TAILORING BIOTECHNOLOGIES
Vol. 1, Issue 2, Nov. 2005, pp: 45-64

Development Cooperation: A Hindrance for Self-Sustainable Development

Lou Keune

Abstract

Since the eighties, worldwide policies regarding development cooperation have been dominated by neo-liberal thought. This policy has included privatization, deregulation, decreasing the role of the government, a restrictive bud get policy, abolishing subsidies, free movement of capital and profits, and open markets. Nevertheless, large-scale poverty has remained, and income disparity has increased. Looking back, one can question the idea that development cooperation in reality includes net flows from the North to the South. The developing countries have received less in loans than they have paid in debt payments and interest. Equally, they have seen more profits drain away than direct investments coming in. Since 1980, the deterioration of the terms of trade of developing countries has led to a total loss three times greater than the total amount of all official development aid. Both the worldwide domination by free market principles as well as the reverse development aid are limiting the possibilities for self-development of the poorer parts of the population. The pressure on developing countries and their residents to completely throw open their economies must stop. The right to their own development must be acknowledged, and thereby also the right to choose the most adequate development strategy.

Introduction: A broadened concept of development cooperation

The meaning of the term 'development cooperation' broadened during the second half of the last century. Originally it referred to development aid (so-called) and the cooperation between national and international actors involved in the designing and implementing of development programmes. Especially during the sixties and seventies, a lot of attention was paid to various bottom-up strategies such as self-help programs, fundamental education, community development, the cooperative movement, intermediate technology, and land reform. From the first UNCTAD conference (1964), more and more attention was paid to the subject of world trade, in particular to the contribution it could make to the development of countries in the South. 'Trade, not aid' became the motto. Reform of the world trade relations was thereby considered to belong to the field of development cooperation. The space for bottom-up approaches remained intact. Possibilities were even seen for better participation by the poorer sections of world population in international trade through local initiatives. Little by little, the possible contribution of foreign private capital became considered significant in both development literature as well as development policies. That significance would mostly lie in the possibilities for international business to modernize the economies of the South, to offer credit, create employment, and increase the proceeds of foreign currency. Thus the term 'development cooperation' came to cover world trade and investments and loans by international business, as well as traditional developmental aid.

Neo-liberalization of development cooperation

Since the eighties, worldwide policies regarding development cooperation have been dominated by neo-liberal thought. Supposedly, development would only be possible if not only local, regional and national economies, but also the world economy, were arranged in such a way that production and distribution, including that of the development and implementation of technologies, were led by free market principles. The implementation of this school of thought has led to certain concrete forms of economic policy. International institutions such as the World Bank and its associated regional Development Banks and the IMF have exerted a certain amount of pressure on the national governments of developing countries. That pressure became possible because many developing countries were hit by the so-called debt crisis, as they were unable to meet their credit obligations to public and private lenders. If they wanted to come to what were known as debt settlements, they were dependent on the aforementioned supranational financial institutions. This form of international dependency meant that these institutions could make conditions that delved deeply into national policy and therefore also into the further constitution and development of national economies. Other multinational donors, like the European Union, and bilateral donors, like the individual governments of the high-income countries, followed that policy. The space for the developing

countries in question to make their own policies was thus severely restricted. This restriction also involved curtailing the possibilities of following individualized courses of development based on local or regional contexts. The space for local initiatives also became much smaller. All of this also led to the famous Structural Adjustment Programmes - SAP's. These included privatization, deregulation, decreasing the role of the government, a restrictive budget policy, abolishing many subsidies, free movement of capital including profits, and ending restrictions on imports and exports.

Consequences

Despite these changes in policy, very persistent, fundamental questions remain. Large-scale poverty has persisted and income disparity actually increased, both within countries as well as world-wide (UNDP, 2005, chapters 1 and 2). The ratio of the income of the poorest 10% of the world population to the richest 10% is 1 to 103 (UNDP, 2005, p.38). Because of this, in the early stage of neo-liberalization there were already pleas from within UNICEF for 'adjustment with a human face' (Cornia at. al., 1987). Furthermore, regarding nature and the environment, the living planet index is moving downwards and now stands at -40 (WWF, 2004, p.1). We will return to the connection between these negative developments and neo-liberal policy.

