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HOW TO HELP POOR COUNTRIES

Getting development right

THE YEAR 2005 HAS BECOME the year of development. In September, at the UN Millennium Summit meeting of heads of state, in New York, leaders of wealthy nations will emphasize their commitment to deeper debt relief and increased aid programs for developing countries. The Millennium Development Goals, the centerpiece of the conference's program, call for halving the levels of world poverty and hunger by 2015.

The summit will focus on increasing international aid to 0.7 percent of donors' gross national product to finance a doubling of aid transfers to especially needy areas, particularly in Africa. With respect to global trade, efforts will center on the Doha Round of multilateral trade negotiations and opening markets to important exports (such as cotton) from developing countries. The discussions will thus proceed based on two implicit but critical underlying assumptions: that wealthy nations can materially shape development in the poor world and that their efforts to do so should consist largely of providing resources to and trading opportunities for poor countries.

These assumptions ignore key lessons of the last four decades – and of economic history more generally. Development is something largely determined by poor countries themselves, and outsiders can play only a limited role. Developing countries themselves emphasize this point, but in the rich world it is often forgotten. So too is the fact that financial aid and the further opening of wealthy countries' markets are tools with only a limited ability to trigger growth, especially in the poorest countries. The tremendous amount of energy and political capital expended on these efforts in official circles threatens to crowd out attention to other ways in which rich countries could do less harm and more good. A singular focus on aid and market access at the September 2005 Millennium Summit should not leave other potentially rewarding measures on the back burner.

Bootstraps

Consider Nicaragua and Vietnam. Both are poor countries with primarily agricultural economies. Both have suffered from long periods of conflict. And both have benefited from substantial foreign aid. But only Vietnam has reduced poverty dramatically and enjoyed steady economic growth (five percent per capita since 1988). Nicaragua has floundered economically, with per capita growth too modest to make a real dent in the number of poor people.

Vietnam faced a U.S. embargo until 1994, and it is still not a member of the World Trade Organization (WTO). Despite these obstacles, it has found markets for its growing exports of coffee and other agricultural products and has successfully begun diversifying into manufacturing as well, especially of textiles. Nicaragua, on the other hand, benefits from preferential access to the lucrative U.S. market and had several billion dollars of its official debt written off in the 1990s. Yet its coffee and clothing export industries have not been able to compete with Vietnam's.

Why has Vietnam outpaced Nicaragua? The answers are internal: history and economic and political institutions have trumped other factors in determining economic success. Access to the U.S. market and the largesse of Western donors have not been powerful enough to overcome Nicaragua's history of social and economic inequality: land and power there have long been concentrated in the hands of a few elites, and the government has failed to invest enough in infrastructure and public welfare.

The experiences of many other developing countries confirm the importance of specific internal factors. Like Vietnam, neither China nor India – the two emerging superstars of the last quarter century – has benefited from trade preferences. And neither has received much foreign aid compared to countries in Africa and Central America. But by enacting creative domestic reforms, China and India have prospered, and in both countries poverty has plunged.

On the flip side, many African countries have been unable to match Vietnam's success, despite being no poorer or more agrarian. True, education and health indicators have improved markedly in Africa, and some of its countries have achieved macroeconomic stability. But even in the best-performing countries, growth and productivity remain modest, and investment depends completely on foreign aid infusions. It may be tempting to ascribe the rare African successes – Botswana and Mauritius, for example – to high foreign demand for their exports (diamonds and garments, respectively), but that explanation goes only so far. Obviously, both countries would be considerably poorer without access to markets abroad. But what distinguishes them is not the external advantages they enjoy, but their ability to exploit these advantages. Natural resource endowments have often hurt many developing countries: the word "diamond" hardly conjures images of peace and prosperity in the context of Sierra Leone, and oil has been more curse than blessing for Angola, Equatorial Guinea, Nigeria, and many others.

