8

Policy coherence and the Millennium Development Goals

Maryanne Grieg-Gran

I. INTRODUCTION

The focus of this chapter is on the mainstreaming of the Millennium Development Goals (MDGs) in some key aspects of economic policy in high-income nations. This is not to deny the importance of development cooperation, nor of government policy in low- and middle-income nations. Both are crucial for the achievement of the MDGs, as discussed in earlier chapters. The issue discussed here is what high-income countries can do across their whole sphere of policy-making to support low- and middle-income nations in their pursuit of the MDGs, and to ensure that their development cooperation efforts are reinforced rather than undermined by their policies in other spheres. This chapter looks at trade, which is addressed specifically in the MDG targets under Goal 8, as well as investment and competition policy, which are not mentioned explicitly but are of considerable importance for the MDGs.

As mentioned in the previous chapter, discussions on cotton subsidies at the World Trade Organization Ministerial Conference in Cancun in

"For too long, high-income nations have treated aid as an add-on activity"

September 2003 highlighted some of the contradictions between development cooperation and high-income nations' economic policies. Declining world prices for cotton, due in large part to subsidies in the European Union and the United States, have translated into loss of revenue for West African producers that are comparable to the amounts of foreign aid received by these countries. Yet, a proposal from four countries in this region for cuts in subsidies in the medium term and compensation in the immediate term was effectively rejected.

For too long, high-income nations have treated aid as an add-on activity. The department or ministry charged with development cooperation has got on with its job of channelling aid to the low- and middle-income nations, while other government departments have continued with business as usual, promoting industry, exports, agriculture and employment at home. For many low- and middle-income nations, the policy choices of these other departments have a potentially much greater impact on development than those of the department whose mandate it is to promote development cooperation, but this issue has rarely been tackled. This reflects political realities: allocating a small percentage of tax revenue to development assistance is politically palatable, as the cost is shared between a large number of taxpayers. In contrast, measures such as removal of tariffs often affect a small but powerful group, which can mobilize opposition more effectively.

Where there has been integration between the goal of promoting development and the other goals of the economy in high-income nations, development cooperation has often been subservient to these other goals, with tied aid or export credits being used to promote home industry, exports and technical expertise. Although official figures for tied aid are declining, some maintain that it is actually on the increase, through the growing emphasis on technical assistance in aid programmes, which is often 100 per cent tied.[1] For many aid programmes, the allocation of untied

1. ActionAid with Jens Martens (WEED) (2002), "Sustainable development and the effectiveness of ODA", in Banuri, T and T Bigg (editors), *Financing for Sustainable Development*, IIED, London, January.

aid is also influenced by foreign policy or domestic economic interests.

The MDGs, since they have been signed up to by the heads of state in UN member countries, represent an opportunity to turn the situation around and achieve policy coherence for development's sake. In particular, the inclusion of MDG8, on promoting a global partnership for sustainable development, is acknowledgement of the need to go beyond development cooperation to other more fundamental areas of public policy. Among the targets specified for this goal are the development of an open, trading, financial system committed to good governance, development and poverty reduction; and measures to address the special needs of the least-developed countries through tariff- and quota-free access for their exports. But in contrast to the other MDGs, MDG8 and its targets seem more like statements of good intentions rather than clear commitments to action. This has been acknowledged by the UN Secretary-General's report on implementation of the MDGs, which stresses the need for high-income countries to agree on time-bound deadlines comparable to the 2015 target for the other seven MDGs.[2] The goal and the targets are also vague concerning the areas of economic policy within high-income nations that would be addressed in a global partnership. Considerable emphasis is rightly placed on trade and debt, but there are other areas such as investment and company regulation where high-income country policy impinges on low- and middle-income nations. This has been recognized by the Swedish Government in its recent Bill to Parliament, proposing a policy for global development. This emphasizes that the goal of contributing to equitable and sustainable development should apply to all policy areas, and that all the components of policy must be consistent with each other.[3]

"In contrast to the other MDGs, MDG8 and its targets seem more like statements of good intentions rather than clear commitments to action"

2. UN (2003), "Implementation of the United Nations Millennium Declaration", Report of the Secretary-General.
3. Government Bill 2002–03:122 Shared Responsibility: Sweden's Policy for Global Development, presented to Parliament May 15, 2003.

