Recasting MDG 8: Global Policies for Inclusive Growth

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Executive Summary

The Post-2015 Debate

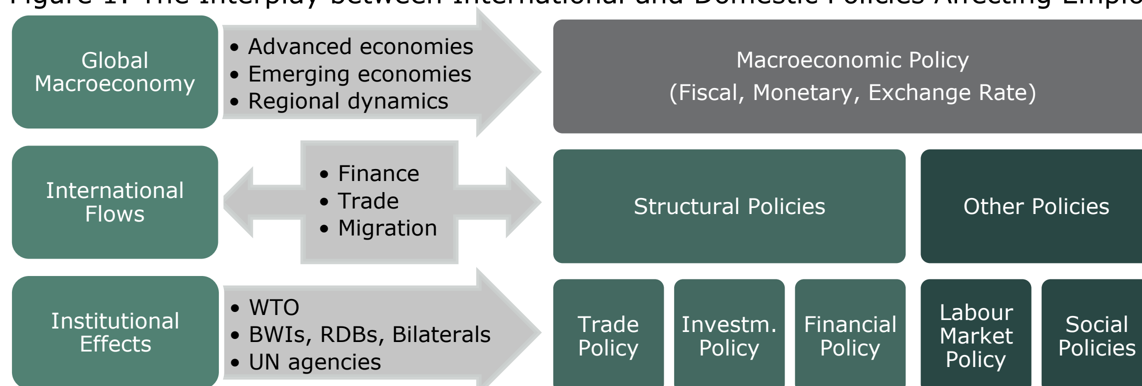
As we approach the Millennium Development Goals (MDGs) deadline, there is a growing interest and debate on what might replace them. Specific proposals for new goals, targets and indicators have already emerged – including on income poverty, employment, education, health, environment and governance. However, there has been far less attention on the key policy reforms that would be needed to fulfil those ambitions. This paper contributes to the post-2015 debate by presenting some arguments and proposals that could motivate the construction of an effective and progressive 'global partnership for development'. While economic and social progress ultimately depends on the implementation of appropriate domestic policies, the international environment can play a critical role in facilitating national development efforts. Therefore, this paper focuses on global economic policies – akin to MDG 8 – that have the potential to stimulate inclusive growth in developing countries.

Growth, Employment and Poverty

Employment is a key dimension of wellbeing and human development. Indeed, employment is the main mechanism through which economic growth translates into poverty reduction. Productive employment also promotes other important objectives, such as social cohesion, citizen empowerment, and personal dignity. Generating productive employment and ensuring that vulnerable people are able to access these opportunities is fundamental to foster inclusive economic and social development. Moreover, structural change – which entails the movement of labour from lower to higher productivity activities – is crucial to sustainably improve living standards by transforming economic and social structures. These are important elements to be considered in policy-making.

There is little doubt that employment will remain a critical issue beyond 2015. What is less clear, however, is what policy actions are needed to engender sufficient productive employment. The recent World Development Report argues that jobs should move centre stage in development policy and that labour market policies alone will not suffice (World Bank, 2012a). Since employment outcomes are affected by a wide range of domestic and international policies and how these interact (Figure 1), a critical rethink of MDG 8 is needed.

Figure 1: The Interplay between International and Domestic Policies Affecting Employment



Note: BWI (Bretton Woods Institutions), RDBs (Regional Development Banks)

Scope of the Paper

This paper provides an appraisal of selected policy areas that can have an important bearing on employment outcomes. In particular, it seeks to identify key international policy reforms that may enable developing countries to create productive employment and thus pursue a

more inclusive and sustainable growth trajectory. These might, at a later stage, develop into full-fledged goals, targets and indicators, provided that there is significant political agreement.

While acknowledging the fundamental importance of national (and regional) development strategies, we focus on how **global policies, rules and institutions** can support (or hinder) national development efforts. Moreover, and given the significant attention paid to the role of foreign aid during the 2000s, we predominantly analyse issues that go beyond traditional aid debates. Hence, we focus on **three selected policy areas**: (i) macroeconomic coordination, (ii) finance (excluding conventional aid) and investment, and (iii) international trade. We then investigate how these issues and recommendations could shape a post-2015 development framework.

Main Recommendations

Macroeconomic policy coordination, especially among large country-blocs, is vital to rebalance the world economy and address systemic crises – of finance, food and fuel. This is also crucial for poor developing countries, since they are particularly vulnerable to changes in the global economic context – e.g., global demand and international prices. A stable and vigorous world economy will greatly support national development efforts to create productive employment, promote structural transformation and sustainably increase living standards. This is likely to require the adoption of synchronised countercyclical fiscal and monetary policies, a new global reserve system, exchange rate coordination, and therefore improved institutional arrangements for coordinating global economic policy.

Moreover, a stronger focus should be placed on removing barriers to inclusive growth and structural transformation in developing countries. This could be achieved through development-minded reforms of the global trading and financial systems. In this regard, policy reforms should recognise the central role that productive employment plays in sustainably lifting people out of poverty and tackling deep-rooted inequities. We draw attention to **finance**-related policy measures to promote greater financial stability, increase the availability of development finance, and strengthen the impact of foreign investment on host countries. These include an international liquidity buffer, measures to tackle illicit capital flows, exploring alternative sources of development finance (e.g., global taxes and SDRs), and strengthening investment standards.

In terms of **international trade**, we argue that tariff and non-tariff barriers may constrain the ability of poor developing countries to build productive capacities and further integrate in the world trading system. We then call for measures to simplify rules of origin and technical standards, mitigate the impact of commodity shocks and enhance food security, reform intellectual property rights, and scale up aid-for-trade.

While only a few of these issues are likely to be politically 'ready' to be incorporated in a post-2015 development agenda, a sense of the range of policy reforms that are needed is useful in understanding the context for a post-2015 agreement and in evaluating the political trade-offs involved in getting an agreement.

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1 Introduction

Without any vision of transformation in productive structure and the upgrading of the productive capabilities that make it possible, the vision of development behind the MDGs can only be described as 'development without development'. (Chang, 2010)

Progress towards the achievement of the Millennium Development Goals (MDGs) has been highly uneven across regions and countries. In particular, the pace of poverty reduction in sub-Saharan Africa and South Asia has been quite disappointing. This can be partly attributed to the limited impact of economic growth on the incomes of the poor, which in turn is due to the failure to create sufficient productive employment. Current economic growth patterns are bypassing important segments of society, undermining its sustainability and further entrenching existing inequalities. Moreover, there is little evidence of meaningful structural transformation taking place in the poorest developing countries.[1]

In order to be successful, a post-2015 development framework will need to assist developing countries in building productive capabilities as part of a strategy to sustainably improve living standards. This implies that some consideration needs to be given to the policies ('means') that will enable the achievement of desired outcomes ('ends'). While there is little disagreement that productive employment and decent work are commendable 'ends' in themselves, policy strategies on how to achieve them can vary considerably. For instance, some attach considerable weight to the role of labour market policies, while others are more sceptical of their effectiveness and recommend a broader policy focus. This paper is premised on the latter and focuses on the role of international policies.

Meanwhile, the world economy is facing heightened **challenges**. Advanced economies continue to endure the consequences of the global financial and economic crisis, which are likely to subdue growth and employment for several more years. A lingering Eurozone crisis and a growth slowdown in some emerging economies can also undermine the future prospects of the world economy. These trends are likely to have significant spillover effects on poor developing countries, since they rely on foreign aid, trade and investment as key engines of growth.

In developing countries, rapid population and urbanisation growth has intensified the pressure on scarce resources, prompting high and volatile food and energy prices. Climate change and environmental degradation remain a major global concern, especially since they tend to disproportionately affect the poor. These systemic risks can also lead to a destructive competition for resources that triggers political and social unrest within and across borders. Extreme poverty and hunger remain major challenges, especially in sub-Saharan Africa. Finally, current global governance structures appear to be inadequate to tackle these growing concerns. Indeed, there has been notoriously little global coordination of economic policies – which is compounded by problems of legitimacy, relevance, and effectiveness.

Despite these stern challenges, developing countries can seize emerging **opportunities** to achieve a more sustainable and balanced development path. High commodity prices can benefit exporting countries, provided that these windfalls are adequately managed and used to promote economic diversification. The rapidly growing middle-class in several developing countries can also provide an important stimulus to the world economy. South-South cooperation also presents new economic prospects for the poorest countries. Moreover, as East Asian economies upgrade in the value chain, poorer developing countries could benefit from growing opportunities in low-skilled manufacturing. African countries could benefit from a sizeable demographic dividend, provided that they are able to create the conditions for their young populations to thrive.

[1] The movement of labour from lower to higher productivity activities has been a cornerstone of the economic and social development process ever since the industrial revolution.

In this paper, we provide a brief overview of policy measures and reforms that could support a sustained creation of productive employment in developing countries, while bearing in mind some of these global challenges and opportunities. We argue that these international actions are crucial to generate sustainable and equitable growth, foster human development, and eradicate extreme poverty in developing countries – and that they therefore have a place in a post-2015 agreement.

The paper is structured as follows. The next section provides a background to the discussion by revisiting the growth-employment-poverty nexus and assessing the desirability of moving the policy agenda towards 'inclusive growth'. In section 3, we investigate recent trends and opportunities in three main policy areas: macroeconomic coordination, finance and investment, and international trade. At the end of each sub-section, we highlight key proposals for policy reforms that could (directly or indirectly) support the creation of productive employment and promote inclusive growth. Section 4 concludes and analyses the implications for a post-2015 framework.

2 Background

Until recently, employment was far from the top of the international development policy agenda. This was possibly due to the unrealistic expectation that economic growth would automatically generate more and better jobs, and thus 'trickle-down' to the poor. However, the recent experience has challenged this assumption.

During the 2000s, several developing countries experienced strong economic growth rates without commensurate improvements in employment and income poverty outcomes – especially in sub-Saharan Africa (UNECA, 2012). Despite some achievements in health and education, the lack of productive employment opportunities has been noticeable, in particular for the youth, women and the poor. It seems evident that certain types of economic growth – especially those associated with natural resource exploitation and other capital-intensive industries – bypass large segments of the population. Underlying this trend is the failure to improve productive capacities and generate meaningful structural transformation. This section provides an overview of the relationship between economic growth, employment outcomes and poverty reduction, and argues that inclusive growth and structural transformation should be at the core of a post-2015 development framework.[2]

2.1 The Growth-Employment-Poverty Nexus

2.1.1 Economic Growth

Developing countries have registered remarkable **economic performances** since the late 1990s. This period has been broadly characterised by strong economic growth rates, improved macroeconomic conditions, and increased trade and investment flows. Despite the global financial and economic crisis, developing country economies proved to be fairly resilient to its consequences and many have already bounced back.

However, these encouraging trends have not always delivered proportionate benefits in terms of social and human development outcomes, especially in Africa (UNECA, 2012; Martins, 2012). Growing income disparities are also a mounting concern in many parts of the world, particularly in fast-growing Asian countries (Martins and McKinley, 2011). A likely explanation

[2] Broadly speaking, inclusive growth entails greater participation of vulnerable groups in the economic process – such as better work opportunities for the poor, youth and women – while ensuring that the gains from economic growth are equitably distributed.

for the gradual uncoupling of economic growth and development outcomes lies in the poor employment performance and the lack of structural transformation. These patterns of growth have strong implications for how the economic benefits are shared among society, and thus for poverty reduction, inequality and social cohesion.

