GLOBALISATION AND LINKAGES TO 2020:
CAN POOR COUNTRIES AND POOR PEOPLE PROSPER
IN THE NEW GLOBAL AGE?

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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GLOBALISATION AND LINKAGES TO 2020

CAN POOR COUNTRIES AND POOR PEOPLE PROSPER IN THE NEW GLOBAL AGE?

The Road Out of Poverty: Development Progress and Linkages

1. Coupled with sound domestic policies, trade and investment linkages have become the fast track to economic growth. Some of the poorest countries (more than 50 countries have per capita incomes below US$750 at official exchange rates) including China, India, Sri Lanka and Viet Nam, already benefit from this strategy. Others — like Nepal, Ghana, Pakistan, Bangladesh and Togo (and in recent years, Tanzania, Kenya, Uganda, the Gambia and Honduras) — have achieved quite impressive export growth. Private foreign capital has grown in scale and spread to more destinations as countries have succeeded in putting in place the policies that facilitate access to global markets. Even so, as the World Bank noted in a recent study, the ratio of trade to GDP fell in 44 out of 93 cases in the past 10 years and about half of all these countries received little or no foreign direct investment. Except for the few cases where there are large market potentials, private international business has many options and is cautious about investing in new countries, particularly in poor countries.

2. The growth and poverty reduction record in the set of poor countries, mainly in Asia, which over the last three decades oriented their economies towards dynamic participation in world trade, investment and technology flows is generally acknowledged as one of the most extraordinary episodes of economic development in history. A transformation of living standards has been achieved in a range of very different economies, from Indonesia to Singapore to South Korea. No case is more dramatic than that of China, with its population of nearly 1.2 billion. In 1978, at the onset of its economic reforms, some 60 per cent of its people lived in poverty. By 1994, only 27 per cent remained below the poverty line.

3. In sharp contrast, the poverty reduction record has been disappointing and even negative in those countries, whether relatively advanced or relatively poor, that remained too long with economic policies and structures unfriendly to market forces and international trade and investment. This comparison holds even allowing for the terms of trade and financial shocks that exerted powerful effects on developing economies in the 1970s and 1980s. Countries with similar economic structures and income levels fared very differently in growth, poverty reduction and income distribution according to whether or not their policy orientation was geared to succeeding in international markets.

4. It is clear that the success stories achieved through “outward orientation” have involved much more than the opening of markets and a welcoming environment for international investment. Indeed, the liberalisation paths in each country were markedly different and, in most cases, remain to be carried further. Alongside the basic outward orientation, explicit national strategies successfully identified and treated a set of highly country-specific development needs and challenges in terms of a long-term vision. Every “success story” is in fact a dynamic ongoing process, with political and economic challenges that continually evolve. Policy mistakes, adverse external and internal events, inadequate reforms and
unwelcome social consequences are by no means absent in these countries. Many tasks remain unfinished (as indeed in OECD countries), including the fight against poverty, corruption and environmental degradation. Some basic governance issues often remain to be resolved.

5. The complex domestic foundations of successful integration in the world economy explain why linkage-based development is no easy achievement. Because the challenges and opportunities are always country specific, each nation has to find its own way. This invariably involves a major effort of political leadership to overcome social obstacles and rigidities, and to reform areas of major economic dysfunction. New national paradigms have to be created to provide a sense of the fundamental objectives and basic reference points for both public and private sector actors.

6. Such efforts of national redirection are now underway in a wide range of nations and the outlook is fundamentally promising wherever the necessary political resolve and skill are present. New “success stories” are emerging on all continents as progress is made with the basic policy challenges, and the dynamic gains from international trade, investment and technology begin to boost economic performance. At the same time, for some countries the reform process is far from straightforward and the payoff agonisingly slow and unevenly spread. Others have yet to find political leadership willing and able to tackle deep-seated social conflicts and rigidities and the domestic reform and economy-building agenda that is the prerequisite for accessing the global economy. Despite the example of the “Asian miracle”, there is a widespread fear that poor countries will almost inevitably be marginalised in the “new global age” of relentless competition from an increasing number of superior performers.

**Avoiding Marginalisation: The Development Fundamentals**

7. The view that the new global economy will “marginalise” the poorer countries involves a presumption that it will be even more difficult for poor countries to develop and compete in the context of globalisation. Such an assumption ignores both the remarkable past record of successful integration by some poor countries and some features of the new global age that will work strongly in favour of the development process. In particular, the information and communications revolution will lower transactions costs and increase the availability of information and knowledge to poor countries and poor people in a way inconceivable heretofore, while embodied “off the shelf” technologies become more readily available and more competitively priced. These provide high-impact development inputs as, even in poorer countries, economies become information and knowledge intensive. Indeed the potential for technological “catch-up” becomes even larger and easier to capture. Exploiting ways in which poorer countries can use the new information technologies is now becoming recognised as a development priority (cf. the major conference “Global Knowledge ’97”, organised jointly by the World Bank and the Government of Canada, scheduled for June 1997 in Toronto).

8. Marginalisation can better be defined as an incapacity to benefit from the opportunities of the new global economy — and thus to lose ground relative to those who are able to become active players. Marginalisation thus becomes synonymous with failure to make progress with the fundamentals of development. These include, notably:

- promoting agriculture and rural-urban linkages as an engine of development (city states being an exception);
- human capital development through investment in education and health, and the enhanced participation of all people, notably women, in economic and political life;
emergence of effective governance systems under the rule of law, an active civil society, and a capacity to manage internal conflicts;

emergence of a dynamic private sector and effective public sector institutions; and

close attention to establishing macroeconomic stability, domestic savings and financial system development.

