



WIDER Conference on Sharing Global Prosperity

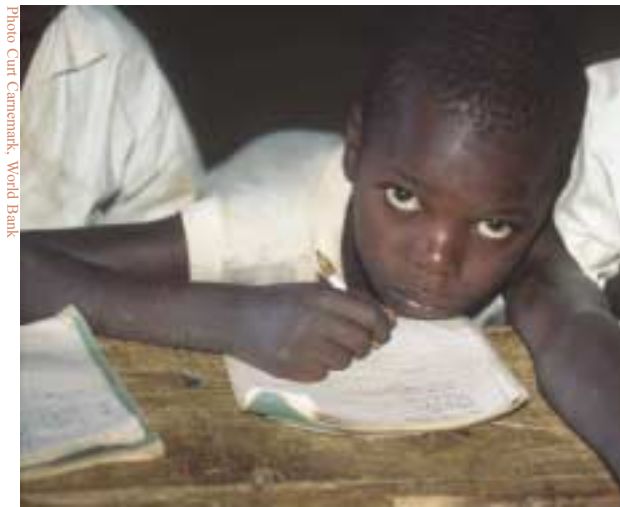


Photo: Curt Carnemark, World Bank

Time to share prosperity

Over 120 experts from the academic, policy, non-government and government communities met on 5-7 September 2003 in Helsinki to discuss the preliminary findings of the WIDER research project on 'Innovative Sources for Development Finance', commissioned by the UN's Department of Economic and Social Affairs (UN-DESA) and to participate in the WIDER conference on 'Sharing Global Prosperity'. Professor Tony Atkinson, the Warden of Nuffield College, Oxford University and director of the project presented the initial findings.

The two-day conference on 'Sharing Global Prosperity' focused on ways to increase the global economy's benefits for poor countries and poor people. The topics included: development finance; private capital flows and foreign aid; international trade and foreign investment; globalization's development impact. Some 70 papers were presented, with a wide range of developing country participants, including from Brazil, China, Ghana, South Africa and Tanzania. International and donor agencies participated including the ACP, DFID, the IMF, and Sida. The concluding presentation on 'Global Public Economics' was made by Professor James Mirlees, University of Cambridge, the 1996 Nobel Prize laureate in economics. The project and conference papers are available at: www.wider.unu.edu

2003 WIDER Annual Lecture

Global Labour Standards versus Freedom of Choice

by Kaushik Basu

The Conundrum

Most reasonable people agree that workers, wherever they happen to be, should have the guarantee of certain basic rights and minimal standards of wellbeing. But as soon as we try to convert this seemingly innocuous demand into concrete policies, we run into controversy.

Would *one* standard, no matter how low we set it, not do injustice across nations—demanding too little of the industrialized countries and too much of the poorest? If poor workers in one of the least developed nations feel that they are willing to expose themselves to large health hazards in order to be able to feed their families, should an international organization or government have the authority to disallow such work? Of course, we will all agree, that no one should be poor enough to have to do such work. But the question is: if they *are* so poor, do we have the right to stop such work?

Underlying these practical questions are deep philosophical and analytical issues and they form the focus of this lecture. Such analytical inquiry is important to ensure that our interventions do not go wrong, and hurt the very constituency they are meant to help.

In the city of Calcutta, an area called Salt Lake, which was originally a salt marsh, was developed by the local government to enable relatively worse-off people to own land and houses. So plots were sold off at a subsidized rate. But it then struck the government that these people to whom the plots were sold could lose their land to rich buyers. So a law was enacted to disallow the sale of these Salt Lake plots. This was meant to help the original buyers. When economists are told about this policy, they laugh. Surely a person

who wishes to sell their land will be better off by being able to sell it.

This is part of a larger principle in economics: a contract between two consenting adults, that has no obvious negative fall-out on others, is their business. Government has no reason to intervene; if anything, government should provide the machinery for enforcing such contracts. This ‘principle of free contract’ is, in turn, derived from a more fundamental principle, that of ‘Pareto’, which asserts that any change which leaves one person better off and no one worse off is a desirable change and ought not to be thwarted.

While most economists subscribe to the principle of free contract, many—often unwittingly—support legislative interventions that seem to violate this principle. The same people, who laugh at the folly of the government that enacted the Salt Lake legislation, frequently support global conventions that disallow workers in poor countries to work at jobs that expose them to large health hazards.

Banning these contracts is often justified by making vague references to ‘obnoxious markets’. I argue in this lecture that we need to be more circumspect in justifying bans on such market activity. The world has gone through a phase of over-vigilant government and over-regulated markets *within nations*. This has given rise to the chorus of demand for economic reform and

liberalization. What we are risking now is the same mistake at a *global level*. Thanks to globalization, it is now easier to intervene in one another’s nations and there is a genuine risk of over-doing this.

I am not arguing against intervention. Governments and international organizations have important roles to play in controlling and steering the market. But interventions have to be well-crafted and carefully justified, using normative economics, data and theory.



“Since international labour standards are meant to help poor countries it is crucial that the details of the interventions be formulated by poor nations.”

Let me here consider one controversial matter of international labour standards in which people are often tempted to intervene globally in local practices in developing countries, as an example.

Labour Rights in EPZs

Many countries have done very well in the export market by creating special export processing zones (EPZs), where firms that produce exclusively or primarily for the international market are given special land and benefits by the government. Mexico’s *maquiladoras*, China’s ‘Special Economic Zones’ and Malaysia’s numerous EPZs and ‘licensed

manufacturing warehouses’ are examples of this. One of the things that multinationals working in these zones do not want is labour trouble and stoppage of work. To ensure this some countries have placed restrictions on collective bargaining and trade union activity and suspended the application of minimum wage laws (which are frequently the source of worker-management trouble) in these zones. That is, workers wanting to work in these zones have to relinquish some

of the rights that other workers in other parts of the country can take for granted.

This has led to protests that export processing zones that indulge in such practices are immoral and anti-labour. I do not think that the labeling can be used quite as easily. This is because no one is compelled to work in an export processing zone. If a worker

chooses to work in one then presumably both the worker and the employer like it that way and the principle of free contract seems to kick in. As the US judge, dismissing the case in which a person sued McDonald’s for his obesity, pointed out: No one is forced to eat at McDonald’s.

Hence, banning the practice of curtailed rights in EPZs is certainly not axiomatic. There may be arguments for this but such arguments need a great deal more sophistication than we have shown thus far.

When Can We Intervene?

In this lecture I develop three possible arguments that can be used as general principles for justifying interventions. Here they are in somewhat cryptic form.

A. Irrationality

Human beings are often irrational. We are frequently impatient and willing to make disproportionate sacrifices to make good things happen soon. We are atrocious at understanding interest rates where compounding is involved. We lack self-control. It is therefore welcome that modern behavioural economics has drawn our attention to these systematic irrationalities, even though it is a bit dismaying that economists *needed* behavioural economics to realize that not everybody is always rational.

When a villager regularly takes loans at interest rates of 10 percent or more per month (I encountered a lot of this during my field work in a village in Jharkhand, India), economists explain this in terms of the alleged fact of high default rate or monopoly pricing. What is not allowed for is the possibility that the borrower may not understand what 10 percent per month means in terms of the enormity of repayment burden.

Some interventions can be justified to protect people against systematic and established human irrationalities.

B. Multiple Equilibria

In my earlier research on child labour I have discussed how labour markets in poor nations may have multiple equilibria, with low wages and children working in one equilibrium and high wages and no child labour in another. If this happens, then in the vicinity of the low wage equilibrium, by allowing a child to work, we may achieve a Pareto improvement, true. But by banning all child labour, we may be able to deflect the whole economy to another equilibrium, which is not

Pareto inferior to the first equilibrium. This does not mean that we should ban child labour wherever we see it, but that there are conditions under which a ban on child labour is compatible with adherence to the Pareto principle.

C. The Large Numbers Principle

There are certain kinds of contracts which, when voluntarily accepted by both sides, lead to a Pareto improvement, but at the same time, if such contracts were to be generally allowed and used by large numbers of people, would cause changes in the market parameters which would leave some people worse off. That the normative status of certain actions or contracts, when performed in limited numbers, can be different from the normative status of the same actions or contracts performed in large numbers was argued by the philosopher Derek Parfit. I have argued elsewhere and will develop the analysis further in the lecture that the 'large numbers principle' can be formalized in economics and used by governments and international organizations to justify banning certain kinds of contracts.