2.1.2 Employment

Given the recent slowdown in global economic activity, it is perhaps unsurprising that employment has also suffered. **Employment growth** declined considerably in 2008 and 2009, although it is showing some signs of recovery (ILO, 2012a). Under current economic trends, the global **unemployment** rate is likely to remain unchanged at 6 per cent until 2016, while the global youth unemployment rate is currently at 12.7 per cent (ILO, 2012a). Young people are almost three times more likely to be unemployed than adults. However, aggregate data masks important heterogeneity across regions, as well as worsening conditions in the labour market (e.g., lower real wages and more precarious forms of work).[3] In addition, many people are not covered in these unemployment statistics because they have dropped out of the labour force – i.e., 'discouraged' workers that stopped searching for a job – while part-time and casual employment has also increased substantially.

Global **labour force participation** rates have declined from 65.2 in 2005 to 64.1 in 2010, possibly as a consequence of dismal employment prospects. However, there are significant variations across regions. Labour participation is particularly low in the Middle East and North Africa, at just under 50 per cent, mostly because female participation is very low (ILO, 2011). Moreover, there seems to be a U-shaped relationship between labour participation and national income. While labour participation rates tend to be high in the poorest countries, partly because poor people cannot afford to be out of work, these often decline as a country gets richer – due to the young staying longer in schooling and/or household preferences. Participation rates then rise for higher levels of income, possibly due to social and cultural factors. Nonetheless, the quality of employment – e.g., pay levels and working conditions – is as important as the quantity of jobs being created in any given economy.

In terms of **employment status**, wage and salaried work represents about 86 per cent of total employment in developed countries, although the values for Latin America & Caribbean, sub-Saharan Africa and South Asia are considerably lower – at 64, 22 and 20 per cent, respectively (ILO, 2011). In the latter two regions, own-account work is by far the main form of employment, and is often related to more precarious employment conditions. In fact, vulnerable employment – the sum of own-account and contributing family workers – currently varies from over three-quarters of total employment in sub-Saharan Africa and South Asia to about 10 per cent in developed countries – with a world average of 50 per cent (ILO, 2011).

Reliable **wage data** is scarce in many developing countries, but there are strong reasons to believe that recent productivity improvements have not been followed by commensurate real wage increases.[4] The ILO (2008a) shows that most countries have observed a decline in the share of national income accruing to wages during 1995-2007 – pointing to the growing weight of capital income, such as corporate profits. Also worrying is the asymmetric global wage elasticity with regard to economic growth, suggesting that wages do not rise as fast as economic growth in upswings but seem to decelerate more rapidly in downswings.

In addition, many countries have also experienced rising wage inequality, with stronger wage growth for those at the top of the pay scale. The share of low-wage earners is high and growing in several countries, and is traditionally concentrated in certain groups of society – such as the youth, women, ethnic minorities and unskilled workers (ILO, 2010). Growing wage inequality (within countries) might be partly attributed to: (i) deeper globalisation (i.e., trade

[3] For instance, the youth unemployment projections for 2016 vary from 9.8 per cent in East Asia to 29 per cent in the Middle East and 26.7 per cent in North Africa (ILO, 2012b).
[4] Wage data usually refers to formal enterprises in urban areas. Nonetheless, farming incomes (accrued from own-account and wage employment) are crucial to alleviate poverty in rural areas.

and financial liberalisation), by dampening wages for low-skilled workers; (ii) technological innovation, which tends to benefit skilled workers; and (iii) changes in labour market institutions and policies. Intense competition for global markets and the strong bargaining power of multinational corporations (MNCs) may also lead to a 'race to the bottom' in terms of wage levels and working conditions.

The ILO (2012a) estimates that the world economy will need to create 600 million (productive) jobs over the next decade in order to address the unemployment situation. However, it seems clear that this task will not be achieved if current trends persist. There is the real danger of a global 'vicious cycle' of low economic growth, high un- and underemployment and real wage stagnation, which will in turn lead to even lower aggregate demand and thus economic growth. This would have dire consequences for the world economy and the eradication of extreme poverty.

2.1.3 Income Poverty and Inequality

Poverty remains a central concern in many developing countries. Despite substantial achievements at the global level – which saw the extreme poverty headcount reduce from 43 per cent in 1990 to 22 per cent by 2008 – these were mainly due to the strong performance of East Asian economies, such as China (Table 1). Sub-Saharan Africa and South Asia have lagged behind, and is where about three-quarters of the world's poor currently live (Chen and Ravallion, 2012).[5] Moreover, the statistics relating to the $2-a-day poverty line suggest that recent progress is fragile – as many people remain vulnerable to economic shocks – and could be reversed. This fact calls for a more inclusive and sustainable approach to poverty reduction.

Table 1: Poverty Headcount

	$1.25 a day					$2 a day				
	1990	1996	2002	2005	2008	1990	1996	2002	2005	2008
East Asia & Pacific	56.2	35.9	27.6	17.1	14.3	81.0	64.0	51.9	39.0	33.2
China	60.2	36.4	28.4	16.3	13.1	84.6	65.1	51.2	36.9	29.8
Eastern Europe & Central Asia	1.9	3.9	2.3	1.3	0.5	6.9	11.2	7.9	4.6	2.2
Latin America & Caribbean	12.2	11.1	11.9	8.7	6.5	22.4	21.0	22.2	16.7	12.4
Middle East & North Africa	5.8	4.8	4.2	3.5	2.7	23.5	22.2	19.7	17.4	13.9
South Asia	53.8	48.6	44.3	39.4	36.0	83.6	80.7	77.4	73.4	70.9
Sub-Saharan Africa	56.5	58.1	55.7	52.3	47.5	76.0	77.5	76.1	74.1	69.2
Total	43.1	34.8	30.8	25.1	22.4	64.6	58.6	53.5	46.9	43.0
Total (excl. China)	37.2	34.3	31.5	27.8	25.2	57.7	56.4	54.2	49.9	47.0

Source: Chen and Ravallion (2012)

The impact of economic growth on poverty reduction is particularly low in sub-Saharan Africa and South Asia, especially when compared to other regions (Fosu, 2011). This suggests that the growth 'trickle-down' effect is rather weak, an observation that cannot be dissociated from the patterns of growth recently experienced (e.g., commodity-based growth). In addition to unemployment, **working poverty** remains a significant challenge for most developing countries. The ILO (2012a) estimates that there are currently 900 million working poor around the world. Although low incomes are preferable to no income at all, poorly paid jobs tend to further entrench inequalities and do not always provide a route out of poverty.

Global income **inequality** among the world's citizens is staggering. Milanovic (2009) estimates that 5 per cent of the world population receives nearly one-third of total global income, which is more than the income share accruing to the poorest 80 per cent. In addition, income inequality within countries has been rising since the early 1990s, perhaps with the exception of Latin America (ILO, 2008b). These increases are likely to be due to growth patterns that reinforce a very unequal distribution of productivity gains between labour and capital (i.e., wages and profits).

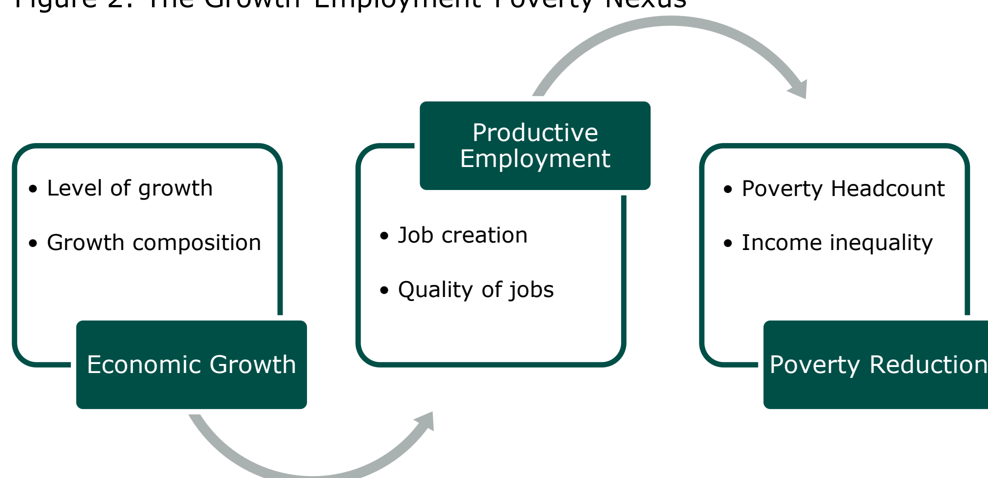
[5] The possible impact of the global economic crisis on poverty will only be known once estimates for 2010-2011 become available.

These trends are particularly concerning, given the large accumulated knowledge on the pervasive effects of high income inequality on growth, poverty and social cohesion. Fosu (2011) finds that while growth has been the key driver of poverty reduction in the majority of developing countries – albeit with significant regional and country variations – inequality also played a critical role in several countries. High inequality appears to restrict the impact of growth on poverty reduction, while rising inequality directly increases poverty.

2.1.4 The Nexus

Without economic growth, the prospects for creating decent employment and reducing poverty are significantly diminished. Nonetheless, and despite recent achievements with regard to economic performance, the relationship between the macro and micro income dimensions (i.e., GDP growth and household income) appears to be weak. Since the poor can often only rely on their labour to earn a decent living income, it is crucial to focus on employment as the key mechanism through which the poor benefit from the growth process (Figure 2). The World Bank (2012a) provides evidence that labour income accounts for much of the decline in extreme poverty.

Figure 2: The Growth-Employment-Poverty Nexus



Several studies have suggested that poverty reduction can be significantly accelerated if the pattern of growth is more employment-intensive. For instance, Islam (2004) provides cross-country empirical evidence that for growth to be pro-poor it needs to be accompanied by employment growth with rising productivity. Khan (2007) reaches a similar conclusion by reviewing 16 UNDP-ILO country case studies on the role of employment in the growth-poverty nexus. Loayza and Raddatz (2010) argue that the composition of growth matters for poverty alleviation, with the largest contributions from unskilled labour-intensive sectors (agriculture, construction, and manufacturing).

2.2 Shifting the Emphasis to Inclusive Growth

2.2.1 Eradicating Poverty Through Inclusive Growth

As argued before, the last decade was a period in which many poor countries registered high real economic growth rates, but achieved limited progress in reducing headcount poverty and enhancing human development.[6] In these cases, we usually observe that economic growth has failed to 'trickle down' to the poorest, mostly because vulnerable groups in society were not able to benefit from the economic process. This trend is not simply confined to resource-rich countries, but also observed in countries that have adopted development strategies and

[6] For instance, Mozambique's GDP grew at an annual average of 8 per cent during 2002-2008 but poverty actually increased (Martins, 2012).

policies that fail to consider employment and equity issues. Hence, it is crucial that the poor and other vulnerable groups in society are able to actively participate in the economy, which can only be achieved if a large number of productive and decent jobs are created and if these are accessible to all groups of society.

While there is no universally accepted definition of 'inclusive growth', Klassen (2010) argues that economic growth is inclusive when it allows participation and contribution by all members of society and it leads to declines in (non-income) inequality. The ILO *et al*. (2012) argue that the most critical component of inclusive growth is the creation of decent jobs. The World Bank (2012a) states that growth is inclusive when 'higher earnings are driven by employment opportunities for the majority of the labour force, particularly the poor.' Islam (2012) characterises inclusive development as: (i) stable and sustainable economic growth; (ii) reduction of poverty and income inequality; (iii) growth of productive and decent employment; (iv) improvement in the access to education and health services; and (v) basic social protection for all citizens.[7] What seems to stand out from these definitions is the fundamental role of employment in promoting inclusive growth.