This policy has also led to other consequences, which several people warned about at an early stage (e.g. Susan George, 1994). After all, the policy didn't just lead to continuing large-scale poverty, increasing inequality and further degradation of nature and the environment. It also led to far-reaching structural changes in various national economies as well as in the world economy. First among these structural changes was the opening up of those economies in many ways. The countries involved were and are still obligated to guarantee a free flow of capital. In other words, they were opened up to foreign investment and at the same time forced to remove restrictions for the transfer of profit to other countries, usually the home countries of the investors concerned. The reasoning behind this policy was that economic growth would be strongly stimulated by this foreign investment, which would modernize the local economy ('modern enterprise'), and also create employment. The privatization policy supported this. All kinds of activities, which until then had been done by the governmental authorities or non-governmental agencies, became the domain of private investors who were often able to acquire public utilities at relatively low prices. This included public utilities regarding energy, water, transport, health care, agricultural education, telephone operating systems, etc. This meant *de facto* that a large part of the foreign investments were not really investments in the sense that they created new units of production, distribution and transport, but rather takeovers of existing capital. The public goods, which were privatized in this way, were thus more or less removed from policies based on established needs. Instead they became principally based on the laws of the economic competition, in which maximizing profits is first and foremost.

Export led economic growth

Another policy with far-reaching structural consequences was the principle of export led economic growth. Exporting was seen not only as a way to increase the capacity to repay debt, but also as a way to create new economic possibilities. Participation in world trade became the ultimate aim. And that world trade should have to be as free as possible. After all, according to the neo-liberals, hadn't David Ricardo already shown early in the development of the science of economics that the specializations of countries based on comparative costs sprouting from free trade would be to everyone's advantage? Now this mandatory free trade was basically forced upon developing countries that were severely weakened by debt and other circumstances. Large developing countries like India and China could (to a certain extent) back out of that obligation. That certainly applied to the rich industrial countries. This is the mechanism pointed out by Chang (2004), namely that countries which themselves have become strong based in part on protecting their own markets, afterwards force free trade upon other countries. With that same history, the world market became the stage of a competition between unequal parties. Apart from the fact that under that same banner of free trade, many examples arose of exporting agricultural products for dump prices, sometimes masquerading as food aid. This constituted serious competition for the existing agriculture and cattle farming in developing countries.

During this rapid expansion of neo-liberal thought, with all the positive developments according to its advocates, the fact that a number of developing countries were experiencing rapid economic growth based on the protection of their economies and the support of directly intervening governments, including a strong expansion of their international exports, was kept outside the discussion as much as possible. In countries like South Korea, China, Taiwan, Malaysia, Singapore, India and Brazil, for example, economic growth was

strongly stimulated by import-substituting investments and fast-growing exports in modern sectors like electronics, cars and clothing. These countries were soon being called the Newly Industrialized Countries - NIC's. These countries were often cited in the debate about development strategy, with the suggestion that free trade had been much to their advantage, despite the fact that they were ruled by strong and in some cases dictatorial governments. They were, and continue to be, countries that look out for one-sided outward orientation possibilities while ascribing much importance to an inward-oriented policy.

'Free trade, not aid'