Witness the case of Mexico. It has the advantage of sharing a 2,000-mile border with the world's greatest economic power. Since the North American Free Trade Agreement went into effect in 1994, the United States has given Mexican goods duty-free access to its markets, has made huge investments in the Mexican economy, and has continued to absorb millions of Mexican laborers. During the 1994–95 peso crisis, the U.S. Treasury even underwrote Mexico's financial stability. Outside economic help does not get much

better. But since 1992, Mexico's economy has grown at an annual average rate of barely more than one percent per capita. This figure is far less than the rates of the Asian growth superstars. It is also a fraction of Mexico's own growth of 3.6 percent per year in the two decades that preceded its 1982 debt crisis. Access to external markets and resources has not been able to make up for Mexico's internal problems.

A notable exception to the limitations of outside assistance is European Union membership. By offering its poorer eastern and southern neighbors not just aid transfers and market access but the prospect of joining the union, the EU has stimulated deep policy and institutional changes and impressive growth in about 20 countries. But the exception proves the rule: the EU is not just an economic arrangement; it is also a political system in which member states transfer extensive legal powers to the central authority. In return, the center shoulders significant responsibilities for the economic well-being of each member.

Unfortunately, accession to the EU or to any other major power is not an option for most of the poorest parts of the world – and increasing the financial resources and trading opportunities for the poorest countries is not a sufficient substitute.

Easy access

To start, there is the question of market access. Currently, the international trade system is full of inequities. Rich countries place their highest tariffs on imports important to developing countries – garments and agriculture, for example. The tariffs escalate as the level of processing increases, discouraging industrialization in the poor countries. In addition, multilateral trade negotiations lack transparency and often exclude developing countries from the real action. Using WTO procedures to settle trade disputes requires money and technical expertise, both of which poor countries lack.

But to say that these flaws seriously hamper development in struggling economies would be to overlook the remarkable success in the last two decades of Vietnam and China in exporting manufactured goods, of Chile in exporting wine and salmon, and most recently of India in exporting services. These countries have achieved success in exporting, despite the impediments. And barriers on manufactured exports from developing countries were even higher when the Asian "tigers" first arrived on the scene in the 1960s and 1970s.

Many argue that agricultural tariffs in particular represent an impediment to poor countries' economic growth. The World Bank and organizations such as Oxfam argue that doing away with agricultural subsidies and protectionism in industrialized nations would significantly reduce poverty in the developing world. European cows, the famous example goes, are richer – receiving \$2.50 a day each in subsidies – than one-third of the world's people.

Yet the reality is that liberalizing agricultural trade would largely benefit the consumers and taxpayers of the wealthy nations. Why? Because agricultural subsidies serve first and foremost to transfer resources from consumers and taxpayers to farmers within the same country. Thus, citizens of developed countries would derive the most benefit from having those subsidies cut. Other countries are affected only insofar as world prices rise. But the big, clear gainers from such price increases would be countries that are large

net exporters of agricultural products – rich countries, such as the United States, and middle-income countries, such as Argentina, Brazil, and Thailand.

What about the poorer countries? For one thing, many poor countries are actually net importers of agricultural products, and so they benefit from low world prices. An increase in prices may help the rural poor, who sell the agricultural goods, but it would make the urban poor – the consumers – worse off. Net poverty could still be reduced, but to what extent depends in complicated fashion on the working condition of roads and the markets for fertilizer and other inputs, on how much of the gains are captured by poor farmers versus intermediaries, and on the poverty profile of each country.

Regardless of whether agricultural liberalization increases or decreases poverty, the impact would not be significant. Most studies predict that the effect of such liberalization on world prices would be small. The International Monetary Fund (IMF) estimates that world prices would only rise by 2–8 percent for rice, sugar, and wheat; 4 percent for cotton; and 7 percent for beef. The typical annual variation in the world prices of these commodities is at least one order of magnitude larger.

Take cotton specifically. The largest credible estimate of the impact of the complete removal of U.S. cotton subsidies on world prices is less than 15 percent. How much of an effect could this have on farm incomes in West Africa? There is actually a useful benchmark for comparison. In 1994, the member states of the *Communauté Financière Africaine* currency zone (in which 14 African countries have had their currencies pegged to the French franc since 1948) devalued their currency from 50 to 100 CFA francs per French franc, effectively doubling the domestic price of cotton exports. If at least some of the resulting price gain had gone to cotton farmers (and not to intermediaries or inflation), the farmers' incomes would have increased in countries such as Burkina Faso and Benin. Indeed, the price gain should have increased income and decreased poverty even more than would the complete removal of U.S. cotton subsidies. There is little evidence that a significant reduction in rural poverty took place, however. A World Bank study found that poverty in Burkina Faso remained stubbornly high and even increased in parts of the country.