2.2.2 Structural Transformation and the MDGs

It is becoming increasingly clear that the current MDG framework – at least as interpreted by policy-makers – has some shortcomings. Chang (2010) argues that the MDGs have missed a fundamental aspect of development: the need to transform a country's productive capacity. He describes the development vision behind the MDGs as 'development without development', since they lack a clear strategy to promote structural transformation through the upgrading of productive capabilities.

An important consequence of the social sector focus of the MDGs is that official development assistance (ODA) has become increasingly concentrated on health and education, with the production sectors being gradually neglected. For example, the share of ODA commitments to the production sectors in LDCs – including agriculture and economic infrastructure – fell from 48 per cent in the period 1992-1994 to 25 per cent in 2006 (UNCTAD, 2008).[8]

In a future development agenda, support for the social sectors will need to be complemented by measures to enhance productive capabilities (and thus employment) in order to promote fast and sustainable progress on human development. The creation of productive employment would increase household incomes, while improved access to public services (such as education and health) would enable vulnerable groups to gain access to these better employment opportunities and increase labour productivity.

2.2.3 Policy Discourse

A greater focus on growth and employment in a post-2015 agreement would chime well with recent policy discourse in both developed and developing countries. For instance, the G20 recently stated that employment must be at the heart of the actions and policies undertaken to restore growth and confidence (G20, 2012). The G20 also outlined a set of specific actions to address the most significant bottlenecks to 'strong, sustainable, inclusive and resilient growth' in developing countries, embodied in the Seoul Development Consensus for Shared Growth and its Multi-Year Action Plan on Development (G20, 2010).

A number of multilateral and regional agencies have also been pivotal in emphasising the importance of employment in the international agenda. For example, the International Labour Organization (ILO) launched a Global Jobs Pact in 2009 with a view to promote jobs and protect workers and their families. The World Bank's 2013 World Development Report

[7] McKinley (2010) constructs a composite inclusive growth index with indicators covering the following areas: (i) growth, productive employment and economic infrastructure; (ii) income poverty and equity; (iii) human capabilities; and (iv) social protection.
[8] See Appendix 1 for more detail on ODA and the MDGs.

investigated the links between jobs and important dimensions of economic and social development. A key message is that jobs 'drive development' and are not just a 'by-product of economic growth' (World Bank, 2012a). The African Union has highlighted the need for a 'new development paradigm' to achieve high growth rates on a sustainable basis, as a means of job creation and attaining the MDGs. The European Commission's 'Agenda for Change' states that "(i)nclusive and sustainable economic growth is crucial to long-term poverty reduction and growth patterns are as important as growth rates. To this end, the EU should encourage more inclusive growth, characterised by people's ability to participate in, and benefit from, wealth and job creation."

Despite the growing attention paid to inclusive growth and employment, there is far less clarity and agreement on what specific policies should be undertaken to achieve these objectives. Lin (2009) has argued that development economics has so far "been unable to provide a convincing intellectual agenda for generating and distributing wealth in developing countries." Therefore, the aim of the next section is to provide some policy elements that could contribute to a new global development agenda.

3 Selected Policy Areas for the Post-2015 Debate

Given the lack of a common intellectual agenda to promote inclusive growth, this section highlights key policies and reforms that could be reflected in a more progressive post-2015 agenda. In particular, we focus our attention on macroeconomic coordination, finance and investment, and international trade. While recognising that the design and implementation of appropriate domestic policies are imperative to improving living standards in developing countries, we argue that their effectiveness can be strongly influenced by the external environment (i.e., policies and regulations). Therefore, we aim to contribute to the post-2015 debate by suggesting a number of policy options that could build on recent successes and address some of the most pressing challenges facing developing countries – such as the lack of productive employment and structural transformation.

3.1 Macroeconomic Coordination

Macroeconomic policies play a crucial role in determining economic growth and employment outcomes. However, the poorest developing countries have limited policy space to implement ambitious development-minded policies, partly due to structural reasons (e.g., low revenue base, low physical and human capital), the need to protect the domestic economy from external shocks (e.g., building reserve buffers), and the constraints imposed by external policy conditionality and international rules.

In this section, we focus on key areas where global coordinated action on macroeconomic policy can have a significant impact on the prospects of developing countries. We posit that these policy areas – which appear to be of higher relevance to developed and emerging economies – are also important for the poorest countries. In particular, they can have impacts on growth and **employment** through changes in the level and volatility of global aggregate demand and international prices (e.g., exchange rates). A stable and vigorous world economy will greatly support national development efforts to promote structural transformation and sustainably increase living standards in the poorest developing countries.

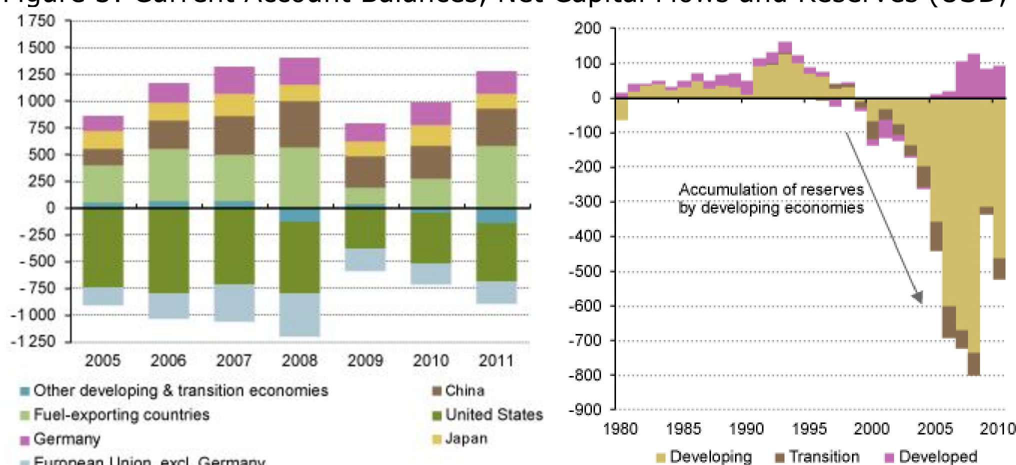
After a brief overview of key trends, we scrutinise possible solutions to address global macroeconomic challenges, and potential reforms of global economic governance structures. At the end of this sub-section, Table 2 provides a summary of key policy recommendations that could be considered in post-2015 debates.

3.1.1 Recent Trends

The worsening of global economic **imbalances** fuelled instability in the world economy and was to some extent responsible for the global economic crisis. The US and some European countries had been running significant fiscal and current account deficits, while emerging economies and oil exporting countries experienced large current account surpluses (Figure 3).

There has also been a large accumulation of foreign exchange reserves – especially in China. Developing countries now hold about 70 per cent of the world's reserves, due to a mix of large current account surpluses and strong capital inflows (UNCTAD, 2012a). While this accumulation strategy might be partly motivated by precautionary reasons – especially after the Asian financial crisis and deeper financial integration – it may also be explained by a preference for exchange rate competitiveness – as countries try to shun currency appreciation. In practical terms, this entails high costs for the world economy, in the form of missed investment opportunities, as these resources are being hoarded rather than deployed to create jobs and promote economic and human development. Recent data suggests that these imbalances were reduced during the crisis, but appear to be re-emerging.

Figure 3: Current Account Balances, Net Capital Flows and Reserves (USD, billions)



Source: UNCTAD (2012a)

As a consequence of the global financial and economic crisis, the global economic outlook has deteriorated significantly. Advanced economies continue to endure the negative effects of the crisis, which are likely to subdue growth and employment for several more years (IMF, 2012; van der Hoeven, 2011). The lingering Eurozone debt crisis and a growth slowdown in some emerging economies can have significant impacts on the prospects of poorer countries, since these are important export markets and investors.

3.1.2 Macroeconomic Policies

There is an urgent need to overcome the protracted global economic and jobs crisis. With that objective in mind, advanced and emerging economies need to swiftly agree on a set of active policies to encourage a quick recovery and rebalancing of the world economy. While specific country circumstances matter, a global fiscal consensus would ensure that fiscal expansions do not come at the cost of higher current account deficits and insurmountable levels of debt service. Indeed, a new coordinated **fiscal stimulus** could rescue the world economy from a painfully slow recovery, especially if used to improve economic and social infrastructure and develop 'green' technologies.

This would ensure that existing resources are used more productively and towards socially desirable goals, while providing a boost to employment. Lin and Doemeland (2012) suggest that a global infrastructure initiative could provide a crucial boost to demand and thus growth in both developed and developing countries. In particular, infrastructure investments in

developing countries can create a 'virtuous cycle' since they are associated with high returns, while requiring capital goods that are mostly produced in high-income countries.

This need not threaten fiscal sustainability, especially if greater efforts are placed on improving domestic resource mobilisation. Even if heavily-indebted developed economies decide not to participate, emerging economies could drive this type of proposal forward. In fact, there have been discussions on the possibility of setting up a BRICS development bank (Brazil, Russia, India, China and South Africa), which would focus on financing infrastructure projects.

Moreover, improved international **tax cooperation** is indispensable in a globalised world economy. The increasing mobility of capital and people, as well as technologies such as e-commerce, poses new challenges for tax authorities. These require global concerted action in the form of information exchange and enforcement, especially to address tax evasion and tax avoidance. An international tax commission (as proposed by the High-level Panel on Financing for Development in 2001) could build on existing institutions with a view to 'compile and share tax information, monitor tax developments, restrain tax competition among countries to attract investment, and arbitrate country tax disputes' (UNDESA, 2012). This would contribute to boosting the availability of resources to fund a fiscal stimulus.

Monetary policies can play an important role in accommodating fiscal policies. Naturally, these also require some level of coordination, since they generate important spillover effects across borders. A recent example relates to the impacts that loose monetary policies in advanced economies are having on emerging economies – and global financial markets more generally. The numerous rounds of 'quantitative easing' – especially in the US and the UK – have contributed to increase liquidity in the world economy and, given the limited investment opportunities in these countries, have actually fuelled the flow of capital towards emerging economies such as Brazil. This trend has the potential to destabilise recipient economies, mainly through higher and more volatile exchange rates. This epitomises the need for greater economic policy coherence and coordination at the global level.

The UN (2009a) has advocated for a new **global reserve system**, in which the US dollar would be replaced as the international reserve currency – possibly by the International Monetary Fund's special drawing rights (SDRs)[9] – in order to promote greater stability in the global financial system. China, Russia and other countries appear to be supportive of this idea, which would wane the need to hoard US dollars for self-insurance (e.g., against the volatility of capital and commodity markets) and possibly prevent future economic imbalances. This new reserve system would enable the emission of international liquidity to create a more stable global financial system, and strengthen the financing of investment in long-term sustainable development (UNDESA, 2010). Moreover, SDRs could be issued as part of a countercyclical policy package to smooth global income and tackle global inequalities. However, this will require a bold commitment from emerging economies and other developing countries in order to overcome the current market preference for US dollars.

