THE DECLINE OF THE DEVELOPMENT CONTRACT AND THE DEVELOPMENT OF VIOLENT INTERNAL CONFLICT

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ABSTRACT

The central argument of the paper is that the development contract that characterised North-South interaction prior to 1980 has been steadily declining since that time. Instead of concern with genuine development we have instead a culture of containment motivating the North's relations with the South. International development policies are not truly developmental but motivated by security considerations, which include the danger of excessive poverty in the South becoming a threat to the North. By contrast, in the earlier pre-1980 era of ideological rivalry between capitalism and socialism, policies and prescriptions with regard to the third world were more developmental and the North-South dialogue more meaningful. The period since 1980 is also the period of accelerating globalisation. Globalisation has resulted in the marginalisation of vast swathes of the South. Evidence for that is declining growth rates in Africa and Latin America, and the rise in the inequality of incomes between rich and poor nations. In fact, the middle group in the international community of nations has shrunk in the past forty years. Our concern with poverty reduction is laudable, but true development also necessitates the narrowing of the North-South income gap. This is all the more true in a digital age when information disseminates rapidly. At the same time we have seen the rise in violent internal conflict, civil wars, international crime, terrorism and aggressive unilateralism on the part of some great powers despite the growth of multi-party electoral competition. This too is a symptom of development failure, and of institutions of conflict management, domestically and internationally. Ultimately, a policy of containing the South is self-defeating, as the developed world cannot live safely and in prosperity in a world where certain developing nations are stagnating. Reform of the international institutions of global governance is key to restoring the development contract.

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1 Introduction

The development of the global South is imperative, and this process should be just, equitable, democratic and based on dialogue between the North and the South. That would have been Prince Claus's opinion.[1] Sadly, in the last two decades we have been witnessing a decline, even the demise, of the post-colonial era development contract accompanied by accelerated international economic integration, which we now refer to as globalisation. My argument is that prior to about 1980, which pre-dates contemporary globalisation, official development policy in the North was governed by a desire for the true progress of the South, and the meaningful participation of the South in the development process.[2] Examples of these earlier positive attitudes, prevalent during an era of superpower ideological rivalry, included the North-South dialogue of the 1970s and the unquestioned entitlement of the South to receive official development assistance. The latter being partially premised on the historical economic exploitation of the South by the North, which would be vastly in excess of the meagre 0.7% of GDP annual official development assistance target set by the Brandt Commission (1980). Indeed, the Brandt Commission had argued that it was in the economic interests of the North to develop the South, based upon notions of global Keynesianism.

At present, instead, policies in the North towards the South are governed by a culture of containment. It is true that development cooperation and assistance continues, but it is governed more by self-interest and security considerations. Globalisation since 1980 has marginalised many nations in the South, and there are systematic mechanisms via which this occurs. It has also raised the inequality between nations and peoples, and polarised the world in to rich and poor nations. 19th century colonialism had a similar impact and the world had experienced another truly globalised era in the 1870-1914 period. Be that as it may, the world of today contains fewer nations contending to join the rich nations club compared to forty years ago.

In the meantime the dispensation with the development contract is evidenced by the structural adjustment policies that have been inflicted on low-income developing countries, the debt crises that drain resources from the poorer South to the affluent North, and the protectionism that keeps out competitive goods from the South in Northern markets. Accompanying international economic marginalisation, a simultaneous growth in violent internal conflict has taken place in developing countries. The failure to contain these tendencies is also a sign of the decline of the development contract. The restoration of the development contract will necessitate root and branch reform of the international institutions that govern globalisation, with a greater say for the South.

2 The Development Contract and Globalisation

In this section I will describe how globalisation has marginalised most of the third world and therefore diminishes the development contract directly and indirectly. I will outline the growth of the inequality between nations during our present experience of globalisation and the divergence in average incomes between North and South. I will

[1] See his twenty-three theses put forward on the occasion of his acceptance of an Honorary Fellowship at the Institute of Social Studies (ISS), the Hague on 1st June 1988 in Cultuur en Ontwikkeling.
[2] It also led to the creation of the ISS in 1952.

also present the conceptual mechanisms through which trade might unequalise North-South incomes per-capita. I also refer to the earlier period of globalisation in the 1870-1914 period where qualitatively similar forces to the present were in motion, promoting developed-developing country divergence.

2.1 Globalisation and Growing North-South Disparities

It would be a truism to state that we live in an era of globalisation. Globalisation is a much used and abused term in contemporary social science. In economics it is used to indicate accelerated economic integration: greater trade and financial flow across nation states. This phenomenon has been occurring in an unabated fashion since 1980. It cannot be said to have begun in earnest before that date as at least a quarter of the world's population lived under socialist systems, and 1980 approximates the date China began to liberalise its economy. Globalisation thus implies systemic hegemony, British in the 19th century, American at present. It also connotes powerlessness on the part of nations, societies and groups to shape their own destiny in the face of the silent take over by the forces of globalisation (see, Hertz, 2002). Furthermore, economic globalisation is not a new phenomenon, as many authors such as Murshed (2002b) and Williamson (2002) point out, the late 19th century up to the First World War also marks another historical episode of globalisation, a point I shall return to in section 2.4 below.

Globalisation is meant to be beneficial for the world's poorer nations, the proponents of globalisation or unfettered capitalism will have us believe.[3] Participation in international trade and policies aimed at attracting foreign finance are meant to narrow the gap between rich and poor nations, and the pull the world's chronically poor up by their bootstraps. This process is known as "convergence", and means that the real income per-capita between richer and poorer nations moves closer to one another.[4] International trade is meant to be the engine that achieves this. My argument is that it has not, and does not do so, because of the unequal nature of North-South trade. But first some stylised facts.

Globalisation marginalises much of the third world and low-income developing countries. Table 1 attests to that fact. Apart from East and South Asia, all the world's less-developed regions grew faster during the less globalised era prior to 1980. Yet all developing regions have expanded their exposure to international trade in recent years (table 2). While it is true that much of the developing world continues to participate in (or even seeks to expand exposure to) international trade, in a sense it is effectively de-coupled from meaningful participation in the world economic system.

While it is true that some middle-income developing countries as well as the most populous countries, India and China, are doing well out of globalisation, the benefits of globalisation are far from being widespread in the South (Murshed, 2002b). The best example of this is the pattern of foreign direct investment (FDI) flows. Three nations, China, Mexico and Brazil receive 50 per cent of total FDI flows to the developing world as a whole. Some eleven nations account for two-thirds of all developing country exports. Low-income countries account for only 2.5 per cent of

[3] Neo-liberals to the social sciences outside economics.

[4] Per-capita income convergence between rich and poor nations is also predicted by neo-classical growth theory, as capital is more productive in capital-scarce poor countries.

world merchandise exports, and 1.4 per cent of FDI inflows. The corresponding figures for all developing countries are 19.7 and 21.6 per cent respectively. These are *prima facie* evidence that many developing countries are truly marginalised from the globalisation of recent times. In Africa, in particular, the era of globalisation is associated with huge development failure. Not only have incomes declined, but also other indicators of inclusion and well being have deteriorated. This includes the return of old diseases such as tuberculosis, the AIDS pandemic, stagnating maternal mortality and literacy rates.

TABLE 1A: GDP PER CAPITA (1995 CONSTANT US$) GROWTH RATES

Area/Country	Annual average GDP growth % 1960-1970	Annual average GDP growth % 1970-1980	Annual average GDP growth % 1980-1990	Annual average GDP growth % 1990-2000
Low & middle income	3.1	3.3	1.2	1.9
East Asia & Pacific	2.9	4.5	5.9	6.0
South Asia	1.8	0.7	3.5	3.2
Latin America & Caribbean	2.6	3.4	-0.8	1.7
Sub-Saharan Africa	2.6	0.8	-1.1	-0.4
High income OECD	4.4	2.6	2.4	1.7

Source: World Development Indicators (2002), World Bank.

