# CHARLES UNIVERSITY IN PRAGUE

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## ***The role played by global forces in development of developing countries***

*Master thesis*

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1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.

2. The author hereby declares that all the sources and literature used have been properly cited.

3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

**[16th May 2014]** **Funmi Sotuminu Sign: Funmi.S**

# Abstract

This objective of this thesis is to explore the role global interest can play in the economic development of developing and less developed countries. As this topic is quite broad it was limited to exploring the role played by the World Bank, IMF and WTO along with the role-played by Multinational corporation. The paper explore the role of the World Bank and IMF through the channel of structural adjustment policies and find development aid ineffective due to the often divergent interest of these institutions and development objectives on national governments manifesting themselves in condition based on neo-liberal economics even with its short term benefits. As trade is a growth driver the WTO is also explored and arguably plays a more important role in driving development of member countries. Preferential Trade Agreements can be beneficial in the short term but other agreement seem to benefit industrialized countries more and thus creating a imbalance between industrialized and developing nations. The paper finds that Multinationals must be incentivized and coerced by proper international or national regulation, as they do not have a mandate to assist development objectives.

**Keywords**

Economic development, Development Assistance, Structural Adjustment,

Industralized country, Developing country, World Bank. IMF, WTO

# Abstract (Cesky)

Tato práce zkoumá roli globálních hráčů v hospodářském rozvoji zemí třetího světa. Vzhledem k šíří této problematiky, zaměřuje se tato práce pouze na roli Světové banky, Mezinárodního měnového fondu, Světové obchodní organizace a nadnárodních korporací. Výchozím bodem této práce je, že cílem Světové banky a Mezinárodního měnového fondu je prosazování strukturálních změn. Avšak vzhledem k rozdílnostem v jejích strategiích, jsou tyto snahy málo efektivní. Velká pozornost je věnována globálnímu obchodu, Světové obchodní organizaci a zejména Preferenčním obchodním dohodám, které jsou prospěšné v krátkodobém horizontu, ale v dlouhodobě přináší užitek průmyslově vyspělým zemím. To způsobuje další nerovnováhu mezi vyspělými a rozvojovými zeměmi. Závěr je takový, že činnost nadnárodních akterů musí být motivována a donucena správnými mezinarodními nebo národními regulacemi, protože  nemají povinnost podporovat rozvojové cíle.

# Introduction

Aid as a global operation channels billions of dollars to less economically developed countries each year and as an industry employs thousands of people in various organizations across the world. The concept of development aid goes back to the beginning of the twentieth century at a time where the colonial powers in Western Europe control most of what is now Africa, parts of Asia and the Americas. Development aid sometimes referred to as foreign aid not to be confused with humanitarian aid focusing on short-term response to natural disasters like famine, droughts, floods and wars etc. In the recent past some more economically advanced countries have been recipients of this sort of humanitarian assistance in crisis situations notably Japan during the height of the Fukusima earthquake disaster. It is worth noting that although most aid, whether development or humanitarian comes from Western countries and Institutions some emerging economies also contribute be it is at a much smaller scale. The relevance of this chapter is to show the motivations and patterns there have been for giving foreign aid historically.

For the sake of this thesis a few definitions of Development aid will given. According to Anil K. Singh, the Secretary General of the South Asian Network for Social & Agricultural Development (SANSAD) Foreign aid or Official Development Assistance can be defined as a "transfer of resources on concessional terms undertaken by official agencies in an attempt to promote economic development and welfare as its main object at least outwardly"[1]. There is often a grant element to this usually 25 percent or more. The United State Agency for International Development (USAID) defines foreign aid as the transfer of money, goods, and services from one country to another and considers it as an important aspect of the United States foreign policy apparatus. This is an important point that will be discussed further in the paper it sometimes appears as though the interest of the aid donors, and recipients are not always the same. Regardless of the constant changes over time the development objectives of aid programs have been contorted to gain a commercial or political advantage for donors and to an extent the elite in aid recipient nations. It can be argued that this goes back to the gifts from one ruler to another in medieval times seen as a gift to the population of the receiving state which has some similarity to the modern-day structure. Moreover this is not always the case but it is worth noting that the model of economic development modern ideology is centered on the neo-liberal economics.

[1] Anil K.Singh (2009) Overseas Development Assistance

# History of Development Aid

This chapter is necessary as it can give an understanding of the current development aid architecture, why it has developed to what it is today and why it is has been seen as the major tool for long tem economic development

**European Colonial Period**

As early as the nineteenth century specifically in 1812 the United States congress passed the Act for the Relief of Citizens of Venezuela and in 1896 through the Ministry of Agriculture used the allocation of food surplus in an attempt to develop the market, which "exemplifies the tensions in aid programs between relief and assistance" [2]. Under the leadership of Neville Chamberlain in the 1870s official financing of colonies was originally considered. At the turn on the twentieth century the European colonial powers especially the British Empire at the time exported capital and manufactured goods to their colonies in exchange for significant importation of primary goods like rubber, cocoa, precious metals and other raw materials. The British policy of colonial development emerged during this period. This is the foundation of the trading relationship that exist till the modern day with the relationship of the French and its former African colonies being the most clear example of this pattern. The government policy of the day was inclined towards laissez-faire economics with the flow of commodities and capital determining the economic role these colonies played in the larger colonial empire. This system tended to worsen scarcity problems in the colonies and 1845 Irish Potato Famine is a prime example of this. A shift in approach did occur as colonial powers began to question the moral purpose of Empire and their impact of the welfare of the population of the colonies and thus more active policies of development assistance towards the poor colonies was adopted.

However, this resulting aid money sent to colonial government often coming as loans was constantly insufficient for any meaningful economic development and was frequently diverted to colonial business interest along with the political and urban elites especially in African and Asian colonies. The aforementioned took place as a result of several acts passed in the United Kingdom including the Colonial Development Act of 1929 designed to help the economic development of the colonies. This approved an original budget on £1 million used on plans to develop basic infrastructure including transport, electricity and water supply in the colonies to further colonial trade[3]. Due to the British West Indian labor unrest that occurred between 1934 and 1939 as a result of the inadequacy of this scheme a Royally commissioned report under Lord Moyne reported on the deplorable living conditions in 1940. To prevent a full scale uprising in the region while dealing with the Second World War the Colonial Office began sending larger sums of money to mitigate the problem. As a result, the Colonial Development and Welfare Act passed in 1940 to

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[2] Peter Hjertholm and Howard White, (1998) Survey of Foreign Aid: History, Trends and Allocation

[3] Ravi Kanbur (2003) "The Economics of International Aid" Cornell University

allocate £5 million annually to the region that substantially increased to £120 million over the subsequent two-decade period. This led to a rise the scope of the monetary assistance, interest-free loans and development assistance programs.[4]

## **Post War Period**

*1940s*

The modern architecture of the International aid system began to form with activities in the aftermath of the Second World War. As a means of helping the European nations most ruined by the events of the war a number of steps were taken by the wider international community thus several organization and institutions were created as a result. Significantly, the formation of Oxfam in 1942 originally catered to refugees in Greece. At this time the foundations of what would become CARE (Cooperative for Assistance and Relief Everywhere) were formed, originally the Centre for American Relief in Europe and in 1945 it was officially founded as an International humanitarian Agency. This period also saw the development work of the UNRRA (United Nations Relief and Rehabilitation Agency) begin in during the war in 1943 and by 1945 this organization had transformed into what we know today as the United Nations. The International Bank for Reconstruction and Development and its lending branch the International Development Association known collectively as the World Bank was also officially formed in 1943 with a mission to finance the reconstruction efforts in Europe. The bank did not however give a loan to a developing country outside of Europe till 1950 when Colombia was giving financial assistance[5]. Both organizations shared the same staff and leadership within a mile of each other in Washington, DC[6].

The inception of the Marshall Plan otherwise known as the European Recovery Program is arguably the most significant event in the history of development assistance and helps understand some of the motivations for the current development aid infrastructure. This was considered to be the model for development around the world with similarities to the Colombo plan for South-east Asia and the rest of South Asia. The motivations for these plans were political as it was an attempt by the United States to prevent the spread of communism[7]. The reach of the Marshal Plan spread to specific locations in the Middle East and other part of Asia. In the four-year period of the plan US $15 billion in aid money was transferred to those European countries that agreed to join Organization for European Economic Co-operation the forerunner to the OECD (Organization for Economic Cooperation and Development). In today's money taking currency inflation into consideration that would be

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[4] Fraser, Cray (1996) "The Twilight of Colonial Rule in the British West Indies: Nationalist Assertion vs Imperial Hubris in the 1930s. Journal of Caribbean History

[5] World Bank website. World Bank Group. Retrieved 2014-02- 27

[6] International Bank for Reconstruction and Development. World Bank Group. Retrieved 2014-02-07

[7] According to Alexander DeConde et all. Encyclopedia of American foreign policy (2002) Volume 1 p.95

approximately $157 billion[8]. The Marshal Plan was eventually replaced in 1951 using the Mutual Security Act, which gave rise to the Mutual Security Plan.

*1950s*

At the time it was widely accepted sentiment that the richer countries had a moral obligation to help the poorer ones. The then President of the United States Harry Truman publically said that the underdeveloped countries of the world needed to fight poverty and other economic problems by quickly industrializing and modernizing their economies. The Technical Cooperation Administration created in 1949 under President Truman proposed an international development program in 1949. The Point Four program in 1950 concentrated on two main goals, the first was to create markets for the country along with increasing production in developing countries[9]. The second goal, which was more ideological, was to reduce the perceived threat of communism by assisting other countries in their attempts to prosper with the capitalist system. The Act for International Development approved by the United States Congress in 1950 permitted the implementation of this program. These programs were designed to support capital projects and provide technical assistance between 1952 and 1961 acting a the main method of United States aid along with being a significant part of the foreign policy at the time. The development aid at this time aimed to go about its objectives without affecting the existing social structures in the recipient countries and a case in point are the issues concerning land reform in Guatemala at the beginning of the 1950s. Preceding the current United States Agency for International Development were the Mutual Security Agency, International Cooperation Administration and the Foreign Administration. At the initial Post War phase majority of the aid according to the DAC (Development Assistance Committee) of the OECD came from the United States contributing 58% followed by France contributing 22% then the United Kingdom with 8% of the share[10]. Although this process was widely considered to be successful there was a visible imbalance of power between the Western controlled International Financial Institutions, which sprung up at this time, and the receiving nations in Africa, Asian and the Pacific. This had devastating consequences on the countries mandated for development both environmentally and in the communities[11].

Notably in 1950 the Commonwealth introduced the aforementioned Colombo Plan or Council for Technical Co-operation in South and South-East Asia with the founding countries including India, Pakistan along with Ceylon, which is modern day Sri Lanka. The United Kingdom along with Australia, New Zealand and Canada were the Donor nations. By 1951 the United States became a member and three years later so did Japan. This was the beginning of bilateral aid and economic cooperation between

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[8] Inflation Calculator reflecting the value of $15 billion in January 2014
[9] USAID website http://www.usaid.gov/who-we-are/usaid-history
[10] World Bank " Aid Architechture: An Overview of the Main Trends in Official Development Assistance Flows"
http://www.worldbank.org/ida/papers/IDA15_Replenishment/Aidarchitecture.pdf
[11] Aid watch website http://aidwatch.org.au/where-is-your-aid-money-going/what-is-aid/a-brief-history-of-aid

Japan and developing countries[12]. The scope of Japan's membership was eventually increased as it began providing technical support to other Asian nations. The purpose of the Colombo Plan was to enable collaboration between Commonwealth countries both in an economic and technical capacity. The Japanese also started an economic cooperation with Burma presented day Myanmar, sending reparations after a peace treaty was signed in 1954. They took similar action with several other Asian countries eventually becoming an integral part of their foreign policy apparatus up until the 1960s[13]. By 1976 Japan had finished paying all reparations they were obligation to pay for wars that previously occurred.

The first wave of independence occurred in the 1950s with India and Pakistan needing assistance to kick-start their respective post-colonial development. Japan gave loans to India in form of ODA (Official Development Assistance) to India, which was the first of its kind. This was an attempt by the Japanese government to build economic cooperation and friendly relations with Asian nations. In 1956 the informal framework of the Paris Club was established being the first multilateral debt renegotiation organization under the leadership of France. Argentina was the first nation to take advantage of this newly formed organization. The Public Law 480 consolidated in 1954 marked what is now called the decade of United States hegemony on international aid and formed a legal basis for the food aid program in 1954. This happened in spite of the 1956 Soviet Aid programs along various multilateral and bilateral technical assistance programs to poor countries notably the abovementioned Colombo Plan. The strategic orientation the United States enjoys till the present day can be traced backed to the escalation of the cold war. Economist like Milton Friedman at the time argued against using aid to gain political support saying aid often encouraged communism instead of deterring it[14]. Others questioned the United States sole efforts to curtail communism when the benefits would have been enjoyed by the wider world, which caused discontent with the United States aid program and the motives in the 1950s.

*1960s*

Under pressure from this criticism the DAG (Development Assistance Group) was formed as means to share the burden. A year later this became the DAC (Development Assistance Committee) with a mandate to monitor the performance of development aid. This was essentially formed to act as a forum for consultation among aid donors on assistance to less-developed nations. The original members were the Commission of European Economic Community, France, Belgium, Canada, the United Kingdom, Germany, Italy, the United States, Portugal with the Netherlands joining later that year and Japan invited to participate. This 1960s ushered in the era of development co-operation and the initial United Nations Development Decade concentrated on government led industrialization by means of economic planning,

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[12] Ministry of Foreign Affairs of Japan
http://www.mofa.go.jp/policy/oda/summary/1994/1.html
[13] Ministry of Foreign Affairs of Japan
"http://www.mofa.go.jp/policy/oda/summary/1994/1.html'
[14] Milton Friedman (1958, pp 63, 77-78)

nationalization and import substitution giving the State an expanded role[15]. It was clear at this time that the OECD DAC from that period will have an avenue for sharing information and establishing rules for what had become a more diverse donor community. This represented a change from the 1950s as the CDM (Community Development Movement) that later became the Integrated Rural Development Project in the 1970s was set up to counter revolutionary sentiment, lost credibility with the growth of the Green Revolution technology aimed at reducing food shortages in the sub-continent. Donors started to focus more on infrastructure projects accepting support from joint ventures or wholly publicly owned enterprises instead of attempting to just providing budget surpluses as the ex-colonial powers were doing. This was sparked by the second wave of independence in Africa especially and the struggling Asian countries along with recently independent nations like India and Pakistan. The United Nations special funds and EPTA merged to form the UNDP. Through the UNDP the United Nations provided funding for developing nations on certain development issues and launched new development themes in conferences.

In 1961 under President Kennedy the Foreign Assistance Act was signed establishing the USAID (United States Agency for International Development). This saw a substantial increase in international development assistance efforts also with the launch of the Alliance for Progress in the same year. By the 1960s foreign aid efforts had shifted from Western Europe and Japan to the Middle East, South Asian and Sub-Saharan Africa. This is when the notion of developed and developing countries arose as decolonization took place with low levels of industrialization in these newly independent countries. Industrialization was integral in the goal of fighting poverty in the United Nations and the Bretton Woods Institutions, as they became the key multilateral mechanisms to act on development in the global South. Till the present they the actions of these organizations are controversial being labeled as neo-colonial in nature by some, which would be explored, in subsequent chapters. The volume of aid from the United States, Soviet Union and Western Europe to developing countries dramatically increased in the 1960s as a result. The Japanese economy and international status substantially grew after the Second World War and thus it also expanded the scale of foreign aid becoming more diversified in addition with it aforementioned ODA loans aiming for more efficient use of aid resources. Notably, in September 1961 the OECD in its current forms officially comes into operation along with the (DD) Development Department within the organization. Within this department were the Development Finance Branch and the Technical Co-operation Branch. The former consist of the Financial Policies Division and the Economic Development Division while the later is mandated to draw up technical assistance programs for member countries in the process of development[16].

Aid activism in this decade was also at a high, leading to the establishment of many donor agencies and ministries on bilateral side that attempting to alter the international development framework. The new multilateral arrangements also

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[15] World Bank " Aid Architecture: An Overview of The Main Trends in Official Development Assistance Flows" http://www.worldbank.org/ida/papers/IDA15_Replenishment/Aidarchitecture.pdf

[16] OECD The story of Official Development Assistance by Helmut FUHRER http://www.oecd.org/dac/1896816.pdf

showed a general sense that “consortia of donors” would overcome the coordination issues, and other problems of the multitude of individual aid programs [17](Rosenstein-Rodan, 1968). The establishment of the International Development Association (IDA) altered the World Bank, as it was through this channel the bank started its concession lending activities. It should be noted that the IDA’s main concerns and visions of the stake holding nations began to play a more significant role in World Bank activities as the IDA had to be replenished on a periodical basis. Notably in 1963 the World Food Program (WFP) was created as a multilateral outlet for food aid however this was restricted to projects. From its inception till present the WFP has been an important actor pressuring the international development infrastructure uses of food aid in the Least Developing Countries.

*1970s*

The 1970s saw another change in the international aid infrastructure as development aid began to focus more on social issues including diseases, aids, infant mortality, education, income equality, gender equality and life expectancy instead of just macroeconomic growth. The United Nations Agency for International Development also began to focus less on technical and capital assistance programs to development assistance, which stressed a “basic human needs”, approach concentrating on food nutrition, population planning, health, education and human resources development. As most of the poor lived in rural areas donor tried to focus on rural development supplemented by projects expanding scope to the rural areas. By 1971 the Untied Nations had introduced the concept of “Least Developed Countries”. This saw a mixed credit approach by donor with greater attention to social sectors along with the conventionally productive sectors. The original attempts to link aid to donor exports and promotion of private investment were made at this time in the OECD.

The view of Bretton Woods organizations changed as they noticed that although there was significant growth in many of the developing countries there was still little improvement in the social indicator of poverty like education levels listed above. There was a noticeable lack of purpose and direction in development assistance exposing coordination deficiencies. In an attempt to rectify this, the Pearson Commission recommended modifications including the strengthening of multilateral agencies and this is attributed to the substantial growth of the main multilateral development organizations in the past five decades. By the 1970s the United Nations development agencies were responsible for more multilateral Official Development Assistance (ODA) than any other outlet. The OECD introduced Official Development Assistance (ODA) and it proposed donor nations contribute 0.7% of their Gross

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[17] 1950s, donors began joint operations with international consortia. Initially the Colombo Plan ("Council for Technical Co-operation in South and South-East Asia"), created in 1950, including India, Pakistan and Ceylon as regional recipient members and Australia, Canada, New Zealand, United States, Japan and the United Kingdom as donor countries. The WB helped poorer nations through consortia like the India Consortium that began in 1958. Canada, Germany, Japan, the United Kingdom, and the United States to meet (Rosenstein-Rodan, 1968)

National Product to assistance. The 0.7% objectives were not officially implemented though the objective and has been debated for 50 years. Scandinavian countries officially implemented the target in the 1970s and 1980s likewise other European Union Member States followed suit in 2005. There is however little theoretical background to this target, even though studies in the 1960s justified, the 0.7 target has more to do with the assessment of what was politically realistic in the 1960s as oppose to what the poorer countries actually needed[18].

The OECD also decides to redefine ODA as the following "ODA consists of flows to developing countries and multilateral institutions provided by official agencies including state and local governments or by their executive agencies, each transaction of which meets the following test: a) its administered with the promotion of economic development and welfare of developing countries as its main objective and b) it is concessional in the character and contains a grant element of at least 25 percent" [19]

The oil shock of the 1970s and the effects on commodity prices, is another significant theme of the decade, and had a significant impact on international development aid efforts. The development assistance committee (DAC) held a meeting at this time on the impact of oil prices on developing nations discussing the impact of high food prices, shortages and actions of OPEC nations some of which are developing countries. This had implications on economic development particularly in those nations classified by the United Nations as the Most Seriously Affected (MSA). Quick disturbance assistance (QDA) initially done by the IMF then by the World Bank in the 1980s by the development of import support aid was required to mitigate the situation. This contributed to the increase in multilateral aid in this decade. Bilateral aid from the United Kingdom in 1975 and the United States through the US International aid Development and Assistance Act also in 1975 stated that 75% of the aid be transferred to nations with per capita GDP less than $300.