II. THE MDGS, ECONOMIC GROWTH AND TRADE

There are different views about how development is achieved and, in particular, about the role of economic growth in promoting development and addressing poverty. The view taken here (and one which underlies the MDGs) is that, while economic growth is by no means a sufficient condition for meeting the MDGs, it is likely to be a necessary condition. Growth has the potential to reduce poverty directly by increasing employment and wage levels, and indirectly by raising the generation of tax revenue, thus allowing greater public expenditure on health and education and other vital social infrastructure. Its impact on poverty reduction is not automatic and depends on the specific circumstances, and on income distribution in particular. Recent estimates suggest that in many Asian countries, each percentage point of additional GDP per capita reduces the number of poor (as defined by the US$ 1 per day criterion) by 3 per cent, while in Africa and Latin America the impact on poverty is less evident, with 1–2 per cent reduction in the number of poor people.(4) Specific policy measures are therefore needed to ensure that the benefits of growth are more equitably distributed and that there are no adverse impacts on the poor.

"Unless countries have the capacity for economic growth, these MDGs will be difficult to attain without ever-increasing amounts of aid"

The MDGs are important for focusing attention on specific aspects of development, including outcomes that are important to the poor (for instance, much reduced child and maternal mortality), and not relying on the assumption that economic growth will lead automatically to poverty reduction and other social improvements. Yet, unless countries have the capacity for economic growth, these goals will be difficult to attain without ever-increasing amounts of aid. Access to Northern markets through trade and investment is key to growth. Estimates of the gain from trade liberalization range from US$ 80 billion to US$ 500 billion, with between 40 and 60 per cent of this accruing to high-income countries.(5) The dynamic effects of increasing

4. Cline, W R (2003), "Trading up: trade policy and global poverty", *CGD Brief* Vol 2, Issue 4, September, Centre for Global Development, Washington DC.
5. WTO (2003), World Trade Organization 5th Ministerial Conference, Cancún, Mexico 10–14 September 2003, Press Pack Briefing Notes.

trade opportunities on productivity and investment in low- and middle-income countries will lead to further income gains, lifting another half a billion people out of poverty in the long term.[6] Policies on trade and investment in high-income nations are therefore important for the MDGs, in so far as they affect the potential for economic growth in low- and middle-income nations.

III. TRADE

Trade is one area where policy coherence has been conspicuously lacking. The UN Secretary-General's report on the implementation of the MDGs stresses that many high-income countries are failing to meet key commitments, particularly in areas such as trade.[7] There are numerous cases of trade policies, or industrial or agricultural policies of high-income countries undermining the impacts of their own development assistance or that of others. While donor agencies endeavour to help low-income countries to raise agricultural productivity and improve rural infrastructure, various kinds of tariff and non-tariff barriers block the access of producers in these countries to lucrative markets in high-income countries.

"Various kinds of tariff and non-tariff barriers block the access of producers in low-income countries to lucrative markets in high-income countries"

Tariff barriers

Tariffs in high-income nations have been reduced on average, particularly in the context of preferential access arrangements such as the Generalised System of Preferences and the European Union's Everything but Arms scheme. But tariff rates for some products increase steeply after threshold quota volumes are reached, and these are often products for which low- and middle-income nations' exporters have a comparative advantage – agricultural products such as meat, sugar and milk, and textiles particularly. Outside these preferential arrangements, tariffs on cane sugar exceed 70 per cent in the European Union, Japan and the US; and powdered milk attracts tariffs of 55 per cent at least in the