Exchange rate coordination would also facilitate a better allocation of resources between countries and promote sustainable economic growth paths.[10] Fitoussi *et al*. (2011) argue that the G20 should drop the claim that the solution to international economic problems rests with market-determined (floating) exchange rates. Exchange rates are affected by a series of policies, from interest rates to financial market regulations, government bank guarantees, among others. They are one of the main channels through which effects of these policies are felt. According to the authors, one of the main lessons of the crisis is that market prices may neither be efficient nor stable. In fact, most countries in the world operate a *de facto* managed float, which entails sporadic interventions in currency markets. The reason is that there are times in which it is advisable to intervene in the exchange rate market, for instance to deal

[9] SDRs are an international reserve asset composed of a basket of currencies that is used as a unit of payment on IMF loans.
[10] An example is the Plaza Accord of 1985 to devaluate the US dollar against other hard currencies by intervening in currency markets.

with macroeconomic shocks. Hence, exchange rate management and coordination across countries would be an important tool to improve economic stability and resilience.

The issue of monitoring and tackling macroeconomic imbalances was fairly high on the G20 agenda in the immediate post-crisis period. There were discussions about the need for global macroeconomic coordination, and a set of indicators and processes to monitor and identify global imbalances was agreed in the April 2011 Meeting of G20 Finance Ministers (Eichengreen, 2011). However, these initial efforts have since then stalled due to concerns over the short-term prospects of the global economy, including the Eurozone crisis (Pisani-Ferry, 2012). Despite a broad agreement on the need to tackle global imbalances to avoid further global economic crises, immediate political realities pose significant challenges.

Moreover, there is a crisis of accountability, in the sense that advanced economies do not take into account the fact that their fiscal and monetary policies have consequences for the rest of the world economy.

3.1.3 Global Governance

There is little doubt that greater accountability and global coordinated action is required to address systemic crises – of finance, food, fuel – as well as other pressing global challenges. A strong and resilient world economy would encourage a quicker convergence of living standards of world citizens and reduce economic vulnerability. However, many of the current global economic governance **structures** were created in the 1940s, and are arguably unsuitable to address the current and future challenges facing the world economy. Jolly *et al*. (2012) contend that the current governance arrangements are ineffective, in that they do not have the coherence and leverage required to tackle the complex challenges of globalisation, and that they are unrepresentative, thus lacking legitimacy.

While the World Bank, International Monetary Fund (IMF) and World Trade Organization (WTO) provide some form of governance for discrete areas of international economic relations, they do not provide an integrated and coherent approach to global issues, and have even discharged their role in some respects – most notably on employment creation and other development objectives (Jolly *et al*., 2012). Moreover, while many see the creation and growing importance of the G20 as a positive development, this is still a fairly unrepresentative structure, with many developing countries excluded from the discussions and decisions. In fact, it is questionable whether the policy stances of emerging economies with a seat in the G20 reflect (rather than conflict with) the interests of the remaining (but poorer) developing countries. Nonetheless, this does signal a general tendency towards more representative fora.

Despite political challenges, there is a need to improve the institutional arrangements for coordinating global economic policy, which would require the reform of existing institutions and possibly the creation of new ones. In this regard, the UN (2009a) proposes the creation of a **Global Economic Coordination Council**, which would have the mandate to coordinate economic policy as well as identify and tackle imminent problems and institutional gaps – such as setting out global economic and financial reforms. The Council would be a globally representative forum, at the level of the UN General Assembly and the Security Council, providing leadership in social and economic affairs. Tasked with building consensus among countries and ensuring policy consistency and coherence of major international organisations, it would strive to provide efficient and effective solutions for the global economic challenges lying ahead. This would be a legitimate, representative and accountable body that could contribute to a more efficient global economic and financial system. Moreover, strengthening existing (or creating new) regional governing bodies would also be desirable, especially in order to promote greater and deeper regional integration (e.g., in Africa).

The poorest developing countries would greatly benefit from a more stable and efficient world economic order, while these reforms could also increase the policy space for nationally-devised

development strategies. Better global coordination would complement and enhance national and regional efforts to promote productive employment and structural transformation.

3.1.4 Summary

Table 2 provides a summary of key policy measures that, in our view, have the potential to induce patterns of inclusive growth and address some of the most pressing challenges in the world economy.

Table 2: Proposed Reforms on Macroeconomic Policy

Issue	Policy Focus
Fiscal and monetary policies	• Coordinated (countercyclical) fiscal and monetary policies to smooth the world economy's business cycle. This could include a global infrastructure investment plan, possibly supported by greater tax cooperation and monetary policy coordination. • An international tax commission to 'compile and share tax information, monitor tax developments, restrain tax competition among countries to attract investment, and arbitrate country tax disputes'.
International reserves and exchange rates	• A new global reserve system, in which SDRs would become the international reserve currency of choice. • Coordinating exchange rate policies based on empirical evidence, rather than advocating 'corner' regimes – i.e., fixed or freely flexible exchange rates. Exchange rate management seen as an important tool to improve economic resilience.
Global governance structures	• Improved institutional arrangements for coordinating global economic policy, which would require the reform of existing institutions and possibly the creation of a Global Economic Coordination Council. This would ensure greater coherence and consistency of global policies and international regimes. Stronger regional governing bodies would also be desirable.

3.2 Finance and Investment

This section focuses on finance and foreign direct investment. First, we investigate how financial regulations and flows affect development outcomes. This is an important area of analysis, since the availability and affordability of finance is crucial to support the investments required to generate productive employment and structural transformation.[11] Moreover, we also assess the potential role of foreign direct investment and how its contribution to the local economy could be maximised – especially in terms of generating productive employment. Table 3 at the end of this section provides suggestions for possible reforms.

3.2.1 Recent Trends

The **globalisation of finance** has been an important trend over the past couple of decades. Many developing countries have liberalised and de-regulated their domestic financial systems in order to become more integrated with international financial markets. These reforms have facilitated the flow of capital towards developing countries, but have also led to higher capital outflows.

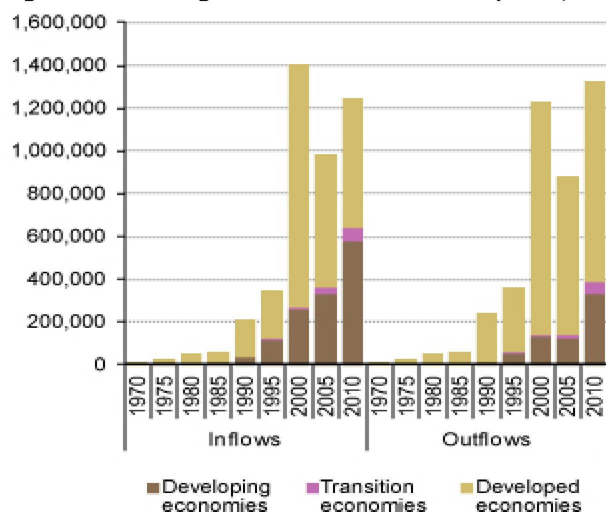
Following a strong surge of capital inflows in the early 1990s, which lasted until the Asian financial crisis in 1997, a new surge commenced in the early 2000s – this one lasting until the global financial crisis (UNCTAD, 2012a). The capital reversals of 2007-2008 – whereby capital was withdrawn from developing countries – had particularly strong consequences on economic activity and on the value and volatility of exchange rates in many countries. Private capital flows are once again pouring into developing countries, but they are known to be particularly volatile – especially portfolio flows.[12] Developing countries are becoming more integrated into the global economy – through growing foreign assets and liabilities in their balance sheets – but this increased dependency can heighten the risks of contagion from future international shocks.

[11] The financial system was actually mentioned in the MDG framework – 'develop further an open, rule-based, predictable, non-discriminatory trading and financial system' (Target 8.A).
[12] Private capital flows mainly include direct and portfolio investment, but also international bank lending.

Within these broader tendencies, **foreign direct investment** (FDI) flows to developing countries have also increased, both in nominal and relative terms (Figure 4). However, these trends vary significantly across regions, level of development and resource endowments. A large share of global FDI is directed to fast-growing Asian economies, while FDI flows to poorer developing countries are mainly concentrated in resource-rich African countries.

In the context of growing South-South investment, we also observe an increase in FDI between developing countries – e.g., China's investments in Africa. Moreover, state-owned transnational corporations have become an important source of FDI, in addition to private equity and sovereign wealth funds. It is also important to note the increase in non-equity modes of production – such as contract manufacturing, services outsourcing, franchising and licensing – which do not involve a transfer of capital or goods. Finally, there has been a rapid growth of FDI in services, cross-border mergers and acquisitions, and financial FDI (UNCTAD, 2011b).

Figure 4: Foreign Direct Investment (USD, millions)



Source: UNCTAD (2012a)

3.2.2 Finance

Jolly *et al*. (2012) argue that financial globalisation and capital account liberalisation have led to high and often growing levels of informality and youth unemployment, declining wage shares in national income, and higher income and wage inequality. In sum, employment has become more precarious. Moreover, financial liberalisation is likely to affect poverty through a variety of channels – growth, credit and other financial services, and financial instability.

UNCTAD (2012b) suggests that financial deregulation has hurt developing countries by undermining their ability to achieve structural transformation.[13] According to their analysis, **finance-driven globalisation** has only benefited a small and quite particular group of countries – mostly small island economies, commodity producers, and regional financial centres. Meanwhile, emerging economies such as China, India, Thailand and Vietnam have experienced significant progress without considerable financial deregulation. Instead, their success is attributed to meaningful structural change, whereby labour moved from low-productivity activities (e.g., agriculture) to higher productivity sectors (e.g., manufacturing). Productivity improvements within sectors are shown to have been less important.

[13] This is partly due to higher exposure to unstable capital flows and exchange rate volatility, which affect investment decisions and harm economic growth. The focus of commercial credit has shifted from productive long-term investments towards short-term gains – often causing asset price bubbles. Financial liberalisation appears to have led to a stagnation of investment rates and slower economic growth across most countries. It may have also placed significant downward pressure on wages, thus shifting composition of national income towards (financial) profits.

Paradoxically, countries that have embraced financial deregulation have struggled to mobilise sufficient resources to enhance productive capacities.

While the impact of these policies on growth and poverty has been highly contested, the liberalisation trend appears to be **reversing** – as the recent crisis highlighted the dangers of financial 'innovation' and the lack of appropriate regulation. For instance, the IMF has recently changed its policy stance by admitting that there might be a case for capital controls, while the G20 called for countries to develop their own approaches to managing capital flows (e.g., to discourage speculative flows).[14] It is thus important to shift the focus from 'market efficiency' towards strategic public policies to increase investment, build productive capacities, and ensure an equitable distribution of the gains from globalisation.

International Financial Architecture

An effective **international financial architecture** is fundamental to promote greater financial stability and address systemic risks. New measures have been introduced in the aftermath of the global financial crisis – such as Basel III[15] and the creation of the Financial Stability Board – but additional regulations, as well as adequate supervision and coordination among countries, might be required.

Due to the globalisation of finance, developing countries require considerable international reserves for precautionary reasons, which is a costly policy for those countries as well as for the world economy. A possible solution would be to pool reserves through the establishment of an international lender-of-last-resort mechanism that would provide more reliable emergency financing (UNDESA, 2011). This could take the form of a substantial **international liquidity buffer** to be deployed during periods of economic crisis – such as financial, commodity and debt distress. Existing compensatory financing facilities could also be reformed, in order to provide adequate resources in a timely manner with no policy conditionality (UNDESA, 2010). These measures could significantly reduce the impact of external shocks on employment and poverty. Moreover, regional financial facilities can also build significant economic resilience and stem contagion.