Conclusion

International interventions have to be justified in terms of one of these principles. But we must guard against the risk of using these arguments as alibi to intervene wherever we wish, just as governments have done wantonly in the past by sighting imagined externalities. My reason for sketching these rules is in fact to urge discretion in intervention. We must make sure through theory and empirical work that a proposed intervention satisfies one of these criteria before we sanction its use.

And, turning to a more practical matter, since international labour standards are meant to help poor countries it is crucial that the details of the interventions be formulated

by poor nations. We will have to work much more actively to give voice to poor nations in various international fora that are involved in crafting policy in their interest. Imagine if there was a colloquium in Karachi attended by a large number of representatives from sub-Saharan African governments and poor Asian and Latin American governments (with maybe a few representatives from industrialized countries) to discuss school violence and gun laws in developed countries and then the conference tried to initiate a policy of monitoring and controlling these practices in the US, Europe and other industrialized nations. This would be considered outrageous. The way we are going about the legitimate task of worrying about global labour standards is equally outrageous. If we want to achieve our task effectively and in the interest of the poor, we need to involve governments and civil society of the Third World much more and think in terms of more democratic methods of formulating and implementing policy.

Kaushik Basu is Professor of Economics and the C. Marks Professor of International Studies at the Department of Economics, Cornell University, and the Director of the Programme on Comparative Economic Development at Cornell. He founded the Centre for Development Economics in Delhi and has held visiting positions at Princeton University, MIT, CORE, and LSE. He is Editor of Social Choice and Welfare, serves on the Editorial Board of other economics journals and has contributed popular articles to leading newspapers and magazines.

Après la Chute: The CFA Franc Zone 1994-2003

by David Fielding

Monetary Union in Africa

In the last ten years, there has been much debate about the economic impact of monetary union, in which several countries share a single currency and a single central bank. The main focus of attention has been the newly formed European Monetary Union, the economic impact of which—given its short life—is largely a matter for speculation. But monetary unions are by no means a new phenomenon. At the end of the Second World War, with the European empires largely intact, many economies around the world participated in monetary unions based on the Pound Sterling, Escudo, Guilder and Franc.

As the various colonies achieved political independence, most of these monetary unions were dissolved, the new nation states preferring complete economic independence, with their own currencies and independent central banks. Economically, they distanced themselves from each other as well as from their former colonial rulers. However, francophone Africa was an exception. Here, most of the new nation states newly chose to retain close economic links with France, retaining the shared currency of French colonial Africa.

Today, there are 14 African countries participating in the system that evolved from this post-colonial arrangement. These are grouped into two single-currency areas: the West African Economic and Monetary Union, UEMOA (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo) and the Economic Community of Central African States, CEMAC (Cameroon, Central African Republic, Chad, Congo Republic, Equatorial Guinea and Gabon). Together, the two areas make up the African Financial Community (CFA). In each area there is a single central bank issuing a single currency, each of which—

somewhat confusingly—is called the CFA Franc. Both of these currencies were pegged to the French Franc, and are now pegged to the Euro, at a fixed rate. The French Treasury guarantees the convertibility of the currencies at this fixed rate, on the basis of a system of rules designed to limit the amount of money printed by each central bank.

The CFA delivers a level of financial stability that is unknown across most of Africa. Historically, inflation rates in the CFA have been no higher than those in France. Capital has flowed between the CFA and the European Union with few restrictions, and without destabilizing capital flight episodes that have affected other developing economies. So other countries in the region are starting to take an interest in monetary union. Several non-francophone members of ECOWAS, including Ghana, Nigeria and Sierra Leone, have established a timetable for creating a third monetary union of their own, with the express aim of eventual amalgamation with the CFA.

However, the CFA has experienced problems of its own. In the opinion of many (but not all) economists, the CFA currencies became increasingly overvalued in the 1980s. Several of the larger member states experienced persistent balance of payments deficits, and became increasingly indebted over the decade. In January 1994, under pressure from the Bretton Woods institutions, both CFA currencies were devalued against the French Franc. The value of the African currencies was halved overnight. Despite early predictions of its demise the CFA has remained intact, with no subsequent devaluation. It has even gained an extra member, Guinea-Bissau. Nevertheless, the devaluation episode has led some to wonder whether the current system, which owes its existence, structure and scope to the historical accident

that was the French Empire, is appropriate for African economies in the 21st century. This has been the focus of a recent research project at WIDER.

Is the CFA an 'Optimum Currency Area'?

One question that the research project tackles is whether the current alignment of countries into two separate monetary unions suits the needs of today's member states. The division of the CFA into two areas provides a great deal of potential flexibility in the system. Because the French Treasury maintains the CFA-Euro peg, the two central banks are free to decide on their own short-term interest rates. In the long run, the financial integration between France and the CFA means that rates cannot diverge too far from those in Europe, but in the short run rates can be adjusted to meet local needs; moreover, interest rates in the UEMOA can diverge from those in the CEMAC, so the system can accommodate differences in economic conditions between the two regions.

However, the division of the CFA into the UEMOA and CEMAC regions is the result of an historical accident: they represent—roughly—two administrative divisions within the French Empire. The grouping of countries was not based on an economic rationale. Moreover, not all CFA countries were equally happy with the idea of devaluation in 1994: it has been suggested that some countries in each monetary union were more in need of the devaluation than others. Could there then be a rationale for re-forming the CFA into groups of countries based on economic characteristics? If the unthinkable ever happens, and former British colonies are incorporated into the system, how many groups should there be, and which countries should they contain?

However, CEMAC countries are mostly petroleum exporters, and UEMOA countries are all petroleum importers. This is the most important factor in determining the degree of similarity in the way different countries' economies evolve over time; so—with one or two possible exceptions—there is little to be gained from restructuring the CFA. Nevertheless, the CEMAC countries do exhibit more macroeconomic diversity than their UEMOA neighbours. This means that they may face higher costs from membership of a single-currency area with a single interest rate. It also underscores the potential difficulties that would arise if petroleum-exporting Nigeria were to be incorporated into the system.

CFA member states are aware of the potential costs of economic misalignment. The UEMOA countries in particular have sought to increase the degree of economic convergence between them by adhering to a 'convergence pact' designed to bring about a degree of homogeneity in the levels of public borrowing, external debt and inflation in each country. Our research indicates that so far the convergence pact has had little impact on UEMOA members' economic conditions, and that there is still a long way to go before the same interest rate is appropriate for all.

How has Monetary Policy Evolved Since the Devaluation?

Aside from striving for greater economic convergence, the CFA has instituted substantial reforms in the way that the central banks intervene in each economy. Before the devaluation, the central banks' activities were largely limited to the allocation of credit to different sectors of each economy, and to setting the overall rate of monetary growth within the union. Since then, the central banks' role as a source of credit to the private sector has been greatly diminished, and the use of

the interest rate as a monetary policy tool has attracted more attention. For a long time in OECD countries, the setting of interest rates has been the main way in which a central bank tries to minimize the cost of economic fluctuations; but in Africa, where financial markets have been much smaller, the active use of the interest rate as the central bank's main policy instrument is not the norm.

Our research suggests that the CFA now uses the interest rate in a proactive way. While in the long run CFA interest rates have to match those in Europe, short-run movements in overall inflation across the region and in public sector borrowing are matched by interest rate adjustments. The rules that guide interest rate decisions are not as transparent as those in OECD countries, and the way in which the central banks react to changes in economic conditions is not as systematic. Nevertheless, there is some consistency in central bank reactions. If this is combined with a degree of economic convergence that makes the same interest rate appropriate for all, then there will be greater long-run economic and financial stability within the region.

Monetary Policy and Poverty

The CFA incorporates some of the poorest countries in the world. Many of the smaller countries, lying around the southern edge of the Sahara, have *average* income levels of less than a dollar a day per person. Our research also sheds some light on the way in which policy changes at the macroeconomic level—not only the devaluation, but also changes in the interest rate and in the money supply—impact on the poorest households in the region.

With respect to the impact of the devaluation on poverty, we find some surprising results. In many CFA countries, poor households make a living partly from the production of cash crops such as coffee, cocoa and cotton. More affluent households include people working for the government or large firms in the city.