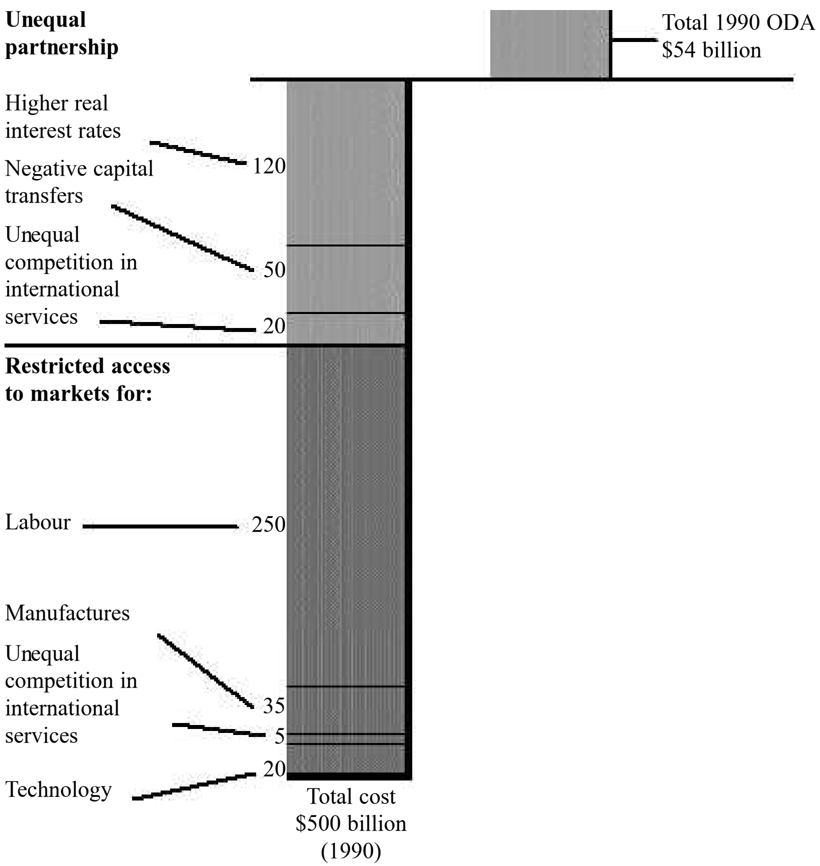
All of this happened during a time when the growth of contributions by the high-income countries to public development aid stagnated. This was a reflection of the growing reluctance in most OECD countries regarding public responsibility for developing countries. At the same time, the task of stimulating development was seen more and more as belonging to private business, which could profit from the favorable conditions created by the SAP's. Thus we saw a growth of private investments, both in absolute terms and also in comparison to the official development aid. Increasingly, the motto became 'leave it to the entrepreneurs, they know what to do'. The role of world trade was also coming to be considered more and more important. 'Free trade, not aid' became the motto, strongly legitimizing the growing free trade.

Reverse development aid

Much can be said against these and other neo-liberal arguments. Let us look at a number of factual developments. To what extent has there really been a transfer of financial means to developing countries?

First, the theme of the losses the developing countries suffer when dealing with the richer countries must be addressed. Back in the early nineties, the UNDP presented calculations that basically showed these losses to be sizable (UNDP, 1992, p.67). In 1990, the losses amounted to US $ 500 billion, whereas the official development aid amounted to US $ 50 billion (see Figure 1). These are losses due to what could be described as 'lost opportunities' caused by discriminating relations in world markets. For example, developing countries usually have to pay more interest on borrowed capital. Another example is the restriction on the international mobility of labor.

Figure 1: Costs of global markets to developing countries (US $ billions)



Within this broad category of 'lost opportunities' exists the phenomenon of reverse development aid. Recently I have researched the actual developments since 1980 of two parts of the financial flows. Looking at the category of loans to developing countries, both public and private, I calculated (based on UNCTAD, 2004, Table 6.6) that measured over the total time period, developing countries have received less in loans than they have paid in debt payments