9. This list, adapted from the 1995 DAC policy statement on Development Partnerships in the New Global Context, provides shape to the development co-operation agenda for helping poor countries to generate linkage-based development. It emphasises the high importance of human and institutional development and of internal economic linkages to the capacity to become an active player in the global economy. Analytical work and policy discussion too often overlook these fundamentals. Capacity development, in the broadest sense, is the most relevant objective and focus for linkage-based development strategies. Adopting appropriate economic policies forms an essential, integral part of this more complete agenda.

10. Even the successful developing countries have not completed this agenda and their individual records on the constituent elements are uneven. Nevertheless, their stories show that making progress in the right direction on each of these fronts becomes enough at a certain point to launch a new national dynamic and growing linkages with the world economy. The optimistic message for all developing countries is that this process, operating over just two to three decades, can produce dramatic economic transformations.

Africa in the Year 2020: Dynamic or Marginalised?

11. The vision of Africa as a continent with a high risk of marginalisation in the new global age is frequently evoked. Africa is regarded by some as a continent not relevant to contemporary global policy discussions and business trends. It is not a “player”. It is of course always strictly incorrect to talk in generalities about such a differentiated continent; but this image has a basis in the history of the last three decades.

12. For a combination of reasons, most African countries failed to generate economic progress over this period and many suffered economic catastrophe. Explanations put varying weights on factors such as volatility in the world economic, cultural patterns and historical legacies, but others indisputably stem from poor leadership, large policy mistakes and inappropriate, state-based economic models. Previous shares in world markets were lost to more successful developing countries. With financial disaster came a need for urgent macroeconomic adjustment and a major effort to change the economic model. Aid dependence and indebtedness increased to levels which drove the policy process, with donors and multilateral agencies becoming necessary but often intrusive partners in economic policy-making. Africa also suffered from a number of prolonged conflicts and human disasters, only a few of which, such as the food security problem in the Sahel, received a satisfactory long-term response. None of this history was inevitable, as the comparison with a group of South-East Asian countries presented below suggests. Africa’s starting point in the 1960s was in some respects more promising than Asia’s.

13. In the 1990s, a process of economic and political repair is underway, although fragile and uneven and with fresh disasters never far removed. On the economic front, African economic officials and experts and many politicians now share a consensus on the policy reform agenda based on sound finances, privatisation and market-driven economies. At the same time, there is a shared recognition with the
donors and the international financial agencies of the technical and political complexities of this agenda. A path-breaking mechanism for a comprehensive resolution of debt problems is being implemented.

14. On the political front, democratisation and governance issues are being actively addressed in response to both fundamental demands from populations and the need for broad-based participation in development. Civil society is emerging as an important factor in political life. The long-standing conflicts in Mozambique, in Uganda and in Ethiopia have been resolved. Political change has come peacefully to South Africa, opening up new prospects for the whole southern Africa region.

15. The fruits of this economic and political regeneration are already becoming evident in a growing number of countries, including Angola, Ghana, Côte d’Ivoire, Benin, Togo, Mali, Ethiopia, Kenya, Malawi, Mozambique, Uganda, and Tanzania. The IMF has projected growth in Africa at 5 per cent per annum for both 1996 and 1997. It is no longer fanciful to believe that Africa could be poised on the edge of an era of rapid development progress that could transform its image, capacities and role in the world economy within the next 25 years. For this scenario to materialise, Africa’s own leadership capacities are essential.

16. For OECD countries, the stakes involved are high. In 2020, sub-Saharan Africa, with the highest population growth rates in the world, will have 1.1 billion people, nearly half of them under 20 years of age in some countries. The AIDS epidemic has weakened the demographic structure. An African continent continuing to function poorly will generate humanitarian crises and highly negative spillovers in areas such as food insecurity, crime, migration, drugs and financial crises. The human cost in Africa itself would be intolerable. The security and welfare of the rest of the world, and particularly the OECD countries, would be significantly diminished. An African continent making dynamic progress on the other hand will become one of the most important sources of trade creation and a partner in confronting the challenges of sustainable global development in the 21st century.

The South-East Asian Precedent

17. There are “Asian models” that can provide inspiration and guidance for Africans. They are not the models of resource and land poor North-East Asia (Korea and Chinese Taipei), or of the city states of Hong Kong and Singapore. They are the models of South-East Asia — Malaysia, Thailand and Indonesia. Three decades ago, Africa had higher income levels than these countries. Factor endowments were similar. Indeed, the South-East Asian economies competed in many of the same agricultural commodity markets, and through the strategies they adopted and Africa’s failures, they captured substantial shares in these markets from African producers.

18. A recent World Bank study draws out the reasons for the huge divergence in economic performance in three appropriate “side by side” comparative case studies — Nigeria and Indonesia: Côte d’Ivoire and Malaysia; and Tanzania, Ghana and Thailand. (“Practical Lessons for Africa from East Asia in Industrial and Trade Policies” by Peter Harrold et al., World Bank Discussion Paper no 310, April 1996). The comparisons range over basic economic incentive structures and policy design, and institutional performance. In terms of economic outcomes, the results are captured in Figure 1 and Table 1.
19. The highly instructive detailed stories essentially show the following:

- The South-East Asian countries put the success of their export sectors at the top of the list of economic priorities and designed their economic policies around this objective, particularly exchange rate policy and policies to lift performance standards in agriculture and industry and to create appropriate research and commercial infrastructure. The African countries did not see economic competitiveness as a national priority. They destroyed price incentives in their agricultural sectors, and retained uncompetitive agricultural marketing structures. They diverted resources from rural to urban populations and to low productivity infrastructure and industrial investments, in part through the use of overvalued exchange rates and administered allocation of foreign exchange. They created detailed systems of economic regulation that far outstripped their limited bureaucratic capacities and provided major opportunities for rent seeking, which became endemic. Major parts of their production sectors were in the hands of state enterprises with little or no performance or financial discipline.

- At the macroeconomic level, apart from brief episodes, fiscal deficits were kept at sustainable levels in the South-East Asian economies and the policy stance was low-inflation and pro-saving. In contrast, the African cases saw major unsustainable deficits, with the uncontrolled losses and privileges of state enterprises and marketing boards a major factor. Indonesia used its large oil rents productively whereas Nigeria wasted and misappropriated its oil rents, with significant capital flight.

