

Executive Summary

Change and Development

Our Group was established in 1989 against a widely felt concern that the circumstances facing developing countries had changed significantly in the 1980s; and that economic growth remained elusive for most of them. Global political and economic change and its impact on the development process, together with ways to improve development policies—domestic and international—are the principal themes of our report.

2. The main elements of changes in the 1980s which affected the development process include:

- (i) the rise in the burden of developing country indebtedness;
- (ii) a sharp decline in net financial flows to developing countries;
- (iii) a decline in the world savings rate and the greater competition for available funds;
- (iv) the ending of East-West tensions and the increased scope for reduction in military expenditures;
- (v) the setbacks to progress in education, health and nutrition, in many developing countries;
- (vi) the intensification of international economic linkages; and changing trade patterns;
- (vii) the growth of regional integration;
- (viii) the increased salience of small groups of major countries, such as the G7, in global economic management;
- (ix) the changed orientation of domestic economic policies, especially in developed countries, towards market forces; and the repercussions this has had for development cooperation and notions of equity and aid as a public good;

- (x) the spread of the democratic process; and the worldwide movement against statism;
- (xi) the increase in environmental degradation and of awareness of the mutuality of interest in arresting it;
- (xii) the increasing need for population policies;
- (xiii) the increase in cross-border migration into both the developed and developing countries;
- (xiv) the growth of drug trafficking; and
- (xv) the increasing emphasis on the need for greater gender equity.

3. These changes have brought both opportunities and problems for development. They have generally increased interdependence and made stronger the mutuality of interest in sustainable development. They have led to a search for greater economic security; but they have also complicated international management, and been accompanied by a reduced commitment to multilateralism and development assistance. A new approach to international cooperation is needed if the opportunities provided by change are to be used beneficially to promote development and overcome immiseration and poverty.

The Starting Point

4. The 1980s were marked by increasing economic disparities. While the industrial countries enjoyed their longest period of sustained growth since the Second World War and some developing countries, particularly in Asia, also did well, most developing countries in Africa and Latin America were caught up in acute economic difficulties: physical and human capital deteriorated and malnutrition spread. Despite adopting wide-ranging adjustment programmes, at the end of the decade most developing countries were left with a reduced capacity to withstand economic shocks.

5. The prospect for much of the developing world continues to be bleak. There is a danger that immiseration, acute poverty, famine and environmental degradation will increase. This is in stark contrast to the industrialised world and a few developing countries which can look forward to growing prosperity in the 1990s.

Changes in National Systems

6. Growing economic adversity and political discontent in the 1980s led to an increasing search for improved national systems in most of the developing world as well as in Eastern Europe.

7. In parallel with these developments and inextricably linked to them have been changes in political perceptions. There has been growing appreciation of good governance, based on democracy and pluralism, sound administration, the rule of law, protection of human rights and decentralisation in decision making.

8. Wide-ranging reforms have been adopted, which on the economic side have been directed towards more open, flexible and market oriented policy stances.

9. The relationship between governance and development is complex. But it is apparent that diverse inputs are needed for development to be sustained. This diversity is facilitated by good governance, although there is no universally valid prescriptive model.

10. During the 1980s, despite their growing poverty and weakening human resources, many developing countries adopted measures conducive to good governance. But sound policies are not sufficient by themselves. Without adequate external assistance, national efforts will not succeed over any reasonable time period. There is need for greater technical and financial co-operation and a reformed international system.

The International System

11. The establishment of the United Nations and the Bretton Woods institutions were major landmarks. But the current system is inadequate to cope with the new realities of international relations.

12. Increased interdependence carries a necessary surrender of national freedom of action and recognition that many economic and other benefits can only be obtained and harmful effects avoided through closer cooperation. Better structured international institutions and mechanisms, including an emphasis on consensus building, can help the process.

13. The ending of the Cold War provides new systemic opportunities for this as well as new challenges. The United Nations can, for example, promote a more comprehensive concept of security that takes into account economic and social development, environmental change, human rights and migration.