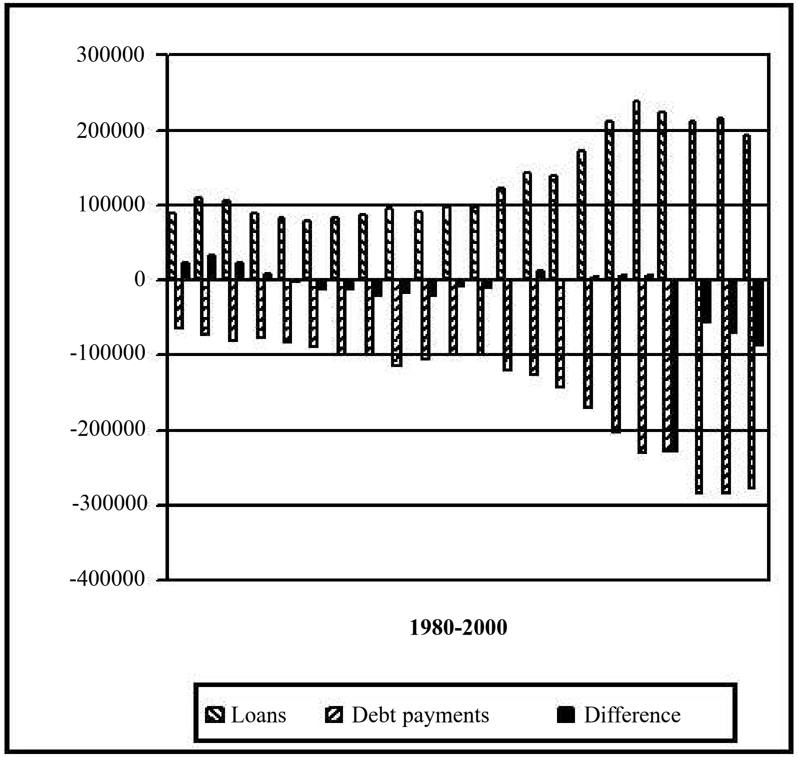
and interest (see Table 1). Relatively speaking, the differences are not large, but they support the conclusion that the developing countries are not net receivers of loans. In fact, they themselves have financed the loans they received. This conclusion essentially holds even for those countries, which are neither major oil exporters nor large industrial exporters, a group which shows a small positive balance.

Table 1: Loans received and debt payments 1980 - 2001 (US $ millions)

	All developing countries	Major oil-exporting developing countries	Other developing countries		
			All other countries	Major industrial exporters	Other counties
Loans	2.980.600	440.277	2.540.323	1.673.374	866.950
Debt payments	3.192.508	573.729	2.618.778	1.810.885	807.894
Difference	-211.907	-133.452	-78.455	-137.511	59.056

Figure 2 shows that loans received and debt payments have maintained equilibrium during a large part of this time period. After the millennium change, however, a negative balance becomes notable.

Figure 2: Loans received and debt payments - all developing countries (US $ millions)



It should be noted, therefore, that this way of financing foreign loans has been unable to prevent the (long term) debt of all developing countries from growing during this period - from US $ 325 billion in 1980 to US $ 1,028 billion in 2002 (UNCTAD 2004, Table 6.6).

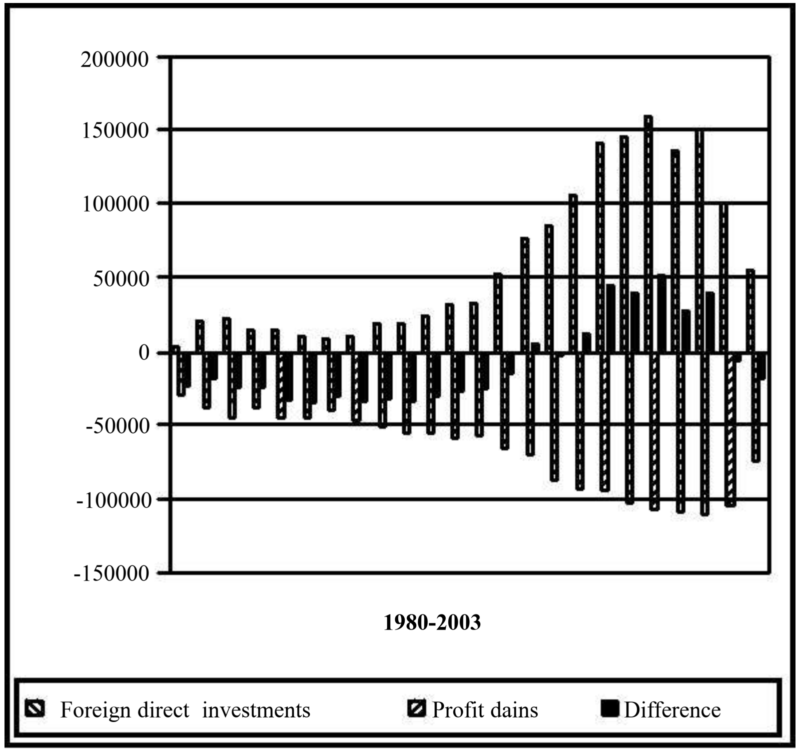
The second category of financial flow concerns foreign direct investments in developing countries in relation to profits draining from those same countries. I have also made calculations about this based on payment balances data (UNCTAD, 2004, Tables 6.1A and 6.1B) - see Table 2.