- The South-East Asian countries made effective investments in human capital, with very high rates of primary and technical school enrolment as a priority and with the output of university graduates strongly tuned to the needs and opportunities of their growing economies. African countries managed much less progress with primary education and their universities deteriorated in quality while often producing large numbers of graduates with no employment-related skills.

- South-East Asian countries saw the private sector as an essential element in economic success and gave it encouragement and support. In the African countries, relations between the public and the private sectors were characterised by mutual suspicion, with no concept of orienting policies and services to facilitate the operation of the private sector.
The fundamental conclusion of this comparative study is that two key factors — the attitude to the private sector and placing the development of exports at the centre of economic strategy — were crucial in the approaches of the South-East Asian comparators of Indonesia, Malaysia and Thailand, as indeed they were in the other “East Asian Miracle” countries. In brief, the East Asian governments developed and implemented a long-term vision. The lack of such a vision and commitment contributed greatly to Africa’s lack of development success. The greater commitment to development of many African governments that have come to power in recent times lends hope that such a vision can now be developed.

Table 1: Selected Economic Indicators for Six African and Asian Countries

<table>
<thead>
<tr>
<th>Structure and Production (per cent of GDP)</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>45</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Malaysia</td>
<td>29</td>
<td>..</td>
<td>25</td>
</tr>
<tr>
<td>Thailand</td>
<td>26</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Nigeria</td>
<td>41</td>
<td>34</td>
<td>14</td>
</tr>
<tr>
<td>Tanzania</td>
<td>41</td>
<td>56</td>
<td>17</td>
</tr>
<tr>
<td>Ghana</td>
<td>47</td>
<td>48</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure of Merchandise Exports (per cent of total)</th>
<th>Fuels, Minerals And Metals</th>
<th>Other Primary Commodities</th>
<th>Manufactures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>44</td>
<td>32</td>
<td>54</td>
</tr>
<tr>
<td>Malaysia (a)</td>
<td>30</td>
<td>14</td>
<td>63</td>
</tr>
<tr>
<td>Thailand</td>
<td>15</td>
<td>2</td>
<td>77</td>
</tr>
<tr>
<td>Nigeria (b)</td>
<td>62</td>
<td>94</td>
<td>36</td>
</tr>
<tr>
<td>Tanzania</td>
<td>7</td>
<td>..</td>
<td>80</td>
</tr>
<tr>
<td>Ghana (b)</td>
<td>13</td>
<td>25</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: STARS database, The World Bank

Special African Challenges and Opportunities

The Leadership Base

An African renaissance is possible and may already have begun. At this stage it is important to be neither too pessimistic nor too optimistic. As noted in the conclusions of the World Bank study cited above, the question of leadership and vision is central to economic success. “Africans must assume responsibility for and take charge of their own economic destiny, devising and implementing imaginative strategies to attain the interlinked objectives of diversifying production structures and achieving human-centred development. In this frame, adjustment would form a part of the developmental context, rather than a substitute for it”.

The leadership issue is not straightforward, given that many African governments have fallen into a dependency/follower rather than an initiator/leader mentality. This syndrome is intimately connected with the political history of the continent over the last 30 years and the now high degree of aid dependence in many African countries. The aid process combined with the adjustment agenda has created
a policy overload that cannot be absorbed by domestic policy makers. “At the extreme, donor interventions have been part of the capacity problem in Africa, contributing to capacity erosion, particularly by shifting the initiative in policy making, and the management of investment programmes, into the hands of donors. Both donors and recipients have found the outcome unsatisfactory” (see statements by African Governors of the World Bank). There is a growing consensus that this syndrome has to be broken (see Box 1 on the DAC Strategy for Shaping the 21st Century: the Contribution of Development Co-operation).

Box 1: Shaping the 21st Century

The next twenty-five years will be vital in determining our collective and individual well-being in the 21st century. Development co-operation is one of the key investments we can make to help shape the outcome. At the 1995 High Level Meeting of the Development Assistance Committee (DAC), OECD Aid Ministers and Heads of Aid Agencies endorsed a strategic vision for development co-operation that could and should contribute to human welfare over the next 20 years.

The results of this reflection are set out in the 1996 DAC Report on Shaping the 21st Century: the Contribution of Development Co-operation. In this strategy statement, OECD donors recognise that they must adopt radical new approaches to the aid process. “We will need to change how we think and how we operate, in a far more co-ordinated effort than we have known until now”. A new concept of development partnerships is being tested out in a number of developing countries, where the objective is to facilitate domestic leadership and to replace external conditionalities by real commitment to national goals and strategies for development progress.

The set of specific development goals set out in this statement is an illustrative list drawn from the outcomes of the series of global development conferences held in the 1990s, which have produced wide consensus on the core objectives and strategies. Adoption and implementation has to be a national process based on national needs and circumstances. The goals also provide a benchmark for assessing global development progress over the next two decades, specifically:

**Economic well-being:**
- a reduction by one-half in the proportion of people living in extreme poverty by 2015.

**Social development:**
- universal primary education in all countries by 2015;
- demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;
- a reduction by two-thirds in the mortality rates for infants and children under 5 and a reduction by three-fourths in maternal mortality, all by 2015;
- access through the primary health care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than 2015.

**Environment sustainability and regeneration:**
- the implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

**Political development:**
- the evolution of more stable, safe, participatory and just societies through capacity development for effective, democratic and accountable governance, the protection of human rights and respect for the rule of law.