TABLE 1B: GDP PER CAPITA LEVELS (1995 CONSTANT US$)

Area/Country	GDP per capita level in 1995 US$ 1960	GDP per capita level in 1995 US$ 1970	GDP per capita level in 1995 US$ 1980	GDP per capita level in 1995 US$ 1990	GDP per capita level in 1995 US$ 2000
Low & middle income countries	535	725	999	1129	1356
East Asia & Pacific	194	256	396	705	1252
South Asia	186	221	236	332	456
Latin America & Caribbean	1983	2549	3548	3275	3856
Sub-Saharan Africa	473	609	658	587	564
High income OECD	10,324	15,885	20,525	26,080	30,757

Source: World Development Indicators (2002), World Bank.

TABLE 2: THE SUM OF EXPORTS AND IMPORTS AS A PERCENTAGE OF NATIONAL INCOME (GDP) IN SELECTED REGIONS

Country	1980	1985	1990	1995	2000
Low income countries	34.4	29.2	37.6	47.6	55.9
UN Least developed countries	42.2	37.5	36.5	44.8	52.9
East Asia and the Pacific	44.7	43.9	51.7	63.5	79.7
South Asia	21.6	19.2	22.0	29.5	33.4
Latin America and the Caribbean	26.5	26.5	26.1	30.8	35.7
Sub-Saharan Africa	62.7	54.2	52.8	58.7	64.3
High income OECD	37.4	37.9	35.7	37.0	40.3*

Source: World Development Indicators (2002), World Bank. * 1999 (year 2000 not (yet) available).

Data is much more scarce for the 19^{th} century. But it can be argued, based upon the figures suggested by Angus Maddison in UNDP (1999), that North-South gap has been continually widening since the dawn of modern capitalism and colonialism, but particularly so during the two periods of accelerated economic international economic integration that we refer to as globalisation (table 3). The great first wave of globalisation ending in 1914 produced a sizeable North-South income gap for the first time. This gap has been widened during the more recent globalisation experience after 1980.

TABLE 3: Historical Gaps Between Rich and Poor Nations

Year	Gap between richest and poorest nations
1820	3:1
1913	11:1
1950	35:1
1973	44:1
1992	72:1

Source: UNDP (1999).

2.2 Globalisation and Increasing Inter-Nation Inequality

There are three different concepts that may be used to measure inter-country inequality, see Milanovic (2003). All three methods arrive at the Gini coefficient, the most commonly used measure of income inequality.[5] The Gini coefficient ranges from perfect equality (0) to perfect inequality (1), or in percentage terms from 0 to 100. The population whose relative inequality is being measured is categorised in several groups of equal size, five groups (quintiles) or ten groups (deciles) and so on.

The first concept used to measure international inequality treats all countries, large or small, equally. The nation state is the unit of measurement. This is known as category 1 inequality. According to this concept all countries for which data is available are arranged according to per-capita income in comparable purchasing power parity (PPP) dollars. If, for example there were a total of 150 nations, we would be effectively measuring the inequality across 150 different individuals. This is because each nation is characterised by a representative individual, whose income is that country's average or per-capita income. Category 2 inequality is the same as category 1 inequality with the important difference that each national per-capita income is weighted by its relative population size (national population relative to the world). Thus, China is given a weight of about 0.2 as it accounts for a fifth of humanity. This may appear to be a reasonable procedure, but a serious flaw in category 2 type inequality measures is that most changes in indices are accounted for by the alterations in populous countries such as China and India, and downwardly bias events elsewhere, as in many poor but smaller African nations. Moreover, when nation states are the unit of analysis, each state should be treated equally, as each nation is an independent entity, representing a unique policy experiment. Equal treatment for all nations means that each unit's income should not be population weighted, rather there should be equal weighting, which implies no weighting at all.

Neither category 1 or 2 type inequality indices take into account within-country inequality. In any nation there are income differences between inhabitants of town

[5] There are other measures of inequality such as the Theil index.

and country, the capital and places in the hinterland and so on. Within larger states such as China and India, there are huge regional disparities in economic performance and socio-economic conditions; consequently income levels across regions differ. It would be far better therefore to focus on individuals rather than nations as the unit of analysis even for assessing international inequality. This measure, known as category 3 international inequality, however, represents a tall order in terms of comparable international data collection as it requires standardised household income surveys across the globe. Since the late 1980s, household surveys have become more common in countries where they were previously not conducted. Moreover, the surveys themselves have become more streamlined in coverage and scope.

What do the 3 types of international inequality measures show us? Category 1 measures indicate a rise in inequality in the globalised era. From about 46 in 1978, the Gini coefficient has risen to over 54 by 2000. In contrast, during the less globalised period of 1960 to 1978 the Gini remained fairly stable between 48 to 46, Milanovic (2002b). Clearly, this shows that globalisation produces winners and losers and does the converse of achieving income convergence. It also captures the collapse of output and national income, lowering income per-capita in Eastern Europe and the former Soviet Union following the demise of socialism. The decline in income in those regions may be likened to the fall in output as a result of a prolonged and intensive war. Moreover, while within region income differentials within OECD[6] nations continued to decline in the 1978-2000 period, it rose in all regions in the developing world except Latin America and the Caribbean.

Recall that category 2 inequality is the same as category 1 except that it is population weighted. Category 2 measures will show a fall in international inequality in the highly globalised era because of the impressive growth in China's real per-capita income. Using this method the Gini for the world declines from 54.4 in 1978 to 50.1 in 2000 (Milanovic, 2003), indicating a decline in inter-country inequality. But category 2 measures are based on per-capita income as the unit of analysis. Thus, not only are category 2 indicators biased by what happens in large countries like China and India, but also any country's income growth success in overall terms masks changes in income inequality along spatial or socio-economic lines within that country.

Thus the category 3 measure is based on household surveys, with households as the unit of measurement. Category 3 measures do not, unfortunately, allow us to go back farther than 1988. We would expect globalisation to have already produced winners and losers by 1988, intensifying inequality. Milanovic (2002a and 2003) shows a rise in inequality (Gini coefficient) during the globalised phase from 62.4 in 1988 to 66.0 in 1993, falling back slightly to 64.6 in 1998. Moreover, these figures would be higher, implying greater inequality, if instead of PPP dollars ordinary dollars based on market exchange rates were used. It therefore, captures the huge rises in inequality amongst citizens inside the former communist bloc. The urban-rural divide in inequality inside China and India are also explained by this method.

It can be argued that the category 3 Gini coefficient is the superior indicator of global inequality, but that the category 1 Gini is still the best measure of differences in

[6] Organisation for Economic Cooperation and Development. This acronym has become an alternative way of referring to developed countries in the global North.

income between nations and especially whether or not there is convergence between incomes of poor and rich nations. This has patently not occurred, see Milanovic (2003). Whereas in 1960 there were 22 upper-middle class nations contending to join the wealthy group with two-thirds or more of the average income in the poorest OECD or rich country, by 2000 there were only 8 such nations. The number of countries with between a third and two-thirds of the poorest OECD country income declined from 39 to 25 during the same period, indicating that the lower-middle classes too have been squeezed. The numbers of rich (OECD type) countries also fell, from 41 to 31; the rich man's club is much more exclusive nowadays. Most importantly, the number of really poor nations (the fourth world or the lower classes) defined as having an average income less than a third of the lowest OECD national average income rose from 25 in 1960 to 67 in 2000. This is conclusive evidence that the world is becoming polarised into rich and poor nations since the beginning of moderate globalisation in 1960. We are also living in a world where there is a vanishing middle class in the sense of inter-country differences.

Is rising global inequality, or inequality for that matter, cause for concern? Or should we only worry ourselves with absolute levels of poverty whether based on national standards or the international dollar a day measure of abject poverty. Clearly, this depends on our notion of justice. The current development-donor focus is on poverty alleviation. At any moment in time poverty is an absolute concept, and those in poverty are individuals who fall below the poverty line measured in monetary terms. Inequality is a relative concept, measuring the differences in the standard of living across groups who may or may not be poor. While poverty reduction is a lofty ideal, citizens of the globe, including those residing in poor nations are more aware of the differences in their own circumstances and capabilities compared to those of fellow human beings in rich nations. This gap needs to be addressed as well. A Gini coefficient of 66 (category 3 inequality) means that the expected difference between two random individuals income is $9200 based on an average world income of $7000.[7] It also implies that accidents of birth, in terms of nationality, not social class can cause a $9200 earning difference. The same figure would be $7560 with a Gini coefficient of 54 (category 1 inequality). Such levels of inequality are truly staggering; they would be intolerable in most Western democracies. The category 3 inequality measures imply for example that the share of the poorest 5% of the world's population is 0.3% of world income using purchasing power parity dollars. The share of the richest 5% is about a third or 33.3% of world income. Thus the gap between the rich and the poor is 100:1. The important point to bear in mind is that the inequality between nations is greater than the inequality within any nation state.