6. Cline (2003), op. cit.
7. UN (2003), op. cit.

European Union, and as much as 160 per cent in Japan.[8] Textiles and clothing, labour-intensive products of interest to many low-income nations, also are subject to high tariffs, as well as a range of quota arrangements. The implications of this are demonstrated by the following comparison: the tariff revenue collected by the US on US$ 2 billion of exports from Bangladesh (clothing primarily), one of the poorest nations, is higher than that collected on the US$ 30 billion of exports it receives from France.[9]

Moreover, tariff escalation, whereby tariff levels increase according to the degree of processing, is still a common feature of tariff structures in most high-income nations. This acts as a disincentive to the development of value-added processing in low-income nations. On average, textiles and leather products (2-digit ISIC level)[10] imported into the European Union in 2002 were subject to an average tariff of 0.9 per cent at the first stage of processing, rising to 6.7 per cent at the semi-processed stage and 9.7 per cent at the fully processed stage.[11] This, of course, hides considerable variation between more disaggregated industry categories. Similarly, in the forest products sector, tariff rates in high-income nations are mostly zero for logs, but between 3 and 10 per cent for plywood, with the highest rates often for tropical plywood.[12]

"High-income countries spend about US$ 300 billion each year on agricultural subsidies, some six times more than they spend on development assistance"

Non-tariff measures – subsidies

Non-tariff measures which restrict or distort trade are also on the increase. The most important type is the subsidies given to domestic producers, which have the effect of making them more competitive in relation to imports, and also put them in a better position to access overseas markets. High-income countries spend about US$ 300 billion each year on

8. RIS (2003), "World trade and development report 2003: Cancun and beyond", Research and Information System for the Non-aligned and Other Developing Countries (RIS), Academic Foundation, New Delhi; tariff rates are post-Uruguay round MFN rates above tariff quotas, or applied MFN rates (1998–2000), or general GSP rates, if lower.
9. RIS (2003), op. cit.
10. International Standard Industrial Classification.
11. RIS (2003, op. cit.
12. Bourke, I J and J Leitch (2000), "Trade restrictions and their impact on international trade in forest products", Food and Agriculture Organization of the United Nations, Rome.

Box 8.1: The Impact of subsidies on African cotton growers

West and Central Africa accounted for 13 per cent of world cotton exports in 2001–02. Cotton plays a major role in the economy of West and Central African countries, and its production there has been expanding over the last two decades. In Benin, Burkina Faso, Chad, Mali and Togo, cotton accounts for 5–10 per cent of GDP, more than one-third of total export receipts, and over 60 per cent of the value of agricultural exports. Ten million Africans depend on cotton for their livelihoods. It is cultivated on small family farms and, rather than displace food crops, it has led to their expansion through the use of cotton/corn crop rotations. According to the World Health Organization, the expansion of cotton production in these countries has led to an improvement in health, reflecting better diet. It has also led to an improvement in physical and social infrastructure, such as schools and health centres.

Production costs for cotton are lower in this region than in most other producer countries. However, it has to compete with exports from countries which subsidize their cotton producers. Subsidies for producers in the US, China, Greece and Spain were around US$ 6 billion in 2001–02, equivalent to the total market value of world exports. Moreover, the share of world cotton production benefiting from government subsidies increased from 50 per cent in 1997–98 to 73 per cent in 2001–02. These subsidies had the effect of stimulating production, leading to a reduction in world prices. The African exporters suffered a major shortfall in export earnings as a result, estimated at US$ 250 million for 2001–02 and an annual average of US$ 200 million for the preceding five years.

Because of the importance of cotton to the local economy, the impact of these price falls has been devastating. Household incomes and agricultural wages have fallen, and it is feared that health care and education will become unaffordable.[a]

[a] Oxfam (2002), “Cultivating poverty: the impact of US cotton subsidies on Africa”, Oxfam Briefing Paper 30.