23. The African continent needs not just national but also regional and sub-regional economic visions. Regional visions will be crucial to facilitating and accommodating the dynamic demographic and economic shifts that are an ineluctable part of Africa’s future. They will also be central to conflict prevention, resolution and rehabilitation efforts, which must become the responsibility of Africans themselves. It is difficult to foresee a sustainable solution to the Great Lakes conflict, for example, without an imaginative regional economic vision at its centre to provide responses to the complex economic and governance problems that underlie the conflict.
The Economic Base

24. While “outward-orientation” should be the essential guide for economic policy in Africa, this does not mean that economic growth will be generated only in the export sectors. This was never the case in Asia. The development process has a central internal dimension, namely the classic process of rural to urban migration with an accompanying increase in farm productivity and the emergence of a rural service sector and infrastructure. Overvalued exchange rates and aid-financed food imports have so far discouraged the emergence of the virtuous circle of exchange between a prosperous market-oriented agricultural sector and local manufacturing and service sectors that characterises the Asian economies.

25. With these policies now hopefully in the past, the rural-urban development cycle could constitute a major economic dynamic for Africa in the next decades. Most Africans will find income and employment growth here. Facilitating policies will be needed at all levels — local, national, sub-region and region — and environmental and urban management issues will be major challenges.

26. Both the outward orientation approach and the evolution of the rural-urban dynamic will require a fundamental change in the relationship between the private and public sectors. The privatisation process will have to be taken as far as possible. Just as important, the civil service, at a low ebb in most African states, needs to be reinvented, with a strong service and performance orientation. This is essential to the kind of support needed for the emergence of a strong private sector, whether at the level of smallholder agriculture or the attraction of large foreign investments. (See Box 2 on Reinventing the Ministry of Agriculture in Zimbabwe.)

27. The high costs of transport present a major impediment to the growth of competitive exports. The transport sector needs comprehensive policy reform. Transport infrastructure needs to be rehabilitated and created. The telecommunications sector requires a regulatory environment and institutions adapted to bringing Africa into the global information age.

The Social Capital Base: Human and Institutional Development

28. The political and economic regimes of the last decades seriously impeded the emergence of strong institutions and networks in the private sector and in civil society, both at national and local levels, and weakened the institutions of governance. Change is now evident in these fields. There is much energy in Africa at the grassroots level as well as in the arena of national debate. Its release can have powerful effects on economic and social performance and is crucial to the realisation of a national vision. Retaining educated Africans with world-class abilities is of special importance. The creation of a large educated class is one of the true achievements of Africa in the last thirty years and its most important asset.

29. African women play a strategic role in social action movements and are emerging in the professions and in political life. They will make a major contribution to solving some of the basic social and economic problems in African countries, particularly in the health and education sectors, and to strengthening the production sectors where women already have a predominant role, such as small-holder agriculture and microenterprises.
The Financial Base: A Virtuous Circle Scenario

30. Africa cannot develop dynamically on the basis of aid flows and debt reduction. It needs growing domestic savings and tax revenues, the return of the considerable volume of African flight capital, and foreign investment. These will come as and when African policies are seen to be decisively in a new phase and improvements in the functioning of African governments and societies are realised. In some countries, the beginnings of this virtuous circle are appearing, though in most much foundation-laying work still remains to be done.

31. In a high growth scenario, African countries with excessive levels of aid dependence should have reduced their reliance on aid to a fraction of the current level by the year 2020. To state this as a goal may seem premature, but it is important to create this mutual expectation amongst both donors and recipients, and it needs to be part of the vision that African governments have of their future. This does not mean that absolute levels of aid will or should fall for a long time to come, or that aid to African countries will not continue to be important in the year 2020, as it is in Indonesia, India and China today.

Box 2: Reinventing the Ministry of Agriculture in Zimbabwe

Civil service reform in African countries is essential to the emergence of well-functioning states that underpin the development of the flourishing, competitive private sector so essential to linkages-based economic strategies. Effective public institutions are also needed to enhance the capacity of people at the grassroots level, both men and women, to participate more effectively in the economic process.

This demands qualitative change -- a shift in the cultures and ethos of public agencies in Africa towards a strong service and performance orientation, creative approaches to the mapping of tasks and solutions, and the encouragement of learning networks. In the last decade, structural adjustment programmes have laid great stress on quantitative reform. Conditionalities have set targets for the downsizing of bloated but poorly paid civil services in Africa, clearly a necessary requirement from both a fiscal and a performance angle. Success with this approach has been elusive. However, some important examples have demonstrated that qualitative reform and real progress towards an optimal size and configuration can be achieved when Africans themselves take on the task of defining objectives and implementing the reform process.

When the Ministry of Agriculture in Zimbabwe decided to embark on major qualitative change, it explicitly rejected the kind of technical approach using outside consultants that had hitherto been the norm. In its experience, this approach produced studies which focused on the deficiencies of the organisation and mobilised the “energies of resistance” rather than the capacities for self-renewal. With the help of the German Technical Assistance Agency (GTZ), the Ministry embarked on its own “Management and Institutional Performance Programme” (MIPP), designed to adjust its structures and processes to changes in its environment in a self-generated and service-oriented manner. A set of “change projects” were designed to target priority areas in the organisation. Internal “change project teams” developed purpose definitions and action plans.

The MIPP transformed the Ministry, with results ranging from cost savings and faster processes, to more appropriate structures, roles and responsibilities, to major improvements in job satisfaction and customer orientation. The Ministry became a pace-setter in the public service of Zimbabwe. Other Ministries and organisations, including in the private sector, and even some donors, asked for help and advice in implementing their own MIPPs. And now an MIPP network involving the Ministries of Agriculture in Zambia, South Africa and Namibia as well as Zimbabwe has been formed.

Clearly, well functioning, customer-oriented Ministries of Agriculture in these countries, enjoying high morale and wide respect, can make a major impact on poverty and food security. But equally, they are critical to the competitive development of the agro-industrial export sector and thus to the construction of dynamic linkages with the world economy, as the experience in South-East Asia described in the text suggests.