2.3 Openness and North-South Trade: Is it Beneficial for the South?

In an influential paper, Sachs and Warner (1995) claim to demonstrate that countries with more open policies towards trade and finance grew faster on an average than countries that did not. By more open they refer to fewer restrictions to the movement of goods and finance. Rodriguez and Rodrik (1999) claim that it is not openness *per se* that contributes to growth, but rather other optimal or beneficial policies that foster growth along with trade.

[7] This figure is obtained by multiplying the Gini coefficient of 0.66 by 2 times the mean world income, $7000.

In an even more influential paper, Dollar and Kraay (2001) argue that successful globalisers do better at poverty reduction. By successful globalisers they refer to those countries, mainly in Asia, who have achieved greater export expansion. The poor are defined as the bottom fifth (quintile) in terms of income. By excluding the unsuccessful globalisers from their exercise on the impact of globalisation on poverty, they are guilty of sample-selection bias. Moreover, given that the world's two most populous nations China and India have been successful in globalisation, their size biases the results in favour of globalisation with poverty reduction. Two remarks are in order here. First, the success of China and India disguise massive internal spatial inequalities, as some areas are the main beneficiaries of recent national gains at the expense of laggard regions. Secondly, India and China did not, and have not, liberalised in the sense of neo-liberalism (Milanovic, 2002b). In India, controls were lifted steadily, and only after faster growth commenced. Trade may be free but capital controls are still in place, just as in China. In China, a huge state-owned sector survives to this day, property rights are unclear and governance is far from transparent, features that would make any proponent of globalisation and neo-liberal reform blush.

Let us now move on to consider what the theories of international trade have to say about increased trade and relative incomes between trading partners, considering neo-classical theories first.[8] The Ricardian model of international trade, based on the notion of comparative advantage, has little to say about the convergence or divergence of relative wages in countries after trade is opened up. The Heckscher-Ohlin-Samuelson (HOS) paradigm, however, reveals much more on the matter. Under certain assumptions free trade will lead to the equalisation of factor prices, including wages. Free trade is therefore similar to regional integration. The restrictive conditions necessary for complete factor price equalisation are the absence of trade barriers, competitive pricing, non-sector specific factors of production and incomplete specialisation in the countries in question. As with the per-capita income convergence literature in growth theory, one might expect a tendency towards partial but not total factor price equalisation, after episodes of trade expansion.

The model described above is static. Trade in the HOS paradigm is driven by differences in factor endowments: countries with more capital abundance exporting capital intensive goods and so on. Clarida and Findlay (1992) present a model where comparative advantage and endowments are endogenous and policy induced. The mechanism via which this occurs is a publicly knowledge based input (non-rivalled and non-excludable) that lowers production costs. This input will not be provided by the private sector, and is therefore a pure public good. One can also think of this input as human capital or infrastructural investment. There are two sectors in the economy; one of which is akin to a natural resource sector or agriculture where the benefit from the publicly financed input in terms of lower production costs is relatively lower. The other sector may be likened to manufacturing, deriving greater benefit from the publicly provided input. Capital is a specific factor in manufacturing, whereas land is specific to the resource sector. All sectors require labour input. In these circumstances, a commodity boom will induce a lower optimal supply of the publicly financed input, as the resource sector obtains a proportionately smaller benefit from

[8] Here I am not considering the famous Prebisch-Singer macroeconomic hypothesis regarding the secular tendency of primary goods prices to decline vis-à-vis manufactured goods prices due to a low income elasticity of demand for primary goods.

this input. This could be imagined to occur episodically in the South. Consequently, over the course of time, *both* sectors will be less productive. The expansion of international trade will also make countries with greater capital endowments in the North gain absolute advantage in all sectors, as exports of manufacturing increase, inducing greater provision of the cost reducing public good. Factor price equalisation may not occur after an increase in North-South trade.

The new theories of international trade emphasising increasing returns to scale and product diversity have more insights into unequalising North-South trade. Krugman (1981) presents a model of uneven development between North and South. Let us say there are two sectors: manufacturing and agriculture. Manufacturing or another dynamic sector is subject to increasing returns to scale, this benefit being related to initial endowments of capital, which we can interpret as know-how or primitive capital accumulation. At some point in the early 19th century the North (say Great Britain), as a result of the extraction of colonial surplus, would have had a greater capital stock. Its manufacturing sector would expand and the South's manufacturing sector contract after the introduction of free trade. A point is reached when manufacturing in the South vanishes, and the North's manufacturing cannot increase due to the exhaustion of labour supply released from agriculture. This model explains the historical de-industrialisation of, say, India, the mechanism being "*free trade*". Eventually, the North's manufacturing sector can only expand if it exports capital to the South or imports labour from the South. Free trade does not produce factor price equalisation because the South is completely specialised in agriculture. Rather, there will be a high-wage labour aristocracy in the North. The equalisation of profit rates may, however, take place if the North invests in the South. This model aptly describes what Hobson (1902) and Lenin (1917) had in mind in their seminal works on imperialism. Moreover, Northern capital flows may occur towards a relatively more developed semi-periphery rather than in the really under-developed periphery. It is this semi-periphery that moves closer to the North, their modern counterparts being successful globalisers.

Then there are product cycle models of North-South trade. The pioneering work is by Krugman (1979), although many extensions exist in the literature. In this framework there is a continuum of goods, and new products are being constantly invented in the North. Eventually, they become old goods and the technology gradually moves to the South, where it is produced because of the South's cost advantage. Due to the North's temporary monopoly over new goods, and because it is the sole innovating region, the wage rate is always higher in the North compared to the South, which is the imitating region. This wage gap can be narrowed if the pace of technological diffusion to the South could be enhanced. At present technological diffusion is greatly hampered by arrangements in the WTO (World Trade Oganisation) governing knowledge transfer, particularly TRIPs (trade in intellectual property rights) agreements. The South can never achieve parity with the North until it too innovates new goods.

In summary, there are a variety of sources via which free trade with the North might disadvantage the South and cause its average income to continually diverge from the richer developed regions of the world. They are mainly because the North has the higher stock of know-how and is the region where new goods are innovated. The important point is that the choice between an open or closed trade regime is no longer a policy choice in the developing world, openness is *de rigueur*.

2.4 Globalisation and Hegemony: Then and Now

As already mentioned our present-day experience of globalisation does have one historical parallel during the 1870-1914 period. The levels of international integration in terms of the value of trade and financial flows as a proportion of national income were similar or higher than current levels. From the limited data available for that period (table 3)[9], we can also deduce it to be an era of increasing North-South divergence. In fact, it can be argued that the colonial experience and 19th century globalisation spawned the third world of today, just as contemporary globalisation cements that unequal relationship (see Davis, 2001 and Murshed, 2002b).

The major differences in the two phases of globalisation are first that the South was much more important as a market for goods produced in developed countries than it is today. Secondly, much of world trade today is of the intra-industry variety (implying the exchange of different types of the same good), rather than the inter-industry trade of the last century. Finally, labour migration is far more restricted at present. Much of 19th century emigration (some 60,000,000) was from Europe to the New World, later dubbed the regions of recent settlement by the League of Nations. Immigrants from the South were just as unwelcome in the North as at present.

19th century globalisation was also preceded by an industrial revolution in the UK and some other parts of North-Western Europe and the colonialisation of the present-day third world. Colonialisation was accompanied by the de-industrialisation of the then industrialised part of the South: India and China (see Baldwin and Martin, 1999). Moreover, the 'colonial contract', as Milanovic (2002b) calls it, ensured trade policies favourable to the export of manufactured goods from the colonial power to the colony, stifling any nascent indigenous manufacturing capacity. Five other points in the creation of the proto-third world deserve mention, as they are relevant to the discussion on present-day globalisation (see Murshed, 2002b for further elaboration).