The first oil crisis of 1973 also hit the energy-scarce Japan particularly impacting on it ability to give ODA to other countries. With the end of reparations to the Philippines in 1976 the country revealed medium-term ODA targets from 1978 till the current day that increased over time. Japan also diversified its ODA into basic human needs, human resources development, economic infrastructure and geographical distribution. According to the World Bank the 1970s was not a successful time to raise funds and as a consequence led to the formation of a single development related organization in the next decade spilling over to the late 1990s where donors opted for partnership between the state and private sector even to IGOs.[20]

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[18] Survey of Foreign Aid: History, Trends and Allocation Peter Hjertholm Howard White

[19] OECD; The Story of Official Development Assistance http://www.oecd.org/dac/1896816.pdf

[20] OECD The story of Official Development Assistance http://www.oecd.org/dac/1896816.pdf Page 31

*1980s*

With the oil crisis of the 1970s fresh in the memory the 1980s brought about the Debt crisis, which especially affected the developing world through to the 1990s. The debt crisis in the 1980s caused many indebted developing countries to be unable to pay back their debt and ask for additional assistance. August of 1982 saw Mexico announce its inability to service its international debt obligations and this proved to be contagious to the rest of the world. This crisis saw long-term commercial bank debt accumulated in the government sector along with debt guaranteed by the state and owned by state owned enterprises. To mitigate this the IMF and World Bank administered macroeconomic tightening and structural adjustment through trade liberalization, deregulation and privatization often as conditionality for lending. The developing countries were left with little other options as they were in a weak bargaining position and often accept these conditions regardless of the long-term implication. This was known as the lost decade of development as the industrialised countries were in recession at the same time the deb crisis was affecting developed countries[21].

This financial crisis expanded the focus from a capital accumulation and basic human needs to structural adjustment as aforementioned. The rationale for this according to the DAC Review of ODA in 1985 was that development aid could only be as effective as the policy, economic and administrative environment in which it operates. A new goal for development was by marked the implementation of outward market based development strategy for the poorer countries integrating them more into the world economy. Debt relief, program aid and adjustment lending were a part of the goal of integrating the developing nations into the global economy. The crisis in the West accompanied by changes in some governments caused some donors to be more open about the use of foreign assistance for commercial purposes with the United Kingdom being an example. In 1986 the DAC stated that the necessity for developing countries to prepare with the assistance of the World Bank, IMF and UNDP for more effective development strategies and other programs forming the basis of aid-coordination. The 1989 report on Development Cooperation acknowledged the need for aligning aid strategies to recipient further stating that donating nations be allowed to help poorer nations effectively when development activities are related to actions supportive of effective programs and policies of the recipient nations. It stated that the main performance measure of national aid programs must be contribution to larger development efforts.

*1990s*

This decade also saw the impact of a financial crisis in East Asia and most notably the end of the Cold War as the Berlin Wall feel in 1989 and the break up of the Soviet Union in 1991 into 15 new countries. Crisis was experienced in Mexico in 1994, Asia

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21 Pattillo, Catherine, Hélène Poirson, and Luca Ricci, "What Are the Channels Through Which External Debt Affects Growth?" IMF Working Paper WP/04/15, January 2004.

in 1997, Russia in 1998, Brazil in 1999 and the EMS currency crisis in Europe between 1992 and 1993. Under President Clinton the United States noted the importance of overseas development assistance reversing constraints on foreign aid under the two previous presidents, some of which were associated to abortion laws in specific nations. According to USAID the United States top priority in the 1990s became sustainable development, which meant playing a larger role in planning and implementation programs. Market-oriented economic systems were still supported together with establishing "functioning democracies". Notably in the 1990s there was a shift in the UNDP also as funded projects were moved from the specialized agencies to institutions in the recipient countries and this eventually became the norm. As a result the specialized agencies started to increase their finances by extra funding from donors and using part of assessed budget for operational activities. Non-core contributions to the United Nation and other programs changed as they were considered ODA by the DAC. By this time donors had a preference for more public-private partnership rather than inter-governmental or inter-agency global programs.

The end of the Cold War raised expectations for changes in the aid architecture, which eventually left some disappointed. Specialized UN Agencies and Humanitarian aid agencies began competing for ODA funds also distorting the difference between humanitarian and development aid due to security issues. This decade saw widening public support for development cooperation with more attention to environmental issues, sustainable development, and increased participation from recipients and institutions in poorer nations with funding to crosscutting issues and capacity building as well as better integration of the world economies and building viable economies and societies[22]. The previously widely accepted notion of trickle down economics in development economics started to be disproven in this decade with more evidence suggesting otherwise. The policies and institutions in the poor countries were recognized as vital to progress with the end of the Cold War permitting the tackling of issues such as good governance, which were previously neglected. The part played by the State was re-evaluated with donors supporting more civil reforms, private sector development and privatization. This gradually was transformed into policies and laws in several nations eventually leading to the Millennium Development Goals by 2001.

The DAC Top level meeting of 1995 called for the primary responsibility for economic development to be taking by the poor countries and for more participation from the local populations. By the next year " local ownership" became a significant part of the new development strategy implemented by the DAC and it further recommended members of the DAC to promote leadership roles in the developing countries. The Poverty Reduction papers of 1999 have attempted to align donors and partner countries. According to the IMF and World Bank a new approach in relation with developing countries would be adopted. This was focused on development and implementations of poverty reduction strategies with nationally owned poverty reduction strategies becoming a precondition for debt relief and concessional financing from institutions. The strategies were suppose to be result oriented, poverty focused, country driven, comprehensive yet be a framework for improved development assistance coordination among donors which would change the

[22] World Bank http://www.worldbank.org/ida/papers/IDA15_Replenishment/Aidarchitecture.pdf

relationship between donors and recipients. It was expected to empower governments to set development priorities and force donors to tailor assistance to these priorities.

Generally speaking the aid budgets declined in the 1990s even with the end of the Cold War instead of growing due to more stable political conditions in the North. This might have been in part because of aid fatigue as evidence against the effectiveness for aid continued to emerge. A notable change saw former Soviet states and Eastern European countries transformed from being aid donors to recipients. There was concern about governance at this time although there were inconsistencies in mitigating these issues, recipients have been granted or denied assistance based on governance instead of the previous status-quo of supporting regimes friendly to the West regardless of the effectiveness of leadership. Some nations have seen aid decline, as it is are no longer considered as strategically important as it previously was. The DAC persist on working on the participatory development and good governance having stressed the importance of human rights, democratic development and reduced military expenditure. There was a stress on corruption which is a theme not discussed enough. In the high level meeting of 1992 the DAC member pledged to take steps to assist developing improve financial accountability and implement effective policies to fight corruption.

# Literature Review

**WTO**

The World Trade Organization (WTO) is the most important institution in regulating international trade hence plays a significant role in economic development with trade being a key factor in growth. A substantial part of the more recent literature criticizes the WTO role in international trade deals and the consequences globalization has had on poorer countries. The WTO admits that some nations are better equipped than others in opening markets as the legal, regulatory and physical infrastructure might be lacking.

Majority of the members of the WTO are developing countries and trade openness has significantly increased the role of developing nations in the global economy. GATT/WTO provides an opportunity within which its member governments may negotiate over market access. GATT interprets market access as a competitive relationship between imported and domestic products (Devons 1961, Bagwell and Staiger 2001). An agreement between two nations involves reduction of import tariffs on a certain goods thus changing the competitive relationship among imported and local products (Bagwell and Staiger 2001). Reduction of import tariffs provides a larger market access to foreign producers and provides an assurance of better market access through improved price competition (Fewsmith 2001). The benefits of these policies are not always equally shared amongst all members however.

One criticism against the organization is the role it plays in unequal competition, which manifests itself in different forms including the channels of trade liberalization and globalization. The organization states “free trade is the most effective means to carry out development to improve the human welfare”. The logic behind it is that free trade enables production and consumption to be more efficient and more cost effective. Hence, free trade will permit movement of factors of production into the most efficient production systems and enjoy the best prices, while the output of the production activities will increase and reach the most efficient point with the lowest price for the consumers”[23] (Suparmoko, 2002). The main problem with this goal is the overestimation of the ability of free trade to drastically improve economic development while neglecting the fact that all members of the organizations are at different stages of economic development which means there are prerequisites on a country-by-country basis to attain this improved human welfare. In addition trade liberalization creates access to imports and drives competitiveness in industry but cannot create an industrialized society.

In many developing countries the agricultural industry is central to long-term development and the WTO plays a significant role. The WTO agreements for developing countries in areas of textiles, agriculture and dispute settlement were seen as positive as they abolished tariffs and subsidies for trade and cultivation sectors with several developing countries accepted these agreements. In practice however this

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[23] http://www.unep.ch/etb/events/events2002/05aprilagri/indonesi.pdf 1A)

failed to materialize, as developing countries still feel cheated in these sectors. In Indonesia, the introduction of the WTO agreement on agriculture saw the opposite effect on the sector as the market became flooded with cheaper imports, which was detrimental for small farmers as they cannot compete and thus lose income. Although designed to make the farmers more efficient, (Suparmoko , 2002) argues this actually makes the farmer reluctant to plant more rice, which threatens the local rice industry and leaves the farmer with little alternatives.

However, it is important to note that since rice is a staple food in Indonesia the impact of the agreement was amplified. Michael Sutton (2005) in *WTO and Economic development* argues that trade liberalization by itself does not create developed economies with a middle class, purchasing power or prosperity but and instill competitiveness in industries by allowing foreign imports[24]. In this situation the WTO has been found lacking, as trade liberalization did not provide sufficient protection to Indonesia rice market and the welfare of the citizens was put at risk which is counter to the organizations development objectives.

The ideals supporting universal trade liberalization are guilty of a double fallacy according to Shafaeddin, M (2003)[25]. Firstly universality indicates free trade should be advantageous to all countries regardless of development level, structural issues, industrial capacity and technological capacity. Secondly, uniformity, which suggests all products and sectors, has the same level of tariff. This weakens the argument that trade liberalizations can cause long-term economic development as these conditions are unrealistic. Discontent with trade liberalization was obvious at the 1999 Seattle meeting, which saw demonstrations by developing countries labor organizations, non-governmental organizations and other activist (Bhagwati, 2001)[26].

Excluding trade liberalization agricultural subsidies particularly from developed countries is a widely discussed theme affecting the ability of some countries to trade in certain products. The agreement on agriculture required members to reduce export subsidies allowing countries to support rural economies through policies, which do not distort trade. However, this agreement was not complied with by all members equally which some attribute to the current imbalance in global trade. (Diao et al. 2003) observe that subsidies have led to overproduction of certain crops in developed nations causing dumping of excess produce to the world market and lower world market price for agricultural commodities over the decades. The consequences on poverty are significant as local farmers are forced to compete directly with more efficient subsidized European or North American farmers that represent a loss of profits and income. Cotton and sugar subsidies in the United States and other country are a classic example [27]Mitchell (2004) La Vina, Fransen, Faeth, and Kurauchi

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[24] WTO and Economic Development
http://www.uwsp.edu/forestry/StuJournals/Documents/IRM/kaberia.pdf
[25] Shafaeddin, M. 2003. Structural reform, supply capacity and investment in developing countries with special reference to Latin America. Mimeo, UNCTAD.
[26] Bhagwati, J. 2001. After Seattle: free trade and WTO. International Affairs 77(1):15-29
[27] Mitchell, D.O. 2004. Sugar Policies: An Opportunity for Change. In

(2007)[28]. The latter argues that developed countries subsidies also have negative indirect environmental impact on developing countries as the developed country subsidies impact producer prices, which may impact on farming practices and poverty in rural areas.

Action Aid (2002) makes similar suggestions on the impact of subsidies on local farmers like overproduction and the effects of dumping but adds that the use of agricultural subsidies in poor nations is influenced by conditions of loans through the World Bank, IMF and development banks[29]. However, WTO rules do not obligate developing countries to reduce their subsidies if their support to agriculture is below 10 percent of total food output. Nevertheless, the author of the paper suggest the rules and policies of the WTO, IMF and World Bank have pressured developing countries to reduce and totally eliminate subsidies to the sector. The is imbalance shown here as many farmers in developing countries receive little to no help while large landowners in Europe and the United States benefit greatly.

On the other side some academics do believe the South is wrongly focuses on reducing subsidies during trade negotiations. Wise (2004) using Mexico as an example states that removing subsidies or reducing tariffs would likely not help the small farmers as few small scale farmers are seeking export markets.[30] He goes further to state that demand for greater market access and removing subsidies appears to be ineffectual for small scale farmers. Hence it is important that developing countries are specific by region and produce about overall demand for market access and subsidy removal, which could have welfare, benefits for poor farmers in the South e.g. West Africa. Wise makes a realistic point, as many farmers in developing countries are subsistence selling excess produce locally as opposed to industrial farming hence greater international market access is ineffectual to them.

Hoekman, Olarreaga and Marcelo (2003) seem to partly agree with Wise while assessing the impact of subsidies and boarder protection in developed countries on developing countries. This paper concludes that tariff have a more significant effect on world prices that subsidies[31]. It further states "Although there is some heterogeneity across countries, the positive welfare effect of reducing tariffs on products that are also affected by agricultural support is a multiple of what can be obtained from an equivalent percentage cut in domestic support or export subsidies". The simulation results show that a 50% fall in border protection will have a larger positive impact on developing countries exports and welfare than a 50% fall in agricultural subsidies. Essentially, the paper is alludes to the fact that it is far more

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Aksoy, M.A. and J.C. Beghin (Eds.), Global Agricultural Trade and Developing Countries (pp. 141-160). Washington, D.C.: World Bank.

28 La Vina, Fransen, Faeth, and Kurauchi (2007) Agricultural Subsidies, Poverty and the Environment: Supporting A Domestic Reform Agenda In Developing Countries: World Resources Institute

29 Action Aid (2002) Farmgate: the developmental impact of agricultural subsidies http://www.ukfg.org.uk/docs/AAFarmgate%20briefing.pdf

30 A. Wise May (2004) The Paradox of Agricultural Subsidies: Measurement Issues, Agricultural Dumping, and Policy Reform

31 Agricultural Tariffs versus Subsidies: What's More Important for Developing Countries? Bernard Hoekman, Francis Ng, Marcelo Olarreaga July 2003

important for poor nations to advocate for market access and reduced tariff however, it is important to note that the research had statistical limitations making the outcome debatable.

(Murphy, S. 2001) in *Food security and the WTO: in food security and the WTO. A CDSE Position* states developing countries have experienced reduced export revenues while the market for agriculture and textile remains strongly protected in developed countries as a consequence of agreements on agriculture. Glipo (2003) in *An analysis of the WTO- Agreement On Agriculture* added that two thirds of world imports in 1999 came from trade within the European union although the world market price for agricultural products fell. Even with the reduced price, developing countries find it difficult to participate in the markets and local producers will struggle to produce in a cost effective manner.

There are several contradictions in the WTO rules on agriculture and they include requiring an elimination of government intervention in trade however it neglects to mention the containing of monopoly power of organizations in international trade according to (Pauwelyn, 2001)[32]. Adding to the contradiction all factors of production except capital are not allowed to freely move across boarders (Shafaeddin, 2003). This is partly due the result of rapid globalization and financial de-regulation since the 1970s and 1980s. Although international trade was free it several developed countries still had robust protectionism measure as barriers to their markets.

The limited restrictions on cross boarder movement of capital mentioned in the previous paragraph also affect the role multinational corporations play in the economic development paradigm. In *False Profits: Robbing the Poor to Keep the Rich Tax-Free*, Christian Aid, used trade data from the EU and the US in calculating capital lost by non-EU countries into the EU and the US through trade mispricing. It is estimated that during 2005-07 the capital flow through mispricing was in the region of £229.7bn to EU countries and £351.7bn to the US: a total of £581.4bn from non-EU countries to the EU and the US[33]. Thus, the overall tax loss to poor nations is estimated at US$160bn (£105.9bn). This research shows how tax evasion and avoidance by multinational can affect development objectives although there are some challenges with the data and methodology.

In a more updated methodology, like Fuest and Riedel (2012) there are suggestions that multinationals actively take part in profit shifting. They analyze data at the firm level for several countries multinationals report less profit and pay less tax when they have links with tax havens. The OECD sums this up by stating "developing countries could be losing three times the amount they receive in aid because of tax evasion and avoidance through tax havens"[34]. This shows an imbalance as it undermines the

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[32] Pauwelyn, J. 2001. The role of public international law in the WTO: How far can we go. The American Journal of International Law 95(3):535-578.
[33] False Profits: Robbing the Poor to Keep the Rich Tax-Free, Christian Aid, https://www.christianaid.org.uk/Images/false-profits.pdf

[34] A Gurria, 'The Glonal Dodgers', the Guardian, 27 November 2008, available at http://bit.ly/nArYb8

poorer countries capacity to strengthen certain institutional prerequisites for long-term economic development through tax revenue. This lack of capacity in less economically developed countries to gather information on taxpayers and to mitigate tax evasion and avoidance make it more problematic. The imbalance is further highlighted in the fact that developed countries have measures preventing profit outflows from their boarders whilst this does not exist in developing countries. This can only serve to further marginalize citizens of poorer countries from the benefit of opening up boarders to global economic forces.

Nonetheless, multinationals can still have a positive role in economic development even if this role is sometimes overestimate. According to Quinlivan's *Sustainable Development: The Role of Multinational Corporations,* The role of MNCs is underappreciated as they provide poorer countries with essential capital, jobs and technology that can significantly contribute to development. In a nutshell this paper suggests that to escape poverty these countries need to privatize, deregulate, protect property rights and have strong rule of law to accommodate capital from multinationals. Unfortunately, this paper seems to be rather one side as it does not take into account the negative effect globalization and trade liberalization can have on these countries. Although he rightly stated the positive impact of multinational it would require strong or growing institutional framework protecting rule of law to experience the benefits multinational could have.

Multinational Corporation also plays a role in the labor standards of developing countries especially for low-skilled jobs. Many of these countries are attracted to developing countries by the lower wages and reduced labor standards in low-skilled jobs and they bring in expat workers for higher skilled jobs or management positions. Wood (1994) also argues this point[35]. However, Rodrik (1997) argues that political and economic factors are the main drivers of wage linking this export-promotion development strategy with inelastic labor supply provides MNCs with more bargaining power over wages and choices[36].

The role of MNCs on corruption in developing country is quite a contentious one for two reasons. First there is a lot of debate as to whether corruption is necessarily a bad thing in the face of weak institution and cumbersome bureaucratic process. The second is if MNC can have a more positive on developing countries capacity to reduce corruption through the increased demand for better institutions. Kwok and Tadesse (2006) argue based on a sample of countries over a 30-year period that **foreign direct investment** generates positive spillover effects on the institutional environment of host countries[37]. On the contrary however, Lambsdorff (1999) and Wei (1997) argue that significant levels of corruption reduce FDI inflows in a host

[35] Wood, A. 1994
. *North-South trade, employment and inequality. changing fortunes in skill-driven world* .Oxford: Clarendon Press
[36] Rodrik, D. 1997.*Has globalization gone too far.*Washington: Institution for InternationalEconomics.
[37] Kwok and Tadese (2006) The MNC as an Agent of Change for Host-Country Institutions: FDI and Corruption

country[38][39]. This is in line with the general wisdom of the attitude of multinationals towards corrupt countries as corruption levels also determine the entry mode of MNCs in a host country. This point is consistent with Rodriguez, Uhlenbruck and Eden (2005) suggesting that corruption in a country determines if a multinationals enter the host market with a local partner or a through a owned subsidiary[40]. Therefore for the sake of external legitimacy and to remain competitive in the new market, MNCs must adapt to the institutions of the host. The presence of foreign owned subsidiaries is thought to reduce corruption levels in a host country on average as multinational have effects on the institutional environment. According to Kwok and Tadese (2006) this happened through regulatory pressure effects, professionalism effects and the demonstrative effect also known as spillover effect of corruption

In its role in facilitating economic development through trade the WTO has consistently ignored issues regarding the environment and labor. Charnovitz, (1999) in *Addressing Environmental and Labor Issues in the World Trade Organization* argues that without appropriate resource management and environmental regulation an increase in trade could cause so much damage that the gains would be lower than the environmental cost. This would result in negative externalities, which can affect the welfare of locals and their ability to make the available factors of production less economically viable. Martin Khor (2006) counters this argument however in *"The WTO's Doha Negotiations And Impasse: a Development Perspective"* by stating that if environmental and labour rights were included in the WTO system it would be difficult to argue against involving other social or cultural issues. He further states that trade measures have become a mechanism for large multinationals and social organisation to promote their interest. It is important to note that the interest of these groups often diverge from the development objectives of developing countries manifesting itself in environmental issues.