In other words, the qualitative institutional change needed in Africa is possible, and indeed eagerly sought after by Africans. The kind of low-cost, high-impact assistance from the GTZ, which essentially contributed the methodology and skilful “facilitation” services, illustrates how “development partners” can help.

This account is based on a presentation given by Dr. T. Takavarasha, Permanent Secretary of Agriculture in Zimbabwe, to a seminar conducted by the Informal DAC Network on Technical Cooperation, hosted in Paris in December 1996 by the French Ministries of Foreign Affairs and Cooperation.
32. There is now a crucial opportunity to clear up the remaining African debt problems, through the recently created mechanisms agreed in the World Bank/IMF framework. Through these mechanisms, it is possible that by the year 2005 most highly indebted African countries could have worked through to qualify for a decisive agreement to have excessive debt taken off their shoulders. That process would in itself do much to stimulate the transition to a new era of macroeconomic stability and financial creditworthiness in Africa, and thus help to launch an “African miracle” in the 21st century.

The Contribution of OECD Countries

33. The discussion of African prospects helps to make concrete the analysis of linkages, development and poverty reduction for the region with the highest levels of aid dependence. Similar conclusions can be reached on other less advanced developing countries with weak links to the world economy: dynamic growth can be achieved through becoming an active participant in the new global economy, and the evidence shows that such growth does provide the highway to poverty reduction.

34. The essential message is that economic performance requires development progress and that making the economic performance goal a central national priority in turn provides the best basis for development progress. Integrating with the world economy and accelerating human development are not separate agendas. This is the theme and the vision set out by the DAC in its 1996 21st Century Strategy (see Box 1).

35. The OECD countries must:

- follow through with the policy agenda set out in that statement, which requires major changes of approach to aid relationships and processes;
- remain committed to the integration of the less advanced developing countries in the world economy, providing adequate time and policy attention to this objective even as the more advanced and bigger players among the developing countries move into the foreground;
- make a more systematic effort to approach their political and economic relations with less advanced countries and regions, including Africa, in a longer term, strategic framework, with a more rigorous effort to align the practice of aid to the change in economic strategies and policy thinking that is occurring.
ANNEX I:

WHAT HAS GLOBALISATION MEANT FOR WOMEN IN THE DEVELOPING WORLD?

Note by Patricia Alexander, Asian Development Bank, CIDA-Financed Consultant on Gender Aspects of Linkages II

1. The expansion of world-wide linkages and the advance of globalisation are affecting people in different parts of the world differently. Global economic restructuring is taking place in some parts of the world through an acceleration of investment and rapid growth, and in others is marked by stagnation. Women, who have come after men to the labour market, are acutely affected by the pattern and pace of change.

2. The global integration of production has had an important impact on employment structures. Among other things, it has affected the kind and number of job opportunities available to women, which has in turn affected women's status in families and communities. In the past two decades, more women than ever before have moved into the economically active population. In many cases this reflects their movement from unpaid domestic farm work to wage employment. In general, access to employment raises women's bargaining power within the family, the workplace and society at large. By contrast, in those regions left behind by global production, women have been the first to suffer from the decline in economic activity, job loss, and lower cash incomes.

3. One of the most striking employment events in the past two decades has been the growing presence of women in the expanding industrial sectors of developing countries. Many of these women have come from rural areas, diluting and in some countries reversing the trend in the 1950s and 1960s when the majority of urban in-migrants were male. In that post-war era, the search to augment rural family earnings frequently took the form of male migration to join construction projects in the expanding urban areas. In the dynamic developing economies, the new labour demand is for women in industry and services.

4. Since the 1980s, many developing countries show a larger number of women than men moving to the cities, and in many countries women have made up the majority of the incremental labour force.

5. How have these changes come about, and what is their importance? There are two main ways in which globalisation and increased linkages have affected women's employment. First, through the expansion of world trade, a shift has taken place in the kinds of jobs that are available, favouring sectors that employ women, and decreasing the size of some of the traditionally male-dominated industries. Second, increasing globalisation, which has been made possible with improvements in communications technology, has created new jobs in services, particularly in the information technology area and in financial and related services. These, too, are fields that are relatively open to women.
Trade-related employment

6. The expansion of world trade in the past fifteen years has come about under conditions of improved technological processes and communications. These changes have made it possible for production to be dispersed over multiple sites, allowing producers to break down the production process and to seek out the lowest costs for each stage of production. In parallel with these developments, in the past two decades countries have increasingly looked to trade as the means to expand output and raise national income; almost all have turned away from inward-looking, import-substitution development strategies. They have removed restrictions on exports and have deregulated investment, and in the fastest-growing countries trade has led GDP growth. With the availability of new technologies and abundant labour, these countries have decreased their reliance on commodities as their principal export items, and have sought competitive advantage in manufactured goods.

7. The areas in which they have been most successful have been in garments and textiles, footwear, and food processing. Subsequently, those that have developed their manufacturing capability have added pharmaceuticals and electrical and electronic goods and components. These are all labour-intensive industries, and the developing world has employed its cheap labour advantage to make a success of them. Labour-intensive manufactures represent the sector in which developing countries have been able to acquire their largest market share. The work force of choice in these industries has been young, single, rural women with no previous experience of wage work. At the same time trade liberalization has meant the removal of state support to a number of industries that were originally established to develop domestic self-sufficiency. These included heavy, capital-intensive industries, protected as "infant industries" in the interest of national objectives of independence or security. Such industrialisation strategies developed manufacturing structures that tended to employ men. As support for these industries has declined, there has been a relative decline in their employment levels, and a shift to industries which can be competitive on a world scale from the time of start-up, without state support.

8. The link between the employment of women and the expansion of export industries is so marked that it has become an axiom of research on trade development: no country that has raised its manufacturing export levels has done so without increasing women's participation in the modern (monetized) economy. That is, higher participation rates for women are an indication of movement from unpaid domestic and agricultural work, much of which is not defined as economic activity, into paid employment. Indeed, women's labour force participation rates increased over most of the developing world in the last twenty-five years, and more rapidly in the 1980s and 1990s, when world trade also grew more rapidly, than in the 1970s.