Furthermore, a general reduction of trade barriers in rich countries could leave some of the world's poorest countries worse off. A substantial part of least-developed countries' exports enjoy favorable conditions of access to the markets of rich countries under various preferential trade arrangements. With the end in January 2005 of the long-standing system of quotas on apparel, for example, poor countries such as Bangladesh, Cambodia, and Lesotho, which benefited from preferential arrangements, justifiably have been fearing competition from China and Vietnam. The loss of preferential access for the poorest countries is not a justification for stopping trade liberalization in its tracks. But it is an additional reason to be cautious when estimating the magnitude of poor nations' gains from a trade-centered agenda.

Of course, if global trade and growth were to implode, as in the period between the world wars, international development would receive a serious blow. A healthy multilateral trading system is important to keep the possibility remote, and it can protect the poorest countries from unreasonable bilateral pressures. A successful Doha Round could stimulate trade among developing countries and would signal a political willingness on the part of the international community to keep the system purring and prevent an implosion – even if the actual gains for the poorest countries from trade-barrier reductions would be modest.

More money?

If not better market access, what about more aid? Boosting assistance to the poorest countries of the world is a central recommendation of the recent reports of the UN Millennium Project and British Prime Minister Tony Blair's commission on Africa, and, along with reduced corruption and better management in poor countries, it is a cornerstone of the strategy envisaged to achieve the Millennium Development Goals.

Aid has accomplished some great things. On the health front, smallpox has been eradicated, infant mortality rates have been lowered, and illnesses such as diarrhea and river blindness have been widely treated. Aid programs have improved women's access to modern contraception in Bangladesh and Egypt and helped increase school enrollment in Uganda and Burkina Faso. Aid also pays for much of the (still-limited) access to AIDS medicines in poor countries. In the last decade, aid has helped restore peace and order after conflicts in places including Bosnia, East Timor, and Sierra Leone. In addition, aid can be a vehicle for policy advice and dialogue between recipients and outsiders. There have even been macroeconomic successes, such as the \$1 billion grant that allowed Poland to establish an exchange-rate stabilization fund in 1990. By stabilizing the Polish currency, this relatively small amount of financing provided valuable breathing space for the implementation of broader policy reforms.

What these successes share is that they were narrowly targeted at specific objectives. Assistance does work well, but only when the recipient countries do the right things to help themselves and have the capacity and the leadership to spend the money wisely. Some statistical evidence indicates a link between financial assistance and growth. But aid has not been associated with the sustained increases in productivity and wages that ultimately matter. During the 1990s, for example, countries in sub-Saharan Africa received funding amounting on average to about 12 percent of their GDP, while their average growth rate per capita declined by 0.6 percent per year. Meanwhile, some of today's development successes – such as Chile and Malaysia – relied little on aid. And aid to China and India has been very small.

There are many reasons for the mixed performance of foreign assistance. Donors themselves cause many of the problems. Recipient countries can be overwhelmed by the multiplicity of donors pursuing many, even inconsistent, objectives, disbursing aid to innumerable projects and imposing a plethora of conditions on its use. These factors contribute to rather than offset a poor country's lack of institutional capacity. On top of that, there is the natural volatility and uncertainty of foreign aid, which make it difficult for recipient governments to plan their budgets. For more than a decade, the bureaucracies of donor states and organizations have been unable, despite good intentions and constant resolve, to change the political incentives and constraints that impede the reform of their aid-delivery apparatuses.

Probably more important, however, are institutional deficiencies on the recipients' side. Aid is only as good as the ability of a recipient's economy and government to use it prudently and productively. Thus, the fundamental dilemma: countries most in need of aid are often those least able to use it well. That sets limits on the extent to which large infusions of foreign funds can make a difference.