Environmental groups often argue that the WTO's principle task is to serve the interest of exporters supersedes labour and environmental policies. Bagwell and Staiger (2001) argue consumer gain from free trade is not the liberalization influence of the WTO but rather exporters interests drive the WTO itself. According to Rose (2004) research focused on the role of the WTO in increasing trade, he found no empirical evidence to suggest that the organization indeed played a role in boosting trade[41]. He found WTO/GATT member did not have considerably higher trading pattern than non-members. Falkner (2002) states that any sustainable development

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[38] Wei, S.1997. Why is Corruption So Much More Taxing Than Tax? Arbitrariness kills, Cambridge, MA:National Bureau of Economic Research, NBER working paper 6255.
[39] Lambsdorff, J. (1999) 'Corruption in Empirical Research: A Review', Transparency International Working Paper, Berlin, Germany.
[40] Doh, J., Rodriguez, P., Uhlenbruck, K., Collins, J. and Eden, L. (2003) 'Coping with Corruption in
Foreign Markets', Academy of Management Executive 17 (3): 114-127.
[41] Rose, A. K. 2004. Do we really know that WTO increases trade. The American Economic

strategy would have to balance trade interests and environmental issues[42]. This however does not see to be plausible has the WTO has shown in the past that environmental issues are not a top priority. As far back as 1994 (Charnovitiz, 1994) "the WTO has received several accusation of insensitivity to environmental problems[43]. The current nature of the relationship between trade and the environment is a reflection of the WTO decisions not to commence a formal environmental mandate into international trade and also the flop of the ministerial meeting of 1999 in Seattle.

However, Eric Neumayer (2004) suggest that negative impacts of the WTO on Environmental protection is over-rated[44]. According to the paper the organization has a much more detrimental effect on environmental policies than critics think. Though he argues that trade liberalization can increase the level of environmental degradation without strong policies in place, he states that WTO cannot be blamed. The true blame is attributed to policy-makers in the WTO member countries as the organization puts little barriers to enact stronger policies. It is the responsibility of the member states to enact these policies but so far it seems not to be in the interest of the powerful members to change it. It is also worth mentioning that the WTO jurisprudence has become more environmentally friendly and does not have a bad environmental record. According to Brack and Branczick (2004), there is an ongoing failure to change the manner in which the current rules are written but there have been significant changes in the way those rules are interpreted in dealing with environmental issues[45].

On labor standards the WTO does not currently have jurisdiction over labor standards with GATT article XX in the whole WTO agreement the singular place that mentions labor standards. The United Nations is one of the many bodies that have criticized the current system since the 1995 formation of the WTO. *The United Nations Economic and Social Council report 2000* called for steps to be taken to safeguard human rights ideals and requirements are fully integrated in future negotiations at the WTO[46]. The UN charter supports the upholding of human rights and fundamental freedom

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[42] Falkner, R. 2000. Regulating biotech trade: the Cartagena protocol on biosafety. International Affairs (Royal Institute of International Affairs 1944-) : Special Biodiversity Issue 76(2): 299-313.
[43] Charnovitiz, S. 1994. Free trade, air trade, green trade: defogging the debate. Cornell International Law Journal 27(3) 459-525.
[44] The WTO and the Environment: Its Past Record is Better than Critics Believe, but the future Outlook is Bleak
http://www.lse.ac.uk/geographyAndEnvironment/whosWho/profiles/neumayer/pdf/WTOandEnvironment.pdf
[45] Brack, Duncan, and Thomas Branczik. 2004. Trade and Environment in the WTO: After Cancun. Briefing Paper No 9. London: Royal Institute of International Sustainable Development Programme
[46] United Nations Sub-Commission on the Promotion and Protection of Human Rights, The Realization of Economic, Social and Cultural Rights: Globalization and its impact on the full enjoyment of human rights, par.63 http://www.unhchr.ch/huridocda/huridoca.nsf/

meaning a respect for human rights within labor standards should in actual fact supersedes any WTO agreements.

Nonetheless, there are still some who argue that an increase in labor standard could have detrimental effects on citizens of poorer nations. This simply follows the theory that at a point when wages rise above productivity levels employers find it more costly to hire. There is however, little empirical evidence to suggest that higher labor standards improves salary and working environments for developing countries but some evidence to suggest it worsens the situation of poor workers. Brown (1999) found little or no empirical evidence to suggest negative employment effects on the United States given the relatively low minimum wage level and little increase in it[47]. On the other hand, there seem to be a considerable employment effect when the minimum wage is high and the increase is significant as found by Grindling and Terrell (2003) studying Costa Rica and Rama (2001) studying Indonesia[48].[49] A similar study in Latin America by Heckman and Pages (2000) found that high severance pay has caused a fall in hiring in some nations. And in Senegal the improvement of the labor code intended to create more secure jobs only increased the number of people working in short term contracts Terrell and Svejnar (1989)[50]. In light of the evidence it could be better to take into consideration the different nuances in different countries when and if labor standards are included in global trade agreement.

The informal sector**,** common in most developing economies is another important element in this situation. [51]Stern and Terrell (2003) suggest that if labor standards are too high it pushes workers out of the formal economy into the informal sector. This only worsens working conditions and increases income inequality, which work against the development objectives. This can be detrimental for real wage in a developing country.

Structural adjustment programs have also played a significant role in economic development and the development aid infrastructure. These are the prerequisite to get a loan from the IMF or World Bank and have conditions attached to them like significant economic policy reforms intended to make developing countries more economically self-sufficient. They are to ensure the funds borrowed will be in accordance with the overall objectives for the loans and that the recipient is able to pay them back. Kakwani, Makonnen and Van Der Gaag (1990) assess the impact of

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[47] Brown, Charles. 1999. “Minimum Wages, Employment, and the Distribution of Income,” in Orley Ashenfelter (ed.) Handbook of Labor Economics. North Holland Press.

[48] Rama, Martin. 2001. “The Consequences of Doubling the Minimum Wage” Industrial and Labor Relations Review, 54(4): 864-892

[49] Gindling, Timothy and Katherine Terrell. 2003. “The Impact of Minimum Wages on the Formal and Informal Sector: Evidence from Costa Rica,” unpublished paper.

[50] Terrell, Katherine and Jan Svejnar. 1989. The Industrial Labor Market and Economic Performance in Senegal. Westview Press.

[51] Stern and Rerrell, 2003. Labor Standards and the World Trade Organization http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r499.pdf

adjustment programs on living standard in developing countries between 1985-87 and found that intensely adjusted countries show more growth in private consumption than non-adjusting countries[52]. Although his study shows in few countries the ratio of total government expenditure to GDP is rising it also shows some countries were real per capita expenditure on social sectors is falling especially, intensely adjusted countries. This put social indicators like primary education enrollment rates at risk and if government expenditure on social sectors are at risk, developing countries risk eroding human capital, which is essential for long-term growth. The study does not find significant differences between adjusting and non-adjusting countries. The overall health indicators improved for all countries but there is variation within country groups. The paper finds no evidence of adverse effects of structural adjustment policies or evidence that adjustment policies accelerate social progress where it is needed most.

Oberdabering (2013) investigate how IMF loans with structural adjustment program affect poverty and inequality. The study controls for endogenous selection in IMF programs with data from 86 low-middle income countries between 1982 and 2009[53]. From this paper there is evidence to suggest that IMF programs are detrimental to the poverty and income distribution levels of a country. It further states that those who benefit are the rich and the poor seem to fall deeper into poverty. The IMF argues, the detrimental effect on poverty is short term and in the long run the situation tends improves though there is no mention the duration of time it takes to show positive outcomes. It is difficult to attribute any positive poverty effect on IMF programs because of the large time difference between when the programs are implemented and when results are achieved. This paper has considerable data limitation and omitted variable bias, which makes it harder to estimate the true impact.

Structural Adjustment is also often linked with currency devaluation**,** which has more negative connotations in developing countries due to fears of a devaluation-inflation spiral, fear of investors losing confidence, political instability and increase cost of foreign debt servicing amongst others. This is in spite of little evidence about a clear relationship between poverty and devaluation. Pastor (1987) does state that devaluation is detrimental to income distribution if the elites are in capital flights before devaluation[54]. Axel and Walter (2010) paper studies the impact IMF programs, compliance with conditionality and disbursed loan have on the risk of currency crises

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[52] Kakwani, Makonnen and Van Der Gaag, 1990 Structural Adjustment and Living Conditions in Developing countries. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/1990/08/01/000009265_3960929165434/Rendered/PDF/multi0page.pdf

[53] Oberdabernig, 2013 The Effects of Structural Adjustment Programs on Poverty and Income Distribution file:///Users/funmi/Downloads/the-effects-of-structural-adjustment-programs-on-poverty-and-income-distribution-paper.pdf

[54] Pastor, M. (1987, February). The effects of IMF programs in the Third World: Debate and evidence from Latin America. World Development Volume 15 , pp. 249-262.

from 1975-2002 in 68 countries[55]. The results show that with IMF programs in the five years prior it is considerably less likely to have a currency crisis. In statistical and substantive terms the effect remains significant. Interestingly the IMF program rather than money seems to drive result, the programs significantly reduce the risk of currency crisis and increases the chances that the exchange rate will be adjusted when a crisis starts. It is important to note that the panel data for this study is unbalanced due to missing data and the quantity of observations varies with the explanatory variables.

Noorbakhsh, F and Noorbakhsh, S (2006) on the effect of structural adjustment policies on human development in Sub-Saharan Africa taking into account all policy actions shows some interesting results[56]. It concludes that high degree of compliance with conditionalities yielded positive socioeconomic changes in the short-term. Most notably change in Human development index seem to be affected significantly by public sector management policy measure and to a lesser extent macroeconomic stabilization policy with no effect on private sector development. In the medium term however it is more difficult to make conclusions, as the results are ambiguous. Noorbakhsh (1997) studies the effect of structural adjustment on standard of living and human development indices developing countries.[57] It shows a rapid increase in per capita income during the adjustment period in the tested countries but this was not the same for standard of living. Although affected by per capita income it seems as though other factors were more influential in standard of living like inflation for example

According to *Globalization and structural adjustment as a development tool* (Lapeyre, 2004) however, these policies are partly responsible for the 1980s lost decade[58]. Lapeyre goes on to suggest that they led to stagnation or fall in output, fall in wages, public expenditure on social services and worsen poverty levels with heavily indebted middle-income countries having negative resource flow. It is important to note that the study has some data limitation hence there are questions over if structural adjustment policies are indeed to be blames for the suggested effects. Rahman (2000) like other academics arrived at inconclusive result on the impact of structural adjustment policies on poverty. It shows stagnation in real wage in most sectors and a decline in some in informal sectors without increase in

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[55] Axel and Walter (2010) Does the IMF Help or Hurt? The Effect of IMF Programs on the Likelihood and Outcome of Currency Crises http://ac.els-cdn.com/S0305750X09001004/1-s2.0-S0305750X09001004-main.pdf?_tid=973f7da6-bc27-11e3-8178-00000aacb35e&acdnat=1396636577_a32a645d7be1a1990894a1f360f7fb0c

[56] Noorbakhsh,F and Noorbakhsh, S (2006) The Effects of Compliance with Structural Adjustment Programmes on Human Development in sub-Saharan Africa http://www.uib.es/depart/deaweb/smed/pdf/Noorbakhsh.pdf

[57] Noorbaksh, F (1997) Structural Adjustment and Standards of Living in Developing Countries http://www.gla.ac.uk/media/media_219020_en.pdf

[58] Lapeyre, F Globalization and structural adjustment as a development tool (2004)

employment[59]. This has a detrimental effect on poverty levels wage low skilled laborers who usually have the highest concentration of poverty. The study also shows no decline in health expenditure but there was a reduction in the growth of health expenditure during adjustment periods.

The TRIPS agreement administered by the WTO also notably plays a role in economic development. The effects of the agreement is seen by many to be imbalanced in terms of the needs of patent holders like pharmaceuticals and the needs to provide life-saving drugs for those who need it most in developing countries. Sykes (2002) points out that the annual cost of retroviral drugs in South Africa is up to $1200 USD while only 5% of Thailand's 1 million HIV infected citizens has access to the drug as the price is beyond their means[60]. This due to the prices charged for patented medication by pharmaceutical companies. Countries like India were the there is less patent protection for the multinational have medication for ale at $55 USD compared to the $703 in Indonesia and $817 in the Philippines where it is patented[61]. The effect this has on economic development is quite obvious as many developing countries have relatively weak public health systems which combined with low income can have detrimental effects on the productivity of the workforce.

Some argument for the continued implementation of TRIP agreements despite the shortcoming is that they can encourage innovation and technological transfers in developing countries, which contribute, to sustainable economic development. This is because IPR rules permit local industry access to foreign innovation encouraging product development and technical change by stimulating acquisition and dissemination of new information. Chen and Puttitanun (2005) did an empirical research using panel data from 1975-2000 for a sample of 64 developing countries and it suggests domestic innovation in a country increases in IPR protection and level of development[62]. Kanwar (2005) study is in line with this argument as it indicates innovations through imitation of technology and products boosted agricultural or industrial production in developing countries. It is important to note that for least developing nations there is there is often no clear economic advantage in having strong IPR protection for innovation, as the necessary infrastructure to promote innovation is often inadequate.

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[59] Rahman, R (2000) Consequences of Structural Adjustment Policies on the Poor http://www.saprin.org/bangladesh/research/ban_poverty.pdf

[60] TRIPs, Pharmaceuticals, Developing Countries, and the Doha "Solution" Alan O. Sykes (2002) CHICAGO JOHN M. OLIN LAW & ECONOMICS WORKING PAPER NO. 140 (2D SERIES)

[61] See United Nations Commission on Human Rights, Report of the High Commissioner, The Impact of the Agreement on Trade-Related Aspects of Intellectual property Rights on Human Rights ¶44, E/CN.4/Sub.2/2001/13 (June 2001) (hereafter "UNCHR Report").

[62] Y Chen and T Puttitanun, 'Intellectual Property Rights and Innovation in Developing Countries' (2005) 78 Journal of Developing Countries 474.

However, Sterckx (2004) argues that patents especially the robust drug patents granted today are difficult to justify on natural rights, fairness or utilitarian grounds[63]. He adds that the level of protection in a country must take into account the development level but a one size fits all policy has been adopted since the shift of decision making of intellectual property moved to the WTO from the WIPO. This has basically made the WTO seem more like a royalty collecting organization although some developed nations are still reluctant to fully accept implementing the Doha declaration. By doing this they undermine the legitimacy of the WTO-TRIPS agreement. Big pharmaceutical multinationals intensely support tough patents in developing countries as it stops the threat of competition from local producers. According to Sterckx, there is no evidence to suggest the global patent regime will support development of new drugs for illnesses primarily occurring in developing countries. The role in economic development can be said to detrimental because of the fact the regime hinders the developing countries ability to use health policy to tackle health crises by limiting access to existing patented drugs many people need.

[63] STERCKX (2004) PATENTS AND ACCESS TO DRUGS IN DEVELOPING COUNTRIES: AN ETHICAL ANALYSIS

# Methodology

This thesis shall be limited to exploring the role global interest play in economic development and the development aid infrastructure. This paper further intends to analyze this by compartmentalizing the key aspect of the topic to make it clearer for the reader. The overall aim is to explain what role global interest has played and what role they can play in economic development.

## **Literature based research Methodology**

Global interest play a major role in economic development through several channels but this thesis would be limited to two of the most significant channels. The first is through Inter-governmental organisations specifically the World Bank, International Monetary Funds and lastly the World Trade Organisation. These three organizations have different mandates and thus different interest but they still play a considerable role in the economic development of many countries particularly those in the traditional economic “south”. A literature based research methodology will be employed for this study by selection and discussion of theoretical material in context and detailed comparison of theories in terms of their applicability. There is a significant body of literature on this topic but this thesis would analyze this in the theoretic context of the role structural adjustment policies with regards to the IMF and World Bank. A meta-analysis of relevant paper and reports would be employed to have a more balanced analysis. World Bank, IMF, WTO and OECD data and reports would be used while exploring the aforementioned chosen parameters for economic development. Books, peer-reviewed articles, press reports, internet-based materials highlighting any limitations this brings to the study.

The other significant channel of focus would be Multinational organizations and the role they have played in economic development of nations. The same literature based methodology would be employed in this part of the thesis to help determine the role multinationals have played so far and the roles they could play in the future. This would be analysed in the context of FDI, institutions and the part the World Trade Organization has to play in this dynamic. There is a significant body of literature detailing this role and a meta-analysis would be employed to get a balanced picture of this.

# Analysis

**Multinationals role in economic development**

*Coase theorem and Principal-Agency*

The Coase theorem is normally applied a concept for organizational economics but the same principal can be applied to the role of MNCs in economic development in developing countries. The Coase theorem states that if there is no or sufficiently low transaction cost in an economic transaction or trade bargaining will give rise to efficient outcome irrespective of initial allocation of property rights. The theorem suggests that the involvement of property rights would cause the economic agents to lean towards the most efficient or mutually beneficial outcome. The outcome here refers the efficient allocation of the resources/benefit or externalities that arise as a result of said economic activities. The principal-agent problem is another organization economics theory can also be applied to this topic and it attempts to explain the relation between two economic agents known as the principal and the agent. In corporate governance this is often used to describe the relationship between shareholders (principal) and managers (agent). The agency problem basically occurs when one economic agent can take a decision on behalf of another agent or a decision that affects another agent. This is important because agents can be inclined to act in their own best interest as oppose to the interest of the principal. An economic transaction with this sort of divergence of interest can lead to moral hazard. Moral hazard in this context is a situation where one of the economic agents has an incentive to take unusual risk or act in an opportunistic manner.

The limit of a Coasian approach is that an efficient outcome is dependent on low transaction cost, which is unrealistic in the real world. Nonetheless, in application to MNC's we can explore the role in economic development in developing countries. `The main interest of any MNC is to maximize profit and that its ultimately the goal when a company decides to expand its operation into a developing country. As a consequence of economic activity there might be positive outcomes for the host but that is not always an intended consequence of international expansion. This is regardless of expansion strategy in place be it standardization or adaptation of the business model into the host market which. Foreign Direct investment is typical method of this expansion in recent decades. The main interest of the host counties is the employment opportunities for locals, tax revenues as well as positive spillover of technology and efficient management practices to local industry. From this, we can observe the fundamental difference in the interest of both economic agents.

Even if we assume transaction cost are low, property rights must also be clear and well define which is not the case for many developing nations. Weaker legal institution often characterizes transition and developing economies, which do not properly protect property rights or regulate economic sectors effectively. Although, there is a significant body of literature about the importance of legal institutions in economic development there is a variation on the results of this study. However, North (1990) argued that developed countries have formed proper institutions that

protect property rights and enforcement contracts while developing countries lack these institutions thus stunting development. Beck, Thorsten and Levine (2002) goes further by stating greater efficiency in legal institutions causes a rise in finance available to industries allows for formation of new firms in the industries. These are in line with Coase as it stresses the importance of property rights in his theory focusing on the consequences at a firm level instead of a macroeconomic level. Legal institutions are essential for initial stages of economic development or that legal institutions natural improve when there is an increased demand for them by more complex and larger scale economic transaction.