Many expected the devaluation to alleviate poverty, because it increased the domestic value of cash crops relative to urban wages, and to the cost of the goods and services the urban sector produces. However, this picture is too simplistic. In some countries the devaluation made many poor households, and especially poor urban households, worse off. One explanation for this is that many of the urban poor are employed in small informal sector firms owned and financed by more affluent formal sector workers. The reduction in the real value of formal sector wages may well have had a knock-on effect on the urban poor that led to an overall increase in the incidence of poverty.

It also seems that living standards among the poor, in some CFA countries at least, are particularly sensitive to large changes in the money supply or the interest rate. This is because inflation in food prices is more sensitive to monetary policy than inflation in the prices of other commodities: in the short run food prices are more flexible than other prices. Because food makes up a larger fraction of the money spent by poor households, they face more substantial changes in the cost of living after a monetary policy adjustment.

In many ways, the CFA represents a successful programme of regional co-operation, and of economic co-operation between Africa and Europe. However, the financial stability that CFA membership brings comes at a cost, because of the wide diversity of economic conditions faced by different regions and different income groups, which are all subject to a single policy regime. The future success of the CFA depends on the recognition of this diversity, and on steps taken to alleviate the resulting costs.

David Fielding is Professor of Economics at the University of Leicester, and the director of the WIDER project Long-term Development in the CFA-zone Countries

Trade-led growth, the WTO and the Developing Countries

by Basudeb Guha-Khasnobis

During successive rounds of the GATT and, since 1995, the WTO regime, the world community has been trying to move towards freer trade. The WTO regime has been turbulent so far, with the developing countries voicing their concerns about the development-credibility of the new regime. Such differences notwithstanding, the potential role of international trade in rescuing nations out of poverty traps and helping them embark on a path of positive economic growth are remains well grounded in economic theory. The broad objective of the recent UNU-WIDER project titled 'The Impact of the WTO Regime on Developing Countries' was to evaluate, as of the present, the prospects as well as the challenges of such trade-led growth.

Unilateral Preferential Trade Arrangements

A particular emphasis of the project was to assess the extent to which the actual flow of trade is affected by some of the important trade related policies originating in both the developed as well as developing countries. The universal adoption of the most favoured nation (MFN) principle remains the ultimate goal of the ongoing process of trade negotiations, but its all-inclusive character makes it a time consuming, long-term possibility at best. Preferential trading arrangements (PTA) are crucial as quick and stop-gap solutions. At the end of the day, it is through PTAs that the

rich and poor countries interact in more substantive ways. PTAs have proliferated in recent years, a phenomenon which is often cited as an indication that the WTO is a failing process. Without trying to decimate the gravity of some obvious problems with the WTO, one may differ with that interpretation and assert instead that the WTO has been an important catalyst in triggering PTAs and

of scope for unilateral trade liberalization, especially by the US, which can boost LDC exports quite significantly.

Liberalization of Agriculture: The Role of OECD Domestic Support Measures

The role of OECD domestic support measures is crucial in the debate on the liberalization of trade in agriculture. The welfare impacts, of changes in both the level as well as mix of domestic support measures in the OECD, on developing countries depend on whether they are net exporters or net importers of protected products as well as on the bilateral trade patterns. Trade specialization indexes calculated over the past three



IFAD / Anwar Hossain

Accessing the world market is difficult

enhancing trade flows between countries. Examination of a number of preferential trading arrangements initiated by the US, the EU and Japan revealed significant incremental exports resulting from these initiatives for several developing and least developed countries. At the same time, the projections indicated that LDC exports would have been almost US\$7 billion, or 148 per cent, higher in 2000 than was observed, had the US levied no tariffs on imports from LDCs. The remaining EU barriers, on the other hand, are relatively few and their elimination would lead to a 2.6 per cent expansion in imports from LDC countries. The removal of existing barriers in Japan would increase imports from LDCs by approximately 69 per cent. Thus, there is still a considerable amount

decades for programme crops (the grains and oilseeds which receive a large share of the domestic support in OECD countries), bounded between +1 and -1, describe the export (positive sign) and import (negative sign) orientation of each region. With few exceptions, these show substantial declines over this period, implying that many poorer countries have turned into net importers of these products over the period under investigation. As a result, it was found that an across-the-board, 50 per cent cut in all domestic support for OECD agriculture leads to welfare losses for most of the developing regions, as well as for the combined total group of developing countries. The 50 per cent cut in domestic support also results in large declines in farm incomes in Europe, and, to a lesser

Producer subsidy equivalent and components, 1987 and 2000, percent share in PSE by support type

OECD region	Year	PSE %	Market price	Output	Variable input	Land based	Historical entitlement
Australia	1987	7.87	42.23	0	36.57	0	0
	2000	5.56	24.48	2.76	49.66	2.06	5.04
Canada	1987	35.84	49.80	18.84	14.09	15.36	0
	2000	19.50	51.22	7.12	6.43	7.63	11.29
EU15	1987	45.02	85.92	5.51	5.49	2.74	0
	2000	38.34	58.75	5.22	6.64	25.42	0.64
Japan	1987	67.28	90.68	2.56	3.95	0	0
	2000	64.06	91.05	2.80	4.34	0	0
Korea	1987	69.47	98.76	0	0.78	0	0
	2000	72.56	95.86	0	2.45	0	0
New Zealand	1987	8.87	26.79	0	70.36	0	0
	2000	0.74	54.43	0	40.31	0	0
Switzerland	1987	72.96	81.53	1.31	8.56	6.06	0
	2000	71.38	59.09	3.96	5.64	11.27	15.86
United States	1987	27.01	50.82	5.69	14.21	26.60	0
	2000	21.94	32.01	18.85	13.61	7.18	21.51

Source: OECD PSE/CSE Database 2001

degree, North America, making such a reform package an unlikely political event. An alternative approach to reforming agricultural policies in the OECD would be to focus on broad-based reductions in market price support. In the EU for instance, domestic support has increasingly replaced border measures. According to the modeling results from the project, a shift from market price support to land-based payments could generate a 'win-win' outcome whereby farm incomes are maintained and world price distortions are reduced.

Tariff Escalation

During successive rounds of the GATT, and especially after the formation of the WTO, average tariff rates have come down in almost every country. However, average tariff for a particular sector is not a reliable indicator of the degree of 'openness' of that sector. Among other limitations, it conceals information about the degree of

escalation of tariff rates between products of that sector which go through different levels of processing. Thus, even though available trade statistics indicate that average tariff rates are mostly declining in all countries, a closer examination reveals the continuation, often deepening, of tariff escalation. Trade liberalization (tariff reduction, to be precise) is heavily dependent on political and lobbying pressures within the domestic economy. An examination of the implications of tariff escalation on factor rewards, especially, relative wages, in a stylized economy showed that skilled labour and capital owners are likely to gain from it. It seems reasonable to imagine that these two groups in any country have greater lobbying power, relative to unskilled labour. Therefore, one of the reasons why governments of developed countries feel compelled to preserve such differential rates of protection between stages of production is lobbying by skilled labour and capital owners. If skilled labour groups

are an equally influential lobby in developing countries, our theoretical model predicts that liberalization of the service sector in these countries may be slow and difficult. Thus, an important implication of the analysis is that lobbying by selected groups in developed countries may divert attention away from the fact that the removal of tariff escalation is a 'win-win' strategy. It can help promote processed exports from developing countries, benefit unskilled workers in the North and simultaneously, generate support for liberalization of the service sector in the South. All three issues are central in trade debates at the present time.

Basudeb Guha-Khasnobis is director of the WIDER project The Impact of the WTO Agreement on Low Income Countries, and editor of the forthcoming book 'The WTO, Developing Countries and the Doha Development Agenda', with Palgrave Macmillan, 2004.