The greatest example of the success of aid – the Marshall Plan – illustrates the importance of homegrown institutional competence. Because the institutions and capabilities of the United Kingdom, France, and Germany survived the war to a large

extent, even their war-ravaged economies were able to exploit fully the potential of financial assistance.

This simple point addresses the view that aid is a *sine qua non* for African development on account of the continent's bad geography and favorable environment for diseases. A country's growth may in fact be hampered by its unsuitability for agriculture, its isolated geography, and its susceptibility to malaria and other tropical diseases. In such cases, it might seem appropriate that donors give more. But adverse geography does not fundamentally alter the fact that the effectiveness of assistance depends on the institutions of the recipient country. At its best, aid has helped nations rebuild after conflicts and assisted in achieving specific objectives. But its role in creating and sustaining key institutions and long-term economic health has been much less clear.

Sins of commission

To help developing countries help themselves, wealthy nations must begin to lift the burdens they impose on the poor. Currently, the developed world uses international trade agreements to impose costly and onerous obligations on poor countries. The most egregious example has been the WTO's intellectual property agreement, the Trade-Related Aspects of Intellectual Property Rights (TRIPS). Despite recent efforts to cushion its impact on the poorest countries, TRIPS will make the prices of essential medicines significantly greater, and this at a time when poor countries are being ravaged by one of the worst health epidemics ever known – HIV/AIDS. The price increase means that money from the citizens of poor countries will be transferred directly to wealthy pharmaceutical companies. The resulting revenue, although a significant amount of money for the poor countries, will be a relatively small part of the companies' net total profits – hardly enough to induce extra research and development.

An international community that presides over TRIPS and similar agreements forfeits any claim to being development-friendly. This must change: the rich countries cannot just amend TRIPS; they must abolish it altogether. A simple comparison makes the point clear: major industrial countries such as Italy, Japan, and Switzerland adopted pharmaceuticals patent protection when their per capita income was about \$20,000; developing countries will adopt it at income levels of \$500 per capita, in the case of the poorest, and \$2,000–4,000 for the middle-income countries. By these standards, forcing developing countries to abide by TRIPS is about 50–100 years premature.

But costly obligations are not restricted to TRIPS. Trade agreements between the United States and countries such as Jordan, Morocco, and Vietnam have required the latter to adhere to intellectual property regulations that go beyond TRIPS, further increasing the patent holder's monopoly and restricting access to medicines. Other trade agreements have called for developing countries to open their capital accounts immediately, despite recent experience showing that doing so exposes the countries to the volatility of international capital flows.

Just as crucial for empowering poor countries is providing them with enough space to craft their own economic policy. During the last decade, economists have come to understand that economic development is at once easier and harder than previously thought. Many countries have reduced poverty and generated significant economic growth without the deep, comprehensive structural reform that has been the centerpiece for

development institutions over the last quarter century. That is the good news. The bad news is that there are few general economic-policy standards that seem to apply to every country – except for such basic principles as macroeconomic stability, outward orientation, accountable government, and market-based incentives. The hard part is moving beyond these broad objectives and figuring out the appropriate specific policies for each developing country's particular needs. The many poor countries that have made progress on the general standards can better craft their own economic course if they have adequate room for policy autonomy and experimentation. The idea may sound radical, but would China have been better off implementing a garden-variety World Bank structural adjustment program in 1978 instead of its own brand of heterodox gradualism?

Almost all successful cases of development in the last 50 years have been based on creative – and often heterodox – policy innovations. South Korea and Taiwan, for example, combined their outward trade orientations with unorthodox policies: export subsidies, directed credit, patent and copyright infringements, domestic-content requirements on local production, high levels of tariff and nontariff barriers, public ownership of large segments of banking and industry, and restrictions on capital flows, including direct foreign investment. Since the late 1970s, China has also followed a highly unorthodox two-track strategy, violating practically every rule in the book – including, most notably, securing private property rights. India, which raised its economic growth rate in the early 1980s, remained a highly protected economy well into the 1990s. Even Chile – Latin America's apparently "orthodox" standout that managed to achieve both growth and democracy – violated conventional wisdom by subsidizing its nascent export industries and taxing capital inflows.