Although, the main interest of a multinational is the maximize profit it has a role to play in developing the legal institutions of developing countries. In an ideal situation professionals working for MNC would help regulate the market and strengthen institutions but as observed in recent years especially in the failings of the regulatory system prior to the 2008 financial crises this can lead to opportunistic behavior manifesting itself in regulation. The less robust legal institutions in developing countries is an opportunity for MNCs to engage in activities that although prohibited in the home country are legal or grey in a host country. These activities include bribery, transfer pricing, insider trading, market speculation, which many MNC have been reported to commit. Shell in 2010 was accused of bribery to the tune of $48 million dollars and has been accused as being part of the culture of Nigerian corruption, which exposes the weakness of Nigerian legal institutions[64].[65] These activities corrupt the legal institutions further and could have implications for development objectives. The outcomes the activities of MNCs are inherently unbalanced because MNC's interests to maximize profits and shareholder value are shorter term compared to the long-term economic development objects of national governments.

In the real world this manifest itself in the corporate decisions of MNCs especially in developing countries. MNC are expected to employ a significant number of local staff in the host countries and this happens mostly in jobs that require lower skilled labor because it is more cost effective to hire locals for these jobs than expatriates. Due to lower minimum wage and less robust protection of minim wage law it is in the best interest of MNCs to pay lower wages. Depending on purchasing power the lower wages might be sufficient enough for to improve the standard of living of local workers or have the oppose effect. Thus the MNC has a vital role to play in terms of economic development from this point of view. A Moral hazard can also occur here because the interest to maximize profits allows MNCs adjust local wage structures according to the ineffective local law or informal institutions, which can have varying effects on labor welfare.

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[64] Katie Redford. (2013). *20 Years Later, Shell Hopes Supreme Court Will Endorse 'Business As Usual'.* Available: http://www.huffingtonpost.com/katie-redford/shell-nigeria-human-rights_b_2726855.html. Last accessed April 3 2014.
[65] David Smith. (2010). *WikiLeaks cables: Shell's grip on Nigerian state revealed.* Available: http://www.theguardian.com/business/2010/dec/08/wikileaks-cables-shell-nigeria-spying. Last accessed March 2014.

For skilled labor, MNC often prefer to employ expatriate workers instead of locals, which is a legitimate decision in countries with low level of education and thus have a skill gap in certain sectors. Expatriate workers in this instance can be paid higher wages and expenses, which reflect the risk of moving to a new market often without comforts of stability as Western countries. MNC's often take this decision because for certain technical jobs like it is often more cost effective with less risk perception to employ foreigners than to train locals to do the same job. In some cases there might be skills integral to the competitiveness of MNCs and these might not be in their interest to share with locals as it might threaten competitiveness advantage. MNCs also have a role in training locals they employ in certain skills as these can only improve the productivity of a countries economy and thus have positive economic development effects on country. Some MNC in prefer to train locals because a skilled worker with local knowledge can prove to be more productive and cost effective. In many developing countries locals who are already accustomed to host country need less financial incentive in the way of wages and expenses to work in the country. A situation like this can lead to more efficient allocation of the outcomes of the economic activity as the local still get employment usually with better pay than local companies can offer while employers have a cost effective and productive local employee. It is important to note that on management level many MNCs are likely to employ more expatriate than locals in developing countries often for the same reasons they employ skilled expatriates.

Corporations operating in developing countries especially in African, Latin America and Asia are often attracted by cheap natural resources as well as lower labor cost. The role of the MNC especially those operating in the extract industry or primary goods like cash crop though controversial can be vital. The weak protection of property right in developing countries mean the externalities that arise as a result of economic activities are seldom shared equally. The weaker property rights manifest itself when it comes to manufacturing and extraction of resources in different way. For example the pollution in the Niger Delta area caused by Shell could happen partly because the property rights in Nigeria are not well defined enough to cope with the complexities of oil exploration. The negative externality of oil exploration is pollution and environmental degradation to the local community that has a direct impact on the lives of locals[66]. To tackle negative externalities companies must pay to pollute or find measures to provide positive externalities, which can mitigate this. Due to the weak property rights MNCs have an incentive to pollute the local environment and are less inclined to clean the rivers. MNCs are inclined to protect their investment and in some cases it is often more financially sensible to pollute and pay a fine than to clean up the effects of economic activity which further exposes the divergent interests. In countries with low levels of both economic and political stability the risk is much greater for MNCs and the need to protect corporate interests as oppose to local interest are understandably heightened. MNCs usually have more skilled lawyers and other professionals who can take advantage of weak local systems incentivizing them to pay a less equitable cost for their negative externalities, which is

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[66] University of Michigan. (). *Oil: The Curse of The Ogoni.* Available: http://www.umich.edu/~snre492/cases_03-04/Ogoni/Ogoni_case_study.htm. Last accessed April 3 2014.

a moral hazard. This potentially has a significant effect of the welfare and economic development of local communities as corporations can always relocate their operations leaving locals to deal with negative externalities.

The interests of MNCs also manifest themselves in their attitudes towards tax payment. Most corporations have an incentive to reduce their tax bill regardless of where they operate be it in developed or developing countries. The implication of reduces tax rates are obvious and play a key role in a MNC's decision to began operation in any country. The legal institutions in least developing countries are not always effective enough in implementing corporate or income tax policies of the national government. It is in the National governments interest to collect tax revenues in accordance with local law and of the interest of the MNCs to pay as little tax as possible to maximize the firm's revenue. These cause MNCs to explore measures enabling them to pay less tax, which includes the grey area of legal tax avoidance, and crime of tax evasion through complex cooperate governance structures. Many developing countries especially African countries will low levels of literacy and brain drain often lack the necessary institutional capacity to keep pace with these measures. The result is a loss of tax revenue from corporate tax, income tax from top management and other tax forms. These tax revenues if collected and efficiently allocated could be a key drivers for economic development particularly in the least developing countries. According to the OECD the current rules of the international tax system need to be modified to reflect the modern MNC operation and readdress the unfair global tax base distribution.[67] This is vital as Jansky (2013) found that companies with links to tax havens engage in more profit shifting activities than others[68]. The availability of tax havens creates an incentive for MNCs to shift income, which further highlight the moral hazard problem in the relationship with governments of developing countries. Regardless of this it is not uncommon for host countries to give tax breaks or favorable tax to multinationals to attract them. This treatment is often not extended to local firms, which further creates an imbalance and threaten the competiveness of local firms that can have potentially detrimental effects on economic development objectives like income and unemployment levels.

The previous two paragraphs explore role of MNC in developing countries with reference to taking advantage of weaker institutions but in this analysis it is important to note that the decision makers of a business and the owners of the corporation are not the same. The interests of these two economic agents are not always the same and the principal-agent theory can explain this to an extent. The shareholder who is the principal is mainly interested in maximizing shareholder value. The MNC management usually in form of managing director or chief executive acts as the agent with a main interest of maintaining employment, maximizing corporation profits and salary. As part of the goal of maximizing profit, top management could be incentivized take decisions, which take advantage of the weaker institutions or informal institution in developing countries. These decisions may include bribery, tax evasion, environmental degradation due to weak property rights and these could

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[67] OECD, Addressing Base Erosion and Profit Shifting, Paris, February 2013, available at www.oecd.org/tax/beps.htm

[68] http://www.christianaid.org.uk/images/ca-op-9-multinational-corporations-tax-havens-march-2013.pdf

increase profit for the MNC but could also affect the reputation of the organization. It is difficult for shareholders (principal) to monitor the action of management especially when the business operation is in another geographical region, which may incline the manager to take any measure possible to maintain profitability thus protecting employment. Taking these decisions are against the interest of shareholders as it may affect the reputation and share price although company might have the required level of profitability as a result. In a situation like this the agency problem occurs because the agent act on behalf of the principal in a manner counter to what the principal might expect which also exposes a moral hazard problem as the manager has an incentive act opportunistically.

*Foreign Direct Investment Channel*

FDI typically engage with host country with a long-term view offering management and technological expertise.[69] FDI still lags behind exports in corporate international strategies but over the years have become more prominent. According to the UNCTAD Global FDI inflows increased to $1.46 trillion, which is a 13%, increase from the previous year with flows to developing countries being 52% at $759 billion. Asia still remains the largest host region globally although flows to Africa, Latin America and the Caribbean have kept rising. UNCTAD predicts a continued rise in FDI flows for 2013 and 2014 respectively to $1.6 trillion and $1.8 trillion[70]. The figures for the European Union remaining constant and FDI inflows to the United States is falling, this trend suggest that investors are keen to take advantage of growth opportunities in the developing world. The BRICS nations for example nearly doubled FDI inflows from pre-crisis levels representing 22% of global FDI flows with South Africa experiencing a 126% rise in inflows during that period. The UNCTAD table and graph below shows the distribution of FDI inflows around the world.

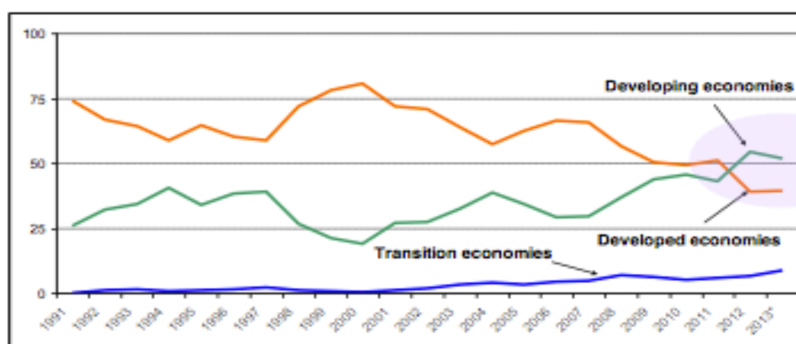
[69] The Economist (2001). The Cutting Edge. February 24: 90 and Borensztein et al.(1998) as well as UNCTAD (a, 1999: 207)
[70] http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf

**Table 1. FDI inflows, by major region, 2011–2013**
**(Billions of US dollars)**

| Region / Economy | 2011 | 2012[a] | 2013[b] | Growth rate 2012–2013 (%) |
|---|---|---|---|---|
| **World** | **1691** | **1317** | **1461** | ***10.9*** |
| **Developed economies** | **866** | **516** | **576** | ***11.6*** |
| Europe | 521 | 236 | 296 | *25.2* |
| European Union | 473 | 207 | 286 | *37.7* |
| North America | 267 | 211 | 223 | *5.8* |
| **Developing economies** | **729** | **715** | **759** | ***6.2*** |
| Africa | 46 | 53 | 56 | *6.8* |
| North Africa | 9 | 14 | 14 | *-1.8* |
| Other Africa | 37 | 39 | 42 | *10.0* |
| Latin America and the Caribbean | 242 | 250 | 294 | *17.5* |
| South America | 131 | 144 | 134 | *-6.8* |
| Central America | 33 | 25 | 48 | *92.7* |
| Caribbean | 79 | 82 | 113 | *37.8* |
| Developing Asia | 439 | 409 | 406 | *-0.8* |
| West Asia | 49 | 48 | 38 | *-19.6* |
| East Asia | 236 | 216 | 219 | *1.1* |
| South Asia | 44 | 32 | 33 | *3.2* |
| South-East Asia | 110 | 113 | 116 | *2.4* |
| **Transition economies** | **96** | **87** | **126** | ***45.1*** |

*Source*: UNCTAD. The data can be cited provided acnowledgement is explicitly given to UNCTAD.
[a] Revised.
[b] Estimated.
*Note*: World FDI inflows are projected on the basis of 136 economies for which data are available for part of 2013, as of 16 January 2014. Data are estimated by annualizing their available data, in most cases the first three quarters of 2013. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2012 is used to extrapolate the 2013 regional data.

**Figure 3. FDI inflow shares by major economic groupings, 1991-2013**
(Per cent)




*Source:* UNCTAD.

UNCTAD 2014

The Washington consensus view is that FDI inflows to developing countries give rise to positive externalities, which can support different economic development objectives including employment. For the host country especially in developing countries the employment effect of FDI are arguably the most attractive aspect of allowing MNCs operate as they have a direct impact on the standard of living and income of its citizens. Though FDI and globalization is welcomed in most developed countries, it is regarded as threat in some developing countries especially in Latin America and South Asia particularly the Philippines and Venezuela.

*Employment and Wages*

Developing countries generally expect FDI to increase local employment levels and have an impact on wages in hope that economic development can be boosted. The UN Conference on Financing for Development in 2002 stated that FDI is an important

tool in eradicating poverty thus boosting growth and development. Traditional trade theory accepts that FDI increases the demand for unskilled labor in developing countries and takes advantage of the relatively low lower wages local production process. This is especially true in developing countries with high population of young people of working ages were relative demand for unskilled workers would increase. As MNC tends to pay higher wages than domestic firms this might also have an effect on local income inequality. Heyman, Sjöholm and Tingvall (2007) shows the huge wage differential between MNCs and local firms ranging from 10% to 70% depending on the country in question which is enough to increase local demand for MNC jobs in the host country. As mentioned in the previous chapter, empirical studies are inconsistent on the effects of FDI on jobs but MNCs are known to concentrate on labor intensive (skilled or unskilled) and technology intensive sectors. In this whole process, unskilled workers in the home country become vulnerable over time. As the MNC grows in a the host country introducing technological advanced processes, the demand for skilled workers increase and those for unskilled workers become redundant by newer production techniques. Workers from home country could also ultimately lose out as the complex parts of the value chain like research and development move overseas which put skilled workers in the home country at risk. Skilled labor in the local economy will ultimately benefit from the higher demand and wages of the MNCs but the impact on the unskilled workers is uncertain. Nigeria for example has a very higher number of engineers especially mechanical and petroleum, which has grown since significantly since the commercialization of oil productions in the country in the 1960 and 1970s. The demand for the engineers in the oil sector has had a significant impact on the supply of this skilled job as locals are lured by the prospect of high wages in MNCs. The expertise brought by MNCs to a host country causes higher marginal productivity of workers in the foreign firms than those in domestic firms. A significant productivity advantage would mean an equilibrium wage increase corresponding to the increase in FDI for both domestic and foreign firms.  Lipsey and Sjoholm (2006) and Arnold and Javorcik (2009) studying the Indonesian labor market found that acquisition of local firms by foreigners led to increase in wages for employees but significantly domestic firms acquiring foreign firms do not produce the same effect. Particularly Lipsey and Sojoholm (2004) shows that the impact on skilled worker is considerably more than that on unskilled workers, which suggest that FDI causes a rise in skill premium and adds that returns to tertiary education are greater in foreign owned firms than private local firms. The implications this has on economic development is significant as an increase wages means more spending leading to improved economic growth. On an individual level the improved standard of living reduces poverty levels and the productivity this effect has can fuel further economic growth. For job stability MNCs operating in developing countries are seen as a more stable employer, which is a big draw for the local workforce. Evidence from Indonesia suggests that likelihood of MNCs to shut down operation are less than for local firms. A similar study in the United States resulted in a similar conclusion. This is as a result of the larger scale of production and often betters productivity levels than domestic firms in developing countries.

Human capital enhancement is another way FDI plays a role in developing country although this is not a direct impact as it happens through government policies geared to use enhanced human capital to attract FDI in the first place. Through job training MNCs can enhance the human capital in developing countries and this might have a positive effect on local suppliers. This enhancement can also be manifested when

local workers move to other companies or start their own businesses, which has further effect for broader development objectives. For local workers in MNC affiliated firms is more attractive than working in local firms when there is a chance for professional development and training. Filer et al (1995) while studying the Czech Republic found that foreign firms spent 4.6 times more than Czech firms on job training. World Bank (1997) found the same result suggesting that MNCs provide more training to employees than Malaysian firms. Human capital is a key aspect of the enabling environment to get the most favorable outcomes from FDI thus developing countries have an incentive to invest in education and training to attract FDI to maximize this human capital. This however is dependent on the sector of the economy and the country in question but nevertheless there is no significant spillover where there is a considerable knowledge gap between foreign entrants and the local economy. Although the MNCs role for human capital has been established it is important to note that general education levels are still more significant to enhancing human capital. The training as result of FDI can only supplement this and by nature is not designed to replace enhancement effect of education to skill levels. However, demand for skilled labor by foreign enterprises allows national authorities pinpoint in demand skills and thus set policies accordingly although this is quiet challenging for many developing countries, as they have to take into account labor market flexibilities and encouraging entrepreneurship amongst other things.

*On Domestic Firms*

On the host country market the presence of MNCs can have a significant effect on competition. This manifests itself in a number of ways and significantly including same favorable treatment given to foreign firms. These include tax breaks and lower tax rates given by national government to attract foreign firms to local markets while local firms do not enjoy such an advantage. This sort of institutional discrimination is common especially in country that have traditionally found it difficult to attract foreign investment for a number of reasons be it political or economic instability. This makes it harder for local firms often with less capital to compete with MNCs in local markets. Increased competition could reduce market share, profits, result in redundancies and lose of employment and even termination of production. This increased competition plays a vital role as it can improve local industries by raising the quality of local operation. This is because the local firms operating in the market who have been able to improve or adapt their process would still be able to compete thus improving productivity of local firms. The pressures of FDI cause some local firms to seek alliances with MNCs which can allows them to benefit from positive spillover, which could improve productivity also. In China, the high FDI inflows have changed working practices and now companies like Haier have began to export to developing as well as developed countries which might not have happened beforehand. This can be attributed to the knowledge and innovation spillovers of FDI, which trickled down to the host economy although factors like infrastructure and policies, determine the capabilities of local firms to take benefit of this. However, the impact of high FDI concentration on competition tends to vary sector by sector and by country. It is important to note that in well-defined markets the impact might be less competition in a situation where entry barriers are minimal or when buyers can be protected from increased cost. Although it is economically more efficient for productive foreign firms to replace less productive local firms it must be properly regulated by national governments to maintain a sustainable level of competition.

Policies regulating trade openness and stricter guidelines on local competition practices can be employed by developing countries to avoid anti-competitive behavior in their markets.

FDI inflows can potentially improve enterprise development in host countries particularly developing countries. Takeovers by foreign firms in developing countries have positive impact on the on local governance, management practices and it is advantageous for the foreign firm to combine local knowledge or expertise with foreign skills for the sake of productivity. The local firm would be expected to experience an increase in efficiency, reduced cost and potential product development. Corporate efficiency is increased especially if the practices in the host countries are inferior, as MNCs tend to impose their unique company policies and principles in the host country. This shows the importance for MNCs to strike a balance between local and foreign management to keep productivity high. The role of FDI in the economic development of transition countries is slightly different as it was involved in the privatization process but the impact seems to have ben positive. Many of the Central and Eastern European countries saw a steady improvement in the efficiency levels of the formally public local firms. The efficiency gains might have been good for the productivity of local firms in these countries but it also coincided with significant job looses in the local firms. This is because private firms do not have the same obligation to provide jobs as the public firms in socialist system did in these countries thus job cuts were necessary for efficiency of these firms. Overall the role of FDI on enterprise development with regards to efficiency gains is positive as investors are inclined to pick local firms with potential efficiency gain. As a result national government trying to increase efficiency in local sectors are inclined to encourage FDI as a means for enterprise development regardless of the short-term impact on local firms.

Apart from spillover of management practices and efficiency gains the transfer of up to date technology and know how or technology spillover is another possible potential benefit of FDI inflows into developing countries. MNCs invest considerably in research and development, which through FDI can be exported to developing countries with lower levels of technological development. Technology spillover or transfers is a vital channel for MNCs to generate positive externalities in developing countries. The spillover effect suggest that FDI endogenously impacts on growth rates by way of increasing returns to scale as a result of interaction between local firms and the international affiliates (Knell and Radosevic 2000). The advantages of technology spillover on local industries might include better productivity levels, transformation of the local industry, improvement in human capital base and transformation of import/export structures which can all help developing country in achieving certain development objectives. This support the notion developing countries must liberalize their economy for trade purposes and to interrelate with developed countries possessing advanced industrial technology and expertise. Developing countries that manage to successfully tap into this would be expected to have better performing economic sectors. Technology spillovers are manifested in FDI through vertical linkages and interaction with local suppliers and horizontal linkages through local competitors or complementary firms in the same economic sector. Other ways are through the migration of skilled professionals and the internationalization of research and development activity. There is more consistent evident of positive externalities from vertical linkages than the others especially with regards to backward linkages in

developing countries (OECD, 2002)[71]. This is possibly because of the more direct impact this can have on economic sectors than the others. To improve the firm's own productivity some MNCs do provide technical assistance, training, modernizing local production capabilities and assistance in the purchasing of primary and intermediary goods to guarantee the quality of local suppliers. The evidence to support the positive externalities of horizontal linkages is not strong and the OECD report is in line with this. This might be because MNCs try to avoid technology spillover to local competitors, as it might be an important part of the firm's competitive advantage. The impact technology spillover have on economic growth is determined by the technology level of the developing country and the relevance of the technology to the local industry. A country with low levels of technological development makes it less likely for local firms to absorb the MNCs technology. The degree to which MNC facilitate spillovers vary with different outcomes in different business sectors.