The first is the integration of the peasant producer into global primary product markets. There was a switch from food production for domestic consumption to cash crops for export. In Africa and Latin America for example, minerals production commenced, or was expanded. This shift in production patterns was, more often than not, induced by 'subsistence adversity': the combination of debt, tax, famine, drought, loss of common resources and the disappearance of traditional safety nets. Secondly, the burden of taxation and debt. In India which was under British rule the burden of taxation was succinctly summarised by the great nationalist economist Dadabhai Naoroji in 1876 (see Naoroji 1901; also Dutt 1902 and 1904).[10] Naoroji put the average tax burden in India at twice that of contemporary England, although average income there was fifteen times greater at that point in time. Thirdly, the burden of taxation was not counterbalanced by expenditure on infrastructure or human development. Rather, as Davis (2001) and others point out, taxes in India were used to

[9] While data on trade and financial flows is available and there is some evidence regarding real wages, national income accounts were not gathered until the 1930s pioneered by the Soviet Union.

[10] Naoroji was the first non-European member of the British House of Commons for the Liberal Party in the 1890s. During the first decade of the 20th century he was prominent in several Socialist International Congresses speaking on matters related to colonial exploitation and workers in the industrialised world.

finance imperial wars. Fourthly, the operation of the international payments and currency systems under the gold standard militated against developing countries. Much has been written on this. Naoroji (1901) analysed the famous colonial drain of resources from India to Britain.[11] Fifthly, there are the attitudes to free market forces that can explain the marginalisation of much of the third world from globalisation both at present and in the past. A good example to consider would be attitudes to famines that raged through much of the tropical world in Asia, Africa and Latin America in the last quarter of the 19th century, extensively documented in Davis (2001). There was a marked reluctance in virtually all of the famine episodes to interfere with global grain markets for the sake of humanitarian relief.

All of these developments in the past century have their striking contemporary counter-parts. First of all, there are the debt crises, which results in a haemorrhaging of resources from the third world to the first. Secondly, structural adjustment programmes have resulted in a drastic reduction of social-sector spending and social protection. Thirdly, most of low-income developing countries receive little in terms of private financial flows; those who do are vulnerable to financial contagion. Fourthly, the colonial trade contract persists, taking the form of a variety of protectionist measures that the North has towards goods coming from the South. Finally, the obdurate belief in the efficacy of the free market, in the face of abject poverty and complex humanitarian disasters, are just as prevalent today.

The period from 1914 until about 1960 or 1980 marked a retreat from globalisation, especially during the inter-war (1919-39) period. Autarky rather than trade dependence was extolled. Import tariffs were rife, justified on the grounds of national interest. Bilateral trade relations and arrangements within empires such as the British Empire's system of imperial preference dominated the scene. Currency convertibility was suspended and exchange controls were in place. Foreign investment, except inside the spheres of influence of major powers, was rare. As Lewis (1949) points out, the entire economic ethos of that era was different, particularly the emphasis on self-sufficiency. Paradoxically even in an era of declining multilateral international trade the process of income convergence within the developed world continued (Milanovic, 2002c).

In summary, globalisation in the 19th century did not benefit the South, which became poorer as the North grew richer. It, however, assisted the convergence of incomes towards higher levels for the Atlantic economy, countries in North-Western Europe and North America who were the early members of the present-day rich-man's club. Countries in Scandinavia were, for example, pulled up towards the higher income levels prevalent in America and Britain. The same process is true for present-day globalisation. Globalisation, for example, aids income convergence towards the European average for newer and poorer members of the European Union. This is also true for a handful of North-East Asian countries such as South Korea and Taiwan that have converged with higher OECD income levels. The greatest periods of growth and progress for most of the third world were in the unglobalised or relatively less open periods before 1980, as table 1 attests to for the 1960s and 1970s.

[11] Keynes (1909) disputed this, arguing that private capital flows from Britain to India more than offset the effects of the colonial drain. His evidence is, however, mainly conjectural.

3 The Suspension of the Development Contract

In this section I wish to focus on three mechanisms that represent major avenues along which the development contract dwindled or vanished: structural adjustment policies, the debt crisis and protectionism in the North towards imports from the South. The last two areas were of concern to Prince Claus.[12]

3.1 Structural Adjustment Policies

The history of structural adjustment programmes (SAPs) can be traced back to the two oil shocks of the 1970s, particularly the second oil shock of 1978. Non-oil producing developing countries were hit hard by the increases in energy prices and ran into balance of payments difficulties. These and other macroeconomic difficulties compelled many developing countries to seek financial assistance from the international financial institutions (IFIs) such as the IMF (International Monetary Fund) and the World Bank. Structural adjustment was not confined to macroeconomic issues but a whole host of reforms were imposed and instituted under its umbrella. These measures included unilateral trade liberalisation, and the removal of subsidies and fiscal exigency amounting to the reduction of social-sector expenditure. While the need for a degree of fiscal prudence could not have been denied, a major casualty of SAPs was human-capital forming expenditure on education and health in many low-income developing countries.

SAPs provided an opportunity to force the tenets of the Washington Consensus (economic conservatism) on hard-pressed developing countries in dire need of financial assistance. The Washington consensus can be traced back to the work of Milton Friedman (1968). According to this view, the primary goal of economic policy was containing inflation, which in a developing country context meant not only a brake on money supply growth but fiscal restraint as well. The secondary set of policy goals was the removal of distortions, mainly related to trade taxes, capital controls and other domestic subsidies. The removal of trade taxes has often had long lasting deleterious effects on government revenues. Hasty financial sector liberalisation helped to spread disastrous financial contagion, as in East Asia in 1997. The elimination of many subsidies and reduced social-sector expenditure halted the accumulation of growth enhancing human capital. Also, public expenditure reduces inequality by allowing the poor to accumulate assets and skills with which they can break out of the vicious cycle of poverty and eventually catch up with the rich.[13] Furthermore, it is worth remarking on the fact that the social policies associated with a major reduction in social protection would be politically infeasible in most OECD countries where social protection is mandatory.

Structural adjustment policies and the Washington consensus are based on an economic philosophy that believes in continuously clearing markets with flexible prices. Possibilities regarding various market imperfections combined with temporary

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[12] See his address to the world conference of the Society for International Development, 25th March 1988 at New Delhi, as well as his twenty three theses put forward on the occasion of his acceptance of an Honorary Fellowship at the Institute of Social Studies (ISS), the Hague on 1st June 1988 in Cultuur en Ontwikkeling.

[13] Free education, including free higher education did much to reduce income inequality in OECD-Europe. Ironically, this process is being reversed by the present Labour party in Britain.

price rigidities are virtually ruled out (except in the very short-term) by the adherents of these views. If these imperfections and rigidities do exist, aggregate demand reducing structural adjustment policies following macroeconomic crises can have further and unnecessary contractionary effects on the economy. Also, it is common for the IFIs to recommend interest increases following financial crises. This type of pro-cyclical policy lowers output and employment even further during a recession. More importantly it is the converse of the policies followed in developed countries, for example the Federal Reserve Bank actually lowers interests rates during financial crunches in the USA.

As can be deduced from the preceding discussion, the operation of SAPs and what followed was reflective of the decline if not the demise of the development contract, as the focus was on short-term panaceas and not long-run development. Countries that have fared well in East Asia or elsewhere have not subjected themselves to the Washington consensus orthodoxy, at least not until recently. Furthermore, structural adjustment programmes and what followed set developing countries well and truly on the route to indebtedness to multilateral and bilateral donors. It also inculcated the culture of dependence on aid for budgetary support. The era of SAPs is also associated with the ideological hegemony of the Washington based IFIs reflective of American interests, whose philosophy and approach has been adhered to by other major bilateral donors in Europe and Japan in contrast to an earlier era of more independent European aid policies.