Despite the political difficulty in setting up and implementing **countercyclical** policy measures, there are hardly any other options to avoid or at least smooth boom-bust cycles. Predictable policy rules could be designed in order to trigger global fiscal and monetary action in times of crisis. In fact, a number of mechanisms have been proposed in order to improve economic resilience. For example, countercyclical loans adapt the debt service to a government's ability to pay (possibly measured by the ratio of debt service to total revenue), while risk-linked bonds also provide a fiscal cushion to external shocks – e.g., natural disasters or commodity price shocks – by linking bond payments to the performance of an index (e.g., GDP growth or commodity prices).[16] Moreover, parametric insurance can protect countries against specific events (e.g., droughts), while regional insurance funds pool risks (such as natural disasters) thus limiting the financial impact of external shocks.

The term **illicit financial flows** usually refers to international transfers of capital that is illegally earned – e.g., through organised crime and corruption – as well as international tax avoidance and evasion.[17] The GFI (2011) estimates total illicit outflows at about $1.26 trillion in 2008, with average annual illicit outflows from developing countries at around $800 billion – which is several times greater than the current level of ODA. UNDP (2011) estimates illicit

[14] See Massa (2011) for examples of capital control measures used by emerging and developing countries in the aftermath of the global financial crisis. See also www.imf.org/external/pubs/ft/survey/so/2011/NEW040511B.htm and www.guardian.co.uk/commentisfree/cifamerica/2011/apr/06/imf-capital-controls
[15] This is an international regulatory framework for bank capital adequacy and liquidity risk.
[16] For a survey of counter-cyclical policy instruments, see Ocampo and Griffith-Jones (2007).
[17] Combating tax evasion could generate about $200 billion per year in additional fiscal resources for developing countries. Although these resources would mainly accrue to emerging economies, the gains for sub-Saharan Africa could still be sizeable – between $6 billion and $11 billion (UNDESA, 2012). These values are much higher for developed countries, which could use part of these funds to finance development expenditures or global public goods.

outflows from LDCs at over $20 billion in 2008 – averaging about 5 per cent of GDP. Although these figures are subject to some debate, they seem to be the best estimates currently available, suggesting that the issue is of considerable scale.

Illicit financial outflows are facilitated by offshore financial centres ('tax havens'), secrecy jurisdictions, shell corporations, money laundering techniques and transfer mispricing. They are likely to decrease international currency reserves, reduce tax collection, undermine trade and investment, and exacerbate poverty and income inequality (UNECA, 2011). Nonetheless, illicit flows from developing countries can be reduced through improved disclosure practices and greater transparency in the global financial system, as well as stronger international and regional tax cooperation.[18] Measures to tackle transfer mispricing, stronger reporting requirements (e.g., country-by-country reporting for multinational corporations), the end of tax havens and secrecy jurisdictions, and improved exchange of tax information between countries would certainly curb (and help reclaim) the volume of illicit financial outflows from developing countries. These measures could boost the mobilisation of domestic resources – by increasing fiscal revenues and incentivising the development of domestic financial sectors – in order to address two key obstacles facing job-creating enterprises: poor infrastructure and the lack of (domestic) finance.

Transfer mispricing can be tackled through rigorous transfer pricing rules, although their monitoring and enforcement require significant human and financial resources from developing countries (e.g., to define benchmarks for deals and identify outliers).[19] Technical cooperation and greater information exchange could overcome some of these barriers. The **recovery of assets** lost due to bribery, embezzlement, tax evasion and misappropriation from foreign financial accounts could also become a crucial source of development finance. In particular, stronger international cooperation within the Stolen Asset Recovery (StAR) initiative would enable the return of illicit assets to poor developing countries. Moreover, closing loopholes such as **tax havens** and **secrecy jurisdictions** would improve transparency and enhance tax collection, but require a strong global consensus and concerted international action.[20]

In connection with the previous points, the creation of an **international financial regulator** (a sort of WTO for finance) with the power to oversee financial flows could be an important step to promote greater financial stability and improve international coordination. Due to greater financial integration, appropriate regulations in individual countries will not suffice to insulate economies from external financial mismanagement.

As previously mentioned, the 'Stiglitz Commission Report' called for a greater role for the United Nations in a new international financial architecture (UN, 2009). Moreover, while governments need to be credible to (international) financial markets, financial institutions also ought to be credible to society – in a healthier two-way relationship. This is currently not the case, and that is why appropriate regulation is needed. Finally, not-for-profit credit rating agencies could be established in order to improve competitiveness and standards in the sector. Sophisticated technology and computer systems will be required to monitor and effectively regulate financial transactions.

Innovative Finance for Development

Another key area is the need to boost international (public and private) resources for development. In order to make a real impact, a post-2015 framework will need to be supported by sufficient financial resources. A significant share of these funds could then be

[18] International tax cooperation can enhance domestic resource mobilisation in developing countries by preventing a 'race to the bottom' – with regard to corporate tax incentives – and reduce the scope for 'transfer mispricing' practices (UNDESA, 2010).
[19] The manipulation of transfer pricing occurs when a company charges an inflated/deflated price for goods or services to another part of the same company (in a different tax jurisdiction) with the objective of minimising its tax payments (taxable profits). The scale of the problem is considerable, given the rise of intra-firm trade and e-commerce.
[20] See 'Tax havens: Trouble Island' (The Economist) www.economist.com/node/21532264

invested in infrastructure and human capital, with a view to alleviate structural constraints and create productive employment. In view of falling official development budgets in many advanced economies, global (or even regional) taxes could be used to raise public funds for development. For instance, an international **financial transaction tax** would have the dual purpose of discouraging financial speculation (thus reducing volatility) and raise resources for international development. These resources could be channelled through multilateral organisations towards traditional development projects (e.g., health and education). Alternatively, these could be used to provide partial risk guarantees (PRGs) to promote targeted productive investments in the poorest countries (e.g., in agriculture, manufacturing and infrastructure), which would in turn generate a spillover effect to the more developed countries (due to their high import content). Due to the practical difficulties of implementing a truly global tax, the initiative could be initially piloted at the regional level.[21]

Moreover, **other global taxes** have been suggested, including: an arms trade tax, which also reduces trade in arms; an aviation tax, which also internalises the costs of carbon emissions; a carbon tax, also aimed at reducing greenhouse gas emissions; charges on information exchange (e.g., mail, telecommunications or internet); a de-tax, such as the waiving of VAT by 1 per cent; solidarity levies (e.g., on airline tickets); and a surtax on profits of multinational organisations. These global taxes could be used to fund global public goods, such as environmental sustainability and create 'green' jobs.

Another possibility is to issue new **special drawing rights** (SDRs) through the IMF and allocate them to developing countries. This new international liquidity would boost foreign reserves and thus release considerable domestic resources for development. Alternatively, 'idle' SDR holdings of reserve-rich countries could be converted into long-term development finance (UNDESA, 2012).

3.2.3 Foreign Direct Investment

FDI inflows can generate considerable positive effects in recipient economies. The direct resource flow provides vital foreign exchange and can supplement domestic capital accumulation. It can also boost the tax base – through greater economic activity – as well as facilitate the transfer of new technologies, production techniques and management skills.

These benefits, however, are not necessarily guaranteed. If foreign investments are concentrated in capital-intensive activities (e.g., extractive industries), then they are unlikely to generate significant domestic employment – at least directly. Similarly, if these investments do not promote strong backward and forward linkages with local businesses – as in the case of enclave import-export activities – then the benefits are also likely to be limited. The revenues generated through taxation and royalties might also be negligible, since poor countries tend to offer a generous range of incentives to attract FDI.[22] While these incentives are traditionally seen as necessary to compensate for business environment obstacles and risks – such as poor infrastructure, lack of skilled labour, bureaucracy, corruption and political instability – in many cases they appear to be overwhelmingly generous. Despite the tendency to engage in 'beggar-thy-neighbour' tax incentive competition, tax incentives are seldom a crucial determinant of MNCs' decisions regarding the location of production (UNDESA, 2010).

Given scarce financial and human resources, poor developing countries should seek to focus their efforts on attracting the types and forms of FDI that suit their specific needs and capacities (Martins *et al*., 2009). For instance, targeting productive foreign investments in employment-intensive sectors – through tailored incentives and the design of adequate capital account regulations – is likely to improve the impact of FDI on host economies and help reduce

[21] The EU has taken some steps in that direction, although it is unclear whether any share of the revenues will be channelled to development purposes.
[22] These may include reduced corporate tax rates, tax exemptions (e.g., on imports), subsidies, and limited obligations with respect to local regulations (e.g., labour laws).

poverty. However, it is important to ensure that international regulations and agreements do not deprive countries of critical policy space to undertake these important measures.

Resource-rich countries greatly need to diversify their economic structures. This would require the retention of an adequate proportion of natural resource rents through taxation and royalties – which could then be re-invested in developing other industries – and by building stronger linkages with the domestic economy and increasing value-added. Strengthening the **Extractive Industries Transparency Initiative** (EITI) can be an important step in this direction.

The EITI promotes transparency and accountability by disclosing natural resource deals (e.g., oil, gas and mining contracts) between companies and governments. However, this is a voluntary code that after 10 years of existence only includes 14 compliant countries and 22 candidate countries. A stronger effort will be required to ensure compulsory disclosure and full implementation of standards, especially from corporations from advanced and emerging economies. This could also prevent a 'race to the bottom' in tax incentives and ensure that (foreign) corporations pay a fair share of royalties and taxes. In turn, this could promote domestic accountability in resource-rich countries, as well as generate additional financial resources to support the diversification of the economy – especially through targeted investments in employment-intensive sectors.

Investment Regulations and Agreements

While there is no multilateral agreement on investment, these issues are partially covered by WTO agreements, such as the Agreement on Trade-Related Investment Measures (**TRIMS**) and the GATS Mode 3. The TRIMS agreement forbids certain measures that are inconsistent with WTO principles. For instance, countries are not allowed to adopt local content requirements, foreign exchange and export restrictions, or trade balancing rules. In practice, these rules aim to reduce biases towards domestic firms and thus encourage investment by foreign firms.[23]

However, the view that TRIMs should be prohibited is contentious, especially since developed countries have often resorted to such measures in the past to build domestic productive capabilities and support economic diversification (UNCTAD, 2007). The effectiveness of various TRIMs depends on a number of country-specific factors, such as compatibility with other industrial and trade policies, government capabilities and local absorptive capacity. Therefore, there is a limited rationale for wholesale restriction of these measures.

It is estimated that only about 40 per cent of FDI income tends to be retained as reinvested earnings in host economies, with the majority of earnings being repatriated to the parent firms (UNCTAD, 2011c). Moreover, not all reinvestments are likely to be in additional productive capacity, since some are used to finance other (sometimes speculative) activities. In order to promote a more inclusive (job-rich) growth pattern, the poorest countries may require greater policy space to implement policies that maximise the impact of FDI on their economies and help overcome critical structural constraints.

International Investment Agreements (**IIAs**) are also intended to promote and protect FDI (and sometimes portfolio investment), although on a bilateral basis. The number of IIAs has steadily increased in the past decade, which include bilateral investment treaties (BITs), double taxation treaties (DTTs) and other less common forms of IIAs.[24] As of 2010, there were over 6,000 IIAs in the world, which covered about two-thirds of global FDI stock and one-fifth of possible bilateral investment relationships (UNCTAD, 2011b). The IIA regime appears to be

[23] Although there is a risk that some of these measures could be used to serve the interests of domestic elites, it is feared that they might favour MNCs at the cost of domestic industries, thus undermining the development of domestic productive capacities.
[24] Investment issues can be incorporated in preferential trade agreements – forming a PTIA. Moreover, a BIT usually includes a provision on investor-state dispute settlement (ISDS) www.unctad.org/en/docs//iteiit30_en.pdf

too large and complex to adequately cater for the needs of both governments and investors. While IIAs may also include restrictions on performance requirements – as in the TRIMs agreement – these are usually narrower (not restraining regulation of domestic investors), albeit sometimes deeper (e.g., requirements for services or intellectual property rights) (UNCTAD, 2011b).