Spillovers are difficult to measure as it is not easy capturing them empirically. Horizontal spillovers are especially difficult, as researchers cannot clearly control the impact MNCs can have on the market structure of developing countries. Pavlinek (2004)[72] noted that that empirical evidence does not back up exaggerated notion of the effect of FDI on domestic enterprise. Spillovers depend on a number of factors and context making it difficult to assess the true role they play in development. This poses a challenge for national authorities as policies would need to be tailored to specific industries instead of a one size fits all approach and this can prove challenging when you consider the institutional weaknesses that are characteristic of less developed countries. Spillovers are more likely to happen in situations where the productivity gap is not large between the local firm and foreign firm.

A country's ability to absorb management practices and technological innovation is key if a country will benefit from increased productivity via FDI spillovers (Nunnenkamp, 2004)[73]. Knell and Radosevic (2000) stresses the limitation of access to technology for economic development, as it cannot by itself create technological dynamism in the local economy without actively creating local technology capabilities. Absorptive capacity of the host country is crucial for development as local firms can benefit from international knowledge. A lack of absorptive capacity in a country with significant MNC entry creates a crowding out problem for local firms (Agosin and Mayer, 2000)[74]. In a case study of FDI activities in Tanzania Portelli and

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[71] OECD. (2002). *Foreign Direct Investment for Development MAXIMISING BENEFITS, MINIMISING COSTS.* Available: http://www.oecd.org/daf/inv/investmentfordevelopment/1959815.pdf. Last accessed April 24 204.

[72] Pavlínek, P. (2004) Regional Development Implications of Foreign Direct Investment in Central Europe. European Urban and Regional Studies,

[73] Nunnenkamp, Peter (2004), To What Extent Can Foreign Direct Investment Help Achieve International Development Goals? The World Economy 27 (5): 657–677.

[74] Agosin, M. R. and R. Mayer. (February 2000). Foreign direct investment in developing countries: does it crowd in domestic investment? UNCTAD Paper No. 146.

Narula (2004)[75] to a significant extent proves this point. The results showed greater linkages in sectors where the Tanzania had a comparative advantage. It proves the importance of reducing the technology gap between local and foreign affiliated firms as it can affect backward linkages. Knowledge buildup is faster when absorptive capacity is reached and these countries can "learn to learn" which can make technological transfers much more efficient. According to Narula (2004) when companies reach the frontier of knowledge there are diminishing returns on marginal rise in absorptive capacity. This is due to the higher cost of imitation as technology gap closes which has the effect of reducing the amount of technology available to imitate. It is also important to note the part played by previous industrialization of an economy as a prerequisite to absorb technological spillover because without it there is little chance for absorptive capacity Radosevic (1999)[76]. In many African countries there is lack of adequate infrastructure, developed business environment and underdeveloped human capital due to high illiteracy, which make it more difficult for these countries to absorb foreign technology and be competitive in international markets. In order to attract higher FDI inflows national government must invest in developing absorption capacity and thus increasing technology spillover.

It is worth mentioning the part played by natural resources in this relationship between MNCs and developing countries as economist have had conflicting views on the growth effects of exploiting natural resources. In Chile for example, more than seventy percent of FDI inflows targets the lucrative mining sector. Aside from the role FDI can play in parameters for economic development it can also has a role on environment degradation especially when natural resources are the target of inflows. The empirical evidence for the role natural resources play on this has been inconclusive Sachs and Warner (1995)[77] Lederman and Maloney (2007)[78] due to variable bias and data limitation problems. However, through the voracity effect as argued by Lane and Tornell (1996)[79] various interest groups battle to control rent from resources. This encourages poor resource allocation, inefficient taxation and rent seeking behavior, which is difficult for national government especially in countries with poor institutions to mitigate. Another hypothesis is that endowment is limited on certain factors in developing country, which may lead to the resource exploitation and although it makes a slight impact on productivity growth, rents will be high. This might also have the effect of transferring capital allocation from other sectors, which can encourage economic growth in these countries.

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[75] Portelli, B. and R. Narula, 2003, 'Foreign Direct Investment though Acquisitions and Implications for Technological Upgrading. Case evidence from Tanzania', Globalisation as a Transformative Process Working Paper Series
[76] Radosevic (1999) International technology transfer policy: from "contact bargaining" to sourcing *Journal article ; 1999 ; Technovation*

[77] Sachs, J.D., & Warner, A., (1995). 'Economic reform and the process of global integration', Brookings Papers on Economic Activity,
[78] Lederman, D., and W. F. Maloney. (2007). Trade Structure and Growth. In Natural Resources: Neither Curse Nor Destiny, D. Lederman and W.F. Maloney, eds. Palo Alto: Stanford University Press.
[79] Lane, P.R., Tornell, A., 1996. Power, growth and the voracity effect. Journal of Economic Growth 1, 213 – 241.Matsuyama, K., 1992.

Assuming, the voracity effect can explain this it means national authorities must invest in more robust and effective institutions. Rent seeking is a phenomenon often characteristic of developed or developing countries with natural resources but in a well regulated country with effective fiscal policy and governance the influence of these vested interested in government policy can be limited. On the other hand, concerns about the exploitation of scarce resources including physical capital can be resolved by allowing FDI inflows into the sector which is a logical step in this globalized aged of easy movement of capital. However, this would be ineffective should the resources be available labor as it is less mobile than capital.

Environmental issues are often a collateral damage with MNCs targeted at extracting natural resource but the impact on this can have on economic development of local communities can be significant. The impact on these communities can be positive as it can potentially create employment thus raising income, develop local infrastructure, more spending in the locality due to the presence of the MNC and some spillover effect. However, when extractive industries enter local communities especially those in countries with weak institution it often comes with negative externalities for the immediate area. As admitted in the WWF-UK report (1999), *FDI and the Environment* the competition for FDI inflows have a detrimental effect on environmental standards[80]. There is evidence that MNCs prefer locations with low environmental regulation in specific extractive industries where the host countries ineffectively enforce local environmental standard. The permanent nature of some forms of environmental degradation means rapid liberalization can generate long-term negative externalities in developing countries if the necessary institutions do not react to the increased economic pressures. Sustainability theories suggest growth and FDI inflows intensify the already unsustainable development if natural resources are not efficiently used. This means to protect the environment, regulation needs to force FDI to limit unsustainable activities as without this, even economically efficient usage of resources can also lead to over-exploitation and excessive pollution. In developing countries with already inefficient use of rare natural resources, the social cost to the local community must be added to the economic benefits. Consequently, the impact on increased FDI on long-term welfare is mixed in these ecologically sensitive industries. Notably in the more technologically advanced sectors investment actually raises environmental standards, as there is support for low pollution. However, other factors do affect improved environmental standards including pressure from the local communities and industry size. When examining the effect of investment on the environment we must consider competition for investment, MNC threats of divesting, completion between nations in the same region or areas in the same nation and other location factors.

The adoption of better policies in these countries can threaten the short-term economic incentives and thus local institutions are limited by economic pressure from global markets. An effective solution to this must involve the advanced countries as

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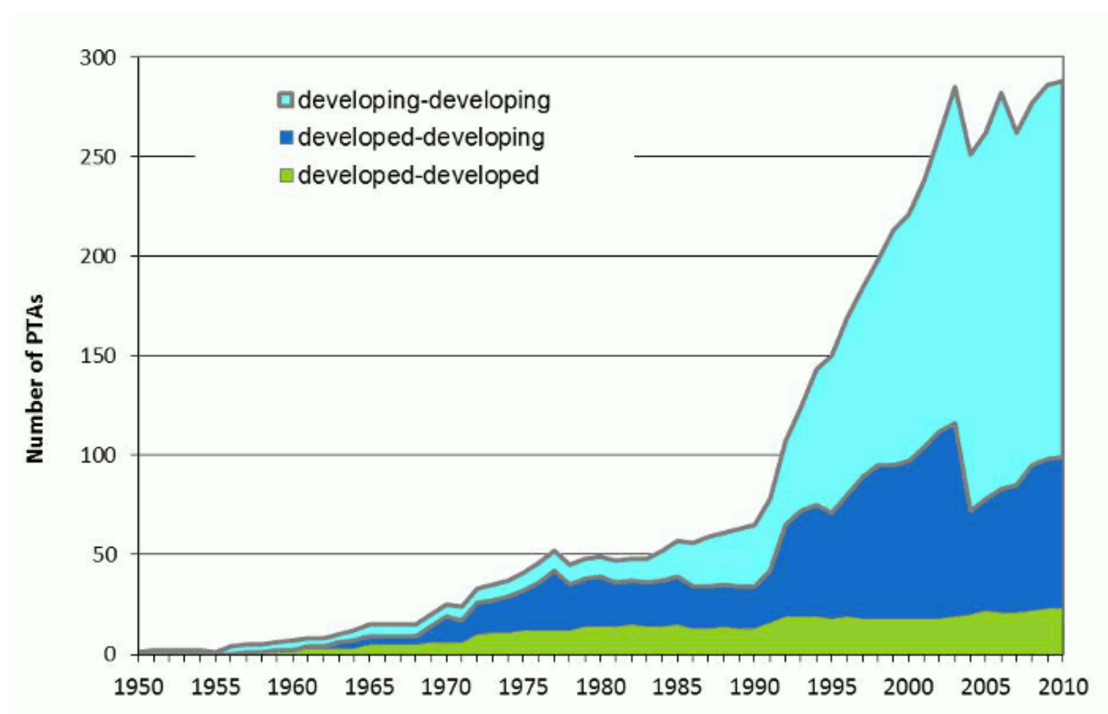
80 Nick Mabey and Richard McNally. (1999). *Foreign Direct Investment and the Environment: From Pollution Havens to Sustainable Development.* Available: http://www.oecd.org/investment/mne/2089912.pdf. Last accessed April 29 2014.

the economic pressure comes from their markets. This assistance must ensure FDI targeted activities have a less detrimental impact, which can be done by cutting unsustainable consumption and providing technical assistance for environmental regulation in less developed nations. The build up of regulatory capabilities, which take environmentally sensitive areas into consideration with the assistance of advanced nations who already possess more robust regulatory capabilities, is crucial. This would be even more effective if set up before agreements to make new industries accessible to foreign investors. MNCs in extractive industries, the financial sectors and export agencies are inclined to operate in countries with weak governance thus; they have a duty to review investment targets for its environmental impact and act accordingly. A reform of these industries must involve restructuring investment subsidies, which support damaging investments to support sustainable industries. In the absence of appropriate governance, marginalized and poor people in society disproportionately feel negative environment impact of FDI inflows thus local and international civil society groups can help mitigate this by supporting greater transparency in government and private activities. The considerable impact of investment on policy competition inside and amongst developing countries must not be ignored as this influences both regulation and enforcement. International coordination on several institutional levels will at least ensure an increase in environmental standard in the developing countries in question.

**World Trade Organization role**

The World trade organization is a major proponent of trade liberalization globally thus a significant tool in economic development. In addition to the multilateral trading systems the WTO allows for special and preferential trade agreements between member countries under the Enabling clause of the GATT in 1994, which the organization uses to encourage economic integration. Preferential trade agreements are designed between countries in order to reduce import barriers to those signatory to the agreements. The logic behind this is that equal treatment could only guarantee equality between similar countries thus unequal treatment would correct these inequalities. PTAs have quickly increased since the 1980s with the agreements like NAFTA, COMESA and MERCOSUR.




WTO Secretariat 20010

The above shows the number of preferential trade enforced from 1950-2010 using data from the WTO secretariat. Its can be deduced from the graph that from the 1970s there was a noticeable rise in PTAs which became significantly sharper in the 1990s but it is quite obvious this is mostly due to agreements between developing countries. The timing of this steep rise is expected as from the 1980s attitudes about the relationship between developing countries and advanced countries started to change, which encouraged increased cooperation amongst developing countries. The common view is that PTA has only been a modest impact although the hope was to bring considerable economic benefits especially to developing countries. Market access improved export levels for some preferred nations with diversification to value adding goods making them less dependent on exporting raw materials but the least developing countries recorded a marginal rise in exports according to UNCTAD statistics.

The 1994-Enabling Clause is included into GATT and the WTO did not change unilateral granting preferences as the advanced countries can unilaterally modify, limit or expand generalized system of preferences or through graduation change the beneficiaries on the group. This means the beneficiary countries are put in an uncertain situation due to the time period and degree of the preferences. Least developing countries benefitted even more than others in this situation as they enjoyed lower to no tariff for selected products in comparison to most preferred tariffs. ACP countries (African Caribbean) for example benefit from preference under the Cotonou Agreement and the United States give similar privilege to Caribbean countries through the Caribbean Basin Initiative. For these agreements however, some countries do not have to comply with the enabling clause and not exempt from the MNF (Most Favored Nation) GATT principle. Temporary waivers are needed from the GATT Article I for this, which must be agreed by WTO members. Members in the 1996 WTO Ministerial Conference agreed on a plan for LDCs leading to various advanced and developing nations expanding standing preferences or initiating particular preferences for least developing countries

GATT members saw regionalism as insurance for developing nations not prepared for the multilateral system which made countries more inclined to favor regionalism as countries started resolving trade issues outside the boundaries of the multinational system (Barton et al, 2008)[81]. Rise in PTA has caused a significant portion of world trade conducted in accordance with MNF (Most Favored Nation) treatment Bossche (2008)[82]. MNF is a status a nation grants on another indicating specific benefits of trading like reduced tariff. Bossche adds that the multilateral trade system could be enhanced by the PTAs as it leads to significant growth rates in the region with the European Union being an example or contributing to poverty reduction. As stated in Trebilcock & Howse (2005) regionalism is a substitute if developing countries cannot effectively gain access to the multilateral system and the PTA's can maintain growth in liberalized trade. However, Jonquieres in *The multilateralism conundrum: international economic relations in the post-hegemonic era* suggest that abandoning multilateral liberalization for regionalism undermines the regulations and disciplines behind the WTO. Political commitment to the multilateral system wanes and members will slowly disregard the dispute settlement of the WTO. As the PTAs become more popular amongst countries the global trading system develops into an entangled web of trade barriers, which as a result of contradiction to MFN obligation disrupts the WTO's role in world trade. As the parties to these agreements are WTO members the contradiction is obvious are they are obligated to also honor WTO contract and this can lead to dispute detrimental to the well being poorer nations. This tension created between multilateralism and regionalism as member party can have more of an incentive to disregard multilateral trading rules. It is obvious PTA harms multilateralism but this might not necessarily be a bad thing for developing countries that currently benefit from the current multilateral trading system.

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[81] Barton, John H. The Evolution of the Trade Regime. Princeton, NJ: Princeton UP, 2008. Print.

[82] Bossche, Peter Van Den. The Law and Policy of the World Trade Organization. 2nd ed. Cambridge: Cambridge UP, 2008.

The WTO Secretariat also has provisions targeted to protect the interest of developing countries and by 2005 had identified 47 provision in 13 agreement encouraging members to do so. An example is Article 10 of the Application of Sanitary measures agreement, which states that members should consider developing and least developing country needs in applying and preparing these measures. The is no clear target for this provision according to WTO classification and just states needs of poorer nations must be taken into account which is makes it hard to enforce due to the relative ambiguity. According to the WTO assessment of consequences this rarely happens and the higher standards of developed nations is a significant obstacle as products from developing countries are frequently disallowed for such reasons[83]. Non-compliance of this article and development considerations being taken into account is a challenge to prove. As a results developing nations want a revision of Article 10 calling for sanitary measures to be withdrawn or technical assistance be provided should it affect more developing nations. Though the idea of improved sanitation on exported goods can have a significant impact on the development of developing countries, it can also have a detrimental effect on developing countries as export revenues falling lead to further development challenges.

The Anti-dumping Agreement specifically Article 15 is another provision designed to safeguard the poorer countries and states the particular condition of developing nations must be taken into account and that constructive solutions must be looked into prior to this measure. Using this article the Indian government lodged a complaint against the European Union for anti-dumping tariffs imposes on Indian linen. The Dispute Settlement Body agreed with India stating the requirement to consider alternatives before adopting such measures does not mean the solutions must be accepted. The article is essentially ineffective, as it does not include criteria for development policy, which can be used to withdraw anti-dumping measures, nor does it elaborate on constrictive solution. To exacerbate the situation for several exporting developing countries the cost of lodging a complaint is too high, which is why these governments have called for clarification of Article 15. To further worsen the situation many of these countries lack the institutional capacity or resources to effectively apply anti-dumping procedures against importers, which creates a global imbalance.

The WTO also has the Agreement on Technical Barriers to Trade with a similar clause in Article 12 stating special attention be given provision the agreement when it concerns the rights and obligations of member developing nations. It also notes that the financial, trade and development needs must be considers and like the sanitary agreement it just contains the requirement to asses the effect of the measures on developing nations. Like the sanitary measures this does not require an alteration, or removal of these measures if proven to have a negative impact on developing countries.

The Agreement on subsidies in Article 27 includes provisions as well although it does not extensive states different subsidies allowed in developing countries. As opposed to the aforementioned anti-dumping agreement the subsidy agreement includes public

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[83] Fritz, Thomas, 2000: Market Access Problems for Developing Countries in the AgriculturalSector. Forum Environment and Development/Germanwatch, July, Bonn

measures categorizing subsidies into three namely non-actionable, prohibited and actionable. Prohibited subsidies, which according to Article 3 include export subsidies resulted in advanced countries abolishing them in 1998, transition nations in 2002, developing countries a year later and under specific situations, LDCs are not excused from this obligation. However, no country is exempt from abolishing import-substituting subsidies thus depending on the level of economic development countries had between three to eight years to discontinue them. This seems to be ineffective for producers in LDCs due to the clear competitive gap between them and other countries and the same inadequate capacity issues in the anti-dumping agreement including cost of dispute procedures in addition to being able to prove significant damage exist.

The WTO secretariat on Agreement on Agriculture provides developing nations with less obligations and greater period of transition for the application of this agreement. These preferential treatments are present in the agreed categories including the aforementioned export subsidies, market access and measures for domestic support. This agreement gave developing countries a decade to reduce tariffs by an average of 24%, and developed countries six years to reduce agricultural tariffs in six years by a 36% average, which resulted in tariffication. Tariffication is basically the conversion of existing agricultural non-tariff trade barriers into bound tariff. Bound tariffs refer to a tariff ceiling beyond which it cannot be increased. The advanced countries took advantage agreement by converting non-tariff barriers like quotas in fixed tariff which created an uneven tariff system among members as several high tariffs were imposed on products of export interests to developing countries Anderson et al (1999)[84]. However, the clause on Special Safeguard Provision in line with the agriculture agreement permits further tariffs on tariffed products when the amount of imports when they fall below a particular price. The industrialized countries use this tarification option at a far high rate than developing countries. The agricultural agreement permits the persistence of exports subsidies providing it is stated in a particular nation's commitment list and this option was used most often by the European Union, which allows EU exporter give dumping prices that force suppliers in developing countries out of business as they simply cannot compete[85].