Allied to the SAPs ideology was the (mis) management of the transition in the former communist bloc in Eastern Europe and the former Soviet Union (Stiglitz, 2002), something that was far from developmental. Once again obsession with price stability and macroeconomic balances under any circumstances was truly costly in terms of the vast income compression, which can only be compared to the devastating effects of a long war.[14] More damaging was the approach to privatisation, something that resulted not only in corruption, but also asset stripping further reducing output. This helped to produce the huge and historically unprecedented growth in poverty and inequality in those regions.

Structural adjustment has been replaced by the allegedly pro-poor poverty reduction strategy paper (PRSP) process. Concern with poverty reduction is laudable but true long-run development requires the reduction of global inequalities and North-South income gaps. Moreover, PRSPs can be viewed as a cynical repatriation of conditionality to the recipient, who has to signal his worthiness to receive aid by signalling ex-ante agreement with the donor’s priorities, usually with the donor’s connivance.

3.2 Debt Crises

Few developments can be more indicative of the abrogation of the development contract than the various third world debt crises that have been with us since the Mexican default of 1982. The debt crisis of the 1980s mainly afflicted middle-income countries in Latin America and elsewhere. Today the focus is on poorer (low-income) nations, mainly in Africa. Initially, concern was with private debt, as the lending was

[14] For example, Germany’s GDP declined by about a quarter at the end of the Second World War, which is less than in some transition economies.

by commercial banks to middle-income developing countries; now we speak of debt owed to multilateral agencies and bilateral donors by low-income nations. A great deal has been written on the origins of the 1980s debt crisis, emphasising the profligacy and untrustworthiness of sovereign debtor governments in the South. However, as Murshed (1992) points out, the developments that converted indebtedness into a crisis were a result of macroeconomic policies pursued by Northern governments motivated by the need to conquer their own domestic inflation, through contractionary monetary and expansionary fiscal policies in the USA and contractionary monetary policies elsewhere in the OECD, all of which served to raise world interest rates and create payment problems for debtor nations in the South.

In dealing with the debt crisis of the 1980s the IFIs were more concerned with the interests of Northern creditors, Western banks. A truly developmental agenda would have balanced the needs of creditors with that of debtors. In fact, it is universally true that domestic bankruptcy laws in the present world do not allow creditors to let debtors sink to such a low degree of capability and the types of misery associated with the lost decade in Latin America during the 1980s. That to many sensibilities would be a serious breach of human rights, something reminiscent of classical Graeco-Roman slavery.[15] Table 1a indicates the negative growth rates associated with debt crisis of the 1980s in Latin America. These growth rates may not have been so low or negative if sufficient debt forgiveness had been provided.

Moreover, putting humanitarian considerations aside, punitive levels of debt servicing actually damages the debtors ability to repay loans via the debilitating effect of excess debt servicing upon investment, a phenomenon known as debt overhang. As the 1980s progressed much of the debt owed to the private banking system in the North was converted to public debt, owed to IFIs, something that was achieved by discounted buybacks financed by the taxpayer in the North. This amounted to a taxpayer bailout of their privately owned banking sector, an indicator of the financial sector's influence over OECD governments.

The various debt crises represent a crisis in solvency, not a short-term liquidity problem that can be overcome by increased lending. Given the nature of this insolvency, measures need to be taken to grant debt relief if there is a true development agenda in existence. Annex tables 1 to 3 indicate the debt stocks of many developing countries as a proportion of national income or total exports. The latter is the more important figure. It indicates that for many developing countries the present value of outstanding external government debt is more than 200% of annual export earnings. It should be pointed out that the debt relief that was granted was related to strategic considerations: Mexico and Egypt for the USA, Poland for Germany.[16] True, at present there is the highly indebted poor country (HIPC) initiative for poor countries, mainly in Africa, whose debt is mainly with multilateral and bilateral official donors. Such debt should be easy to forgive, as it is paltry for the donors, and is mainly a government-to-government or multilateral agency obligation.

[15] Interestingly in ancient Mesopotamia (modern Iraq) it was possible for someone enslaved due to debt to obtain manumission via participation in commercial activities.
[16] At the moment of writing, similar moves are afoot to grant Iraq some debt relief at the behest of the USA and UK.

Furthermore, part of this debt is odious[17], as it was incurred by unrepresentative leaders, who were then useful to the world's principal superpower during the era when it was engaged in superpower rivalry. Ordinary citizens of debtor nations, particularly the poor, should not be made responsible for this debt. Alas, despite the efforts of development NGOs (non-governmental organisations) in the North such as Jubilee 2000, major OECD countries led by America are dragging their heels over debt forgiveness that would enable much needed poverty reducing public expenditure to recommence. Yet there are some positive developments; even the IMF is considering adapting domestic bankruptcy and insolvency procedures in dealing with sovereign debt. The difficulties lie in who is to be the arbitrator between the creditor and debtor; it certainly should not be the creditor itself (the IMF).

3.3 Protectionism in the North towards the South

The mercantilist colonial contract in the 19th century had an important trade policy component. It compelled or induced colonies to purchase manufactured goods from the mother country. These certainly helped the development of manufacturing industries in the North and sustain their international competitiveness. As a result one would expect markets in the North to be open to goods from the South in the post-colonial phase as part and parcel of a development contract. Yet at present the vast majority of the protectionist measures in the world are instituted by the North against goods from the South in important areas where the South has competitive advantage such as agriculture and textiles. This too has a modern-day mercantilist motivation, bearing in mind that the South is too weak to retaliate to Northern protectionism. Protectionism helps to boost output and employment in flagging import-competing sectors in the North, sectors that ought to be assigned to the dustbin if the tenets of capitalism were followed to their logical conclusion. Trade policy in the North, has become a substitute for traditional Keynesian demand management policy instruments, such as monetary and fiscal policy, instruments that are increasingly rules based and beyond the scope of political discretion.

Overall developments in the arrangements for conducting multilateral trade and technology transfers have left nations in the South more vulnerable than in the recent past. Among them three points deserve mention. First, the WTO negotiating process excludes countries in the South from meaningful participation even though the WTO is based on the principle of one-country one-vote. Secondly, there is a greater reluctance to grant non-reciprocal special and differential treatment to less developed countries compared to thirty years ago. Thirdly, the WTO rules regarding trade in intellectual property rights (TRIPs) is especially inimical towards the process of technological diffusion in the South. The experience of say South Korea in developing indigenous technical capacity is vastly more difficult to emulate in an era where TRIPs regulations are in force. The TRIPs regime also prevents affordable solutions to humanitarian crises, such as the production of cheaper generic drugs to combat AIDS.

At a more fundamental level, authors such as Bhagwati (1994) have indicated there is a growing concern in the North (particularly in the United States) for fair as opposed

[17] The term odious debt was employed by the USA during the Spanish-American war of 1898 referring to the debt of the Spanish colonies taken over by America, which these colonies owed to Spain. Clearly, the USA felt at that time, unlike now, that this odious debt should be repudiated.

to free trade. It also leads, as Nayyar (1996) points out, to an increasing asymmetry in the application of the principle of free trade when it comes to the rules governing North-South trade. Free trade is advocated when it is in conformity with American interests, for example with regard to the rights of American service-sector industries to enter other countries markets. The principle of free trade is dispensed with, however, when it is in conflict with American and European interests in import-competing sectors such as textiles and agriculture.

Besides agriculture, the general shift of competitive advantage in labour intensive manufacturing production from North to the South has attracted a good deal of attention from commentators in developed countries. Such protectionist calls, and the managed trade measures already in place, constitute a very grave threat to the meaningful participation of developing countries in the international economic system. In developed countries like the USA and the UK there has been an increase in wage dispersion. In other words, the earnings differential between the skilled and unskilled has widened. This may be due to increased imports of manufactured goods from developing countries, but given the low value of North-South trade compared to intra-North trade, it is more likely due to technical progress favouring more skilled workers in the North. Slaughter (2002) examines whether protectionist tendencies, in terms of both policy preferences and policy actions in the USA, seem to be an obstacle to the integration into the world economy of developing countries. First, current trade barriers in the North appear to cost the South billions of dollars annually. Second, although some WTO-governed trade barriers in the North are declining, it appears that there is an increasing US resistance to further globalisation via trade, investment, and immigration liberalisation. Third, he presents evidence on the forces driving this rising resistance to further liberalisation, in terms of unskilled worker preferences in the USA.