SOURCE: Goreux, L (2003), “Prejudice caused by industrialized countries’ subsidies to cotton sectors in Western and Central Africa”, Report prepared to provide background information for the submission presented by Benin, Burkina Faso, Chad and Mali to the WTO.

agricultural subsidies, some six times more than they spend on development assistance.[13] There is concern about the impact of subsidies on producers in low- and middle-income nations, both in export markets as in the case of cotton (Box 8.1) and sugar, and in domestic markets, food particularly. This unfair competition not only displaces local producers or reduces their revenue but also can have a knock-on effect on the local economy, as the demand for goods and services is reduced. It is worth reflecting on the millions of other jobs that would be created, and household incomes enhanced, if the 10 million African households who grow cotton simply received a fair price – as their demand for goods and services spreads through the economy. The extent to which successful smallholder agriculture for high-value crops can also support the development of stronger

13. World Bank (2003), *Global Development Finance; Financing the Poorest Countries,* World Bank, Washington DC.

Box 8.2: Non-tariff barriers

In April 2002, the European Union implemented a new regulation on maximum allowable aflatoxin levels in cereals and in dried and preserved fruit and nuts that was stricter than international standards (Codex Alimentarius). This has affected market access for producers in low and middle-income countries.[a]

For example, exports of brazil nuts from Brazil to the European Union, worth about US$ 3 million per year, were brought to an end by these regulations.[b] Brazil nuts are collected from natural tropical forests and play a role in their protection, as they provide a significant source of income for Amazonian residents. The income from brazil nuts helps to maintain forest as a viable land use. Brazil nuts have been identified as a candidate for sustainable trade, as efforts to develop national and regional standards for certification under the Forest Stewardship Council scheme in the three main producing countries have been initiated.[c] This opportunity to exploit a market niche as certified product has been closed off by the European Union's new phytosanitary regulations.

More generally, it has been estimated that the use of this new standard would reduce the value of African exports of the products concerned by US$ 670 million, as compared to the level of trade if the Codex Alimentarius were used instead. The reduction in risk to human health from using this standard rather than the Codex standard would be minimal, 1.4 deaths per billion people.[d]

[a] Wilson J and T Otsuki (2003), "Food safety in food security and food trade; balancing risk reduction and benefits from trade in setting standards", Focus 10, Brief 6 of 17, September, International Food Policy Research Institute, Washington DC.
[b] Amazon News (2003), "Brazil nuts vetoed in Europe", Friends of the Earth Amazonia, Brazil, 17 July.
[c] Ortiz, Enrique G (2002), "Brazil nut (Bertholletia excelsa)" in Shanley, P, A Pierce, S Laird and A Guillén (editors), *Tapping the Green Market Certification and Management of Non-timber Forest Products*, Earthscan, London.
[d] Wilson and Otsuki (2003), op. cit.

non-agricultural economies and the infrastructure they need is often overlooked (Chapter 2).

Other non-tariff barriers – product standards

There are growing concerns also about the proliferation of technical standards, sanitary and phytosanitary standards[14] and, more recently, environmental standards. These can block the access to markets, as in the case of aflatoxin standards (Box 8.2). Thus, while most people agree that these standards are legitimate in some circumstances, they are widely regarded as a disguised form of protectionism. Trade disputes relating to sanitary and phytosanitary measures have increased in frequency since 1995, and often reflect the use by importing countries of standards which are more stringent than the international standards of the

14. Sanitary and phytosanitary standards aim to ensure food safety and protect animal and plant health.

Codex Alimentarius Commission.[15] High-income countries are responding to these concerns through trade-related technical assistance to help low- and middle-income countries to have better access to information on product standards, and to establish testing procedures. This is valuable, but needs to go further in giving the exporting nations greater participation in the standard-setting process.

The Doha Development Agenda

In recognition of the concerns of low- and middle-income countries about the unfairness of the multilateral trading system, the decision was taken at the fourth World Trade Organization Ministerial Conference in Doha in 2001 to launch a broad and balanced work programme with development at its core, namely, the Doha Development Agenda represented an opportunity to make trade rules support development rather than impede it. However, progress on this agenda so far has been disappointing, with key deadlines on negotiations missed. The recent WTO Ministerial Conference in Cancun was intended to take this important agenda forward, but resulted in disagreements too great to resolve on that occasion.