Civil society groups and NGOs have criticized this Agreement on Agriculture, as the reduction in tariffs by developing countries threatens a vital source of revenue for these countries. This is exacerbated by the fact that the agreement did not stop the huge subsidy payment given to farmers in developing countries, chiefly the United States and the European Union. These subsidies are detrimental to the competiveness of small farmers in poor countries as it distorts prices of agricultural produce and this can have a considerable effect on local incomes of people. The agreement categorizes the subsidies into two, of which the trade distorting domestic subsidies has the most considerable impact and this must decrease to assist the development objectives of LDCs. Exporters of agricultural produce in developing countries have continually urged WTO members reduce these trade-distorting subsidies and subsidies that

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84 Anderson, Kym/Erwidodo/Ingco, M., 1999: Integrating Agriculture into the WTO: The Next Phase. WTO/Weltbank-Konferenz „Developing Countries in a Millennium Round",

85 Wiggerthale, Marita, 2004: Liberalisation of Agricultural Trade – The Way Forward for Sustainable Development? Heinrich Boll Foundation, Global Issue Papers

minimally distort trade and production have noticeably risen with this trend expected to continue according to the WTO. The International Centre for Trade and Sustainable Development however show exactly how this supposedly non-trade distorting subsidies in actuality distort trade, degrade the environment and impact farmers in poor nation[86]. This categorization of different subsidies allows industrialized nations move from one subsidy to another while maintaining or even increasing subsidy levels. By the time of the Uruguay round there was a considerable increase in total subsidies in industrialized countries so these categorization of different subsidies is itself as trade distorting as the protection Northern markets are better camouflaged with the impact being the same.

Aside from the Agreement on Agriculture, financial speculation on commodity by big financial institutions in developing countries play a considerable role in the agricultural industry and welfare of developing countries. European commissioner for European markets, Michel Barnier has called speculation on commodities especially on agricultural produce a scandal, which is detrimental to sustainable growth. Financial institution including Banks and hedge funds betting on food prices caused volatility in prices of staples in many developing countries like maize and wheat in a world were almost a billion people go hungry according to Jomo Sundaram, assistant general of the United Nations Food and Agriculture Organization. In more recent times these staples were already affect by crop failure in the United States, Russia and other nations along with increase demand for grains for biofuel and increased demand from China and India. Although this part of the financial market was created to benefit food producer, deregulation has allowed speculator control the market. The real impact of rising food prices as expected was harsher on poor nations like in Tajikistan were people spend almost 80% of income on food. The effect of this is increase in hunger and global poverty with 44 million people becoming extremely poor due to this price hike according to the World Development Movement[87]. As poverty increased big financial institution recorded large profits with Barclays making as much as $340million yearly from betting on food prices as financial speculation on crops going from $65 billion to $126 billion just from 2008 till the present day. Goldman Sachs using the Goldman Sachs Commodity Index between 2007-2008 bought large number long-options on wheat future creating a demand shock, which distorted supply and prices. This contributed to the price of wheat rising higher than expected in the Chicago Mercantile Exchange where prices are suppose to be kept stabilized. Furthermore, the World Development Movement provides strong empirical evidence to suggest that an increase in wheat

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[86] Sam Laird. (2012). *A Review of Trade Preference Schemes for the World's Poorest Countries.* Available: http://www.ictsd.org/sites/default/files/research/2012/10/a-review-of-trade-preference-schemes-for-the-worlde28099s-poorest-countries.pdf. Last accessed 7 May 2014.

[87] World Development Movement. (). *What is the problem?.* Available: http://www.wdm.org.uk/stop-bankers-betting-food/what-problem. Last accessed 12 May 2014.

price caused a consequent hike in the rice prices which is another staple for many of the global poor and would have detrimental welfare effects on them.

As developing countries consider this agreement insufficient to protect their interest various suggestions geared to reform the agriculture agreement most notably the Development Box. The "Like-minded Group" a group of developing countries that organized themselves as block voters in IGOs including the WTO offered a far-reaching proposal in 2002, which point out the limits of the flexibility requirements of the agricultural agreements. These countries proposed more tariffs on imported product that gained from export subsidies or internal trade distorting measures in addition to excuse certain food items from tariff reduction obligation as some countries might have food security issues. They proposed tariff be raised flexibly instead decreasing external protection and for the special safeguard on agriculture agreement be available only to developing countries which they would be able to implement with any goods they choose. If the productivity of agricultural produce is lower than world average and should exports be below 3.2% of world trade in successive years they propose internal measure be totally exempt from reduction obligations. Proponents of the development box want more developmental objects to be considered in the agreement including food security, poverty reduction, investment diversification, and measures to create more employment and subsidies on production inputs. These provisions by the like-minded group or the development box have yet to be incorporated into the agriculture agreements.

It is important to take note of other non-generalized and non-reciprocal preferential agreement between industrialized countries and developing nations most notably the Cotonou Agreement, which replaced the Lome Convention and the African Growth and Opportunity Act (AGOA). The AGOA is a Untied States Law, giving unilateral trade preference to African nations along with tax breaks and duty-free access to US markets. In theory this is a good initiative but AGOA presents several problems in terms of being compatible to the WTO because the Americans choose beneficiaries in an inadequate way. The criteria used to choose beneficiaries are geographical along with social and economic. Countries are required to take steps to become more economically liberalized, fight corruption more seriously, protect workers rights, make efforts to reduce poverty and establish stronger rule of law. In addition the policies of these countries must not affect any American security or foreign policy interest including terrorism and juvenile labor. The WTO provided the United States with a waiver in 2009 so it is fully acknowledged as a non-reciprocal and geographic based PTA. WTO members excluded from the agreement would prove an obstacle when the time to renew the agreement as they have heavily criticized it. The fact that the AGOA scheme is enacted in United States law it can be revised, terminated or amended without the agreement of the African nations. Based on the criteria the American president decides eligible countries on a yearly basis and even includes new countries. Eritrea, the Democratic Republic of Congo, Guinea, Madagascar and Niger have been removed form the list of and many of these countries complain about the ambiguity of the list. The arbitrary criteria makes the AGOA scheme resemble a more political foreign policy tool than economic which creates more imbalance on the continent and between industrialized and developing nations.

The Lome Convention on the other hand is a preferential trade and aid agreement created by the European Community and ACP (African, Caribbean and Pacific)

countries originally signed 1975. The final agreement under the convention expired in February 2000 and in June of the same year was replaced by the Cotonou agreement. The Lome convention was created to establish a legal basis for development assistance plans from the European Community to the ACP countries as oppose to creating a an area of free trade on the basis of Article 24. Like the AGOA scheme it created a preferential and no-reciprocal system of trading that gave the developing countries nearly unrestricted access to European markets for a wide range of agricultural and manufactured goods. Notably preferential treatment was giving to ACP countries as a preferential quota was initiated along with the absence of import duties. These have been seen to be a against the MFN commitments in GATT/WTO dispute settlement and this was exactly the case in the lengthy "banana wars" where the United States and Latin American countries fought against the European Union's preferential treatment to ACP counties, many whom were former colonies. The EU was ordered by the WTO to change the rules of the agreement after the United States filed a complaint and won. Ten Latin American countries in 2012 signed an official agreement with the European Union to reduce tariffs on banana producers from Latin America over time. The subsequent Cotonou Agreement was also not compatible with WTO regulations due to the same no-reciprocal preference from the Lome Convention but signatories to the agreement got a waiver of seven years from WTO regulations. The Contonou agreement is planned to last two decades and it is designed to prevent the same disputes that occurred in the Lome Convention. Due to the difficulty in finishing an Economic Partnership Agreement among the countries signatory to the agreement, the APC countries were categorized into different groups based on geographical sub-region and the European Union suggested a change from preferential trade requirements to reciprocal European Partnership Agreement to meet Article 14 requirements. For WTO consistency purposes the European Union temporary or newly finalized EPAs at the time lost the preferential status.

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) administered by the WTO plays a significant role on the economic welfare and development of developing countries in a number of ways as is sets the minimum standards for various forms of Intellectual proportion regulation with concern to member countries. According to the WHO by the year 2000 as much as 45% of deaths in Africa and Southeast Asia were caused by infectious diseases like malaria, and tuberculosis which are preventable considering the global advancing in pharmaceuticals. Through TRIPS patent rights have been extended around the world and its supporters argue that patents and intellectual property rights are and important incentive for innovation and research and development. Due to price and competition cost of stringent patent protection a lack of effective balance between the need of pharmaceutical companies and those who need the drugs must have to be properly balanced. TRIP require WTO members to have the same standards of IPR protection used in developed countries which can have the effect of depriving people in the developing access to essential drugs as TRIPS causes high prices and lack of development in pharmaceutical industries.

The agreement protect products and processes for a 20 year period which can lead abuse of monopoly power through patenting usage and dosage forms. Small producer in developing countries specializing in cheap generic alternate drugs find it hard to compete with MNCs under these circumstances making it difficult to develop domestic capacity. Generic completion causes a fall in price of patented drugs with

the fluconazole medicine marketed in Thailand by generic firms being an example. In Thailand the drug cost  (US dollar) 39 cents, 64 cents in India compared the branded alternative costing $10.50 in Kenya, Guatemala, and $8.25 in South Africa[88]. It happened in Brazil when the Brazilian government produced HIV medication costing 79% less than the branded alternatives.  As far as evidence goes there is little to suggest the patent protection encourage investment in drugs needed by the poor WHO (2001)[89].  Out of 1,223 new medicines developed between 1975 and 1996, just 11 were created to treat tropical diseases. As at the time of the study a new tuberculosis drug had not been developed in more than three decades although the diseases is a major killer of the global poor which indicated research and development is focused on more lucrative markets in advanced countries where there is much investment in drugs for obesity or baldness.

Pharmaceutical MNCs notably engage in price differential with regards to the same drugs in different countries basically adapting to local market condition. This price adaptation is important to developing countries and MNCs as they can set prices to compete with local generic alternative if available in the country in question. If there are not alternative drugs these prices there is less pressure on MNCs to reduce prices enough to accommodate local market condition. According to a survey conducted by Health Action International in 1998 on Zantac, a drug market by GlaxoSmithKline for cure ulcer noted that due to competition form the competitive generic firms in India prices were significantly reduced.  100 tablets of the drug cost $2 in India and $3 in Nepal but as much as $150 in South Africa and $132 in El Salvador which reflects this point.  Transfer pricing is when trading raw materials in drugs, which causes an increased final cost in developing countries. The Network Association for Rational Use of Medication in Pakistan compared prices of imported raw materials into Pakistan and found that raw materials sold by MNCs to subsidiaries were mush higher than international market prices[90]. The study cited an example of a German pharmaceutical MNC that sold raw materials to the Pakistani subsidiary for $11,000 per kilogram whereas the price in the open international market was $320, which represented a 3360% change in price. An Italian MNC did the same thing sold raw materials to the Pakistani subsidiary at a 7044% price mark up which is has a considerable effect in a country with high number of poor people in the population. The organization did another study on the retail prices to find out in drug companies actually sell branded drugs at lower retail prices for the reason aforementioned. The results show this is not always true when the study shows the prices of 10 out of 13 of the most widely used drugs in Tanzania and found that compared to the per capita income in the country drugs where sold at considerably higher prices compared to Canada with a much higher per capita income. A later study found average prices of

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88 Oxfam (2001) Cut the Cost, Patent Injustice: How World Trade Rules Threaten the Health of Poor People, Oxfam GB

89 WHO (2001) Globalization, TRIPS and access to pharmaceuticals, WHO Policy Perspectives on Medicines, No. 3 March 2001, World Health Organisation, Geneva

90 HAI (1994) HAI News, No. 78, August 1994 Health Action International

the most widely used drugs in ten Central and South American countries to higher than in 12 OECD countries and prices in South Africa than eight European nations.[91]

[91] HAI (1998) HAI News, No. 100, April 1998 Health Action International

## World Bank

*Aid Conditionality: Structural Adjustment Policies (SAP)*

Aid conditionality is by definition a condition attached to loans, debt relief and bilateral aid normally imposed by Intergovernmental organizations most notably the IMF and the World Bank. These organizations play a significant role in the economic development of developing nation through, loan, grants, technical assistance, policy advice and the ability to get access to creditors or donors' development finance with a neoliberal economic viewpoint. The World Bank conditions include firstly privatization by selling off state assets usually to international buyers. According to an interview with Joseph Stiglitz a former World Bank economist, corrupt national leaders sell local utility companies vital to the population's welfare without hesitation for to the prospect of a 10% commission paid to Swiss Bank account.[92] Secondly, capital market liberalization, which has predictable impacts on the local economies as outflows often outweigh inflows and the IMF, calls for high interests rates sometimes higher than 50%. Thirdly, market-based pricing which essentially increases prices of essentials like food, cooking gas, water and other essentials. These some predictable caused riots in some countries including Bolivia known as the water wars.[93] Lastly, free trade, geared toward reducing trade barriers, which might otherwise protect local markets open them to foreign entities.

According to research by Eurodad too many conditions are imposed on poor countries with the research finding over fifty conditions attached to World Bank loan and grants. It found 14 out of 20 LDCs studied had over fifty conditions accompanying World Bank grants with 15% of countries receive aid or grants have more than a 100 conditions attached to them. Uganda notably had the most conditions imposed with 197 accompanying development grants with 87 being social and environmental condition, 72 being public sector reform conditions and 35 being financial and economic condition for a country under the fifth poverty reduction support credit of 2005 to a country were almost a quarter of the children are malnourished.[94] The number of these conditions both binding and non-binding rather than falling is rising as shown by the second table below. 20 World Bank loan recipient countries show an increase 48 average numbers of conditions per loan in 2002-2004 to 64 from 2003 to 2005. As the table shows this condition were imposed on some of the poorest countries in the world and the World Bank justifies this increase in non-binding conditions by stating they do not hinder development finance should a country fail to implement them thus not counting non-binding conditions as conditions. However, according to a 2005 World Bank study 77% of countries were of the opinion that all policy condition must be complied with which shows a gap between policy and

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[92] Gregory Palast. (2001). *IMF's four steps to damnation.* Available: http://www.theguardian.com/business/2001/apr/29/business.mbas. Last accessed 24 Feb 2014.
[93] The Economist. (2000). *Water war in Bolivia.* Available: http://www.economist.com/node/280871. Last accessed 24 Feb 2014.
[94] World Bank. (2004). *Uganda at Glance.* Available: http://devdata.worldbank.org/AAG/uga_aag.pdf.. Last accessed 5 March 2014.

implementation. [95] Regardless of this a huge administrative liability is placed on developing countries via monitoring or progress reports part of the World Bank's assessment if these conditions are not met.

| Table 1. Number of conditions contained within current World Bank loans to poor countries | | | |
|---|---|---|---|
| COUNTRIES | WORLD BANK LOAN DOCUMENT | YEAR OF LOAN | NUMBER OF CONDITIONS |
| Uganda | Fifth Poverty reduction support credit | 2005 | 197 |
| Nicaragua[10] | First Poverty reduction support credit | 2003 | 107 |
| Rwanda | Second poverty reduction support grant | 2005 | 103 |
| Senegal | First Poverty reduction support credit | 2005 | 77 |
| Tanzania | Third poverty reduction support credit | 2005 | 72 |
| Honduras | Poverty reduction support credit | 2005 | 72 |
| Ethiopia | Second poverty reduction support credit | 2005 | 67 |
| Benin | Second poverty reduction credit | 2005 | 60 |
| Mozambique | Second poverty reduction support credit | 2005 | 59 |
| Madagascar | Second Poverty reduction support operation | 2005 | 57 |
| Niger | Public expenditure reform credit | 2005 | 54 |
| Burkina Faso | Fifth poverty reduction support operation | 2005 | 54 |
| Bangladesh | Development support credit III | 2005 | 53 |
| Ghana | Third poverty reduction support credit | 2005 | 52 |
| Mali | Public finance management credit | 2005 | 50 |
| Zambia | Economic management and growth credit | 2005 | 46 |
| Georgia | First poverty reduction support operation | 2005 | 42 |
| Armenia | Second poverty reduction support credit | 2005 | 39 |
| Vietnam | Fourth poverty reduction support operation | 2005 | 38 |
| Bolivia | Social sector programmatic development policy credit 2 | 2005 | 33 |

Eurodad 2006

| Table 2: Average number of conditions imposed with current and previous World Bank Loans to Low Income Countries | | | |
|---|---|---|---|
| Average No. of Conditions per loan | Average No. of Total Conditions | Average No. of Binding Conditions | Average No. of Non-Binding Conditions |
| Previous WB loan (2002-2004) | 48 | 13 | 35 |
| Current WB Loan (2003-2005) | 67 | 15 | 52 |

[96]Eurodad 2006

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[95] World Bank. (2005)., *Summary of the World Bank Conditionality Review.* Available: http://siteresources.worldbank.org/PROJECTS/Resources/40940-. Last accessed 24 May 2014.

Binding conditions, which hinder development assistance, have also notably increased according to the Eurodad study, which challenges the World Bank's claims that it has fallen. Vietnam and Armenia for example received loans with exclusively binding conditions with Vietnam imposed with 41 of them before receiving grants from the bank in 2004 representing it third poverty support operation.[97] Armenia had to comply with 39 conditions imposed by the Bank before receiving the 2005 development grant in its second poverty reduction support despite the number of the population depending on the loans for survival.

Some of the conditions imposed on the developing nation are inappropriate and ineffective in terms of the intended effect of the welfare of local populations. The World Bank has recognized this inappropriate conditions it imposes and has tried to restructure them in various way. Particularly the newly adopted guideline for development loans attempt to limit the Bank to conditions vital to implementation of the programs.[98]These inappropriate conditions was manifested in several poor countries, development finance in Mali for example which was a proposed economic policy and public finance management credit assistance involved binding conditions to relocating government offices which has very little to do with achieving development objectives in a country with one of the highest infant mortality rates in the world. The same goes for the Poverty Reduction Support Credit granted to Uganda with binding condition to assessment and approval of sports policy in post-secondary education. It was arguably worse in Burkina Faso, a country with one of the lowest per capita income level in the world with 10% of woman infected by HIV were the government was required to but and train people in new software procedure in a country that lacked the absorptive capacity to develop upon it.

The World Bank still imposes these sorts of policies with the economic policies being the more controversial. 20% of the Bank's conditions are economic policy condition with some more than half of those being in form of privatization and trade liberalization[99]. As mentioned earlier, these policies have led to the privatization of important services like water, education that have been detrimental to the welfare of people. The British and Norwegian government as a result have excluded privatization and liberalization from their own bilateral development assistance program. Economic policy be it privatization or trade liberalization whether in

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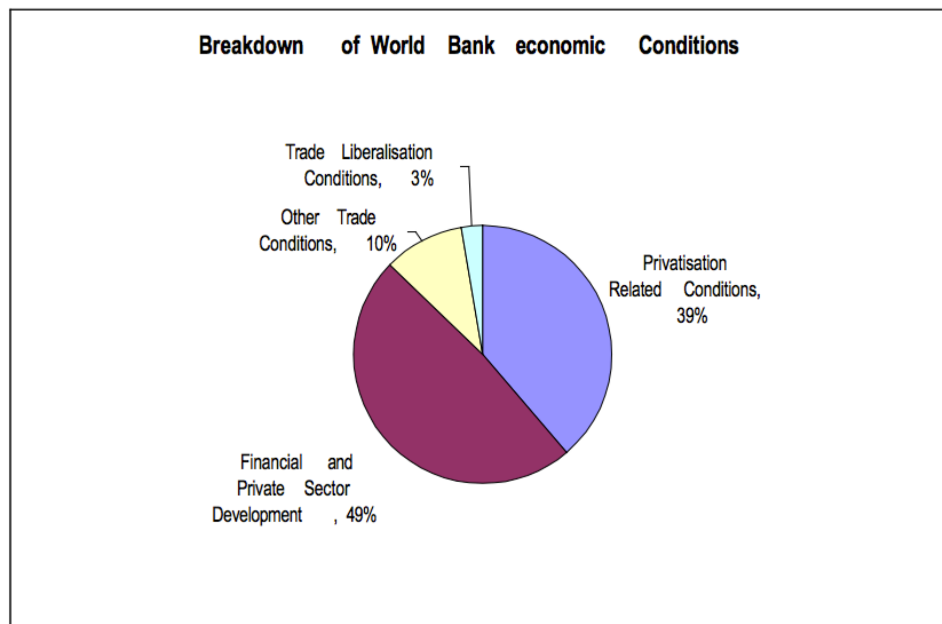
[96] World Bank and IMF conditionality: a development injustice, Eurodad, June 2006

[97] World Bank. (2004). *Vietnam at Glance.* Available: http://devdata.worldbank.org/AAG/vnm_aag.pdf. Last accessed 24 May 2014.