Delving Deeper into Development Aid

by George Mavrotas

Development aid remains a highly controversial topic. In the past much of the public discussion on aid was distorted by ideology, prejudice as well as misunderstandings due to selective assessments of parts of the evidence. However, important events in the aid arena in recent years have pushed the discussion on aid to new and interesting directions. Indeed, the last few years have witnessed important developments in the aid scene and a changing landscape of aid. These include *inter alia*, the OECD-DAC's report on *Shaping the 21st Century: The Contribution of Development Cooperation* in 1996 which set new priorities for aid, the World Bank study *Assessing Aid* in 1998 (possibly the most influential, though debatable, aid study since the publication of *Does Aid Work?* by Cassen and Associates in 1986) which mobilized a new and fascinating literature on the aid-policies-growth relationship, the UN Conference on *Financing for Development* held in Monterrey in March 2002 and the widespread consensus regarding the need to meet the Millennium Development Goals (MDGs) by 2015, more recent initiatives from bilateral donors such as the *International Finance Facility*, a proposal published recently by the HM Treasury and DFID in the UK aiming at accelerating progress with the MDGs by frontloading aid so that the MDGs can be achieved, and finally the *Declaration on Aid Harmonization* by aid donors in Rome early this year.

It is now generally agreed that:

- MDGs require more aid; at the same time, however, accelerating aid finance and improving dramatically aid effectiveness are crucial factors.
- Thus, improving our overall understanding of aid effectiveness is vital.

- There is now more consensus regarding the positive overall impact of aid on growth, but, at the same time, there is much less consensus concerning the extent to which aid can in fact be effective in promoting growth in poor policy environments, and on what constitutes an effective, pro-poor growth policy, beyond the achievement of basic macroeconomic stability and the avoidance of gross price distortions.

New Challenges and New Agendas

This takes us to an important issue, namely the new challenges and the new agendas on aid and the need to explore new policy routes:

First, the key-challenge on how to bring about the major changes to donor *modus operandi* that would enable the emerging lessons about aid effectiveness to be reflected in development assistance practice. This is effectively a challenge for restructuring aid organizations and instruments, a challenge for re-shaping the current aid architecture substantially.

Second, improving aid co-ordination by moving fast towards the implementation of the recent *Rome declaration on aid harmonization* would be a crucial step forward.

Third, introducing new schemes and synergies in the area of development cooperation, i.e. donors as a whole or in groups acting together in aid projects or inventing new schemes which will combine several priorities and then provide aid to a group of countries that implement a common project, is also vital; linking these efforts to recent regional initiatives (e.g. NEPAD) would be equally important.

Fourth, putting particular emphasis on Africa in view of the recent disappointing progress in relation to MDGs in the region seems

to be a *sine qua non* condition to accelerate progress on this front since:

- 25 out of the 31 'top priority countries', i.e. countries where urgent action is needed to achieve the MDGs, are all in Africa (*Human Development Report*, 2003).

- under the assumption that the aid budgets remain tight, the proportion of people in sub-Saharan Africa living on less than US\$1 a day will not be cut by half until the middle of the 22nd century (*HDR* 2003).

- Recent pledges agreed by donors at the Evian G8 Meeting last June seem to be the right response ('a turning point in the history of Africa' according to the UN Secretary-General, Kofi Annan), however further action is required.

Finally, global issues require global action and global initiatives involving both North and South. Along this line of thought, undertaking major initiatives involving both North and South in order to address global issues and challenges will be rewarding. Recent important initiatives on this front include *TICAD III* (the Tokyo International Conference on African Development) and the *Helsinki Process on Globalization and Democracy* (which has been recently launched at the initiative of the Finnish Government in cooperation with the Tanzanian Government).

The Need to Take a Fresh Look at Development Aid

In view of the above, which are the possible new directions for future research on aid?

- There is a clear *need to look at aid effectiveness from a different angle* since, in most of the cases, existing evidence on the effectiveness of aid lacks a systematic treatment of the composition of aid



Aid remains a crucial source of development finance

and how different types of aid (such as project aid, programme aid, technical assistance, food aid and emergency assistance which is becoming extremely important in recent years) affect key macroeconomic variables in aid-recipient countries i.e. neglect of the *aid-disaggregation issue*. Understanding *how different types of aid work*, and in particular, *which types of aid have the most impact* is of paramount importance for delving deeper into aid effectiveness issues and for designing and implementing policies capable of improving aid effectiveness further. This is now more relevant than ever in view of the urgent need to accelerate progress for the achievement of the MDGs.

➤ *Delving also deeper into the institutional constraints on aid effectiveness* would allow us to

derive more robust conclusions regarding the overall macroeconomic impact of aid. Exploring further the channels through which aid serves to strengthen the policy and institutional framework (by enabling improvements in savings, investment, public sector management and growth), but also examining the circumstances under which aid may undermine policy and institutions seems to be vital.

➤ Further work is needed regarding *the role of aid in post-conflict scenarios* in view of the relevance of the topic to many war-torn economies in recent years but also of the surprisingly limited research that has been done on this despite its great importance.

The above clearly call for prompt action in order to forward development aid research to a

number of innovative, though extremely relevant, new directions. *Linking together different types of aid, aid effectiveness and poverty-efficient aid allocation seems to be crucial* since:

➤ Under the assumption that different types of aid will have different macroeconomic effects (preliminary empirical evidence at an individual country level clearly confirms this), it would appear reasonable to conclude that they will also have different effects on poverty reduction.

➤ Future research on development aid could follow several possible directions regarding this. Assuming that the different types of aid have individually significant macroeconomic effects, and that these effects are themselves significantly different from one another at the individual country, regional and global level, then the implications of this for poverty reduction need to be clearly explored.

➤ In the same vein, we can further assume that these effects do have implications for poverty reduction. If the above is borne out, then there seems to be a need for a two-stage aid selectivity framework. The first stage is to provide aid which is poverty-efficient. The second stage is to provide a poverty-efficient breakdown of this aid by different aid categories.

As a final word, *time is of the essence, and the time is right to take a fresh look at development aid*. It will have far reaching implications for millions of people in the developing world who have every right to share in the opportunities provided by today's global prosperity.

George Mavrotas is a Research Fellow at WIDER and is currently researching on issues of foreign aid and development finance. This article is based on a presentation by the author in a panel discussion on New Agendas for Foreign Aid at the Sharing Global Prosperity Conference, WIDER, Helsinki 6-7 September 2003.

Cancun, the WTO and Developing Countries

by Oliver Morrissey

I had the privilege of being interviewed by the Finnish TV news agency when I was in Helsinki for the World Institute for Development Economics Research (WIDER) conference on *Sharing Global Prosperity* (5-7 September 2003). They were interested in views of what the Cancun Ministerial meant for developing countries, and what the likely outcome would be. As events have not proved me wrong, and some comments in the press regarding the implications for developing countries are somewhat misleading, I offer the gist of the interview (with some hindsight) as a comment on Cancun.

Cancun was at a sensitive time for adding impetus to multilateral trade negotiations for a number of reasons. One is that the US has shown in various fora a reluctance to promote, even to pursue, multilateral approaches. Second, although it did not emerge as a major issue, there are a number of significant trade disputes between the EU and the US (GMOs is the one that has had the highest profile recently). Third, and perhaps most importantly as events transpired, strong developing country groups have emerged. In the event, the G21 lead by Brazil, China and India attracted the headlines. However, since Doha, the African countries had demonstrated an ability to act together to give their interests a stronger voice. In many important respects, the interests of the large developing countries (as represented by the G21) are quite different to those of the smaller and poorer countries (mostly, but not exclusively, the African group).

To anybody who had followed WTO negotiations post-Doha, it was no surprise that two big disputes dominated Cancun—agriculture and the Singapore issues. The

developing countries had made it quite clear that they were opposed to negotiations on investment and competition (the two most contentious Singapore issues). Commissioner Lamy, in particular, showed a lack of negotiating acumen in not dropping these issues at the outset. He may have wanted to keep these as concessions to be made during the negotiations (which is what he did), but would have strengthened the EU position had he dropped these before Cancun. As it was, the US must have been secretly pleased to see the EU attract all the flak for insisting on measures seen as promoting solely the interests of multinational companies to the detriment of developing country governments. The fundamental role of the WTO is to facilitate trade negotiations. The various ‘trade-related’ issues (mostly introduced in the Uruguay Round at the behest of US corporations) have detracted attention from, and ultimately undermined, the core purpose of the WTO.