"The Doha Development Agenda represented an opportunity to make trade rules support development rather than impede it. However, progress on this agenda so far has been disappointing"

Some observers have attributed the collapse in the Cancun negotiations to fundamental differences in approach and expectations. While low- and middle-income nations expected the aims of the Doha Development Agenda to be followed through, with an emphasis on fairness and development needs, the trade negotiators of high-income countries adopted their same approach as always of pursuing their own country's interests first and foremost.[16] A concrete expression of this was the attempt by high-income countries to extract concessions from low- and middle-income countries in exchange for taking action in areas that they had already committed to in previous trade rounds, such as a reduction in subsidies and tariffs. Rather

15. Wilson J and T Otsuki (2003), "Food safety in food security and food trade balancing risk reduction and benefits from trade in setting standards", Focus 10, Brief 6 of 17, September, International Food Policy Research Institute, Washington DC.
16. Cafod (2003), "The Cancun ministerial meeting, September 2003: what happened? What does it mean for development?", Submission to the International Development Select Committee.

"Flows of foreign direct investment to low- and middle-income countries have declined since their peak in 1999 but, in aggregate, are still considerably higher than aid flows"

than seeing such action as a fulfilment of commitments already made, they regarded this as a bargaining chip in return for Southern countries agreeing to start negotiations on the "Singapore issues"[17] of investment, competition policy, transparency in government procurement and trade facilitation. As Eveline Herfkens, the UN Secretary-General's Executive Coordinator for the MDGs Campaign, stated: "*Doha is only successful if developing country needs and demands are integrated into the decision-making process; only if the outcome is that trade serves development; if the benefits of trade extend to poor people; and if rich and poor countries become equal players in the trade game.*"[18]

IV. INVESTMENT

Investment is another area where the policies of high-income nations have a significant bearing on the achievement of the MDGs. Flows of foreign direct investment to low- and middle-income countries have declined since their peak in 1999 but, in aggregate, are still considerably higher than aid flows. They also remain more important than other North–South flows of private capital for development. Bank-lending has shown only minimal or negative flows since 1999, and portfolio equity and bond flows remain at low levels. The shift away from bank-lending and bonds reflects concerns on the part of debt investors about the risk attached to debt, and a desire by policy makers in low- and middle-income nations to move to more stable forms of finance.[19]

Between one-third and one-half of private corporate investment in low- and middle-income nations is carried out by affiliates of foreign corporations.[20] Moreover, foreign direct investment is important because of the package of

17. Because the mandate to study these issues came from the 1996 WTO Ministerial Conference in Singapore, these four issues are often referred to as the Singapore Issues.
18. Herfkens, E (2003), "A Doha scorecard: will rich countries once again leave developing countries as beggars at the feast?", Eveline Herfkens, the Secretary-General's Executive Coordinator for the Millennium Development Goals Campaign, United Nations, Presentation at the Cancun Trade and Development Symposium, 11–12 September 2003, convened by the International Centre for Trade and Development and El Colegio de México
19. Suttle, Philip (2003), "Financial flows to developing countries: recent trends and near-term prospects in global development finance 2003", World Bank, Washington DC.
20. Fitzgerald, E V K et al. (1998), "The development implications of the multilateral agreement on investment", Report commissioned by the Department for International Development (UK), Finance and Trade Policy Research Centre, University of Oxford, cited in von Moltke, K (2002), "International investment and sustainability: options for regime formation", in Gallagher, K P and J Werksman (editors), *The Earthscan Reader on International Trade and Sustainable Development,* Earthscan, London.

technology, know-how, management skills and market contacts that are associated with it. This can, in theory, lead to economic growth, employment generation and poverty alleviation, both directly and indirectly, through spill-over effects on local enterprises and government revenue. It may also be beneficial for the environment because of the use of clean technology, pressures for efficient resource use, and the policies of some multinational companies to operate to uniform international standards. However, there are different views about the actual benefits of foreign direct investment for development – some taking the view that any economic benefits are achieved at the cost of environmental degradation and adverse social impact, and some going further to question whether such investment has all the positive economic effects on growth, employment etc. that are often claimed.[21] Its unequal distribution between countries, with some 70 per cent going to just 10 countries in 2002 and very little going to what the UN classifies as the least-developed countries, particularly in Africa,[22] is also viewed with concern.