9. As countries have been convinced in the new trade liberalisation era to do without protection policies, women have been crucial in enabling developing countries to be competitive from the starting post, and a vital factor in the expanded contribution of exports to these countries' incomes. Women's participation in industry has grown to account for one third of the industrial work force in the developing world, higher than the proportion of women in industry in OECD countries. (Some examples for OECD: women make up - US, 25.5 per cent; Germany 25.6 per cent; Japan 31.4 per cent of the total industrial work force in each country. Women in several other European countries have significantly lower shares.) Most of these women are in trade-related manufacturing in South-East and East Asia, Latin America and the Caribbean, and parts of North Africa. The export-processing zones - special, limited areas that have been created in more than 50 countries to provide extraordinary incentives to exporting firms - represent only a small fraction of working women, but within the zones 75 to 97 per cent of the work force is female.
10. This pattern of women’s employment has been analysed by Susan Joekes, for the United Nations Research Institute for Social Development. She states, “The association of growth of exports with the feminization of the industrial labour force has held in all developing countries, whatever their level of income, or the previous pattern of female employment, or the qualifications and experience of the female labour force, or -- perhaps most striking of all -- the cultural norms pertaining to women taking paid employment.”

Service sector

11. Another component of globalisation, the improvement of communications through technological innovation, has also expanded the range and number of jobs in information technology, and has stimulated the expansion of service sector jobs in financial and other services. Joekes summarizes: "New jobs are being created in information-based industries, which use telecommunications infrastructure to access cheap, educated female labour in developing countries for operations such as data processing, much as the improvement in international physical transportation links facilitated expansion earlier of production capacity in clothing and electronics in developing countries. An additional phenomenon is "the establishment in developing countries of branches of service sector, such as banks and insurance companies selling to consumers, and specialist producer services (e.g. advertising, accounting, legal services) meeting the needs of other enterprises. Often these establishments supply services to other countries in the region." Further, some of the functions formerly included in the manufacturing sector, such as engineering, testing, accounting, components of management, marketing, and so on, are increasingly offered by specialised firms. In many of these areas, women are being employed in large numbers, on the basis of their low-wage advantage, and as a consequence of the traditional streaming of girls in schools into liberal arts, and clerical and service vocational courses.

Policy issues

12. Not only can women be hired at lower wages, but they are perceived by employers as compliant and reliable workers. It is evident that women’s status has worked for and against them: they have been successful in taking up newly available jobs, and have been able to contribute to family incomes. But they have done so because they are available as the cheapest labourers. In the export industries of the developing world, where skill and experience differences are not marked, women are earning on average only two thirds of male wages. While these wages are a relative improvement over earnings in subsistence agriculture and domestic service, from which many industrial workers have come, they may not be enough to decrease the gap between male and female wages, or to enable women to invest adequately in the human development of themselves and their children.

13. In assessing the impact of globalisation on women, it is important to ask: What are the trends in the pay and employment conditions of the new jobs that have been created, and, are these jobs here to stay, or merely a passing phenomenon as further changes take place? The pattern of shifting of the low-end technology jobs to regions of cheap labour, and their subsequent removal as the country’s productivity and wages improve, is evident in the history of the garment industry and others similar to it. Clothing manufacturers moved their operations from developed countries to the newly industrializing economies (NIEs) in the 1950s and 1960s, and the pattern of female employment in manufacturing was established in these countries at that time. But, with rising wages in the NIEs, manufacturers set up arrangements with domestic investors in Thailand, Malaysia, Indonesia and the Philippines, the "next NIEs”. The next move, to China, Bangladesh, mainland South-East Asia, and other regions, is already evident.

14. The NIEs and the "next NIEs", to maintain their competitiveness, have to move up to medium- and medium-high technology to retain their share of world trade. This means retraining workers, and,
thanks to investments in primary education the more successful countries made in the past, workers are in a position to undergo retraining and upgrading. But disquieting evidence from around the world is revealing that few women are gaining access to training opportunities, despite their accumulated industrial experience. It seems clear in every area studied that relatively few women are receiving technical or vocational training, compared with the numbers having the prerequisite educational levels and experience. As movement up the technology ladder takes place, there is serious risk that women will not acquire the skills that will allow them to improve their bargaining power or even to retain their jobs in expanding sectors.

15. A question raised is how best to improve the relative position of women. When so much of women's newly created employment comes out of expanded global production structures and the close linkages of firms world-wide, it seems natural to ask whether trade-sanctioned social clauses should be the vehicle of change towards greater gender equality. On this issue, not only developing country governments, but women's and worker's groups in these countries, have not welcomed social clause proposals, and have tended to see such ideas as thinly veiled protectionism that may jeopardise their jobs. It may be more important to look to the legal framework of labour markets in developing countries, to be sure that women have all the legal rights and the means to articulate their needs, in ways and when they wish to do so. In this sense, international agencies and meetings might best bend their efforts to ensure that all countries guarantee the basic freedoms of association and elimination of discrimination set out in the major international human rights agreements, such as the ILO conventions and the UN Convention on the Elimination of all Forms of Discrimination against Women. Equally important, countries must be encouraged to implement these conventions, which are frequently ignored or, in the case of most of the "special" export processing zones, exempted from labour rights provisions. In domestic policy, emphasis should be placed on ensuring that women gain access to training programs that will enable them to adapt their skills to the ever-changing demands of the labour market. This should be done through directed programs and targets in in-service training, and basic changes in secondary and vocational schooling that encourage women to take advantage of technical materials in their basic education.