Even if these issues had been dropped, the disputes over agriculture would have dominated Cancun, but an ultimate agreement would have been more likely. Contrary to the impression given in most of the media, developing countries were not united over agriculture; many of the poorest countries benefit from aspects of the current regimes. No trade economist would defend the protectionist agriculture regimes in the rich countries (the EU, Japan and US in particular). Reform is desirable and necessary for a host of reasons, but the benefits to the poor in the poorest countries is not generally an important reason. The US cotton subsidies are a major exception, but serious liberalization of trade in agriculture would have very few beneficial effects for the poorest

developing countries. The reason is that few of the tropical commodities they produce would be affected. The major impacts would be on world markets for temperate products, especially grains and dairy products. If the EU and US suddenly liberalized their agriculture regimes, the largest trade gains would be to the big, relatively rich developing countries (in the G21, most of whom protect their own agriculture) and the already liberalized OECD Cairns group countries (especially Australia and New Zealand). World prices for temperate products would probably increase. Some producers in some poor countries would benefit, although to the extent that they currently suffer because of subsidized imports the WTO permits countervailing measures (anti-dumping can now be applied in agriculture). However, many poor countries are net food importers because of structural weaknesses in domestic production rather than unfair competition, and these countries would not benefit.

It should also be remembered that many poor developing countries currently benefit from trade preferences in access to the EU (the major importer from those countries). For example, full liberalization of the EU Sugar regime would be costly to some developing countries (e.g. Mauritius, Côte d’Ivoire, Jamaica and Madagascar), with the benefits going to richer countries such as Brazil and even Australia. The point is not to argue against liberalization of trade in agriculture, but rather to emphasize that the effects are complex and varied across countries. In general, the poorest countries that most need benefits from world trade are the countries least likely to actually benefit. Special and differential treatment is the mechanism the WTO has to address the problems facing the



Anti-WTO demonstrations during the ministerial meeting in Cancun

poorest countries, but perhaps a fundamental principle of compensation is what is required. The failure to make progress on agriculture is a loss for everybody, although the cost is least (and may even be a benefit) for some of the poorest countries.

It can also be noted that although the WTO negotiates trade as being between countries, most trade is actually within and between multinational companies. This observation may be even more true for agricultural products than for manufactures. This is one reason why developing countries opposed negotiations on investment and competition, and any moratorium on such negotiations is a victory for developing countries collectively. It is also a reason why trade issues cannot be properly addressed in isolation from investment (a phrase in practice covering multinational companies) and competition issues. Unfortunately, the WTO is not currently equipped to address these

concerns (and the aspects promoted by the EU and US are not those of the greatest importance to fair trade) because it has no jurisdiction over private companies.

Cancun would have been a success if countries had agreed to further and continue the process of multilateral trade negotiations. As negotiations are continuing in Geneva, the failure to reach an agreement at Cancun is not a failure of the WTO. In fact, in an important sense it shows that the WTO works—multilateral negotiations must accommodate all countries, and Cancun showed that developing countries can exercise their voice in the WTO. There is, however, a danger, that the ‘big players’ will follow the route of bilateral negotiations, and pick off developing countries one by one (or at least in small ‘bite sized’ groups). The US has intimated that it is willing to pursue this route, and the EU is already taking this approach with ACP countries. In fact, for a long time, the EU and US have engaged

in various forms of bilateral agreement. The true benefits from trade liberalization are only realized at the global, multilateral level. It is in everybody’s interest to support the multilateral process in the WTO. The most important lesson from Cancun is that the process can work, but the interests of all countries should be respected. This is most likely to be achieved if the scope of negotiation issues is limited, in particular restricting negotiation to trade. It will not be achieved if the number of negotiating countries is restricted. That is why the world needs the WTO.

Papers presented at the WIDER Conference on *Sharing Global Prosperity* are available at: www.wider.unu.edu

Oliver Morrissey is the Director of the Centre for Research in Economic Development and International Trade (CREDIT), School of Economics, University of Nottingham.

Is Overseas Development Assistance (ODA) Dying or Just on a Life Support?

by Matthew Odedokun

Trend in the Volume of ODA

Overseas Development Assistance (ODA) refers to development-motivated official foreign grant or loans—that are concessional in the sense that the grant element, evaluated on the basis of 10 percent discount rate, is not less than 25 percent of the loans' face value. It is loosely and popularly referred to as 'foreign aid' and constitutes the main instrument of official finance from the developed to developing countries.

The volume of ODA has been on a steady decline, especially during the past decade. As shown in Table 1, the bulk—about 98 percent during 1991-2000 period—of ODA is provided by the members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). But while the membership of the DAC has increased from 17 in the 1970s to 22 in the 1990s, the aggregate volume of ODA hardly kept pace.

In the 1970s, the nominal ODA volume witnessed a phenomenal increase, rising by over 14 percent per annum on average. This slowed to just over 8.4 percent average rate of annual growth in the 1980s while, in the 1990s, it contracted at an average rate of over 1 percent per year. Of 22 DAC-member donors, nominal ODA from 11 of them registered declining trend during the 1990s. But a clearer picture of the declining trend is portrayed by considering the aid generosity ratio, defined as the fraction of GDP given as ODA. As shown in Table 1, the aggregate generosity ratio of 0.31 percent in the 1970s rose marginally to 0.32 percent in the 1980s, only to fall substantially to

0.28 percent in the 1990s. While the UN-prescribed aid target is 0.7 percent of GDP, donors (except Denmark, Netherlands, Norway and Sweden) have observed the target only in breach. The US, which is the most parsimonious of the donors, gives only 0.13 of a cent as aid out of every dollar GDP earned during the 1990s, down from 0.25 of a cent given in the 1970s. In growth terms, the generosity ratio rose in the 1970s at an average of 0.7 percent per year but fell at an average of 0.3 percent per year in the 1980s and 4.7 percent per year in the 1990s. All donors (except five small ones, namely: Denmark, Greece, Ireland, Luxembourg and Ireland) recorded trend declines in their generosity propensity during 1990s while Australia and the US even recorded contractions in all the three decades.

Possible Causes of the Declining Trend in Aid Volume

Notwithstanding some recent attempts at identifying the factors responsible for the observed trend decline in donors' generosity as well as the reasons why some donors are less generous, at a point in time, than others, one could still only speculate as to the actual causes. In this regard, one possible factor was the end of the cold war that occurred in the early 1990s. This could have reduced international strategic and politics-motivated foreign aid, especially on the part of large donors like the US. Tight budgetary conditions in donor countries and regime changes between right and left wing governments are also possible causes. It is also likely that regimes in countries where there is great concern for the domestic population that are poor, like in the Scandinavian countries, would also

be more generous in giving aid to developing countries. There could also be a peer pressure effect whereby the volume of aid given by a donor depends on what other (particularly, relatively large) donors are giving so that a reduction in aid volume by large donors like the US might generate a downward 'bandwagon' or spiral effect on total aid volume.

Non-conventional Ways of Reversing the Falling Trend in Aid Volume should be Explored

Irrespective of the factors responsible for the downward trends in aid volume and generosity ratio, there is the need for concerted efforts aimed at reversing the trend. This becomes more imperative in view of the increased number of recipient countries (which have, since the 1990s, included former communist countries) and increasing population size of each recipient country. More important, the scope of activities that foreign aid finances has been increasing, with inclusion of environmental issues in early 1990s and the more recent addition of poverty-reduction.