[98] World Bank. (2004). *Development Policy Lending.* Available: http://wbln0018.worldbank.org/Institutional/Manuals/OpManual.nsf/tocall/AD55139DFE937EE585256EEF00504282?OpenDocument. Last accessed 24 May 2014

[99] Eurodad. (2006). *World Bank and IMF conditionality: a development injustice.* Available: http://www.eurodad.org/uploadedfiles/whats_new/reports/eurodad_world_bank_and_imf_conditionality_report.pdf. Last accessed 24 May 2014.

industrialized countries or developing ones should be the prerogative of the national authorities as opposes to influences from external forces or interest.  Privatization conditions have been increasing despite these concerns and it makes up a significant part of the conditions imposed. In Bangladesh were more than half the population live below the poverty line privatization policies represented 18 of the 53 conditions to receive the second round of development support in 2005. This privatization included bank, telecommunication and electricity along with extractive industries. For Armenia 9 of the conditions out of 39 conditions involved privatization and in Nicaragua and Honduras it was 11 of 72 and 10 of 107 respectively.




Eurodad 2006

The above shows a distribution of World Bank conditions across the board and it is clear that privatization conditions and financial private sector development represent the largest share, which is a reflection of the World Bank's neo-liberal economic policies. Regulatory, corporate reforms and restructuring of particular industries are condition which enable privatization are considered privatization associated conditions and different from the aforementioned privatization conditions. Armenia had 9 of such conditions imposed on the country although no privatization condition were included in the aforementioned poverty reduction support credit ranging from railway reform, fresh telecoms law and reforming licensing for service providers. The conditions relating to direct privatization and reforms have significantly increased across the board. Evidence from the World Bank shows that privatization of utilities as a top priority for the World Bank[100]. Telecommunication represents the most significant part of this utilities privatization with 6 out of 11 as conditions for development credit with energy privatization in form of electricity, and hydrocarbon sector coming second place.

[100] World Bank 2005, Review of World Bank Conditionality: http://siteresources.worldbank.org/PROJECTS/Resources/ContentofConditionality7-21.pdf

For economic development to be successful policies must come from within developing nation and the World Bank has started to accept this, as external forces cannot understand the local economic nuances better than locals. This has not changed much although. The study shows the Bank still insists on these contentious economic conditions on developing countries even when are not in line the countries national policies for poverty reduction or economic development. The survey in the study found that the Bank's beneficiaries were of the opinion that loan conditions included elements not in the national strategy. A similar study done by the World Bank's Debt and Development Coalition on Poverty Reduction supports this notion as it discovered controversial condition not included in national policies which is quite disturbing considering how much influence the World Bank has on initial implementation of these strategies[101]. Another World Bank study found more than 70% of recipient nations had their initial national policies changed considerably after consultation with the World Bank.[102]

| Table 3: Controversial World Bank privatisation conditions not mentioned in national Poverty Reduction Strategy | | | |
|---|---|---|---|
| COUNTRY | WORLD BANK LOAN | CONTROVERSIAL POLICY CONDITION | IN NATIONAL POVERTY STRATEGY? |
| Mozambique | PRSC 2 | Privatisation of the Bank of Mozambique | NO |
| Uganda | PRSC 5 | Privatisation of water supply system through the country | NO |
| Zambia | Economic Management and Growth Credit | Privatisation of Zambian Telecommunications Company | NO |
| Benin | PRSC 2 | Privatisation of ONAB (Benin public wood company) | NO |

Eurodad 2006

*Trade liberalization*

The Eurodad survey also reveals that significance of trade liberalization conditions in World Bank grants as it showed 4 out of 24 nation assessed had trade liberalization conditions as binding conditions on World Bank loans. Bangladesh being one of these countries, which as part of the binding conditions for the loans is required to remove restrictions on imported sugar with Rwanda on the other hand, is required to become party to the East African Trade Agreement and Uganda being required to submit a WTO bill to the legislature. It is important to add that these trade related condition account for just 3% of World Bank conditions to developing countries while

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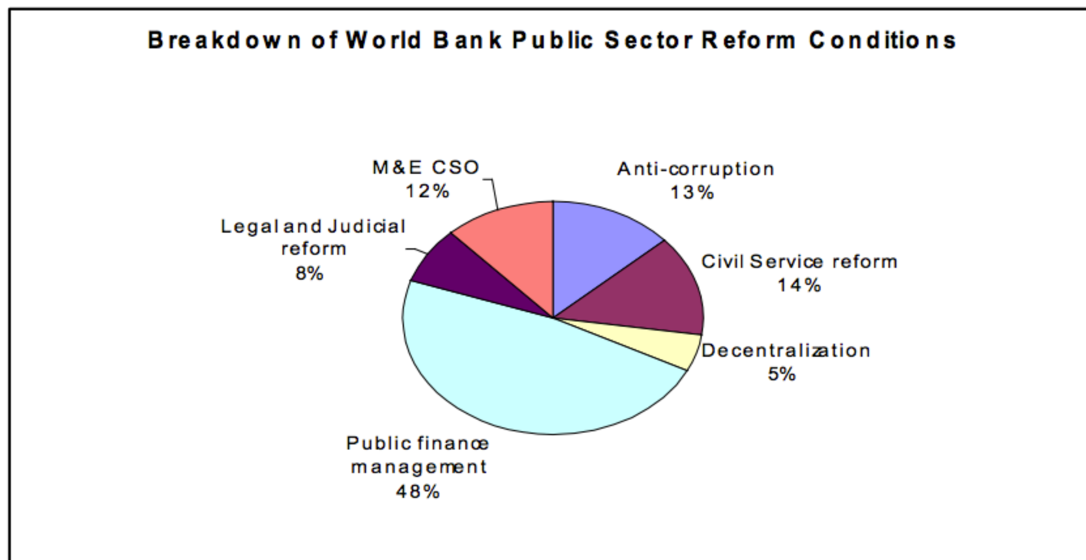
101

Debt and Development Coalition Ireland, 2005. World Bank's Poverty Reduction Support Credit Continuity or Change?
http://www.debtireland.org/resources/index.htm

102 World Bank, 2005, Summary of the Conditionality Review
http://siteresources.worldbank.org/PROJECTS/Resources/40940111461584748 9/ConditionalityFinalDCpaperDC9-9-05.pdf

liberalization accounts for 1%. According to the Conditionality Review under 2% of total conditions imposed on poor countries were trade related[103].

Pubic sector reform




Eurodad 2006

As mentioned in previous chapters institutions and governance is important for economic development and the World Bank attempts to use conditions to play a role in this aspect. The issue here is whether the Banks is the correct avenue to impose change such public sector or governance policies but imposing conditions with long term changes to institutions is controversial. The Development faculty of the University of Birmingham stated that political conditionality is conducted in the framework of all-encompassing policy discussions between recipient and donor nations instead of political conditions linked national budgets. The research shows that public sector reforms represent the largest number of conditions for loans to developing countries pushed by the World Bank at 43%. These include anti-corruption judicial, legal public finance, civil service and society reforms. Public finance management and tax reform represent almost 50% of all public sector reform requirements. Some of these policies are actually positive for development objectives including anti-corruption measures and public finance management but the latter can also lead to greater economic liberalization depending on how it is implemented.

Social conditions and environmental conditions are included in almost 40% of World Bank loan. World Bank guaranteed the investment of mining and fossil countries in poor countries, which have high social cost. In theory these condition should have positive development effects for the local population in reduction in poverty and environmental degradation. The issue here is to prevent ineffective micromanagement in such policies for example the World Bank required Rwanda formulate hygiene

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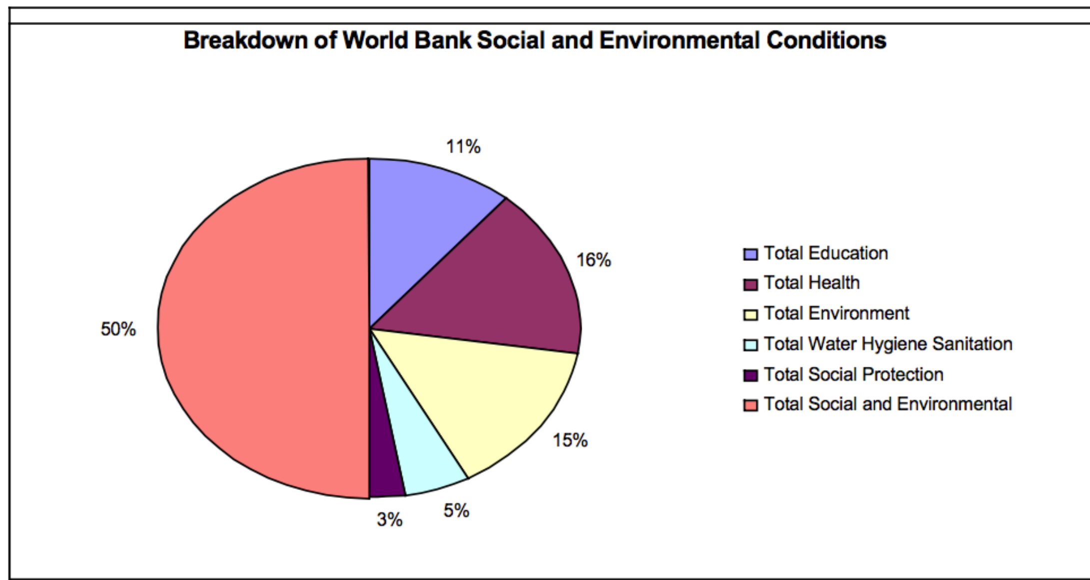
[103] 2 World Bank, 2005, Summary of the Conditionality Review available at http://siteresources.worldbank.org/PROJECTS/Resources/40940114615847489/ConditionalityFinalDCpaperDC9-9-05.pdf

improvement policies in 184 government schools and in households, which is positive for the welfare for the Rwandans, but it seems like a strange conditions to be imposed for a Poverty Reduction Support Credit loans.  According to Eurodad 24 of these social and environmental conditions are imposed for every loan, which makes it difficult for national authorities to implement them all.  The pie chart below illustrates the distribution of social and environmental conditions of the IMF.




Eurodad 2006

The number of conditions imposed by the World Bank is too many from what this section shows and can also have some harmful effects and this is because the conditions are not tailored specifically to the national development objectives. The Bank has stated it gives higher number of loans to countries with good conditions for development.  The Bank in an attempt to see if the local environment can absorb the poverty reduction and sustainable growth strategies through development loans does a yearly assessment of policy and institutional structure to determine if the country in question has favorable conditions for development.  This Bank does this through CPIA or the Country Policy and Institutional Assessment, which scores countries based on a certain criteria. The problem with CPIA criteria is that it overemphasizes economic liberalization in an all-encompassing economic manner. Regardless according to the Bank, the better the CPIA score of a country the less condition it faces when applying for loans. This however does not match up to the reality of the situation, as countries with good CPIA scores appear to receive the more conditions. 5 of 8 nations studied in 2004 had the highest number of conditions in even though they had the high CPIA scores[104]. This raises a lot of question about the criteria the Bank uses and in fact civil society groups have called for a significant change n the criteria used to generate the scores as the current system has significant obvious flaws.

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104 World Bank, 2005, Summary of the Conditionality Review available at http://siteresources.worldbank.org/PROJECTS/Resources/40940111461584748 9/ConditionalityFinalDCpaperDC9-9-05.pdf

## IMF

Most bilateral and multilateral official development aid and debt relief is linked to the presence of IMF programs like the (PSI) Policy Support Instruments. The IMF self described role in fostering global economic stability make the conditions it attaches to programs have a significant impact. Countries that fall short of IMF loan conditions lose development finance from the fund and other sources of finance needed by LDCs. These IMF conditions can be separated into four main categories namely monetary austerity, which is geared to constrict money supply to increase local interest rates in order to stabilize currency. Secondly, fiscal austerity by increasing taxes revenues and reducing government spending. The third being privatization manifested in selling off public assets and most controversially financial liberalization geared to eliminate restrictions on international capital flows and also eliminating limits of what international business and institutions can purchase in the local economy. Should the country in question agree to these structural agreement the IMF then borrows enough to prevent defaulting on the loans and restructures the national debt through private internationals borrowers including promising new loans.

Regardless, IMF imposes a high number of structural conditions on loans particularly in the 1990s and attempted to reduce them by introducing new guidelines in 2002- geared to review the number of conditions and the kind of conditions it imposes on loan recipients[105]. The guidelines suggested that conditions be dictated by national governments and according to IMF assessment this has had a positive effect[106]. The Eurodad study however, shows that recipients on loans still have a significant number of conditions imposed on them with 11 conditions per Poverty Reduction Growth Facility. The study also finds countries that adhered to IMF principles had less conditions which exposes a political element to the dynamic[107]. 5 out of 20 countries in the study had SAP (Structural Adjustment Conditions) imposed on them in the Poverty Reduction Growth Facility review with Nicaragua facing the most. The country had 25 conditions imposed on its economy as a condition for IMF finance in 2004 with 17 public-sector reform conditions, 17 financial and private sector and 1 privatization condition including suggesting privatizing the national telecoms company ENITEL and ENEL the state electricity provider. After the privatization there were protests in Nicaragua due to the price increase and worsen quality of the amenities reported by the Danish Institute. This is a classic case of the problems that can arise in privatization in developing countries especially when one considers the fact that almost half the countries population lives below the poverty line.[108][109] IMF

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[105] IMF, 2005. Evaluation of Structural Conditionality in IMF-Supported Programs. Washington

[106] 2005b IMF Review of the 2002 Conditionality Guidelines Prepared by the Policy March 3, 2005 http://www.imf.org/external/np/pp/eng/2005/030305.pdf

[107] Eurodad 2003, Streamlining Of Structural Conditionality - What Has Happened? http://www.eurodad.org/uploadstore/cms/docs/Streamliningfinal.pdf

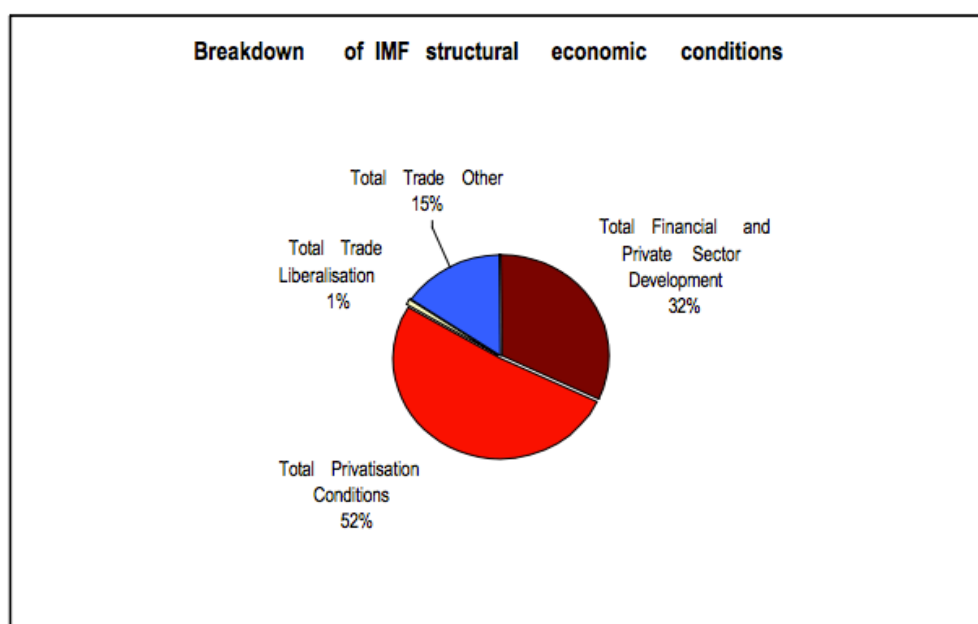
[108] Romano, S 2005, No Privatization of Water www.foodandwaterwatch.org

[109] Possing, S. 2003. Between Grassroots and Governments Civil Society Experiences with the PRSPs. A Study of Local Civil Society Response to PRSPS, Danish Institute for International Studies.

conditions were similar high for African countries with Burkina Faso having 14 conditions imposed and 13 for Benin Republic in 2005 two countries with high poverty levels even for African standards. Due to pressure from civil society groups the Fund issues initiated a fresh framework geared towards reducing conditions required for Poverty Reduction Growth Facility loans but the conditions have only increased since then. Binding conditions represent almost 50% of IMF SAP conditions with half all conditions imposed through the Poverty Reduction Growth Facility being binding and there has not been much change in that level since.

Economic Policy

The Eurodad study showed that 43% of the Fund's SAP conditions were economic with half of those being privatization policy conditions.




Eurodad 2006

The above pie chart shows the distribution of IMF structural economic conditions and from the study it can be deduced that a fifth of structural conditions for every Poverty Reduction Growth Facility required privatization conditions. In 2002 Vietnam had 9 of 17 conditions imposed representing privatization conditions with all those being the privatization of government owned companies and reforming the financial sector[110]. This caused to the government stop lending from the Fund because the condition require government owned banks to be audited by a foreign firm which is a violation of Vietnamese law. In the Republic of Benin more than half the SAP conditions in 2005 were privatization conditions on the telecommunications, energy, cotton industry and an attempt to privatize the ports through reforms in a country with a 34% literacy rate shows a disconnect between the needs of the people and IMF

110 Second Review under the three-year arrangement under the PRGF.

policies. In the same year the conditions imposes on Mali exposed an even larger disconnect as almost 74% of conditions imposed were privatization related in country with were only 36% of the people live above the poverty line yet banking, telecoms, agriculture and energy privatization were imposed.

**TABLE 5. Privatisation-related Conditions in Current IMF Development Finance Lending**

| Country | Loan Document Date | IMF Loan Document Name | Privatisation-related Conditions |
|---|---|---|---|
| Bangladesh | 01/07/2005 | Third review under the PRGF | Banking privatisation |
| Benin | 01/08/2005 | Request for a three year arrangement under the PRGF | Privatisation of Electricity, Telecoms; Ginneries. (cotton processing companies) and Port |
| Ethiopia | 01/01/2005 | Sixth review under the three year arrangement under the PRGF | Banking Privatisation |
| Ghana | 01/08/2005 | Third review under the PRGF | Banking and Energy Privatisation |
| Mali | 01/04/2005 | Sixth review under the Three year Arrangement under the PRGF | Banking, agriculture and telecoms privatisation: |
| Mozambique | 01/02/2006 | Third review under the three year arrangement under the PRGF | Energy privatisation |
| Nicaragua | 01/11/2004 | Fifth and Sixth reviews under the three year arrangement under the PRGF | Telecoms privatisation: |
| Senegal | 01/05/2004 | First review under the three year arrangement under the PRGF | Electricity and ground nut privatisation |
| Tanzania | 01/08/2005 | Fourth review under the three year arrangement under the PRGF | Banking privatisation |
| Uganda | 01/02/2006 | Sixth review under the three year arrangement under the PRGF | Banking privatisation |
| Vietnam | 01/07/2002 | Second Review under the three year arrangement under the PRGF | General SOE privatisation and banking reform |

Eurodad 2006

# Conclusion

In this globalized aged most country whether industrialized or developing are interconnected, it is only a question of what extent of the level of exposure to world markets and this greatly influences local economies. The poor in developing country in this paradigm seem to be the most vulnerable to decisions or activities that occur elsewhere. The paper explores the role of global interests through two main channels namely Multinational corporations and Intergovernmental organization. Multinational Corporations have play a considerable role in economic prosperity through the main avenues of investment in the local economy which creates jobs and can improve spending in the local community of the economic activity which contributes to growth. However, it is not the responsibility of an MNC to improve the economic fortune of those in the host country. The main aim of those firms is to protect investment and stay profitable and in many cases this is regardless of the kind of impact it has on host developing countries. From an economic standpoint it can be argues that it is important for firms to generate positive externalities where they operate but in country with high level of corruption an inadequate institutions it is hard to monitor or regulate these activities so they these firms can act opportunistically. There is significant pressure on MNCs that operate in developing countries as the political or economic situation is not always stable enough for business so even entering some markets represents a huge risk and it is understandable if the development of the host market is not a top priority when investing. The chapter using the Coase theory to explain this shows the inherent divergence of interests between a local economy and a Multinational corporation. The spillovers from MNC economic activities have a better chance of improve the economic development of the host in the interests are less divergent but most importantly these countries must regulate their economies in such a way that these activities generate positive externalities but still attracts investment. This is where the challenge lies as this and where national authorities and institutional capacity became important as it is the main avenues this balance can be efficiently reached as MNCs can only work legal within the conditions they find themselves in. A lack of will, or inadequate institution, or low absorptive capacity means that regardless of the level of investment in a country there would be little economic development even though economic growth keeps rising as we see in many countries. Majority of the fastest growing economies of the world are in sub-Saharan Africa with impressive growth rates there has been little in the way of infrastructural development and improved standard of living partly for these reasons. In some cases a few large industries or firms are so productive that they can increase national output but this has little impact on standard of living.