14. In the economic sphere a widening gap has emerged between the practices of the IMF, World Bank and GATT and the evolving global management needs. The major industrial countries established small groups for increased consultation and co-ordination. But their successes have been limited. Of great concern to developing countries has been

the inadequate attention paid to the international implications of the major economies' national policies. The IMF can play an important role in rectifying this through enhanced surveillance, for example in ensuring that adjustment is symmetrical. There is in addition need to ensure better provision of safety nets and compensatory mechanisms for countries whose economies are particularly vulnerable to external shocks, for example to marked increases in energy prices.

15. The economies of most developing countries remain very vulnerable to exogenous shocks. These can be particularly severe in the case of commodities, whose prices show inherent instability. The present arrangements to provide compensatory finance in respect of sharp falls in receipts from commodity exports and sharp rises in costs of cereal and petroleum imports should be strengthened. There is a need to strengthen the IMF's Compensatory and Contingency Financing Facility.

16. To help solve the commodity problem rather than merely alleviate it, greater support should be given to measures aimed at diversification and commodity development. New arrangements are needed to compensate debt-distressed low-income countries from the impact of sharp increases in short-term interest rates.

17. Among developing countries, there is concern that the international system fails to support adjustment in a longer time period and a more growth-oriented framework. The system's ability to meet the needs of development finance is also being increasingly questioned. The capacity of multilateral financial institutions should be enhanced and bilateral ODA expanded to remedy this. There is also concern regarding global liquidity. Against a background where commercial banks remain reluctant to lend, there is case for increased liquidity to facilitate development through a further allocation of Special Drawing Rights or an increase in IMF quotas.

18. The trade and other links that draw countries together have dramatically changed, and require a strengthening of the GATT, not least to administer effectively the results of the Uruguay Round.

19. A particular Commonwealth concern is the vulnerability of small states. The international community has a moral obligation to develop mechanisms which would respond speedily to requests from those under economic or other threat.

Human Resources

20. Much greater investment in education and training will be required if developing countries are to benefit from recent technological changes.

Investment is becoming increasingly oriented towards new and sometimes more complex technologies whose absorption requires skilled labour. Almost all developing countries need more scientists and technologists, both to develop indigenous technologies and to adapt imported ones. A more technologically-oriented education curriculum can help.

21. The global population is still expanding too fast; only well into the next century will there be a significant drop in the size of annual increases unless there is some cataclysmic event such as an AIDS pandemic. More than three-quarters of the world's population live in developing countries and the proportion is still increasing. If the needs and aspirations of these countries are to be met, population growth will have to fall substantially. That, in turn, will depend inter alia on increased access to family planning services and improvements in education, health, women's position in society and economic progress itself.

22. The emigration of the most able and enterprising deprives many societies, particularly those in developing countries, of some of their most valuable human resources, and considerably constrains their development. Renewed efforts are needed to reduce the brain drain by voluntary means. An increasingly distressing phenomenon of the 1980s and early 1990s has been the marked rise in refugees of all kinds—economic, political and environmental. These have been especially apparent in the transborder movements of Africa and Asia. A multifaceted approach is needed, rooted in measures to alleviate poverty and environmental degradation, and mechanisms to reconcile differences based on ethnic or religious groupings and political ideologies.

Finance

23. The 1980s ended with the developing countries receiving significantly less external funds than at the beginning of the decade. Some were making large transfers to major industrial countries at the very time when they themselves required more finance.

24. With the end of the Cold War, and economic liberalisation, the Soviet Union and Eastern Europe have emerged as new claimants on global savings. There are also new needs arising such as from reconstruction in the Gulf.

25. The high priority given to monetary policies in the fight against inflation, combined with the accentuated global imbalance between the supply of and demand for savings, implies that interest rates are likely to remain high. This will increase the debt-servicing burden of developing countries. These countries will also probably continue to have difficulty

in attracting private funds, for which they are likely to face increased competition from Eastern Europe and as a result of German unification. The likely diversion of official and private flows not only to Eastern Europe and the Soviet Union but also to the Middle East is another cause for concern in many developing countries.