Conversely, countries that have adhered more strictly to the orthodox structural reform agenda – most notably in Latin America – have fared less well. Since the mid-1980s, virtually all Latin American countries have opened and deregulated their economies, privatized their public enterprises, and allowed unrestricted access to foreign capital. Yet they have grown at a fraction of the pace of the heterodox reformers and have been strongly buffeted by macroeconomic instability.

The contrasting experiences of eastern Asia, China, and India suggest that the secret of poverty-reducing growth lies in creating business opportunities for domestic investors, including the poor, through institutional innovations that are tailored to local political and institutional realities. Ignoring these realities carries the risk that pro-poor policies, even when they are part of apparently sound and well-intentioned IMF and World Bank programs, will be captured by local elites.

Wealthy nations and international development organizations thus should not operate as if the right policies and institutional arrangements are the same across time and space. Yet current WTO rules on subsidies, foreign investment, and patents preclude some of the policy choices made, for example, by South Korea and Taiwan in the past, when rules under the WTO's predecessor, the General Agreement on Tariffs and Trade, were more permissive. What is more, new WTO members typically confront demands to conform their trade and industrial policies to standards that go well beyond existing WTO agreements. The new Basle II international banking standards, better fitted to banks in industrialized nations, risk making it more difficult for banks in developing countries to compete.

To be sure, not all internationally imposed economic discipline is harmful. The principle of transparency, enshrined in international trade agreements and many global

financial codes, is fully consistent with policy independence, as long as governments are provided leeway with respect to actual policy content. A well-functioning international economic system does need rules. But international rules should regulate the interface between different policies and institutional regimes, not erase them.

There are signs of change in the rich world's attitude. Some donors, notably the United Kingdom and the United States, the latter with its Millennium Challenge Account, are moving away from attaching explicit, heavy conditions to their grants and loans and are instead screening applicants early to ensure that assistance will be reasonably well spent. The World Bank and other organizations are designing programs with countries in which resources are disbursed not in exchange for policy reform but on the basis of pre-agreed benchmarks of progress – be it reduced inflation, more children finishing primary school, or more completed external audits of government accounts. These changes deserve to be reinforced.

Rich countries also harm their developing counterparts in other ways, most notably with their emissions of greenhouse gases. According to the growing scientific consensus, the costs of climate change will disproportionately burden developing countries. Estimates of these costs, including reduced water availability and agricultural productivity, vary from 4 to 22 percent of poor countries' incomes. Rich nations must quickly lead the way in enacting measures beyond the Kyoto Protocol. A market-based system of tradable emissions rights offers a great opportunity to combine efficiency with equitable treatment for developing countries. Poor nations would be allotted enough emissions to ensure future growth – the same right that the industrial countries have enjoyed for centuries. Market-based trading would guarantee that pollution would be cut where costs are lowest, ensuring maximum efficiency: if costs are lower in India than in the United States, for example, the United States could pay India to pollute less, and India would be financially better off in doing so.

Positive steps

Wealthy nations can also take positive steps to directly benefit developing countries – specifically, by taking action against corrupt leaders, assisting research and development, and enhancing global labor mobility.

The deepest challenge for countries in the poorest parts of the world, especially Africa, is governance. The African continent has been ravaged both by civil war and conflict and by rapacious leaders who have plundered the natural wealth of their nations. Corrupt rulers and their weak regimes have arguably been the single most important drag on African development. But with increasing democratization, the situation may be starting to improve. And rich countries can play a large role in the reform process, for the simple reason that corruption has two sides – demand and supply. For every leader who demands a bribe, there is usually a multinational company or a Western official offering to pay it. For every pile of illicit wealth, there is usually a European or American financial institution providing a safe haven for the spoils. The governments of wealthy countries need to take steps to block these activities.

There have been notable strides in the right direction: the British Department for International Development helped found the Extractive Industries Transparency Initiative a few years ago, and the UN and the Organization for Economic Cooperation and

Development (OECD) have been working together to address the bribery of officials in developing countries by foreigners. But these efforts do not go far enough.