Hence, the international community could build the foundations for a development-minded **multilateral investment agreement**. This agreement could include compulsory minimum international investment standards (or a code of conduct), which would be particularly useful in the absence of appropriate domestic legislation or equitable investment contracts.[25] However, differentiation (e.g., special and differential treatment) should be at the heart of any future multilateral agreement, allowing the poorest developing countries to adopt exceptional measures to support the development of domestic productive capacities and maximise gains from foreign investment. This process could be overseen by the United Nations and should involve a wide-range of stakeholders. Meanwhile, IIAs should be streamlined and adequately regulated by a representative and transparent international body.[26] A growing competition between advanced and emerging economies for investment opportunities in poorer developing countries could provide a strong incentive for multilateralism, or at least a better bargaining position for host countries. Meanwhile, technical and financial support for strengthening investment agencies and domestic regulatory bodies in developing countries would also contribute to re-balancing the power between large MNCs and host governments.

3.2.4 Summary

Table 3 summarises some of the proposed measures on finance and investment, which aim to contribute to a more stable international financial system and provide sufficient resources to stimulate productive employment in the poorest developing countries.

Table 3: Proposed Reforms on Finance and Investment

Issue	Policy Focus
Financial instability	• Improving international financial regulation to stem excessive risk-taking and the volatility of capital flows, possibly through the creation of a new multilateral agency. • Creating an international liquidity buffer to reduce (inefficient) hoarding of foreign exchange for precautionary motives, and reforming existing compensatory financing facilities to make them larger, faster and less conditional. • Implementing counter-cyclical prudential regulatory and supervisory frameworks, and encouraging financial instruments that build economic resilience and stability, such as countercyclical loans, risk-linked bonds, and regional insurance funds.
Illicit Capital Flows	• Strengthening international tax cooperation, including through greater exchange of information. • Implementing rigorous transfer pricing rules (including mandatory country-by-country reporting for MNCs), while providing technical assistance to developing countries and supporting the monitoring and enforcement of these rules. • Tackling tax havens and secrecy jurisdictions to improve transparency and tax collection, and strengthening cooperation to recover stolen assets.
Lack of (public and private) finance for development	• Evaluating alternative sources of development finance, such as a new issuance of SDRs and global taxes. This could include implementing a financial transaction tax with the dual purpose of discouraging financial speculation and raise resources for development – which could be initially piloted at the regional level.
Low domestic impact of FDI	• Allowing sufficient policy space for the poorest developing countries, especially in terms of tailoring incentives to attract productive FDI and adopting measures to benefit from these investments. Supporting complementary investments in infrastructure and skills. • Strengthening the EITI with a view to promote greater domestic accountability and accelerate economic diversification in resource-rich developing countries.
TRIMs and IIAs	• Building the foundations for a multilateral investment agreement, which may include international investment standards or a code of conduct, as well as special provisions for the poorest developing countries. • Streamlining and regulating IIAs, with strong incentives provided for multilateralism over bilateralism.

[25] While there are some examples of this – from the ILO and OECD – they tend to be voluntary.
[26] Many bilateral investment treaties refer arbitration of investor-state disputes to the International Centre for Settlement of Investment Disputes (ICSID), but there have been some criticisms of its governance and transparency.

3.3 International Trade

This section focuses on international trade agreements and regulations. The policy reforms suggested here aim to support the poorest developing countries in building productive capacities to promote structural transformation and generate productive employment. In order to be effective, these would need to be complemented by strong investments in key areas, such as infrastructure and skills. While recognising the difficulty of reaching agreement in some of these areas, evidenced by the current stalemate in WTO negotiations, we nonetheless argue that these are crucial areas for the implementation of a successful post-2015 framework. A summary of policy proposals is provided in Table 4.

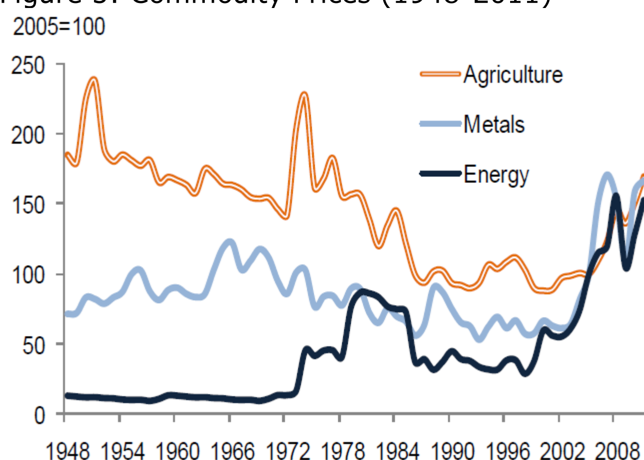
3.3.1 Recent Trends

There has been a marked shift in the patterns of world trade over the past few decades. The developed countries' share in global trade declined from 74 per cent in 1990 to 69 per cent in 2000 and to 58 per cent in 2010 (UNCTAD, 2012a). Meanwhile, trade between developing countries is becoming vital for many poorer nations. The share of **South-South** trade increased from 41 per cent of total developing country trade in 1996 to about 56 per cent in 2010. Emerging economies are now key players in the international trade regime, while intra-regional trade is also growing significantly.

The **composition** of world trade is also changing, with an increasing share of high-tech manufacturing trade and a corresponding decline in primary commodities and natural resource-based manufactures (Ocampo and Vos, 2008). Trade in parts has become more common, due to vertical specialisation patterns driven by transnational corporations.

Since the early 2000s, the **terms of trade** have been particularly favourable for countries exporting fuels, metals and mineral products – albeit adverse for net food importers (UNCTAD, 2011a). While the prices for commodities (including agricultural products) experienced severe declines during the 2008-2009 global crisis, recent data suggests a resumption of strong positive trends (Figure 5). While this presents significant opportunities for commodity exporters – many of them in sub-Saharan Africa – it will be crucial to ensure that these windfalls are strategically utilised to encourage economic diversification. Market instability and price volatility are particularly harmful to developing countries and will also need to be tackled.

Figure 5: Commodity Prices (1948-2011)



Source: World Bank (2012b)

There has been some progress in improving market access to LDCs exports, including 'duty-free' access to developed country markets in the context of MDG 8. However, these **trade preferences** have been eroded by reductions in average tariff rates, implying that their products are becoming less competitive in relative terms. Moreover, greater market access

does not depend solely on trade tariffs. **Non-tariff barriers** – such as rules of origin and sanitary and phytosanitary standards – can also significantly constrain market access.

3.3.2 WTO and the Doha Round

The Doha Development Round of negotiations was initiated in 2001, but it is yet to be finalised. For the past ten years, inconclusive trade talks have exposed the considerable gap separating the interests of its members – especially with regard to agricultural subsidies and industrial tariffs. These disagreements are not exclusively between developed and developing countries, but also within those two groups of countries (Page *et al.*, 2008). From a poor country perspective, the main objective of a multilateral trade agreement would be to facilitate structural transformation, mainly by removing tariff and non-tariff barriers that frustrate their attempts to further integrate into the world economy. Rules of origin, technical standards and domestic subsidies in advanced economies may undermine products and sectors with significant potential for developing countries. Unlocking this potential could generate significant employment in developing countries and provide a boost to the world economy. Below we summarise some of the key issues at stake.

Trade Liberalisation in Agriculture

The asymmetric impacts that agricultural liberalisation generates may provide an explanation for the lack of progress achieved so far. There are divisions among developing countries, especially between food importers and food exporters. In addition, liberalisation is also likely to generate winners and losers within countries. For these reasons, further agricultural liberalisation is likely to be selective, especially in the absence of adequate compensatory mechanisms.

The liberalisation of agricultural trade is a particularly sensitive topic since it can have important implications on food security. In this regard, there have been calls for enhancing food security through the establishment of new **safeguard provisions** for the poorest developing countries. These include the Special Safeguard Mechanism (SSM) and Special Products (SP). Under the SSM, developing countries would not be required to follow the normal safeguard procedures in some circumstances. For instance, a supplementary tariff could be levied if the import price falls below a pre-determined threshold or the import volume rises above a threshold. Under the SP proposal, countries would be able to designate a share of their agricultural products as 'special products', which would then face low tariff reduction rates or no tariff reduction at all (Khor, 2010). These measures could be useful, if adequately applied.

Meanwhile, developed countries ought to meaningfully reduce or eliminate domestic support to agriculture (e.g., subsidies and tariffs). This would remove costly and damaging distortions that hinder production, export and income opportunities for poor farmers in developing countries (UNDESA, 2010).[27] In addition, international technical and financial support for agricultural research, extension services, appropriate technology, and rural infrastructure could significantly boost productivity in the poorest developing countries. Some of these proposals would require considerable financial, technical and political support from the international community.

Market Access for Manufactured Goods

The current stalemate on Non-Agricultural Market Access (NAMA) negotiations is partly due to concerns over trade imbalances with China, especially given China's primacy in manufacturing exports and the tariffs currently applying to these products. The lack of progress has also been attributed to some countries – particularly the US – progressively raising the bar on trade concessions they seek from other countries, making it very difficult to reach an agreement

[27] Nonetheless, these measures could predominately benefit large producer countries – i.e., emerging economies.

(Mattoo and Subramanian, 2011). NAMA negotiations are deemed crucial since the products it covers (manufactured goods) represent a very large share of the world's merchandise trade.

While LDCs enjoy some flexibility provisions, their manufacturing sectors still face important impediments – most notably from non-tariff barriers such as rules of origin. Tariff escalation and tariff peaks can also be obstacles for some developing countries.[28] Finally, the poorest countries should be able to adopt selective (but time-bound) measures that have a proven track-record in promoting economic diversification and growth-enhancing structural change. In particular, selective, temporary, and performance-related measures to promote employment-intensive sectors with high productivity are likely to deliver significant benefits (UNDESA, 2010).

Trade in Services

Liberalising trade in services is expected to increase efficiency in the sector, as well as stimulate growth and employment. The benefits can be widespread, since essential services such as transport, telecommunications and finance often have a crucial impact on agriculture and manufacturing. While some developing countries are major exporters of services, there are some concerns related to competition and regulation, especially in the poorest countries – see Cali *et al*. (2008).

Under the General Agreement on Trade in Services (**GATS**), developing countries can choose whether to include a specific service sector in its schedules of commitments, and determine the degree of liberalisation. However, most countries only participate in about 8 out of 55 sectors: hotels & restaurants, travel agencies & tour operators, professional services, computer & related services, other business services, telecommunications, insurance, and banking (Khor and Ocampo, 2009). While developing countries appear to have gained from reforms associated with tourism and certain business services, liberalisation in finance and telecommunications are sometimes perceived to be in the interest of developed countries.