Then there is the question of incorporating environmental and labour standards into the international trade policy regulatory framework, specifically the demand that they should be enshrined within WTO rules, giving members the right to use retaliatory trade policy if imports do not conform to these standards. In other words, poor countries interested in exporting to the North would have to implement these standards or face trade sanctions. There is the danger, however, that protectionist interests could manipulate altruistic motivation regarding environmental and especially labour standards. Even when there is universal acceptance of standards regarding the rights of workers, the method of implementation is open to question. They need not be enforced via second-best trade sanctions under the aegis of WTO rules, but by more direct approaches. In any case, as incomes rise and poverty diminishes, labour standards tend to emerge and child labour diminishes. Another method for introducing labour standards is through consumer-group pressure in the North. A consumer in the North who has altruism built into his utility function, and is prepared to pay for more humane conditions for workers as well as the abolition of child labour, can do so via purchasing goods appropriately labelled, such as with carpets with a no-child labour 'rugmark'.

Ultimately, a dollar of trade is worth a great deal more than a dollar of aid. Given that many of the nations in the South are heavily indebted to the North, freer access to markets in the North would assist smoother debt servicing and be ultimately of benefit to the North.

4 The Development of Violent Internal Conflict

Development economists have traditionally discussed the design of policy independent of conflict, these being seen as issues for political scientists. But the implications for social conflict of economic decisions cannot be ignored in this way. Similarly, the potential for conflict and civil war in retarding growth and development are equally important. The potential for disaster in getting economic policy wrong is high in fragile low-income societies that need economic growth, especially in those with an above-average vulnerability to conflict.

It is important to understand that violence is an alternative to peaceful production as a form of economic activity, see Edgeworth (1881) who distinguished between the presence and absence of consent in economic interaction between individuals. We are used to viewing war as something that happens between nation states. Today's wars mostly occur between groups within the same country, and in the *developing* world.[18] Are these civil wars fundamentally irrational, and could the differences underlying these disputes be settled peacefully? Sadly, conflict may be the product of rational decisions, even if it is only of a bounded or myopic rational choice variety. Even a terrible genocide, as in Rwanda for instance, is often planned well in advance and carried out to meet a well-defined objective. Since the end of the cold war conflict in developing countries has cost 5 million civilian lives (85% to 90% of total casualties), and displaced 50 million people from their homes. See Annex table 4 for an individual country-by-country breakdown of the cumulative numbers of casualties in wars involving developing countries during the period 1975-2001.

In the new rational choice literature on conflict, a distinction is often made between *grievance,* a motivation based on a sense of injustice in the way a social group is or has been treated; and *greed,* an acquisitive desire similar to banditry, albeit on a much larger scale. In many ways the former refers to intrinsic motivation, and the latter to an extrinsic or pecuniary incentive to go to war, see Murshed (2002a) for more details. These motives are not entirely separate in practice and evolve as conflict progresses.

Grievances include the systematic economic discrimination against groups based on ethno-linguistic or religious differences. Extreme poverty and poor social conditions, including refugee camps, also facilitate conflict by making soldiering less unattractive. Many of today's civil wars have an ethnic or nationalist dimension and ethnicity, whether based on language, religion or other distinctions, is often a superior basis for collective action (in the sense of Olson, 1965) in poorer countries than other social divisions such as class. In coalescing groups, therefore, current and historical grievances play a crucial part. This is all the more possible when there are inequalities across a small number of clearly identifiable groups. More often than not, these take the form of high asset inequality, discriminatory public spending across groups and

[18] There have been over 40 conflicts which led to at least 1000 deaths in any one year in the 1990s: Afghanistan, Algeria, Angola, Azerbaijan, Bosnia and Herzegovina, Burundi, Cambodia, Chad, Chechnya, Republic of Congo, Democratic Republic of Congo (Zaire), Burma Colombia, Croatia, East Timor, El Salvador, Eritrea (secession from Ethiopia), Georgia, Ghana, Guatemala, Haiti, Iraq, Irian Jaya (Indonesia) Kashmir, Kosovo, Lebanon, Liberia, Moldova, Nepal, Nigeria, Persian Gulf War, Peru, Rwanda, Sierra Leone, Sindh, Somalia, South Africa, Southeast Turkey (Kurdistan), Sri Lanka (Tamil uprising), Sudan, Tajikistan, Uganda, Yemen. All but two (Ethiopia-Eritrea and Kashmir) are internal conflicts.

unequal access to the benefits of state patronage, such as government jobs. Furthermore, state failure in providing security and a minimal level of public goods often force individuals to rely on kinship ties for support and security, as in the former Soviet Union. Ethnicity, however, must be treated with caution. Indeed, where ethnic diversity is very large (Tanzania for example), we do not see much conflict.

Discussion of greed as a motive for conflict arises mainly in the context of natural resource endowments in Africa, see Collier and Hoeffler (2001). Capturable natural resource rents, such as alluvial diamonds in Angola and Sierra Leone, can result in contests over the right to control these, some of which takes the form of warfare, but also criminality and corruption in other instances. A similar argument can be applied to drugs. Furthermore, there may be attempts to obstruct the flow of natural resources with a view to extracting tribute, such as in the case of oil pipelines. This can also produce conflict. Even where greed or the desire to control valuable resource rents is the primary cause of conflict, as is the case in some mineral rich countries, poverty and grievance play an important part in fuelling conflict, especially in providing ready recruits for the armed struggle.

The greed versus grievance dichotomy can provide a useful analytical starting point in to the discussion of the causes of conflict. But for these forces to take the form of large-scale violence there must be other factors at work, specifically a failing social contract and conflict triggers, see, Addison and Murshed (2002a) and Murshed (2002a). A functioning social contract, and the concomitant institutions that distribute income and resolve disputes, can prevent the violent expression of greed or grievance. Therefore, violent internal conflict is a *consequence* of development failure and the repudiation of the development contract, rather than being a symptom of development or state failure. Furthermore, the outbreak of conflict always requires triggers, both internal and external. External triggers involve support and succour from an outside power; internal triggers refer to events that induce parties to abandon peaceful negotiation in favour of outright war.

Conflict-affected nations have histories of weak social contracts, or a once strong social contract that has degenerated. This weakness is often a legacy of colonialism, which institutionalised mechanisms favouring one group over another. Furthermore, the risk of conflict is greatest when societies are in transition from autocracy to democracy, because it is precisely then that state failure is most acute and the social contract at it's weakest, see Hegre et. al (2001). Work by Kaufmann, Kraay and Zoido-Lóbaton (2002) on measuring indicators of governance such as voice and accountability, rule of law, control of corruption and government effectiveness suggests that for a number of countries several of these governance indicators have worsened in recent years when ostensible multi-party electoral competition has been growing. One is left wondering about the nature of these so-called new democracies.

Domestic conflicts or civil wars are not the only form of new war. Transnational terrorism, and the strategy of war on terrorism to combat it, is another form of new war. Here intrinsic motivation, which often takes the form of the collective sense of humiliation, plays a greater role; therefore deterrence against terrorists may backfire if it hardens their resolve to resist. Insights from behavioural and experimental economics also tell us that individual agents dislike threats, and reject humiliating offers in ultimatum games, even when it is rational to accept these offers.[19] This type of decision-making may also apply to "terrorists", therefore political solutions are necessary. In terms of rational choice theory this means that the "terrorists" need to be involved in the design of mechanisms to resolve conflict.

The other type of war is associated with aggressive unilateralism on the part of the USA and other regional powers such as India and Israel, which allows them to pursue strategic aims through force in a manner unthinkable in the days of superpower rivalry, when they were compelled to take into account other views and reactions. We have just witnessed one such act in Iraq, with a danger of it spilling over to Syria and Iran. Aggressive unilateralism is not simply confined to acts of war, but also with reconstruction strategies in say Afghanistan and perhaps eventually in Iraq, via an insignificant role for the United Nations and other stakeholders.