Many institutions – the OECD and the U.S. government, for example – have laws against bribing foreign officials. But the regulations are often both narrow in scope and weak on enforcement. For example, a loophole in the U.S. laws (“deferred gifts”) invites abuse. Some OECD rules damage transparency by protecting banks that hide ill-gotten wealth deposited by leaders of developing countries. Multinational companies and banks need to be more transparent in their dealings with poor-country governments. Preempting corruption must also be made more of a priority. One idea, first proposed by Harvard University’s Michael Kremer, is for the international community to categorize certain regimes as corrupt or “odious.” Companies that deal with such regimes would risk losing their claims to repayment if later on a lawful government decided to default on the debt passed down by its unlawful predecessor.

Wealthy countries can also spur technological advances that serve the specific interests of developing countries. Because poor countries lack wealthy markets, private companies in the developed world currently have little incentive to devise technologies for them. Hence a Catch-22 results: developing countries remain poor because of limited technological opportunities, while these opportunities remain difficult to create because the countries are poor.

The health sector provides a good example of the current problem. Pharmaceutical firms in industrialized nations conduct 90 percent of their research on diseases prevalent in the rich world – and that affect less than ten percent of the global population. There is little research on diseases endemic in the poorer parts of the world, because there are no market returns for such investments. Yet developing countries badly need medicine for preventing and curing diseases such as AIDS, malaria, and sleeping sickness. Beyond health care, developing countries also need enhanced crops that can better withstand heat, drought, and the salinization of irrigated land, as well as new energy sources that can reduce the rate of tropical deforestation.

There is already a precedent for foreign research acting to undo this technological imbalance – the “green revolution.” Agricultural production in the developing world was revolutionized by new varieties of wheat developed at Norman Borlaug’s International Maize and Wheat Improvement Center, in Mexico, and new strains of rice cultivated at the International Rice Research Institute, in the Philippines. Although the green revolution’s impact was uneven, benefiting Asia and Latin America more than sub-Saharan Africa, the aggregate effect was nevertheless sizable. In the 1960s, southern Asia witnessed dramatic increases in productivity growth as a result of the new seed varieties. Yale University’s Robert Evenson has estimated that the global return on the research on the new strains was more than 40 percent.

The international community needs to learn from this example, so that the resources of wealthy firms can be harnessed to develop important technologies for the world’s poorest countries. One simple yet powerful improvement would be for rich-country governments to commit contractually to rewarding the creation of such new technologies – for example, with guaranteed purchase agreements. In effect, the international community would ensure a minimum financial return on private research undertaken for the benefit of developing countries. The Center for Global Development has devised a plan for this kind of advance-market-commitment mechanism to spark research on a malaria vaccine, at an estimated cost of \$3 billion. Imagine the benefits of a \$50 billion

global technology-creation fund, with actual disbursement of the funds taking place over ten years or more. That \$50 billion would represent only about five percent of all the financial aid that donors have promised to spend on the poor in the next decade.

Finally, to have a big impact on developing countries, trade negotiators should spend more time improving the cross-border mobility of labor – particularly of low-skill laborers, who typically are at the bottom of the pile. Current WTO negotiations on labor mobility (“mode four” in the trade jargon) focus only on high-skill labor, and even there they have made very little progress. Greater opportunities for poor and less-skilled workers to move across borders would, more than anything else, increase both the efficiency of resource allocation in the world economy and the incomes of the citizens of poor countries.

This fact is based on a simple principle of economics. The loss in efficiency due to segmented (as opposed to integrated) national markets increases with the gap in prices in these different markets, and the loss is further compounded as the gap increases. Now compare price gaps across different types of markets. In markets for goods and capital, quality- and risk-adjusted price gaps from country to country are relatively small – perhaps no more than 50–100 percent. But in labor markets, which suffer from huge border restrictions, wage gaps for similarly skilled workers are enormous – on the order of 500–1,000 percent. That is why even small relaxations of work-visa restrictions generate large income gains for workers from poor countries (as well as for the world economy). What is especially appealing is that the gains in income go directly to the workers, rather than through imperfect distribution channels (as with trade in goods) or through governments (as with aid).