One way of boosting the aid volume and stemming the declining trend is for donors to consciously raise the volume through the conventional budgetary appropriations. But, as this is unlikely to achieve much within a limited period of time, other means should be found to enhance the aid volume. One such means is the quasi-multilateral institutional arrangement suggested recently by the British Government under the name of International Finance Facility (IFF). Under the proposed arrangement, the donor governments would make pledges

Income Level-based Allocation of Official Flows (ODA), 1971-2000

	US\$ billion per annum				US\$ per capita				Percentage shares			
	1971-1980	1981-1990	1991-2000	1971-2000	1971-1980	1981-1990	1991-2000	1971-2000	1971-1980	1981-1990	1991-2000	1971-2000
Least Developed Countries	4.2	11.3	14.8	10.1	12.0	24.9	25.0	21.7	23.5	29.4	23.5	25.4
Other Low-income Countries	3.7	7.6	13.3	8.2	1.9	3.2	4.7	3.5	20.6	19.7	21.2	20.6
Lower Middle Income Countries	4.9	8.6	13.4	9.0	14.1	19.2	21.8	19.1	27.4	22.4	21.3	22.6
Upper Middle Income Countries	1.0	2.0	2.2	1.7	3.5	5.4	4.8	4.7	5.8	5.2	3.4	4.4
High Income Countries	0.0	0.0	0.1	0.0	84.0	42.6	31.3	38.8	0.2	0.1	0.1	0.1
Other (unallocated countries)	4.1	8.9	12.3	8.4	56.4	111.6	157.9	110.0	22.6	23.2	19.6	21.2
All Developing Countries	18.0	38.3	56.0	37.4	6.0	10.3	12.3	10.0	100.0	100.0	89.1	94.2
Countries in Transition	n.a.	n.a.	6.9	6.9	n.a.	n.a.	20.7	20.7	n.a.	n.a.	10.9	5.8
Developing and Transition Countries	18.0	38.3	62.9	39.7	6.0	10.3	12.9	10.3	100.0	100.0	100.0	100.0

Source: DAC's International Development Statistics (online)

to the IFF to contribute a certain sum to the IFF. On the strength and credibility of the pledges, the IFF would borrow from the international capital markets for onward transfer, as aid, to the recipient countries preferred by the donors. The loans are to be repaid when the pledges are redeemed.

In addition to the IFF mechanism, the issue of innovative sources of development financing should also be re-visited. Such innovative sources should be centrally collected by a multilateral institution that should disburse the proceeds in accordance with pre-determined allocation formulae. Several innovative sources of financing international development have been suggested in the literature. These

include international currency transaction (so-called Tobin) tax; a general tax on the sum of exports and imports; carbon tax; international arms trade tax; international lottery tax; and charges on global commons (geostationary satellites, minerals mined and fishing in international waters; exploitation in Antarctica, etc.). Others are internet or bit tax; international aviation and shipping taxes; pollution charges; and additional issue of SDRs by the International Monetary Fund (IMF). Many of these sources can fetch huge and enormous sums of money—as in the case of Tobin tax, which has been fairly conservatively estimated to generate up to US\$300 billion per year if the tax rate is 0.2 percent! However, due to opposition from some developed countries,

particularly the USA, such proposals are yet to see the light of the day. But with renewed and ever-increasing interests in (and agitation for) them from the international community, the hope is bright that some of them would sail through in the near future.

Matthew Odedokun is the director of the WIDER research project 'The Sustainability of Development Financing', and editor of External Finance for Private Sector Development: Appraisals and Issues, published by Palgrave Macmillan, March 2004.

Spatial Inequality and Development

by Anthony J. Venables

Economic activity is distributed extremely unevenly across space. At the international level there are rich countries and poor ones—underdevelopment can be viewed as a manifestation of spatial inequality. Within countries there are regional disparities; per capita income in the Southeast region of Brazil is three times higher than it is in the Northeast. Urbanization provides a powerful illustration of the extent to which population, manufacturing and services cluster together. Even within cities there are examples of particular sectors concentrating in small neighbourhoods.

There is some evidence that spatial inequalities within countries increase during the early stages of development and during periods of rapid economic change. In China, Russia, India, Mexico and South Africa evidence suggests that spatial and regional inequality of economic activity, incomes and social indicators, is on the increase. Spatial inequality is a dimension of overall inter-personal inequality, but it has added significance when spatial and regional divisions align with political and ethnic tensions to undermine social and political stability. Also important in the policy debate is a perceived sense that increasing internal spatial inequality may be related to greater openness of economies and to globalization in general. The WIDER project on Spatial Inequality and Development has brought together economists and geographers studying a wide range of countries to investigate these issues.

Three broad questions need to be addressed. The first is, how important is spatial inequality, and how is it evolving? Most economic variables are unevenly distributed across space—population is concentrated in particular regions,

industrial sectors clustered in particular towns. The ultimate concern is, however, with spatial inequalities in per capita income. As already noted in the case of Brazil, these can be very large, but research suggests that within country spatial inequality accounts for at most one-third of the total inequality in personal incomes. This one-third is however particularly important, as it not due to underlying differences in individual characteristics—such as ability—but simply a consequence of where people live. Individuals may have allegiance to spatial units, perhaps because these units are aligned with language, ethnicity or religion. In this case increasing spatial disparities may lead to tensions and conflict.

How has spatial inequality been evolving over the past two decades? There is evidence that, within many countries, it has been on the increase. In Mexico and China where trade liberalization has been associated with overall growth the benefits of this growth have not flowed evenly across space. The same has been true in many transition countries. However, a number of key questions remain. To what extent is some increase in spatial inequality a natural feature of development, as growth is initially concentrated in a few regions? Is this increase temporary, and how long is it likely to take for growth to spread from region to region?

The second broad question is, what are the determinants of spatial inequalities? If the world was a 'featureless plane', and if economic activity had the standard neoclassical properties, then economic activity would be evenly distributed across space and there would be no spatial dimension to inequality. But the world does not satisfy either of these two

assumptions. There are real geographical features such as mountains and coasts and forests and rivers that can affect the distribution of economic activity and spatial inequality in wellbeing. More importantly, activity has a propensity to cluster together. This occurs as firms benefit from forwards and backwards linkages with proximate supplier and customer firms; as firms and workers benefit from the development of large pools of skilled labour; and as firms learn from observing the behaviour of close by competitors. Given these forces, it is to be expected that activity should cluster together.

Does this matter, and what are the implications for policy? If economic activity tends to cluster then it suggests that development is unlikely to take the form of smooth convergence in the economic performance of regions or countries. Some places will boom, while others will lag behind. Development becomes an inherently 'lumpy' process, as growth is spatially concentrated.

Whether or not spatially unequal development also creates income inequalities depends to a large extent on the extent to which labour can move from lagging regions to fast growing ones. This suggests that policies to facilitate migration should tend to eliminate spatial inequalities, as workers move to high wage areas. However, migration is not always easy, as investment in location-specific physical and human capital can mean that individuals get trapped in a declining region.

Furthermore, it is not always clear that promoting migration is an appropriate response. There are typically multiple market failures associated with the location decisions of firms and individuals. Some of the positive ones were noted

above—setting up a new firm in a location might have positive spillover effects for local workers and neighbouring firms. But there are also negative externalities. Bringing more activity into a large city might create congestion costs, and could also damage the source regions, from which the activity has moved. This is why investing directly in infrastructure in regions, to allow individuals to increase the return to their general and location specific human capital, is a policy option that must always be kept on the table.

The specifics of policy recommendations still need to be developed. They need to be based on understanding and quantifying the importance of all the micro-economic factors—to do with endowments, institutions, and also spillovers and linkages between economic agents—that make some locations more attractive destinations for investment than others.

Tony J. Venables, from the London School of Economics, is the co-director (with Ravi Kanbur from Cornell University and Guanghua Wan from WIDER) of the WIDER project on Regional Disparities in Human Development.

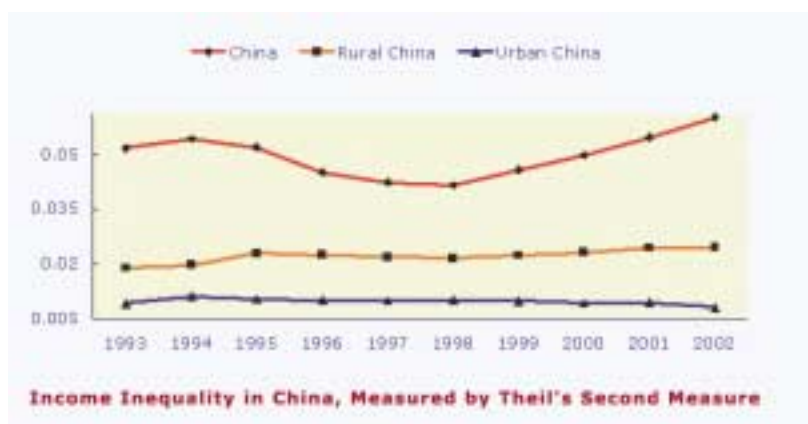
Some of the WIDER Discussion Papers from this project (available at www.wider.unu.edu)

DP2003/67 Ruslan Yemtsov: *Quo Vadis? Inequality and Poverty Dynamics across Russian Regions*

DP2003/57 Jed Friedman: *How Responsive is Poverty to Growth? A Regional Analysis of Poverty, Inequality, and Growth in Indonesia, 1984-99*

DP2003/55 Bettina Aten and Alan Heston: *Regional Output Differences in International Perspective*

DP2003/54 Martin Ravallion: *Externalities in Rural Development: Evidence for China*



WIDER Project on Inequality and Poverty in China

Despite a sizeable literature on inequality and poverty in China, many issues remain to be examined. These include, for example, the role of government or policy in affecting inequality, emerging poverty in urban China, the impact of internal migration on regional inequality, demographic factors, and rising inequality. Also, most existing studies are rather descriptive in the sense that they focus on measurements of poverty and inequality. Little has been written on fundamental causes of inequality and poverty in China, largely because of a lack of appropriate analytical frameworks.