At the risk of generalisation, most of Africa's civil wars involve capturable natural resource rents. In regions of the former Soviet Union the repudiation by the elite of the earlier socialist social contract plays a huge role in causing conflict. In Asia deep-seated and historical grievances motivate most conflicts.

Conflict resolution is more difficult when the intrinsic motivation to fight is strong, as is the case in secessionist wars driven by historical grievances and certain types of terrorism. It is also difficult to sustain peace when parties feel tempted to return to war so that they can continue looting valuable resources as in many African countries and Central Asia, see Addison and Murshed (2002b).

To be successful, however, peacemaking must reconstitute and refashion the social contract. That means broad-based reconstruction, and a solution that does not leave any of the belligerents worse off than they were prior to war. Conflict ridden countries usually have highly distorted economies, favouring services and trading over production, see Addison and Murshed (2002a). More often than not, this form of resource allocation is not pro-poor. Post-conflict recovery along such a skewed path will exacerbate poverty even if output recovers rapidly to pre-conflict levels. It is far better to have a longer-term growth strategy that yields results more gradually, but one based upon re-building shattered infrastructure and with an emphasis on relatively more pro-poor production activities such as agriculture. It remains to be seen if the post-conflict reconstruction strategy in Afghanistan and Iraq follows such a trajectory, or will it be akin to the kleptocratic manner in which marketisation and privatisation was achieved in the former Soviet Union. Moreover, in countries rich in natural resources, such as oil or diamonds, output recovery and poverty reduction is insufficient to bring about enduring peace; for that to occur relative income differences, those inequalities that produced conflict in the first place must be narrowed. Donor attention must not be confined to solely alleviating poverty, but inequality must be addressed as well. Lastly, peace can only exist within a secure environment; this includes both domestic law and order and external security.

[19] In experimental ultimatum games involving sharing money if one person has the power to make a take it or leave it offer to another person, it is rational for the person receiving the ultimatum to accept even a ludicrously low share of the entire pot of money, say 0.001% of $100,000. Yet in the majority of experiments individuals refuse to accept the ultimatum unless the offered share is around 30% of the total amount.

5 Conclusion

Let me conclude briefly. I have argued that since about 1980 the development contract between North and South has been steadily waning. This compact has been supplanted by a culture of containment in the North-South sphere. International development policies are not truly developmental but motivated by security considerations, which include the danger of excessive poverty in the South becoming a threat to the North. This strategy is ultimately self-defeating, as the North cannot live safely with its prosperity secure in a world where the South stagnates and becomes poorer. By contrast, in the earlier pre-1980 era of ideological rivalry between capitalism and socialism, policies and prescriptions with regard to the third world were more developmental and the North-South dialogue more meaningful. The Brandt Commission (1980) argued that it was in the North's interests to develop the South. That dialogue and commitment to development would have been in the spirit of Prince Claus. Indeed his belief in one world was firm.[20]

The period that I have been concerned with is the period of accelerating globalisation. Globalisation has resulted in the marginalisation of vast swathes of the South. Evidence for this includes declining growth rates in Africa and Latin America and the rise in the inequality of incomes between rich and poor nations. In fact, the middle class in the international community of nations has shrunk in the past forty years. Our concern with poverty reduction is laudable, but true development also necessitates the narrowing of the North-South income gap. This is all the more true in a digital age when information disseminates rapidly. At the same time we have seen the rise in violent internal conflict, civil wars, international crime, terrorism and aggressive unilateralism on the part of some great powers despite the growth of multi-party electoral competition. This too is a symptom of development failure, and of malfunctioning institutions of conflict management, domestically and internationally.

Yet the outlook is not entirely gloomy. The early version of the Washington consensus (crude monetarism) is discredited. There appears to be the beginning of a dialogue between those who disagree about the development process; neo-classical economists on the one hand and development practitioners such as the ubiquitous NGOs on the other hand, regarding their different approaches to development and development outcomes (see, Kanbur, 2001 on the nature of these differences).

I have written about the various critics of globalisation elsewhere (Murshed, 2002b), I would like to conclude this essay with the pressing need for reform of our outmoded international institutions (see, Nayyar, 2002 on this). We need new specialised institutions that deal with specific international issues such as the environment brought closer to those affected by the problem. This would also result in greater influence for the South. In the Bretton Woods organisations in particular, the balance of power between creditor and debtor nations needs to be redressed in favour of the latter. Debtor nations are mainly from the South, their debt servicing adds considerably to the share-capital of the IMF and the World Bank. Consequently they should have greater voting rights. The United Nations (UN) system is the world's truly democratic international institution, one that can contain aggressive

[20] See his opening address to the World Congress of the Society of International Development in Rome, 1st July 1985, in Cultuur en Ontwikkeling.

unilateralism and bring about a renaissance of the development contract. Ultimately, however, the UN is what its member states make it into.

Development cooperation without a development contract, or a firm commitment to true and sustainable development, will like faith without charity come to nothing. In the final analysis, the rationale for a global developmental contract is rooted not in security considerations or economic self-interest but in our universal sense of common humanity. But, I am not recommending any particular ideology or road-map towards the development contract.

For forms of government let fools contest
Whate'er is best administered is best
For modes of faith let graceless zealots fight
He cannot be wrong whose life is in the right.

Alexander Pope, *Essay on Man*, 1707.

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ANNEX TABLE 1:
TOTAL GOVERNMENT DEBT* AS A PERCENTAGE OF GDP IN SELECTED DEVELOPING COUNTRIES 1985-2000

COUNTRY	1985	1990	1995	2000
Afghanistan	-	-	-	-
Algeria	-	-	82.0	-
Angola	-	-	-	-
Argentina	-	-	-	-
Bangladesh	-	-	-	-
Benin	-	-	-	-
Bolivia	-	-	57.4	60.9
Botswana	18.2	11.4	10.6	-
Brazil	14.8	-	-	-
Burkina Faso	-	-	-	-
Burundi	-	-	128.9	-
Cameroon	15.2	35.7	139.6	-
Central African Republic	-	-	-	-
Chad	-	32.5	-	-
Chile	-	47.2	19.5	14.8
China	-	6.5	6.5	-
Colombia	-	-	13.5	-
Congo	-	-	-	160.8
Congo, Dem. Rep. Of the (former Zaire)	81.5	289.8	232.9	-
Costa Rica	-	-	-	36.4
Cote d'Ivoire	-	-	188.3	-
Dominican Rep	-	-	-	-
Ecuador	-	-	-	-
Egypt	-	-	-	-
El Salvador	-	-	-	27.9
Ethiopia	44.4	68.5	-	-
Fiji	36.2	-	-	-
Gabon	-	-	-	-
Gambia	-	-	-	-
Ghana	13.9	3.0	-	-
Guatemala	-	-	-	-
Guinea	-	-	-	-
Guinea-Bissau	-	-	-	-
Guyana	422.4	-	-	-
Haiti	46.6	-	-	-
Honduras	-	-	-	-
Hong Kong	-	-	-	-
India	45.1	51.4	48.4	56.5
Indonesia	31.7	42.4	30.8	-
Iran	-	-	-	-
Iraq	-	-	-	-
Jamaica	147.6	-	86.5	96.2
Jordan	56.4	133.3	103.8	95.1
Kenya	-	-	-	-
Korea, Republic of (South)	15.7	8.3	8.4	-
Lesotho	-	77.9	-	-
Liberia	124.3	-	-	-
Madagascar	-	109.4	119.8	-
Malawi	83.8	62.7	-	-
Malaysia	81.0	-	-	-
Mali	-	-	-	-
Mauritania	-	-	-	-