Statistical Evidence

16. In the past two decades women's share in the labour force increased in almost all regions of the developing world. The exception was sub-Saharan Africa, the region which has not increased its share of world trade. Women make up 40 per cent or more of the labour force in the Caribbean, and the east, south-east and central regions of Asia. Women's participation in the labour force increased more in the 1980s and 1990s than in the 1970s, in parallel with the expansion of world trade, the development of new technologies, and the shift in production sites of labour-intensive processes. Overall, areas where economic growth has been strong have had higher labour market demand, and women's participation rates have risen. By contrast, where economic contraction has taken place, as in sub-Saharan Africa and Eastern Europe, women have been pushed out of jobs, and women's labour force participation has declined more than men's. Sub-Saharan Africa is also the region with the lowest proportion of women in industry.

17. Some striking examples emerge in the Asian export sector. Bangladesh, which has developed a garment industry beginning from negligible size in 1984, has seen its women's labour force participation grow from under 10 per cent at that time to 62 per cent in 1994. In the same period women have made up two-thirds of the incremental labour force in the country. More than 85 per cent of garment workers are women.

18. Thailand, which has been one of the fastest-growing economies in the world for the past 15 years, has derived more and more of its growth from manufactured exports. Within the five leading
export industries (electronics, textiles and garments, processed food, precious stones and footwear),
women account for 72 to 90 per cent of the work force.

19. The situation in services displays somewhat different patterns. The services sector has become
dominant in some regions, such as Latin America and the Caribbean, where it employs the largest
proportion of women - around 75 per cent. This figure resembles levels in Europe, where 79 per cent of
women work in the sector. Services are also the largest employer of women in Asia, at about 40 per cent
of the female labour force. The proportion varies within the region, from 35 to 60 per cent, with the
exception of South Asia. South Asia has a small services sector, like sub-Saharan Africa, and in both
regions women make up only 20 per cent of the sector work force. In all regions of the world there is a
pronounced tendency for feminization of the informal sector. More than 60 per cent of urban African
women work in the informal sector, mostly in trade and services.
ANNEX II:

TOWARDS A NEW GLOBAL AGE:
CHALLENGES AND OPPORTUNITIES
HIGHLIGHTS FROM THE POLICY REPORT OF THE SECRETARY-GENERAL

1. The Secretary-General’s Policy Report is based on an extensive Analytical Report which will be published shortly. Key points are highlighted below, following the structure of the Policy Report.

I. A Window of Opportunity

2. Today’s globalising world economy provides an historic coincidence of interests for OECD and non-OECD countries. Closer linkages between these economies are beneficial for sustained economic growth, improving living standards and eliminating poverty. There is now a window of opportunity for improving welfare in all areas of the world, by shifting economies onto a higher performance growth path.

3. There are, however, a number of major challenges which must be addressed to realise this opportunity, in particular:

   – Further progress will be necessary in the liberalisation of trade, investment and financial flows, and in strengthening the rules-based multilateral system. This would facilitate a deepening of economic integration between the world's economies.

   – In some OECD countries, there are already signs of a backlash against globalisation. Persistent unemployment, widening income inequality and de-industrialisation are sometimes portrayed as a consequence of globalisation. To tackle these problems, a wide range of domestic policy reforms are necessary in OECD countries to make their economies and societies more adaptable and dynamic. This would facilitate realising more fully the benefits of intensifying linkages with a growing number of non-OECD economies, while enhancing social cohesion.

   – In most non-OECD economies, far-reaching policy changes are needed, particularly in those countries where the transition from a developing to a more advanced economic structure has in many cases (notably sub-Saharan Africa) just begun.

   – Globalisation can promote a more efficient and less environmentally-damaging pattern of economic development, but these gains may be overwhelmed by the pollution and resource use associated with the increased scale of economic activity. Also, in the absence of effective environmental policies, intensified trade and investment could amplify existing policy and market failures which underlie an already stressed environment, thereby generating additional opposition to policies promoting globalisation.

4. A ‘New Global Age’ is now taking shape, where all countries can be active players, where people currently trapped in poverty can aspire to much better levels of material well-being. That
inspiration has become a working agenda for the international community, including both OECD and non-OECD countries, which are attempting to realise their coincidence of interests in:

- greater political security for all countries through an advanced state of mutually-beneficial economic interdependence, creating strong bonds of common interests and shared approaches to the organisation of economic systems;
- increasing economic prosperity for all countries at all stages of development, and greater opportunity for all people to realise their potential and aspirations; and
- an environment which supports the health and well-being of people throughout the world as well as sustainable economic activity.

5. In this regard, the international community has been increasingly adopting longer-term policy goals, notably in respect of free trade and investment, into the next century. APEC has adopted the goal of free trade and investment in the Asia-Pacific region by 2020. The 34 democracies of the western hemisphere agreed to devise a Free Trade Area of the Americas (FTAA) by 2005, building on the North American Free Trade Agreement. The European Union has also agreed with 12 Mediterranean countries (Euromed) to establish free trade by 2010. In addition, the OECD Development Assistance Committee has selected goals for economic well-being, social development, and environmental sustainability and regeneration in developing countries (mostly for the year 2015).

6. The main purpose of this report is to set out some of the key economic, social and environmental policy challenges for realising a 'New Global Age' (Section IV), along with some implications for the role of international organisations, including the OECD, in helping to achieve this goal (Section V). As a backdrop to this discussion, two alternative visions are presented of the world economy in 2020 -- a 'business-as-usual' scenario, and a high performance vision of the world economy, where governments seize the challenge of realising a 'New Global Age' (Section III). This high performance vision is not a forecast, instead it seeks to paint a realistic possibility for the world economy, if governments undertake a wide range of necessary policy reforms.

II. Understanding Some of the Challenges

7. The global economic situation is one of great, but still fragile, promise. Both OECD and non-OECD countries are increasingly embracing policies that enhance economic growth and welfare, especially through the reduction or elimination of barriers to the international flows of goods, services and finance. Economic performance has its roots in human capital and well-functioning social institutions, while a malfunctioning economy blocks social progress, reinforces social rigidities and produces social distress.