The decision to enter a service sector under GATS ought to be based on a clear understanding of the potential trade-offs, and should be aligned with the broader strategic interests of the country – especially bearing in mind the high sector and country heterogeneity. A focus on modern activities, which are usually associated with high productivity and growth potential, could improve domestic competitiveness and generate local employment, but would also require adequate regulatory frameworks. However, given the limited amount of human and financial resources available for international trade negotiations, the poorest developing countries are likely to prioritise negotiations on agriculture and manufacturing.[29]

Mattoo and Subramanian (2011) argue that service negotiations have not received enough attention in Doha and are now deemed too complicated to achieve real progress. Nonetheless, developed countries are introducing some of these more ambitious concessions for market access through bilateral and regional agreements.

Intellectual Property Rights

The agreement on Trade-Related Aspects of Intellectual Property Rights (**TRIPS**) sets minimum standards for intellectual property, with the objective of encouraging innovation and technology transfer. However, strong intellectual property rights may increase the costs to access technology for local firms in developing countries, thus hampering the development of productive capacities and the ability to upgrade in the value chain.[30] They may also protect the

[28] Tariff escalation relates to tariffs for manufactured goods that are higher than the (related) raw materials, while tariff peaks constitute remarkably high tariffs on selected sensitive goods.
[29] UNDESA (2010) argues that the WTO should refocus on core trade issues in order to promote international coherence, since some areas (such as financial services and migration) are probably best dealt by other organisation.
[30] Technology diffusion and uptake is also particularly challenging for LDCs, since countries need significant capacity to reverse engineer ('imitate') and adapt technologies to their specific needs.

interests of more advanced countries and large corporations – by securing and consolidating technological superiority – and overlook the fact that knowledge is a public good (Correa, 2011). Intellectual property protection can preclude access to products that are deemed to be in the public interest, such as pharmaceuticals, innovations in agriculture production, and clean technologies. The Doha Declaration encouraged the use of the flexibilities in TRIPS – such as compulsory licensing rights – in order to balance the need for intellectual property protection (for investment) with the achievement of public health objectives. However, these safeguards are often limited in scope, while many countries have forgone some of these flexibilities by subscribing to 'TRIPS-plus' provisions in bilateral trade agreements (UNCTAD, 2010).

Proposed changes to the TRIPS agreement include exempting climate-friendly technologies from patenting and granting exemptions to LDCs, while emerging economies have called for widespread use of compulsory licensing rights.[31] Proposals targeting LDCs include establishing a regional technology sharing consortia (whereby different firms in developed and developing countries partner to share knowledge and adapt existing technologies to local needs), a technology licence bank (pooling different technologies together funded by governments and donors), and a multi-donor trust fund for financing enterprise innovation in LDCs (UNCTAD, 2010). A reform of the global intellectual property rights regime – especially in agriculture, medicine and 'green' technologies – could potentially expedite affordable technology transfer, thus promoting structural transformation and economic diversification in developing countries. However, developed countries may resist some of these reforms, since make strong investments in R&D. At the very least, international rules should take into account their long-term impact on development. Finally, there are some questions about the appropriate forum for forthcoming discussions, since other multilateral organisations also deal with intellectual property rights (e.g., WIPO).

3.3.3 Bilateral and Regional Agreements

The main challenge to the WTO – and thus multilateralism – is the growing proliferation of bilateral and regional preferential trade agreements (PTAs). The WTO (2011) argues that while the scope for preferential tariffs under PTAs has been reduced – due to overall trade liberalisation – 'deep' PTAs are increasingly going beyond issues of preferential access and into non-tariff (regulatory) areas. Their emergence is shown to be linked to global productions networks, and many are between developing countries. PTAs tend to be less attractive for poorer developing countries, as richer countries usually include more ambitious demands in these agreements than in those negotiated at the WTO. They often entail weak forms of special and differential treatment, and even extend to areas not covered by WTO. This is particularly concerning for LDCs, who have probably even less negotiating power in these agreements than in the WTO. PTAs also increase complexity and uncertainty of the trade regime, thus undermining the ability of developing countries to implement effective polices to enhance productive capacities and promote employment. Khor and Ocampo (2009) propose a 'standstill' on FTAs until there is an agreement on how to restore the primacy of global rules.

3.3.4 Cross-Cutting Issues

DFQF and Preference Erosion

Developed countries can use trade preference programmes to encourage exports from developing countries. While many of them already provide special access to LDCs' exports, these preferences may not include the products that matter the most.[32] For that reason, there have been calls for the full implementation of Duty Free Quota Free (DFQF) market access on all products originating from all LDCs.[33] Some developed countries – most notably the US – do

[31] It is important to note that the latter may predominantly benefit emerging economies, as they require existing capacity to adopt these technologies locally.
[32] Restrictions on a few product lines can actually account for a significant share of LDC exports (in terms of value), due to export concentration.
[33] However, even when coverage is (close to) 100 per cent, as in the case of the EU's Everything But Arms (EBA) programme, non-tariff barriers may still restrict market access (e.g., rules of origin)

not yet provide 100 per cent product coverage, as sensitive agricultural and textile products are excluded. Finally, developing countries (in a position to do so) should also provide **DFQF market access** for LDCs' exports. This could provide a further boost to South-South trade flows.

However, the overall reduction of international trade tariffs – through multilateral and bilateral liberalisation – has contributed to the erosion of preferential margins for LDCs. It has been suggested that rich countries could provide **financial compensation** for the losses incurred through existing multilateral aid mechanisms (Hoekman *et al*., 2009). Countries affected by preference erosion will need to urgently boost productivity and increase international competitiveness. In this context, a greater emphasis on **aid-for-trade** could enhance the targeting of official development resources towards economic infrastructure and the production sectors (e.g., agriculture and low-skill manufacturing) with a view to address productive capacity constraints and promote structural transformation. Nonetheless, this support should be aligned with national development strategies – in the spirit of the aid effectiveness agenda.

Non-Tariff Barriers

As previously mentioned, non-tariff barriers can undermine market access for developing countries' exports. Among the most significant technical barriers to trade are rules of origin and technical standards. **Rules of origin** stipulate minimum levels of domestic content for a product to benefit from trade preferences. While they are necessary to prevent trade deflection, they are often too complex, over-restrictive and costly.[34] Rules of origin often discriminate against the poorest countries, since these usually require imported inputs in order to produce more sophisticated products – thus hindering their ability to upgrade in the value chain. For instance, under the EU's Everything But Arms (EBA) rule for apparel, both the manufacturing of the fabric and assemblage of garments have to be undertaken locally. This places heavy restrictions on poorer countries – as textile production is more capital-intensive – which cannot meet the requirement to be eligible for DFQF. Some experts have proposed the introduction of 'extended cumulation', which would enable countries to still benefit from preferential treatment if inputs are sourced from a predefined list of countries – e.g., on regional basis or across LDCs (UNCTAD, 2010). Hence, it is important to harmonise, simplify and ease these rules in order to facilitate the integration of poor developing countries in the global trading system (Cadot and de Melo, 2008). Transparent and predictable rules of origin will also facilitate strategic economic planning in developing countries.

Strict **technical standards** can also hinder exports from developing countries. For instance, certain sanitary and phytosanitary standards are justified on public health and safety grounds, but their abuse is likely to unduly constrain international trade. The same could be said of (stringent) environmental requirements. Agricultural exports are particularly affected by this type of measures, which can have significant impact on prices. Appropriate, transparent and simplified regulations would be desirable, possibly in the context of the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures and the Agreement on Technical Barriers to Trade (TBT). However, the harmonisation of standards might be too burdensome for developing countries, and a more practical approach might be needed – such as developing minimum standards for LDCs. Moreover, stronger technical and financial support could be provided to enable products from poor developing countries meet the required standards (e.g., improving testing and certification institutions and processes).

Commodity Markets

The increasing volatility of **commodity** prices and demand, coupled with the financialisation of commodity markets (including speculation), may undermine the ability of poor developing countries to fully benefit from higher prices and demand for these exports. Global facilities could be utilised to mitigate the impact of commodity price and demand volatility. These could

[34] Moreover, preference erosion reduces the risk of trade deflection.

include innovative commodity price **stabilisation mechanisms** – using virtual reserve holding of individual commodities or a multi-tier transaction tax – and a state **contingent financing facility** to enable counter-cyclical demand management (Nissanke, 2010; UNCTAD, 2010). International facilities could effectively support national mitigation strategies, while greater transparency and adequate information systems could contribute to a reduction in price volatility in commodity markets.[35]

3.3.5 Summary

Table 4 provides a brief overview of trade policy reforms that could support structural transformation in developing countries, especially through trade diversification and the creation of productive employment in promising sectors.

Table 4: Proposed Reforms on Trade

Issue	Policy Focus
Agriculture	• Reducing domestic support for agriculture in developed countries (i.e., subsidies and tariffs). • Strengthening safeguard measures to enhance food security and support farmers' livelihoods in developing countries.
Manufacturing	• Reducing non-tariff barriers and avoiding tariff escalation in order to enable poor developing countries promote structural transformation. • Allowing the poorest countries to adopt selective (but time-bound) measures that have a proven track-record in promoting economic diversification and growth-enhancing structural change.
Services	• Decision to enter a service sector under GATS would be made after careful consideration of the potential trade-offs, and the strategic interests of the country. Technical assistance could be provided to improve economic analysis. • Developing countries should not be coerced to make (unfavourable) market access commitments through bilateral and regional agreements.
Intellectual Property	• Reforming international property rights – especially in agriculture and medicine – to expedite technology transfer and knowledge sharing, thus supporting the development of productive capacities and fostering economic and human development.
Preference Erosion	• Providing full DFQF access for LDCs exports to developed country markets and increasingly to emerging economies as well. Strengthening the special and differential treatment for LDCs and empower LDCs to use the flexibilities provided under WTO rules. • Targeting official aid towards economic infrastructure and the production sectors to boost productivity and increase international competitiveness in LDCs – e.g., aid-for-trade. • Providing financial compensation for the losses incurred through existing multilateral aid mechanisms.
Non-tariff barriers	• Harmonising, simplifying and easing rules of origin in order to facilitate the integration of poor developing countries in the global trading system. • Developing appropriate, transparent and simplified technical regulations, possibly defining less stringent standards for LDCs. Providing technical and financial assistance to ensure products from poor developing countries meet the required technical standards.
Commodity markets	• Creating global facilities to mitigate the impact of commodity price and demand volatility in poor developing countries. These could include commodity price stabilisation mechanisms and a state contingent financing facility to enable counter-cyclical demand management.

Note: For a comprehensive agenda for action focused on LDCs, see UNCTAD (2010:146).

4 Conclusion and Key Implications

The main objective of this paper was to highlight key policy actions that have the potential to stimulate stronger patterns of inclusive growth in developing countries – from an employment perspective. For that purpose, we initially reviewed the crucial role that employment plays in the growth-poverty nexus. While efforts to achieve the MDGs have traditionally been associated with larger aid flows, we argue that other policy areas deserve further attention. We have therefore focused this paper on macroeconomic coordination, finance and investment, and international trade.

[35] Countries would contribute to these financing facilities during commodity booms, and withdraw funds during crisis.

We suggested that stronger **macroeconomic policy coordination**, especially among large country-blocs, will be vital to rebalance the world economy and support the creation of sufficient productive employment. There is little doubt that greater global accountability and coordinated action is required to address systemic crisis – of finance, food and fuel – as well as other pressing global challenges. Moreover, a strong and resilient world economy would encourage a quicker convergence of living standards and reduce economic vulnerability. In particular, it will be crucial to reform existing global **economic governance structures**, in order to better tackle the future challenges facing the world economy. Current governance arrangements suffer from two main shortcomings: they are ineffective, in that they do not have the coherence and leverage required to tackle the complex challenges of globalisation, and they are unrepresentative, thus lacking legitimacy (Jolly *et al*., 2012). Increased globalisation and strong interdependencies require global institutions with sufficient power and adequate representation to undertake appropriate global action.