There is perhaps more agreement that foreign direct investment (FDI) has the potential to contribute to poverty reduction and to the achievement of the other MDGs, both directly and indirectly, through economic growth. But it has to be steered in the right direction in order for it to be conducive to sustainable development. FDI needs, for example, to generate linkages with the local economy rather than crowd out local enterprise, to promote transfer of clean technology, and to provide employment and training opportunities for local workers rather than a heavy dependence on capital-intensive technology.

While host country policies towards inward investment are considered to be a crucial determining factor of the impact of foreign direct investment, the policies of governments in the nations that are the prime source for such investment also have some potential for influence, both over the

"Foreign direct investment has to be steered in the right direction in order for it to be conducive to sustainable development"

21. Zarsky, L and K Gallagher (2003), "Searching for the Holy Grail? Making FDI work for sustainable development", Paper prepared for a WWF UK Workshop on International Investment Frameworks for Sustainable Development: Framing the Debate, London, 10 March 2003.
22. World Bank (2003), op. cit.

countries that it is channelled towards and the extent to which this investment is conducive to sustainable development. Donor agencies are helping Southern countries to develop enabling environments for promoting inward investment through improved governance, clear rules and strengthened institutions. But there is no guarantee that these activities will be coherent with the activities of other departments in their governments. One major concern is the potential conflict between these activities and the negotiating positions they adopt in bilateral, regional and multilateral agreements on investment, the main fear being that Southern countries will be forced to give up options of flexibility in dealing with foreign investing companies. More directly, high-income countries have an influence on the outcome of foreign direct investment through:

- their activities to promote foreign direct investment in low- and middle-income nations through provision to investors of finance and investment guarantees and export credits for machinery necessary for new facilities; and
- the obligations they place on their companies with respect to their overseas operations.

"There is no guarantee that the activities of donor agencies will be coherent with the activities of other departments in their governments"

Financial support to foreign direct investment

Development finance institutions and export credit agencies use public funds to facilitate foreign direct investment, either by making direct investments or by providing investment guarantees or insurance to overcome constraints posed by political risk. In this way, they catalyze private sector finance. On average, 12 per cent of foreign direct investment flows to low- and middle-income nations is covered by investment insurance from export credit agencies in the Berne Union,[23] principally in infrastructure services, increasing to 30 per cent for poor countries.[24] The significance of these agencies can be seen in their total

23. The Berne Union groups together export credit agencies from most high-income countries and, increasingly, some middle-income countries.
24. World Bank (2002), *Global Development Finance; Financing the Poorest Countries,* World Bank, Washington DC.

exposure to low- and middle-income countries (export credits and investment insurance) – an estimated US$ 500 billion by the end of 2000, equal to 25 per cent of these countries' long-term external debt.[25]

Political risk is often the most important factor determining whether responsible investors will choose a particular country and the premium they will expect over normal rates of return. The availability of investment insurance can therefore help tip the balance for low-income countries with little track record.

Development finance institutions, as the private sector arm of development cooperation departments, have a mandate to promote development but, in many cases, there is an expectation, if not an explicit requirement, that projects will involve some commercial interest of the home country. The mandate of the export credit agencies is usually more explicitly to promote exports and industrial development of the home country. In both cases, but particularly in the latter, there has been a tension between their requirement to promote home country industry and the need to consider the broader sustainable development impact of their investment decisions, while maintaining financial viability.[26] Both types of agency are often involved in large infrastructure projects, or energy or mining projects, so the social and environmental issues are highly contentious.