8. The past decade has seen the adoption of free market principles by a wide range of countries, which has spurred their economic growth and integration into the global economy:

- The former centrally-planned economies (including Russia) have now made great progress in moving toward a market system.
- China has emerged as the world's fastest growing economy, and the share of its population in poverty has halved since its historic policy shift in 1978.
Indonesia has successfully transformed itself from a heavily resource-dependent economy in the early 1980s to a major exporter of light manufactures, and also seen a large drop in poverty.

India’s reforms began in earnest in only 1991, but the effects on growth and exports have already been visible.

Brazil and many other Latin American countries have made dramatic progress in stabilising, reforming and restructuring their economies, with positive results, following the lost decade of the 1980s.

Sub-Saharan Africa has been slower to emerge from the crisis of the 1980s, with GDP growth in the 1990s being lower than the previous decade. Nevertheless, growth performance and prospects are now improving, with an increasing number of countries moving to strengthen macroeconomic management and to liberalise their economies.

In many respects the Big 5 (Russia, China, Indonesia, India, Brazil) are major players. They are the only non-OECD countries to have both populations in excess of 100 million and GDP above $100 billion. They also play an important role across many fields, such as trade, investment, agriculture, energy (including nuclear) and the global environment. Along with other countries, they each play a leadership role in their respective regions and in international relations.

### III. A New Global Age in 2020

If, however, OECD and non-OECD governments move towards global free trade and capital movements, and undertake the necessary domestic reforms (including implementation of the OECD Jobs Strategy), world prosperity could be very much greater (a ‘New Global Age’). In these circumstances, some of the broad lines of the world economy could be:

- real GDP per capita in the OECD area would be close to 80 per cent higher in 2020 than now (compared with about 50 per cent higher under 'business as usual') (see Table 1).

- unemployment rates in Europe could fall to around 5 per cent, reversing the rise that started in the early 1970s.

- progress would be far more dramatic in the non-OECD world, given its generally lower level of development. Real GDP per capita would be around 270 per cent above 1992 levels by 2020 (compared with about 100 per cent under 'business as usual') (see Table 1).

- non-OECD economies would continue their catch-up towards the development levels of OECD countries, as average GDP per capita could rise from only 15 per cent of that in the OECD area to some 30 per cent in 2020. Per capita output in the Dynamic Asian Economies as well as a few others (like Argentina and Chile) could be in the middle to upper range of OECD Member countries.
Table 1. GDP growth
(percentage growth from 1995-2020, based on 1992 PPP $)

<table>
<thead>
<tr>
<th>GDP</th>
<th>GDP per capita</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>High - Performance</td>
</tr>
<tr>
<td>World</td>
<td>227</td>
</tr>
<tr>
<td>Total Non-OECD</td>
<td>420</td>
</tr>
<tr>
<td>Big 5</td>
<td>469</td>
</tr>
<tr>
<td>Total OECD</td>
<td>104</td>
</tr>
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</table>

Source: OECD Secretariat projections.

Note: All projections are based on existing OECD membership.

− higher growth in the non-OECD area would also mean a big shift in global economic weight, as the non-OECD share of world GDP would rise to more than 60 per cent, from around 40 per cent in 1995. The Big 5 could together account for a third of world GDP, about the same as the OECD countries, partly due to their very large populations. China could be the world's largest economy, equivalent in size to half of the OECD.

− the non-OECD area could become a driving force in the global economy, and OECD economic performance could depend more and more on their policies and performance, particularly the Big 5. The OECD share of world trade could decline significantly, from two-thirds at present to almost one-half.

− there would be a deepening and widening of economic integration among all economies, including between the OECD and the non-OECD. With the elimination of barriers and continued reductions in transport costs, trade would rise from 30 per cent of world GDP today to almost 50 per cent in 2020, stimulating growth in all countries.

IV. Realising the Vision for 2020

(i) Strengthening the multilateral system

11. Great progress has been made towards free trade and capital movements, but some border barriers still remain and many 'behind-the-border' barriers are still need to be tackled. Adjustment to a greater presence of non-OECD economies in world trade and investment may lead to 'frictions' that could challenge the multilateral system.

(ii) Domestic policy reform in OECD countries

12. Considerable progress has been made in liberalisation of financial markets and international trade, but labour market and regulatory reforms are much less advanced. Greater progress will be necessary to facilitate structural adjustment, maintain social cohesion and realise fully the benefits of a 'New Global Age'.
iii) **Consolidating integration of non-OECD countries into global economy**

13. While an increasing number of non-OECD economies are integrating into the global economy, a large number, particularly in Africa, are marginalised. Development co-operation needs to play a catalytic role in developing the economic, human, social and institutional capacities required to participate actively in the global economy, accelerating the development process and the reduction of poverty.

iv) **Policies for sustainable development**

14. High economic growth in a 'New Global Age' would increase environmental pressures, in the absence of effective policy responses. It would also lead to substantial increases in the demand for energy and agriculture products, necessitating improvements in global supply.

V. **Fostering a Common Commitment to a High-Performing World**

15. The whole range of international institutions - from the UN system and the WTO, to the IMF and the multilateral development banks, and to the many regional groupings - is now working to develop policies that promote economic prosperity, political security (including through enhanced economic interdependence) and sustainable development - policies that would help realise a 'New Global Age'.

16. The OECD is an instrument of economic co-operation at the disposal of its Members and, through them, of the international community. It is an inter-governmental economic organisation, global (though not universal) in its membership, with unique structures and methods of work relying on confidential dialogue and peer pressure to bring international co-operation and collaboration to policies which carry international implications. Along with other international organisations, it can make a contribution towards the realisation of a 'New Global Age' through its analysis of important national and international problems, in a multidisciplinary and forward-looking way. This includes designing policies to balance carefully the triangular paradigm of economic growth, social stability and effective governance.
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