26. A reduction in defence expenditure in the industrial countries could however lead to increased assistance for developing countries, although there are many competing claims on any peace dividend. There is also considerable scope for a reduction in military expenditure in the developing countries themselves, particularly if restraint is shown by the armaments' exporters. This would release resources for development.

27. A substantial part of the additional resources which developing countries need can be found through improved domestic resource mobilisation. This requires appropriate macro-economic policies.

28. The international community should help by more effective measures to cope with the predicament of many debtor countries. Despite the relief introduced so far, the debt problem is worsening. While the Brady initiative may be bringing some middle-income countries nearer to restoring access to spontaneous capital flows, its overall impact remains limited. As for the official bilateral debt of low-income debt-distressed countries undertaking adjustment, the Toronto terms have brought only limited relief, although this has been increased in respect of those countries whose creditors have written off their debt. The Trinidad and Tobago terms, which seek to provide more substantial relief for these countries, should be adopted by the Paris Club creditors. There is also need to take action in regard to multilateral debt, which presents special problems. Approaches to debt should be comprehensive and governed by equitable burden-sharing between official and commercial creditors. One way of assisting all debtor countries with liquidity problems could be through an allocation of Special Drawing Rights or an increase in IMF quotas.

29. The decline in real net transfers to developing countries in the 1980s was due to the sharp contraction of private flows. While there has been some revival in such flows, it has been concentrated in a few countries. Wide-ranging action on several fronts is required to increase the number of countries able to attract private flows. Special efforts are needed to encourage repatriation of flight capital and remittances from migrants.

30. Given the political will, it should be possible for all developed countries to reach the agreed UN target for official development assistance of 0.7 per cent of GNP within a specified time frame. There is also need for greater transfers through grants and for a significant

increase in food aid. More effective use of official development assistance and further untying of commitments and relaxation of procurement procedures are highly desirable.

Trade

31. While the 1980s saw impressive growth in the total volume of merchandise trade, serious trading problems were encountered by many countries. Large parts of the developing world shared little in the growth.

32. Among the new elements affecting international trade were the increased globalisation of production caused by technological progress, the facilitation of foreign investment and greater corporate concentration; the pursuit of more outward-oriented policies by many developing countries; an acceleration of structural change; and the heightening concerns about the environment.

33. The policy response was seen in the increasing recourse to managed trade, to unilateralism and to regionalism. Multilateralism, as epitomised by GATT rules, came under increasing threat with grave consequences for the international economic system.

34. An improved environment will be required if international trade is to expand at a satisfactory pace and if all countries are to share in its benefits. Two elements are crucial: more open markets; and a stricter adherence to multilaterally agreed rules based on universally accepted principles of transparency and non-discrimination. If these criteria are to be fulfilled, it is essential that the Uruguay Round of multilateral trade negotiations is brought to a successful early conclusion. At present it is still in danger. A major hurdle is the agricultural stand-off between the United States and the European Community, whose resolution will depend in large measure on the timing and outcome of the EC's moves to reform its common agricultural policy. Substantive and balanced agreements are also needed on a number of other core issues such as textiles and clothing, safeguards and subsidies.

Technology Development and Transfer

35. Technological progress accelerated in the 1980s. While this occurred on a broad front, the effects of microelectronics, telecommunications and data-processing technologies were particularly pervasive, being both distinct and synergetic. Certain other new technologies are expected to have a similar impact in future years. They include biotechnology in agriculture, healthcare, energy, and the environment; new materials such as fibre-optics, special plastics, hardened ceramics and composite

materials; and new sources of energy based on renewable resources such as the sun.

36. The overall impact of these advanced technologies on economic growth and development has been very positive. However, adjustment in some countries and among some groups and making use of the benefits continue to pose problems. Restructuring and retraining are therefore crucial elements in the management of technological change, as is the building of indigenous technological capacity. To the extent that economies have successfully adopted new technologies, their output has increased and their international competitive positions have improved. For countries which are economically less developed, technological change has usually been more difficult to accommodate and manage. On the other hand, they can—and should—be assisted to adjust to these changes and thereby be in a position to take advantage of the new opportunities presented.