This project aims to:

1. Provide an updated and comprehensive analysis of inequality and poverty in China. Some previously untouched issues will be covered.
2. Apply state-of-the-art techniques to the study of poverty and inequality in China. These techniques include Shapley decompositions, poverty/inequality analyses using CGE modelling and other new quantitative methods.
3. Explore the prescriptive aspect of poverty and inequality issues; that is to pay special attention to policy implications.
4. Enhance China's capacity in the areas of poverty and inequality research, particularly in inequality and poverty decompositions.

It is planned that a project workshop and/or conference will be held in Europe or China in 2004-2005. A selection of papers from the workshop and conference will be published in special issues of appropriate journals. The remaining papers will be considered for publication in book volumes.

If you are interested in contributing a paper to the project, or are interested in attending the workshop/conference, please contact the project director Guanghua Wan at wan@wider.unu.edu

WIDER Book Launches and Presentations of New Studies at International Forums



Joe Peoples

Launch and presentation of the WIDER study **‘Ten years of transition: what success in building “market essence”** at the Dag Hammarskjöld Library, UN Headquarters, New York, by Robert McIntyre and Bruno Dallago on 26 June 2003.

Photo: From left Bruno Dallago, co-editor of the study, David Ellerman, discussant, Robert McIntyre, director of the study and co-editor, Marjatta Rasi, Chairperson, Ambassador of Finland to the UN, Jacques Fomerand, director of UNU office in New York.

Launch and presentation of the WIDER studies on **‘From Conflict to Reconstruction’** by Tony Addison and Mansoob Murshed, at the Institute of Commonwealth Studies (ICS) in London, 31 October 2003.

Photo: Director of the ICS, Tim Shaw welcoming the speakers (standing), to his left Tony Addison and Mansoob Murshed who presented the study, and Andy Williams, Director of Centre for Conflict and Peace, University of Kent, who was the discussant. A large number of participants from the academic, policy, government and NGO communities including the media attended the event.



Andrew Wright/ICS



Newly concluded WIDER study on **‘Insurance Against Poverty’** was presented by the director of the project Stefan Dercon and a co-author John Hoddinott from IFPRI to a large audience in Addis Ababa at an event jointly organized by the Ethiopian Economic Association and WIDER. Eminent Ethiopian scholars including the Chief Economic Advisor of the Prime Minister, H.E. Ato Newai Gebre-ab participated in this event and a workshop on 20 November 2003.

WIDER Conference on Making Peace Work

Helsinki, Finland 4 - 5 June 2004

Violent conflict has inflicted immense damage, caused untold grief, and impoverished millions of people. No region of the world has been immune from its effects. Post-conflict reconstruction is now underway, but with mixed success, and many societies are still far from peace. What are the economic dimensions of conflict and peace-keeping? Does economic development contribute to conflict reduction? And what are the lessons of post-conflict reconstruction?

The conference aims to increase the focus of economists on conflict issues, and to facilitate interaction between economists and other social scientists working on conflict and post-conflict reconstruction.

Conference topics include:

- Violent conflict and its causes
- Conflict prevention and peace-keeping
- Post-conflict reconstruction
- Foreign Aid to conflict and post-conflict countries
- Poverty and human development effects of conflict

For applications and further communication:

www.wider.unu.edu

EGDI - WIDER Conference

Unlocking Human Potential: Linking the Informal and Formal Sectors

Helsinki, Finland 17 - 18 September 2004

The interaction between government legislation and policies with the 'informal' efforts and livelihoods of people existing in parallel, is crucial to the understanding of development and to the design of policy interventions to reduce poverty. Not surprisingly, this discourse has been a central part of development debates for a long time. But the central policy question – how best to unlock the potential of local assets, entrepreneurship, and institution-building – remains unresolved.

The task of collating and interpreting the vast experience of attempts to link formal with informal sectors is incomplete. What lessons can be drawn from these experiences of success as well as failure? How do they alter our conceptualizations of the formal and the informal? And, most importantly, what are the implications for policy makers addressing the challenge of development and poverty reduction? These are the broad themes of the conference. They can be addressed in the context of experiences at different times and in different regions of the world, and across a range of topics such as land titling, common property management, employment, small and medium enterprises, gender relations and women's legal rights.

For applications and further communication:

www.wider.unu.edu or www.egdi.gov.se

WIDER Publications

New Titles

Policy Brief

**Policy Brief 7 e-development?
Development and the New Economy**
Matthew Clarke, December 2003

This policy brief summarizes the results of three related UNU-WIDER projects on ICT and economic growth directed by Professor Matti Pohjola. These projects explored the impact of the new economy on development strategies and highlighted policies necessary to achieve knowledge-intensive development, or as are now termed, e-development.

Books

***Growth, Inequality and Poverty:
Prospects for Pro-Poor Economic
Development***

Edited by Anthony Shorrocks and
Rolph van der Hoeven
(hardback) 0-19-926865-7
January 2004
UNU-WIDER Studies in
Development Economics
Oxford University Press

'[This book] ... is a very useful addition to the literature on the subject. Perhaps for the first time, readers will see how the thinking has evolved, converged and where disagreements remain, all in one volume. Readers will also be able to learn about the cutting-edge technical analysis (econometric and otherwise) and observe it applied to countries and regions where poverty is rampant. This book will become an obligatory source for researchers in the subject and reading material for graduate and advanced undergraduate courses on development economics.'

*Nora Lustig, Rectora/President,
Universidad de las Américas,
Puebla, México*

'After two decades out of the mainstream, income distribution is finally being brought in from the cold. This collection adds substantively to the re-discovery, with new research from new names as well as reflections and new work from distinguished old hands ... For those wanting to catch up on new thinking and re-discovered issues, this volume provides a good overview and new insights from across the spectrum of re-thinking.'

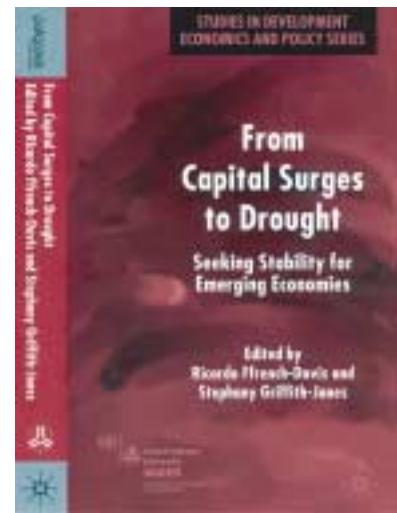
*Richard Jolly, Honorary Professor
and Research Associate, Institute
of Development Studies at the
University of Sussex*

'The volume is a timely and coherent contribution to an important area. The topic is particularly significant in light of the first Millennium Development Goal of the United Nations—the halving of world poverty by the year 2015. The methodological and empirical analysis of growth, inequality, and poverty will be of central concern to academics and policy makers alike.'

*Sudhir Anand, Vice-Master,
St Catherine's College, University
of Oxford*

'... in this extraordinary book. A team of excellent authors—brought together through a subsequent programme coordinated by UNU-WIDER ... —gives us a new theoretical insight, strongly supported by the empirical evidence, on the problems of growth, development, distribution, and inequality...'

*Grzegorz W. Kolodko, Director
of TIGER—Transformation,
Integration, and Globalization
Economic Research, Warsaw*



***From Capital Surges to Drought:
Seeking Stability for Emerging
Economies***

Edited by Ricardo Ffrench-Davis
and Stephany Griffith-Jones
(hardback) 1-4039-1631-4
October 2003
Studies in Development Economics
and Policy, Palgrave Macmillan

'Looks at capital flows to emerging markets from different perspectives and provides a comprehensive overview of problems, issues and possible solutions without getting lost in economic jargon. This seminal work must be read by anyone concerned about international development and the future of the world economy.'

