98
1999–2000


Australian Per Capita ODA (x100) and GDP in Constant 99-00 AUD
35000
30000
25000
20000
15000
10000
5000
0
1971–72
1972–73
1973–74
1974–75
1975–76
1976–77
1977–78
1978–79
1979–80
1980–81
1981–82
1982–83
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1988–89
1989–90
1990–91
1991–92
1992–93
1993–94
1994–95
1995–96
1996–97
1997–98
1998–99
1999–2000
ABS GDP per capita at June (f)
ODA Per capita 99-00 $ (ABS GDP deflator) x 100