We also argued that a stronger focus should be placed on removing barriers to **inclusive growth** and **structural transformation** in developing countries, and adopting policies that promote their integration into the world economy. This could be achieved through development-minded reforms of the global trading and financial systems. In this regard, policy reforms should recognise the central role that productive employment plays in sustainably lifting people out of poverty and tackling deep-rooted inequities. Among these, we drew attention to **finance**-related policy measures to promote greater financial stability, increase the availability of development finance, and strengthen the impact of foreign investment on host countries.

In terms of **international trade**, we argued that tariff and non-tariff barriers (e.g., rules of origin) may constrain the ability of poor developing countries to build productive capacities and further integrate in the world trading system. We then called for policy measures related to, among others, the need to simplify rules of origin and technical standards, mitigate the impact of commodity shocks, enhance food security, reform intellectual property rights, and scale up aid-for-trade.

Although our focus was on global policies, greater economic cooperation among regional blocs will also be crucial to ensure that pro-employment national strategies are viable and effective. For instance, greater regional integration in terms of trade and finance can help poor countries overcome many of the supply and demand constraints they currently face – e.g., infrastructure bottlenecks, shortage of skills, and small domestic markets.

In sum, the main priority for the international community should be to build a stable, predictable and prosperous global economic environment, while enabling sufficient policy space for developing countries to implement ambitious development strategies.[36] A future development framework ought to have these broad objectives in mind.

Post-2015 Development Framework

The post-2015 debate has hitherto been focused on the political process and the possible content of a future development framework. A number of specific proposals for new goals, targets and indicators are emerging. In addition to income poverty, nutrition, education, health, environment and governance – only to name a few – there are also explicit proposals on employment. However, there has been far less attention on the policy changes that would be required to fulfil those ambitions. This paper contributes to the post-2015 debate by presenting some arguments and proposals that could motivate the construction of an effective and progressive 'global partnership for development'. There is little doubt that the success of a new global development framework will hinge on whether it is able to mobilise action on key international policy areas, such as aid, trade, finance and migration.

[36] Policy space 'enables experimentation, trial and error, pragmatism and policy pluralism' (UNCTAD, 2010:162).

A key principle that should guide the architects of a new development framework relates to the concepts of 'common but differentiated responsibilities' and 'special and differential treatment'. **Differentiation** is important because it acknowledges that across-the-board rules – i.e. rules that apply to all countries at all times – do not translate into a 'level playing field'. This is especially true given the high heterogeneity of countries in terms of capacities and vulnerabilities. Thus, differentiation ought to be embedded in international agreements, regimes and policies in order to promote a strong, fair and stable global economic system (UNDESA, 2010). For instance, WTO negotiations and reforms ought to acknowledge the fact that poor developing countries need to align trade and investment policy with growth, employment and sectoral strategies in order to accelerate the diversification and transformation of their economic structures.[37]

Moreover, developing country governments need sufficient **policy space** to implement ambitious national development strategies, although this is often constrained by structural factors (e.g., low revenue base, low physical and human capital), the need to protect from shocks (i.e., building reserve buffers), and the external policy environment (e.g., international rules and policy conditionality). This paper has suggested a few measures that could address these issues, namely by improving the mobilisation of financial resources, strengthening compensatory facilities, and acknowledging differentiated responsibilities. Although economic and social development mainly occurs through national strategies, the international community can play a crucial role in creating the enabling conditions to enhance their impact. This may actually require countries to surrender sovereignty over some policy areas – e.g., through the design of appropriate financial regulations and better policy coherence. Even if these measures may appear politically unfeasible, it is useful to recall that many policies and institutions that we now take for granted were once considered radical and unsound solutions.[38]

Table 5 provides a brief sketch of how employment could be addressed in a post-2015 framework. Since the employment challenges vary considerably across countries, it would probably be more relevant to define targets at the national level – as suggested by ILO *et al*. (2012).[39] In terms of the key areas of international cooperation that could support the achievement of desirable employment outcomes (e.g., full and productive employment), we naturally argue that macroeconomic coordination, finance, and international trade can play a crucial role. These would probably require global goals (and ideally tangible targets) in order to create a conducive environment. However, the monitoring indicators would probably be more related to inputs and process.

Table 5: Employment in a Post-2015 Framework

Issue	Coordination, Standards & Regulations	Goals & Targets	Type of Indicators[1]	Data Collection
Employment (Target 1B)	ILO	Global & National	Output & Outcome	ILO & World Bank
Macroeconomic Coordination	G20 & UN	Global	Input & Process	UN & IMF
Finance (Target 8A)	G20 & UN	Global	Input & Process	UNCTAD & IMF
Trade (Target 8A)	WTO & UNCTAD	Global	Input & Process	UNCTAD & WTO

[1] Input (policy measure or agreement); process (implementation progress); output (short-term result); and outcome (key objective).

[37] For example, poor developing countries need to adopt bold structural policies to seize opportunities in the wake of China's rising wages and upgrading in value chains. These should be guided by pragmatic assessments of the potential of specific sub-sectors, and may include targeted fiscal and credit incentives, as well as strong investment in economic and social infrastructure. Selective, temporary, and performance-related measures to promote employment-intensive sectors with high productivity are likely to deliver significant benefits (UNDESA, 2010).

[38] For example, the idea of providing low-interest loans to poorer countries was highly controversial in the early 1950s (since it defied economic rationale), but its eventual acceptance led to the creation of the International Development Agency (Jolly, 2008).

[39] ILO *et al*. (2012) suggest that macroeconomic stability (in a broad sense) and inclusive growth should be included as critical conditioning factors (or 'enablers') in a post-2015 development agenda (without explicit targets).

Areas for Future Work

Although this paper did not aim to provide an exhaustive list of policy areas and recommendations that could be critical for the successful implementation of a post-2015 agreement, it does provide a brief analysis of a wide array of important issues. Future work could cluster a few of these issues according to specific political processes (such as the WTO) and evaluate what practical steps would need to be taken to ensure that decisive action is taken. This would certainly require a combination of economic and in-depth political economy analysis.

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Appendix 1

Millennium Development Goals

At the global level, there has been significant progress towards the achievement of the MDGs. The target of halving the extreme poverty rate between 1990 and 2015 has been met ahead of time, as well as that of halving the proportion of people without access to improved water sources. Parity between girls and boys in primary education has also been attained. Many other targets have registered considerable progress and are likely to be met by 2015 (UN, 2012). Nevertheless, progress has been uneven at the regional and country levels, partly because the performance of China and India weight heavily on these trends. Sub-Saharan Africa is projected to achieve only two out of 16 targets – gender parity in primary education and halting HIV/AIDS – whereas the remaining targets will require significant improvements. Oceania and Western Asia are also lagging behind in most areas, while Eastern Asia is expected to achieve 12 out of 16 targets.

While the MDG framework is an extremely useful tool to track progress on different aspects of human development, it provides far less guidance on how to devise successful national development strategies and supporting international actions. In fact, MDG 8 has often been criticised for failing to promote a truly global partnership, especially around issues of trade, investment and technology. Other key weaknesses include the limited role assigned to employment and the neglect of inequality considerations.

Official Development Assistance

While **net ODA** from DAC countries increased substantially between 2000 and 2010 – by 63 per cent in real terms – recent data suggest that foreign aid has actually declined in 2011 (OECD, 2012). The overall DAC effort was equivalent to 0.31 per cent of GNI, significantly below the 0.7 target agreed in several international meetings. This represents a setback to the achievement of the MDGs, and seriously questions the role of ODA after 2015, especially bearing in mind the fiscal constraints facing advanced economies. Nonetheless, official flows from emerging economies have increased considerably – especially from China, Brazil and India – although it is often unclear whether these are provided at concessional terms.

The volume of ODA from DAC countries flowing to middle-income countries remains substantial – about 40 per cent of the total – despite a relative decline over the past decade. Moreover, there is still a strong preference for delivering aid funds through individual projects, rather than disbursing funds directly to the government budget. In terms of the sectoral distribution of bilateral projects, there has been a notorious focus on the social sectors – in both absolute and relative terms – whereas the production sectors and economic infrastructure have been fairly neglected. This shift seems consistent with evolving donor priorities (e.g., health and education) and the implicit impact of the MDGs.[40]

In addition to the volume of foreign aid, there are important concerns about the **effectiveness** of aid flows – particularly around transaction costs and poor coordination. These mainly relates to how aid flows are channelled to the recipient country (aid delivery). A recent survey suggests that, while there was considerable progress towards several monitoring targets of the Paris Declaration on Aid Effectiveness, only one out of 13 has actually been met (OECD, 2011). This is particularly worrying in view of the growing importance of South-South cooperation, which can contribute to further fragmentation and an increase in aid tying. Nonetheless, South-South flows may also present important opportunities to the recipients, since they typically entail lower policy conditionality (which provides greater policy space) and are often better aligned with national priorities.

[40] However, it has been suggested that official flows from non-DAC countries, such as Turkey and China, tend to privilege economic infrastructure, agriculture and manufacturing.

Greater aid effectiveness can also be achieved through a better **allocation** of official funds. For example, a reallocation of foreign aid across countries – from richer to poorer nations – can generate significant efficiency gains (Bigsten and Tengstam, 2012). Since the relative impact of aid is likely to be larger in the poorest developing countries, a differentiated approach to aid allocation could deliver very large benefits. Similarly, a reallocation of aid within countries can also promote a stronger and more sustainable impact of aid flows. For instance, a more committed focus on economic infrastructure and the production sectors would enable countries to enhance production capabilities, and consequentially foster structural transformation and create more and better employment opportunities. In this way, foreign aid could enhance its role in stimulating inclusive growth.

Appendix 2

Table 6: MDG 8 Targets

GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT	
8.A	Develop further an open, rule-based, predictable, non-discriminatory **trading and financial system** (Includes a commitment to good governance, development and poverty reduction - both nationally and internationally)
8.B	Address the special needs of the **least developed countries** (Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction)
8.C	Address the special needs of **landlocked developing countries** and **small island developing States** (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)
8.D	Deal comprehensively with the **debt problems** of developing countries through national and international measures in order to make debt sustainable in the long term
8.E	In cooperation with pharmaceutical companies, provide access to affordable **essential drugs** in developing countries
8.F	In cooperation with the private sector, make available the benefits of **new technologies**, especially information and communications

Table 7: MDG 8 Monitoring Indicators

Official Development Assistance (ODA)	
8.1	Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income
8.2	Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)
8.3	Proportion of bilateral official development assistance of OECD/DAC donors that is untied
8.4	ODA received in landlocked developing countries as a proportion of their gross national incomes
8.5	ODA received in small island developing States as a proportion of their gross national incomes
Market Access	
8.6	Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty
8.7	Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries
8.8	Agricultural support estimate for OECD countries as a percentage of their gross domestic product
8.9	Proportion of ODA provided to help build trade capacity
Debt Sustainability	
8.10	Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)
8.11	Debt relief committed under HIPC and MDRI Initiatives
8.12	Debt service as a percentage of exports of goods and services
Other	
8.13	Proportion of population with access to affordable essential drugs on a sustainable basis
8.14	Fixed telephone lines per 100 inhabitants
8.15	Mobile cellular subscriptions per 100 inhabitants
8.16	Internet users per 100 inhabitants

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