*Bernhard G. Gunter, EPIAM Project
Director, New Rules for Global
Finance Coalition, Washington DC*

'An extremely useful synthesis of developments that have contributed to the decline and volatility in capital flows, with thoughtful analysis and generous statistics to support it ... A timely attempt to seek to address this vital issue by suggesting reforms that could be made to make recipient countries less vulnerable to global financial instability.'

Abdur Chowdhury, Chief Economist and Director, Economic Analysis Division, United Nations Economic Commission for Europe, Geneva

‘... a must read both for practitioners as well as academics interested in up to date analyses of the determinants and policy implications of capital flows to emerging markets since the Asian crisis.’

Robert Lensink, Professor in Finance and Financial Markets, Department of Finance, Faculty of Economics, University of Groningen

‘This book is a marvellously lucid and accessible set of essays from some of the leading experts in the field—who unlike many other contributors to the literature, do not assume that what is best for finance is best for the whole economy and society.’

Robert Hunter Wade, Professor of Political Economy, Development Studies Institute, London School of Economics

Ownership and Governance of Enterprises: Recent Innovative Developments

Edited by Laixiang Sun
(hardback) 1-4039-1633-0
September 2003
Studies in Development Economics and Policy, Palgrave Macmillan

‘This book, ... analyzed and compared emerging unorthodox ownership and governance structures in a knowledge intensive, informative and insightful format and has been designed in an elegant and accessible way towards both specialists and non-specialists. These works contain up-to-date case studies, development assessments, policy analyses, and literature reviews, and will be of interest to various business people, policy-consultants, regulators, policy-makers and scholars.’

Larry H.P. Lang, Chair Professor of Finance, Chinese University of



Hong Kong and Cheung Kong Graduate School of Business in Beijing

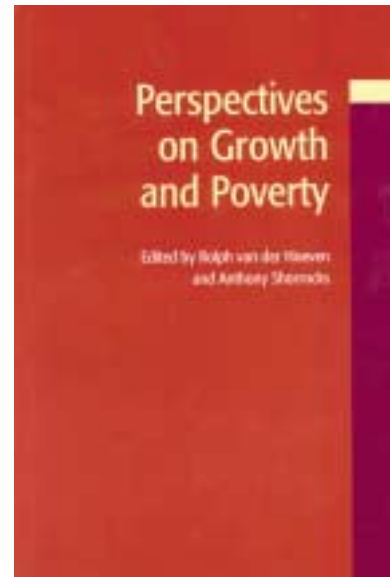
‘This stimulating volume examines several interesting examples of ‘real world heterogeneity’ including the Mondragon Cooperative Consortium, US ESOPs and Chinese TVEs. The volume provides rich institutional detail that meshes well with an eclectic theoretical framework. Students of the modern enterprise and policy makers in the fields of development and transition will find much thought-provoking material in this well-written and accessible volume.’

Derek C. Jones, Irma M. and Robert D. Morris Professor of Economics, Hamilton College, Clinton, NY and Research Fellow, Davidson Institute, University of Michigan

Perspectives on Growth and Poverty

Edited by Rolph van der Hoeven and Anthony Shorrocks
(paperback) 92-808-1091-X
September 2003
United Nations University Press

‘*Perspectives on Growth and Poverty* deals with two subjects which have attracted treatments that score high on relevance or on rigour: the present volume offers a collection of essays which, exceptionally, score high with respect to *both* attributes.’



S. Subramanian, Professor at the Madras Institute of Development Studies

‘I recommend the book to academics and other practitioners for its probing and insightful analysis of poverty and growth issues and for suggestions on how to restructure the road map in order to ensure that the globally adopted poverty reduction targets are achieved.’

Steve Kayizzi-Mugerwa, Independent Evaluation Office, IMF, Washington DC

‘In recent years both the understanding of growth-poverty relationships and development policies have been damaged by the false claim that “growth is good for the poor”. This important, new book adds weight to the argument that growth-poverty relationships cannot be turned into a simplistic, newspaper headline *a la* Dollar and Kraay. It explores the complexities of country-specific growth-poverty links and examines the policy implications. This book deserves a wide readership.’

David Hulme, Professor of Development Studies and Director, Chronic Poverty Research Centre, Institute for Development Policy and Management, University of Manchester

Forthcoming Books

Inequality, Growth and Poverty in an Era of Liberalization and Globalization

Edited by Giovanni Andrea Cornia
(hardback) 0-19-927141-0, March 2004
UNU-WIDER Studies in Development Economics
UNU-WIDER with UN DESA
Oxford University Press

External Finance for Private Sector Development: Appraisals and Issues

Edited by Matthew Odedokun
(hardback) 1-4039-2091-5, March 2004
Studies in Development Economics and Policy
Palgrave Macmillan

Debt Relief for Poor Countries

Edited by Tony Addison, Henrik Hansen and Finn Tarp
(hardback) 1-4039-3482-7 (paperback) 1-4039-3495-9, May 2004
Studies in Development Economics and Policy
Palgrave Macmillan

Fiscal Policy for Development: Poverty, Reconstruction and Growth

Edited by Tony Addison and Alan Roe
(hardback) 1-4039-3480-0, May 2004
Studies in Development Economics and Policy
Palgrave Macmillan

The WTO, Developing Countries and the Doha Development Agenda: Prospects and Challenges for Trade-led Growth

Edited by Basudeb Guha-Khasnobis
(hardback) 1-4039-3483-5, May 2004
Studies in Development Economics and Policy
Palgrave Macmillan

Ordering WIDER publications

The WIDER *Discussion Paper* series is available to download from www.wider.unu.edu

Books are available from good bookshops or direct from the publishers, www.oup.co.uk, www.palgrave.com, and www.unu.edu/unupress/.

For other inquiries and orders please contact WIDER Publications, Mr Adam Swallow, Katajanokanlaituri 6 B, FIN-00160 Helsinki, Finland, e-mail: publications@wider.unu.edu.

WIDER (non-book) series publications, including available back stocks are free of charge.



United Nations
University
WIDER

World Institute for Development
Economics Research

WIDER was established by UNU as its first research and training centre and started work in Helsinki, Finland, in 1985. Through its research and related activities, WIDER seeks to raise unconventional and frontier issues and to provide insights and policy advice aimed at improving the economic and social development of the poorest nations.

WIDER Angle is the newsletter of the World Institute for Development Economics Research of the United Nations University. Published twice a year, the newsletter focuses on the Institute's research activities. It is distributed free of charge. The newsletter is also available on our Web site at: www.wider.unu.edu.

Editorial contents, design and layout by Ara Kazandjian
(e-mail: ara@wider.unu.edu),
and Basudeb Guha-Khasnobis
(e-mail: basudeb@wider.unu.edu).

Research and Training Centres and Programmes of the United Nations University

- UNU World Institute for Development Economics Research (UNU/WIDER)
- UNU Institute for New Technologies (UNU/INTECH)
- UNU Institute for Natural Resources in Africa (UNU/INRA)
- UNU International Institute for Software Technology (UNU/IIST)
- UNU Institute of Advanced Studies (UNU/IAS)
- UNU Programme for Biotechnology in Latin America and the Caribbean (UNU/BIOCLAC)
- UNU Leadership Academy (UNU/LA)
- UNU International Network on Water, Environment and Health (UNU/INWEH)
- UNU Programme for Comparative Regional Integration Studies (UNU/CRIS)
- UNU Food and Nutrition Programme for Human and Social Development
- UNU Geothermal Training Programme (UNU/GTP)
- UNU Fisheries Training Programme (UNU/FTP)
- International Conflict Research (INCORE)

WIDER

Katajanokanlaituri 6 B
00160 Helsinki, Finland
Tel. (+358-9) 6159911
Fax (+358-9) 61599333
E-mail wider@wider.unu.edu
Web site www.wider.unu.edu

For further information on the Institute's activities, please contact:
Mr Ara Kazandjian,
tel. (+358-9) 61599210,
e-mail: ara@wider.unu.edu

Printed by Forssa Printing House
Finland, 2003
ISSN 1238-9544