The Intergovernmental organization on the other hand most especially the World Bank has a mandate to promote and safeguard the economic development of developing countries while the IMF has a mandate to maintain global economic stability but not necessarily for development objectives like the World Bank. Normally, papers on this topic try to explore the effectiveness of development aid but this paper explores that specifically in the context of individual structural adjustment policies. This paper finds that the conditions these organization require to access development assistance are too many, often inappropriate, ineffective and

controversial within the recipient country and in the view international civil society groups. Privatization of scarce resources and utilities seem to be the most contentions of these conditions as rather than improving allocative efficiency rather it can make them less accessible due to the changes in prices. Public sector reform condition along with inappropriate or ineffective policies that have little impact on development objectives whether binding or non-binding have been explored in this paper can only keep developing countries in the cycle of dependency on aid. A cynical point of view would argue that the World Bank being a "bank" and thus to be relevant and operational has to give loans which might explain the cycle of dependency its policies keep many country in. It can also be argued that it protect United Stated hegemony as its policies on privatization and reform seem to benefit Western multinational as they are the ones with the capital to take advantage of some of these conditions in the poorest countries. The fact every single World Bank president has been United States citizen and Jim Yong Kim, a public heath professional is the closest president the organization has had to a development professional is quite surprising. The two organizations being within a mile of each other share information and work together with similarities in their structure. The largest donor being the United States, the United Kingdom, Germany and France ultimately have an influence on the activities of the organization, which adds to the divergence of interest. Along with trying to attain the official objectives of these organizations these countries are in a position to protect their own interest and this often seems to be of greater priority when one observes their actions. It is the responsibility of developing countries to find new strategies to ensure they depend less on development assistance from IGOs and essentially take their economic destiny into their own hands. This starts with effective governance, which can improve institutional quality and absorptive capacity and thus can help attain positive development objectives. The responsibility of economic development falls on the developing countries themselves.

Trade should rightly play a large part in alternative development strategy for developing countries and not just the trading of primary good but value added products. As the paper show the WTO is influential in world trade and majority of its members are developing countries. Strides have been made through the preferential trade agreements it recognizes that countries are at different stages of economic development and try to cater to that but this free trade is often only for raw materials. It allows primary products freely flows out of developing countries but not value adding products. This only benefits large firms operating in developing countries where the PTAs could be structured better to improve international market access for a much more wider range of products. The WTO Agreement on Agriculture is arguably the most detrimental to developing countries. Africa for example with vast areas of arable land underutilizes this partly due to the agreement as the European Union and United States maintain farm subsidies in there countries which make it hard for poor less supported farmers to compete on the world market. There is also little done by the organization to mitigate the threat of commodity price speculation and these two things drive millions into poverty each year as the rural poor in developing countries mostly live of the land. This imbalance also suggest that the priorities and interest of industrialized countries seem to be more important for the WTO and other IGOs than developing countries which explains the grievances of developing nations.

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# List of appendices

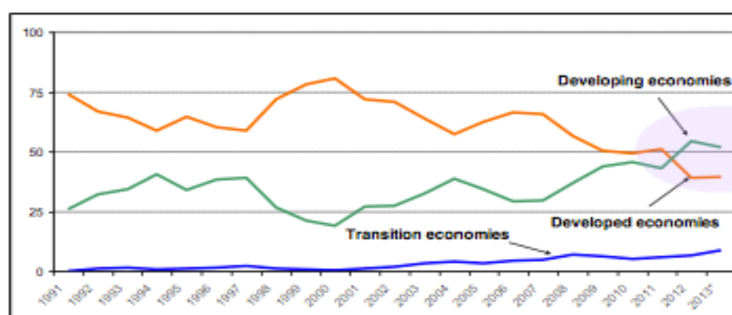
## Apendix 1
## FDI inflows by Major region 2011-2013

**Table 1. FDI inflows, by major region, 2011–2013**
(Billions of US dollars)

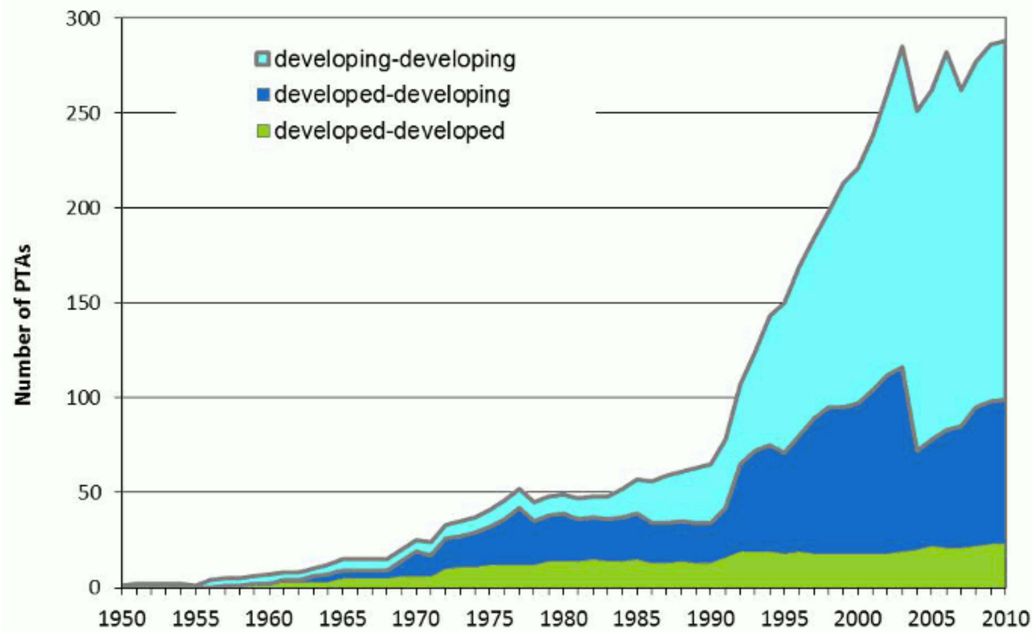
| Region / Economy | 2011 | 2012[a] | 2013[b] | Growth rate 2012–2013 (%) |
|---|---|---|---|---|
| **World** | **1691** | **1317** | **1461** | ***10.9*** |
| **Developed economies** | **866** | **516** | **576** | ***11.6*** |
| Europe | 521 | 236 | 296 | *25.2* |
| European Union | 473 | 207 | 286 | *37.7* |
| North America | 267 | 211 | 223 | *5.8* |
| **Developing economies** | **729** | **715** | **759** | ***6.2*** |
| Africa | 46 | 53 | 56 | *6.8* |
| North Africa | 9 | 14 | 14 | *-1.8* |
| Other Africa | 37 | 39 | 42 | *10.0* |
| Latin America and the Caribbean | 242 | 250 | 294 | *17.5* |
| South America | 131 | 144 | 134 | *-6.8* |
| Central America | 33 | 25 | 48 | *92.7* |
| Caribbean | 79 | 82 | 113 | *37.8* |
| Developing Asia | 439 | 409 | 406 | *-0.8* |
| West Asia | 49 | 48 | 38 | *-19.6* |
| East Asia | 236 | 216 | 219 | *1.1* |
| South Asia | 44 | 32 | 33 | *3.2* |
| South-East Asia | 110 | 113 | 116 | *2.4* |
| **Transition economies** | **96** | **87** | **126** | ***45.1*** |

*Source:* UNCTAD. The data can be cited provided acnowledgement is explicitly given to UNCTAD.
[a] Revised.
[b] Estimated.
*Note:* World FDI inflows are projected on the basis of 136 economies for which data are available for part of 2013, as of 16 January 2014. Data are estimated by annualizing their available data, in most cases the first three quarters of 2013. The proportion of inflows to these economies in total inflows to their respective region or subregion in 2012 is used to extrapolate the 2013 regional data.

**Figure 3. FDI inflow shares by major economic groupings, 1991-2013**
(Per cent)




*Source:* UNCTAD.




**Appendix 2: Distribution of Preferential Trade Agreements 1950-2010**

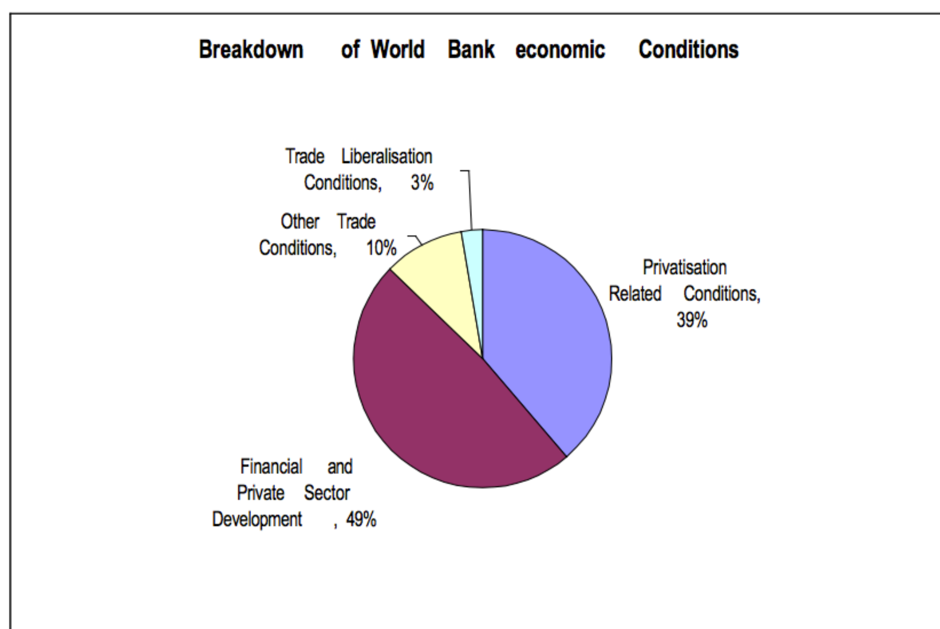
**Table 1. Number of conditions contained within current World Bank loans to poor countries**

| COUNTRIES | WORLD BANK LOAN DOCUMENT | YEAR OF LOAN | NUMBER OF CONDITIONS |
|---|---|---|---|
| Uganda | Fifth Poverty reduction support credit | 2005 | 197 |
| Nicaragua[10] | First Poverty reduction support credit | 2003 | 107 |
| Rwanda | Second poverty reduction support grant | 2005 | 103 |
| Senegal | First Poverty reduction support credit | 2005 | 77 |
| Tanzania | Third poverty reduction support credit | 2005 | 72 |
| Honduras | Poverty reduction support credit | 2005 | 72 |
| Ethiopia | Second poverty reduction support credit | 2005 | 67 |
| Benin | Second poverty reduction credit | 2005 | 60 |
| Mozambique | Second poverty reduction support credit | 2005 | 59 |
| Madagascar | Second Poverty reduction support operation | 2005 | 57 |
| Niger | Public expenditure reform credit | 2005 | 54 |
| Burkina Faso | Fifth poverty reduction support operation | 2005 | 54 |
| Bangladesh | Development support credit III | 2005 | 53 |
| Ghana | Third poverty reduction support credit | 2005 | 52 |
| Mali | Public finance management credit | 2005 | 50 |
| Zambia | Economic management and growth credit | 2005 | 46 |
| Georgia | First poverty reduction support operation | 2005 | 42 |
| Armenia | Second poverty reduction support credit | 2005 | 39 |
| Vietnam | Fourth poverty reduction support operation | 2005 | 38 |
| Bolivia | Social sector programmatic development policy credit 2 | 2005 | 33 |

**Appendix 3: Number of conditions in World Bank Loans of 2005**

| Table 2: Average number of conditions imposed with current and previous World Bank Loans to Low Income Countries | | | |
|---|---|---|---|
| **Average No. of Conditions per loan** | **Average No. of Total Conditions** | **Average No. of Binding Conditions** | **Average No. of Non-Binding Conditions** |
| Previous WB loan (2002-2004) | 48 | 13 | 35 |
| Current WB Loan (2003-2005) | 67 | 15 | 52 |

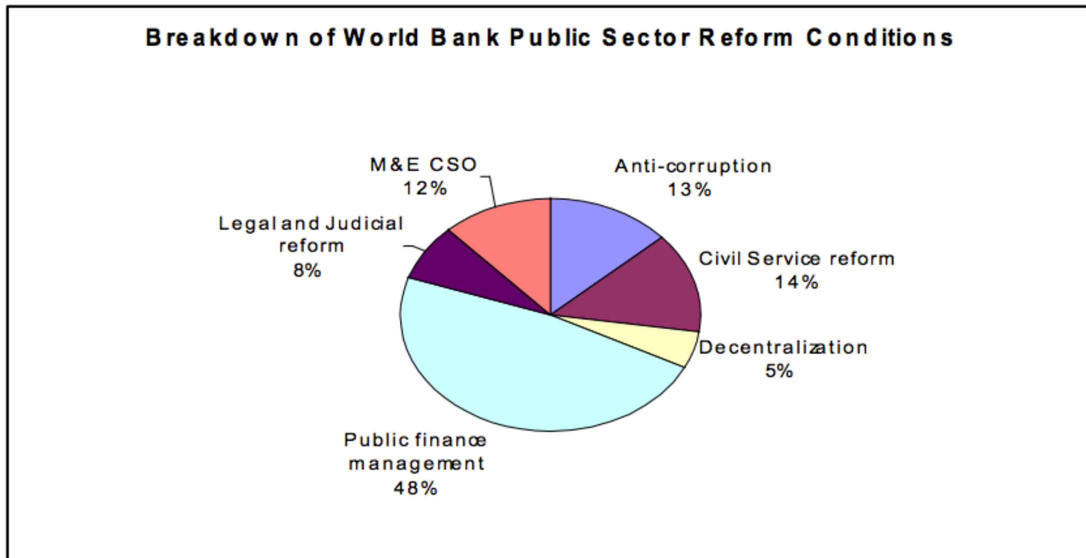
**Appendix 4 Aveerage number of conditions imposed by World Bank Loans to low income countries**



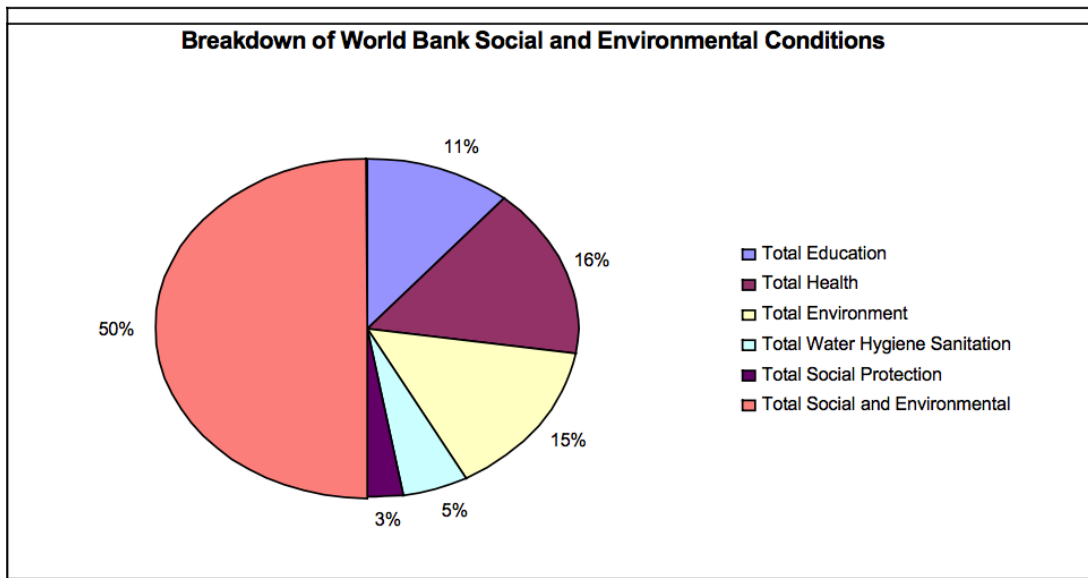

**Appendix 5: Distribution of World Bank Economic Conditions**

| Table 3: Controversial World Bank privatisation conditions not mentioned in national Poverty Reduction Strategy | | | |
|---|---|---|---|
| **COUNTRY** | **WORLD BANK LOAN** | **CONTROVERSIAL POLICY CONDITION** | **IN NATIONAL POVERTY STRATEGY?** |
| Mozambique | PRSC 2 | Privatisation of the Bank of Mozambique | NO |
| Uganda | PRSC 5 | Privatisation of water supply system through the country | NO |
| Zambia | Economic Management and Growth Credit | Privatisation of Zambian Telecommunications Company | NO |
| Benin | PRSC 2 | Privatisation of ONAB (Benin public wood company) | NO |

**Appendix 6 : Distribution of Controversial privatization conditions in World Bank Loan**




**Appendix 7: Distribution of World Bank Public Sector Reform Conditions**




Appendix 8: Distribution of Social and Environmental Conditions in World Bank Loans

**Breakdown of IMF structural economic conditions**

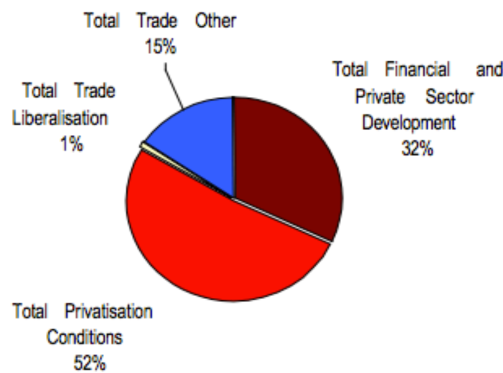



**TABLE 5. Privatisation-related Conditions in Current IMF Development Finance Lending**

| Country | Loan Document Date | IMF Loan Document Name | Privatisation-related Conditions |
|---|---|---|---|
| Bangladesh | 01/07/2005 | Third review under the PRGF | Banking privatisation |
| Benin | 01/08/2005 | Request for a three year arrangement under the PRGF | Privatisation of Electricity, Telecoms; Ginneries. (cotton processing companies) and Port |
| Ethiopia | 01/01/2005 | Sixth review under the three year arrangement under the PRGF | Banking Privatisation |
| Ghana | 01/08/2005 | Third review under the PRGF | Banking and Energy Privatisation |
| Mali | 01/04/2005 | Sixth review under the Three year Arrangement under the PRGF | Banking, agriculture and telecoms privatisation: |
| Mozambique | 01/02/2006 | Third review under the three year arrangement under the PRGF | Energy privatisation |
| Nicaragua | 01/11/2004 | Fifth and Sixth reviews under the three year arrangement under the PRGF | Telecoms privatisation: |
| Senegal | 01/05/2004 | First review under the three year arrangement under the PRGF | Electricity and ground nut privatisation |
| Tanzania | 01/08/2005 | Fourth review under the three year arrangement under the PRGF | Banking privatisation |
| Uganda | 01/02/2006 | Sixth review under the three year arrangement under the PRGF | Banking privatisation |
| Vietnam | 01/07/2002 | Second Review under the three year arrangement under the PRGF | General SOE privatisation and banking reform |