37. New technologies have already begun to affect the organisation of work. Within enterprises, former hierarchical structures are being replaced by more flexible group-based systems of operation. Most importantly, new technologies are already changing the international division of labour and influencing the pattern of world trade. They are increasing the tradeability of services and blurring the distinction between goods and services.

38. Mature technologies are also affecting developing countries in many ways, ranging from the production of goods to the use of energy. As developing countries industrialise, the latter will become increasingly important and means to increase their efficiency of energy transformation and utilisation should pay for themselves in reduced environmental and other costs of energy, whether imported or produced domestically.

39. A policy to enhance human resource development, especially education in the physical sciences, is now more crucial than ever to absorb technology and should be pursued assiduously.

Environment

40. All countries have contributed to the world's environmental problems, but their degree of responsibility varies considerably. In recent times, there have been profound changes in public perceptions of environmental issues which in many developed countries have moved high up the political agenda. But these countries have not yet succeeded in utilising resources in an environmentally sustainable way and thereby arresting environmental degradation. Their economic structures and lifestyles frequently have global implications—for example in the

threat of global warming caused mainly by fossil fuel consumption for industrialisation, transportation and other activities, and the depletion of the ozone layer through the use of chlorofluorocarbons. In the developing world, the effects are usually more local—soil erosion and desertification, caused by pressures on land resources and deforestation, for example—and have generally flowed from poverty. Rapid destruction of forests however has global implications as well as increasing emission of greenhouse gases and chlorofluorocarbons. Breaking this vicious interaction between poverty and environmental degradation will require major investments. Reducing the developed world's use of environmental resources will do likewise and will require fundamental changes in lifestyles as well.

41. Environmental problems have several dimensions and need to be tackled in a multifaceted manner. All countries need to intensify their efforts to deal with local environmental problems by integrating ecological considerations into economic policies and using economic instruments to promote sustainable development. Action at the national level alone is, however, insufficient. Some environmental problems pose a global threat to humanity, thereby underscoring the interdependence of nations and the growth of a strong mutuality of interest in sustainable development world-wide.

42. Although all nations have a common interest in safeguarding the future of the planet, there are serious differences between them on how global environmental problems should be treated. Agreement on this, and particularly on mechanisms for financing and facilitating technology transfer to help developing countries participate in the solutions, must be expedited. A consensus on burden-sharing in paying for the costs of environmental conservation will be essential in order to create the global partnership that is needed to secure humanity's common future. It is in the interest of the industrial countries to mobilise adequate financial resources to help developing countries achieve environmental and other developmental objectives, without imposing new forms of conditionality and diverting assistance from traditional development activities. The 1992 United Nations Conference on Environment and Development provides the international community with a unique opportunity for forging a global compact to meet the world's environmental challenges in a way that is consistent with development. The environment issue has the potential to catalyse a revival of multilateralism. It must not be allowed to become a source of North/South confrontation.

Conclusions, Recommendations and the Way Ahead

43. Certain salient points emerge from the above summary. They show that in the 1980s, political, economic and intellectual or philosophical

changes had profound effects on economic growth and on development—broadly defined. Many of these changes affected the external economic environment of developing countries; others their political/security position; all had repercussions on the patterns of global management and on the international economic system. Every change was in some way linked to every other. They emphasised not only the interdependence of nations and issues but the new dimensions to the mutuality of interest and commonality of concern between the North and the South. A global approach is needed in order to tackle them.

44. In the final chapter of the Report we present our main recommendations grouped according to whether they require action by the developing countries of the South, the developed countries of the North, or the world community in the international system. We conclude that they provide a formidable agenda whose consideration will require initial discussions both in specialised fora and intersectorally. Thereafter there is need to carry forward the process and endeavour to give it higher salience and enhanced support through exploring the possibility of a summit meeting, representative of a cross-section of the global community.

45. Our last recommendation is therefore that the Commonwealth should take the lead in bringing these issues to the attention of the international community. In doing so, it should emphasise the global approach needed to solve them and the universal interest of humanity in doing so, expeditiously and effectively. We briefly sketch out the way in which such a process might be started.