Calls from NGOs and governments for coherence with government sustainable development policies have led to a number of these agencies introducing policies to this end, but with varying degrees of thoroughness. The UK Export Credits Guarantee Department has developed a Statement of Business Principles which has as its first core principle "*…to promote a responsible approach to business and to ensure our activities take into account the government's international policies, including those on sustainable development, the environment, human rights, good*

"In many cases there is an expectation, if not an explicit requirement, that projects will involve some commercial interest of the home country"

25. World Bank (2002), op. cit.
26. Grieg-Gran, M (2002), "Financial institutions and the 'greening' of FDI in the mining sector in foreign direct investment and the environment: lessons from the mining sector", OECD, Paris.

governance and trade."[27] The OECD has been working with export credit agencies of member countries to develop common guidelines, with a view to avoiding a "race to the bottom" on environmental standards. However, the focus of this work has been primarily environmental, and while this is important for the MDG on environmental sustainability, a more comprehensive approach is needed to address social development issues as well. The emphasis is also on avoiding or minimizing negative impacts of projects rather than actively promoting projects that contribute to sustainable development. The NGO network ECAWatch has called on the OECD to broaden its approach.

There is also a lack of transparency, particularly among the export credit agencies, on the grounds of commercial sensitivity. Such agencies have started giving details of their export credits but some, for example, the UK's Export Credits Guarantee Department, give only aggregate information on their investment insurance and guarantees.[28] Without such disclosure, it is hard to see how they can demonstrate that their business decisions are coherent with other government objectives on sustainable development.

"Without a commitment to disclosure, it is hard to see how export credit agencies can demonstrate that their business decisions are coherent with other government objectives on sustainable development"

Obligations on transnational corporations

For reasons of sovereignty and practicality, governments are reluctant to regulate the practices of their companies in their operations overseas other than by restricting investment in certain countries for political or security reasons. Legislation has been introduced in some countries to control bribery and corruption. For example, the US Foreign Corrupt Practices Act and the OECD Convention against Bribery are encouraging other countries to follow suit, but doubts remain about enforceability. Perhaps the greatest potential for home country governments to influence the practices of companies in their operations in low- and middle-income nations is through the voluntary

27. ECGD (2001), "Export credits guarantee department", Annual Report and Resource Accounts 2000–01.
28. ECGD (2001), op. cit.

approach of the OECD Guidelines for Multinational Enterprises. These set out non-binding principles on issues such as employment, human rights, environment, information disclosure and corruption for multinationals operating in, or from, adhering countries. They have been multilaterally endorsed, and adhering governments are obliged to monitor their observance through the designation of National Contact Points.

Whether the guidelines are effective, or are just window dressing, depends on how seriously signatory governments take their monitoring requirements. A recent review of the functioning of National Contact Points has highlighted some shortcomings relating to lack of promotion of the guidelines, limited accessibility, variations in disclosure, with contact points in some countries not making their annual reports publicly available and, in most cases, only limited information being provided in these reports.[29]

V. COMPETITION POLICY

Even if action is taken by high-income countries to remove trade-distorting subsidies, to reduce tariffs and non-tariff barriers, and to orient foreign direct investment more towards sustainable development, there is still a concern that the benefits will not be captured by those who need them most. As globalization continues, a process of consolidation is taking place in some sectors, and market power is being concentrated in fewer and larger companies. As trade and investment liberalization increase and economies open up, the extent of competition at national level becomes less relevant, as companies are increasingly in competition with others from all over the world (Chapter 9 discusses the extent to which various industries in Pakistan are unable to compete with Chinese exports). However, this can simply lead to further consolidation across national boundaries in the effort to achieve economies of scale. This has generated a debate over the power of multinationals relative to that of governments.