Mauritius	67.2	39.8	33.4	34.2
Mexico	42.4	46.4	40.8	-
Morocco	85.6	101.9	80.9	-
Mozambique	-	-	-	-
Myanmar (Burma)	-	0.0	-	-
Namibia	-	-	-	-
Nepal	31.2	52.6	66.2	64.5
Nicaragua	-	-	-	0.0
Niger	-	-	-	-
Nigeria	41.7	-	-	-
Oman	18.8	21.7	31.3	-
Pakistan	60.2	78.8	-	89.0
Panama (excl. Canal zone)	-	-	-	-
Papua New Guinea	43.1	49.0	56.5	-
Paraguay	9.3	16.7	-	-
Peru	-	190.1	50.2	-
Philippines	32.9	51.3	61.1	65.6
Rwanda	-	49.8	-	-
Saudi Arabia	-	-	-	-
Senegal	-	-	-	-
Sierra Leone	55.4	72.3	100.3	-
Singapore	86.3	82.6	76.6	87.3
Somalia	-	-	-	-
South Africa	-	36.5	51.0	47.8
Sri Lanka	80.9	96.6	94.6	97.1
Sudan	-	-	-	-
Syria	-	-	-	-
Taiwan				
Tanzania	-	-	-	-
Thailand	32.4	18.4	4.6	22.8
Togo	87.6	-	-	-
Trinidad &Tobago	-	-	51.5	-
Tunisia	45.5	54.8	57.7	62.6
Turkey	20.2	30.2	35.8	50.7
Uganda	-	-	-	52.1
Uruguay	40.9	31.6	-	-
Venezuela	21.2	-	-	-
Zambia	192.6	-	-	-
Zimbabwe	45.3	48.4	77.1	-

*Total debt is the entire stock of direct, government, fixed term contractual obligations to others outstanding at a particular date. It includes domestic debt (such as debt held by monetary authorities, deposit money banks, nonfinancial public enterprises, and households) and foreign debt (such as debt to international development institutions and foreign governments).
Source: World Development Indicators (2002).

ANNEX TABLE 2:
TOTAL GOVERNMENT DEBT* AS A PERCENTAGE OF GDP BY REGION 1985-2000

REGION	**1980**	**1985**	**1990**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
East Asia & Pacific	-	-	18.4	30.8	23.9	55.7	-	-	-
Europe & Central Asia	-	-	-	-	-	35.7	41.4	43.4	39.5
European Monetary Union	19.3	-	-	54.9	57.3	56.1	55.6	-	-
Heavily indebted poor countries (HIPC)	-	-	-	-	-	-	-	-	-
High income	27.7	-	-	49.1	49.3	49.8	42.7	-	-
High income nonOECD	-	-	-	-	-	-	-	-	-
High income OECD	27.0	-	36.7	48.9	49.0	47.8	40.7	-	-
Latin America & Caribbean	-	-	-	-	-	-	-	-	-
Least developed countries (UN classification)	-	-	-	-	-	-	-	-	-
Low & middle income	-	-	-	-	-	-	-	-	-
Low income	-	-	-	-	-	-	-	-	-
Lower middle income	-	-	-	-	-	-	46.9	52.8	-
Middle East & North Africa	-	-	-	-	-	-	-	-	-
Middle income	-	-	-	-	-	-	38.9	42.8	-
South Asia	54.4	52.7	65.7	66.2	65.2	59.9	72.7	58.7	76.8
Sub-Saharan Africa	-	-	-	-	-	-	-	-	-
Upper middle income	-	-	-	-	31.1	29.2	-	-	-
World	-	-	-	-	-	-	-	-	-

*Total debt is the entire stock of direct, government, fixed term contractual obligations to others outstanding at a particular date. It includes domestic debt (such as debt held by monetary authorities, deposit money banks, nonfinancial public enterprises, and households) and foreign debt (such as debt to international development institutions and foreign governments).
Source: World Development Indicators (2002).

ANNEX TABLE 3:
PRESENT VALUE OF DEBT* (% OF EXPORTS OF GOODS AND SERVICES) IN SELECTED DEVELOPING COUNTRIES 2000

COUNTRY	2000
Afghanistan	-
Algeria	111.5
Angola	121.2
Argentina	404.2
Bangladesh	110.6
Benin	160.8
Bolivia	162.2
Botswana	9.0
Brazil	323.5
Burkina Faso	210.0
Burundi	1118.2
Cameroon	228.4
Central African Rep	496.9
Chad	207.4
Chile	147.1
China	45.5
Colombia	185.2
Congo	168.9
Congo, Dem. Rep. Of the (former Zaire)	-
Costa Rica	56.3
Cote d'Ivoire	253.6
Dominican Rep	39.6
Ecuador	178.2
Egypt	106.5
El Salvador	67.9
Ethiopia	326.5
Fiji	10.9
Gabon	124.6
Gambia	99.1
Ghana	160.0
Guatemala	93.3
Guinea	269.1
Guinea-Bissau	970.4
Guyana	-
Haiti	132.6
Honduras	104.0
Hong Kong	-
India	91.2
Indonesia	181.8
Iran	24.6
Iraq	-
Jamaica	95.1
Jordan	129.9
Kenya	168.0
Korea, Republic of (South)	-
Lesotho	60.6
Liberia	95.0
Madagascar	246.7
Malawi	297.4
Malaysia	37.9
Mali	166.7
Mauritania	314.3

Mauritius	88.5
Mexico	81.4
Morocco	124.0
Mozambique	151.2
Myanmar (Burma)	235.2
Namibia	-
Nepal	101.9
Nicaragua	425.3
Niger	344.3
Nigeria	117.0
Oman	50.1
Pakistan	249.3
Panama (excl. Canal zone)	78.6
Papua New Guinea	97.5
Paraguay	92.5
Peru	282.6
Philippines	102.8
Rwanda	509.1
Saudi Arabia	-
Senegal	152.9
Sierra Leone	892.4
Singapore	-
Somalia	-
South Africa	61.4
Sri Lanka	91.0
Sudan	781.5
Syria	289.8
Taiwan	-
Tanzania	334.9
Thailand	89.0
Togo	209.1
Trinidad &Tobago	52.7
Tunisia	111.9
Turkey	195.8
Uganda	146.1
Uruguay	182.5
Venezuela	103.9
Zambia	504.7
Zimbabwe	168.8

*Present value of debt is the sum of short-term external debt plus the discounted sum of total debt service payments due on public, publicly guaranteed, and private nonguaranteed long-term external debt over the life of existing loans.
Source: World Development Indicators (2002).

ANNEX TABLE 4:
CUMULATIVE NUMBER OF DEATHS AS A RESULT OF ARMED CONFLICT
1975-2001

Region/Country	Total number of deaths (min.)* 1975-2001
Sub-Saharan Africa	
Angola	25,125
Burkina Faso	50
Burundi	5,125
Cameroon	50
Central Afr Rep	25
Chad	27,250
Congo	3,000
Congo, Dem. Rep. Of the (former Zaire)	6,050
Ethiopia	40,475
Gambia	25
Ghana	50
Guinea	50
Guinea-Bissau	2,000
Kenya	25
Lesotho	25
Liberia	4,125
Mali	50
Mauritania	50
Mozambique	12,125
Niger	175
Rwanda	6,025
Senegal	1,100
Sierra Leone	4,075
Somalia	6,175
Sudan	18,025
Togo	50
Uganda	13,100
Middle East & North Africa	
Algeria	9,025
Egypt	175
Iran	21,100
Iraq	10,125
Morocco	7,000
Oman	100
Saudi Arabia	25
Syria	1,075
Tunisia	25
Turkey	8,125
Central & Latin America	
Argentina	3,000
Colombia	11,375
Ecuador	25
El Salvador	11,050
Guatemala	22,000
Mexico	25
Nicaragua	9,050
Panama (excl. Canal zone)	50
Paraguay	25
Peru	12,025
Venezuela	25
Carribean	
Haiti	25
Trinidad &Tobago	25

South Asia	
Afghanistan	24,000
Bangladesh	1,325
India	25,600
Myanmar (Burma)	37,200
Nepal	1,100
Pakistan	1,050
Sri Lanka	16,050
East Asia & Pacific	
China	4,025
Indonesia	13,025
Malaysia	75
Papua New Guinea	175
Philippines	21,225
Thailand	1,000

*This is the minimum number of deaths calculated on the basis of the minimum number of deaths estimated for each type of conflict intensity (minor, intermediate or war) according to Gleditsch, Wallensteen, Eriksson, Sollenberg and Strand (2002)