Take, for example, a scheme for temporary work visas amounting to no more than three percent of the rich countries’ total labor force. Under the plan, skilled and unskilled workers from poor nations would be allowed employment in rich countries for three to five years, and they would be replaced by a wave of new workers after their time ended and they returned to their home countries. Such a system would easily yield \$200 billion annually for the citizens of developing nations. The returnees would also bring home far more benefits than their wages alone: experience, entrepreneurship, funds to invest, and an increased work ethic.

To make sure these benefits are realized, such a regime must generate incentives for the workers to return home. Although remittances can be an important source of income for poor families, they rarely spark or sustain long-term economic development. Designing contract labor schemes that are truly temporary is tricky, but it can be done. Unlike in previous plans, there must be clear incentives to ensure the cooperation of each party – workers, employees, and home and host governments. One possibility: withhold a portion of workers’ earnings until they return home. This forced savings scheme would also guarantee that returning workers would have a sizable pool of resources to invest. In addition, there could be penalties – the reduction of worker quotas, say – for home countries with nationals who fail to return. Home governments would thus be motivated to create a hospitable domestic economic and political climate to encourage their people to come back. Of course, even with the best-designed scheme, it is inevitable that the return rate will fall short of 100 percent. Even with this consideration, however, facilitating labor mobility would bring significant gains.

Despite the obvious advantages, is a scheme like this politically feasible in developed countries? If there has been substantial trade liberalization in rich countries, it is not

because it has been popular with voters, but largely because the potential beneficiaries have organized successfully and forced their agendas. Multinational firms and financial enterprises have been quick to recognize the link between enhanced market access abroad and increased profits, and they have put the issues on the negotiating agenda. Temporary labor flows, by contrast, have lacked a well-defined constituency in the developed countries. This is not because the benefits would be smaller, but because the potential beneficiaries are not as clearly identifiable. The tide has begun to turn lately as a result of labor shortages in sectors such as high-tech and seasonal agriculture, and because labor inflows would increase the tax base for financing pension benefits for retirees, thereby providing a partial solution to pension shortfalls in pay-as-you-go systems. Moreover, political realities can change – with the right leadership. In the United States, President George W. Bush has already proposed a temporary-worker program, which if designed properly could mark a useful beginning.

There are of course other ways the rich world could contribute to development. Outsiders should play an important role in preventing and resolving conflicts and humanitarian crises in developing countries. Minimizing and eliminating conflict has obvious benefits for human life – and potentially for long-term development. Just as important is stopping arms sales to dangerous governments and halting the drug and illicit diamond trades that often fund rogue groups. Another important issue is the governance of international economic institutions. The democratic deficit of these institutions has increasingly caused a corresponding legitimacy deficit. Insofar as this gap reduces the effectiveness of such organizations, rich countries would be wise to agree to reforms.

New priorities

The international community must ask itself what really matters for development, so that good intentions can be translated into real benefits for the poorest countries. To a large extent, sustainable progress is in the hands of the poor countries themselves. Internalizing this reality is important for the developing world – and also for the wealthy one, not least because doing so would check the perennial temptation to promise results that cannot be delivered.

That said, this must be clear: developed countries should not abandon the poor to their plight. If, however, rich countries truly aim to help developing countries achieve lasting growth, they must think creatively about the development agenda. If aid is increased and delivered more efficiently and trade inequities are addressed, then the two traditional pillars of development will yield rewards. But these rewards should not be overestimated. Indeed, other courses of action – such as giving poor nations more control over economic policy, financing new development-friendly technologies, and opening up labor markets – could have more significant benefits. It is time to direct the attention of the world's wealthiest countries to other ways of helping the poorest – ways that have been for too long neglected.

REVIEW AND DISCUSSION QUESTIONS

- 1 According to the authors, what do the development experiences of Nicaragua, Vietnam, and Mexico show? Explain.

- 2 To what extent would poor countries benefit from the abolition of agricultural subsidies in rich countries?
- 3 What is the authors' position in regard to how foreign aid can help poor countries develop?
- 4 What reforms are most likely to bring about development in poor countries according to the authors?
- 5 The authors believe that wealthy countries can take certain specific steps to help poor countries. Which of these steps do you believe are most likely to be effective? Which do you find unrealistic or unlikely to achieve the desired outcome? Explain.