"Even if action is taken by high-income countries to remove trade-distorting subsidies there is still a concern that the benefits will not be captured by those who need them most"

29. OECDWatch (2003), *Review of National Contact Points*, June 2002–June 2003 No 2, June.

The consolidation trend applies particularly to some agricultural sectors that are highly relevant to low- and middle-income nations. Three companies account for 45 per cent of coffee-roasting worldwide, while, for soy and livestock, three companies dominate the crushing and feed production along the value chain from South America to Europe.[30] As a result of the concentration at the processing and retail stage, it is the primary producers who get squeezed by declining commodity prices or by market requirements to make production more sustainable. In the case of coffee, the proportion of total income gained by producers dropped from 20 to 13 per cent between 1989–90 and 1994–95, while the proportion retained by consuming countries increased from 55 to 78 per cent.[31] Some argue that, while this level of concentration continues and intensifies, the problem of agricultural dumping will not be resolved by the elimination of subsidies alone.[32]

"Some argue that, while the level of concentration continues and intensifies, the problem of agricultural dumping will not be resolved by the elimination of subsidies alone"

Efforts to introduce competition policy into multilateral trade negotiations have proved controversial, as the breakdown of the Cancun negotiations demonstrated. Some believe that the World Trade Organization is the wrong forum, and that implementation of existing commitments is a greater priority. Many low- and middle-income nations do not have competition laws or an agency to implement them and, for this reason, have resisted efforts to include this issue in multilateral negotiations. Nevertheless, as companies increasingly operate on a global basis, this issue will have to be tackled in a way that goes beyond national considerations of consumer welfare and that considers restrictive business practices along the whole value chain to producers in low- and middle-income countries.

30. Vorley, B (2003), "A poor man's field: corporate concentration from farm to consumer", Report for the UK Food Group, IIED, London.
31. Ponte, S (2001), "The 'latte revolution'? Winners and losers in the restructuring of the global coffee marketing chain", CDR Working Paper 01.3, Centre for Development Research, Copenhagen.
32. Ritchie, M, S Murphy and B Lake (2003), "United States dumping on world agricultural markets", Cancun Series Paper No 1, IATP, Minneapolis.

VI. CONCLUSIONS

The MDGs will make a difference if they stimulate Northern countries to approach development in a more coherent fashion. Estimates of the amounts needed to meet the MDGs are helpful but misleading, because they give the impression that all that is needed is to throw money at the problem. While aid is certainly needed, it will have little lasting effect on development unless there is a shift in the way that the North approaches its trading, investment and business relations with the South.

The inclusion of MDG8 on the global partnership is important. However, it needs to be translated into clearer time-bound commitments for high-income countries to align their policies in other areas. The report of the UN Secretary-General on the implementation of the MDGs tracks changes in the percentage of imports from low- and middle-income countries admitted duty free, in average tariff levels for agriculture, textiles and clothing, and in agricultural subsidies as a percentage of GDP since 1996.[33] These suggest areas for commitments relating to trade, but could also be supplemented by commitments relating to the removal of tariff escalation and a greater participation by developing countries in the setting of product standards.

As for other areas of economic policy, some commitments that Northern countries could consider include:

- development finance institutions, given their development mandate, to base their financing decisions not on the commercial interests of their home country but on their sustainable development policy;
- export credit agencies to develop screening and review procedures for their projects that address sustainable development impacts comprehensively, and to report on their performance, with full disclosure of the officially backed funding decisions that are made;
- allocation of more resources to disseminate the OECD

"While aid is certainly needed, it will have little lasting effect on development unless there is a shift in the way that the North approaches its trading, investment and business relations with the South"

33. UN (2003), op. cit.

guidelines for multinational corporations in Southern countries and to ensure effective monitoring by National Contact Points, as well as a commitment to full disclosure of their activities; and

- high-income nations to introduce a development dimension into their competition policy, to consider not only consumer welfare in their own country but also the implications for producers in low- and middle-income nations; in addition, to support low- and middle-income countries to implement competition policy at the national level in preparation for multilateral discussions in the longer term on competition.