Table 2: Foreign direct investments and profit drains 1980 - 2003 (US $ millions)

	All developing countries	Major oil-exporting developing countries	Other developing countries		
			All other countries	Major industrial exporters	Other counties
Foreign direct investments	1.450.981	107.951	1.343.029	993.602	349.427
Profit drains	-1.632.156	-37.916	-1.594.240	-994.178	-600.062
Difference	-181.175	70.036	-251.211	-26.403	-250.635

The table shows that developing countries, except the major oil exporters, saw more profit drain away than direct investments come in. During this time (see Figure 3), the size of these investments increased considerably in the nineties, which caused a positive result for a number of years. As of the new millennium, however, it seems to have been moving in the opposite direction again.

Figure 3: Received foreign direct investments and profit drains - all developing countries (US $ millions)

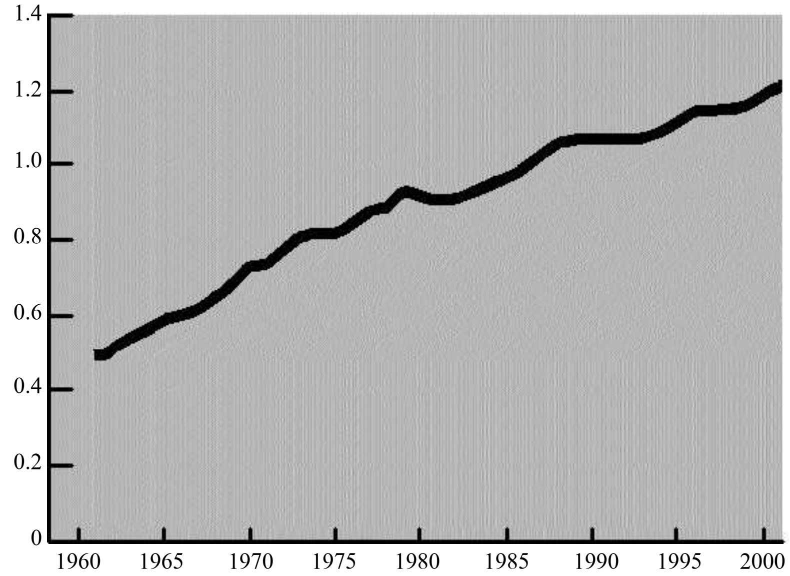


Ecological footprints

When looking at loans and private investments it is clear that a net transfer of financial means from out of the developing countries has occurred. But transfers can happen in different ways. For example, data from the World Wildlife Fund about the burdens on the natural capacity of the earth can be seen as indications of a different kind of reverse development aid. These data (WWF, 2004, p.10) show that, looking at the average ecological footprint per person per year, the world is at present using over 20% more on a yearly basis

than should be allowed according to estimates based on sustainability. And that footprint is becoming more pronounced every year (WWF, 2004, p.1) - see Figure 4.

Figure 4: Humanity's ecological footprint 1961-2001 (number of planets)



It is mainly the rich countries that are responsible for the worldwide overburdening. The average footprint in 2001 in the high-income countries was 6.4 ha/person, that of the middle-income countries 1.9 ha/person (about the level that would be acceptable based on sustainability), and that of the low-income countries 0.8 ha/person (WWF, 2004, p.24). An enormous economic debt is building, from the North to the entire world and certainly to the developing countries. It might be interesting to attempt a financial evaluation of this form of reverse development aid.

Deterioration of the terms of trade

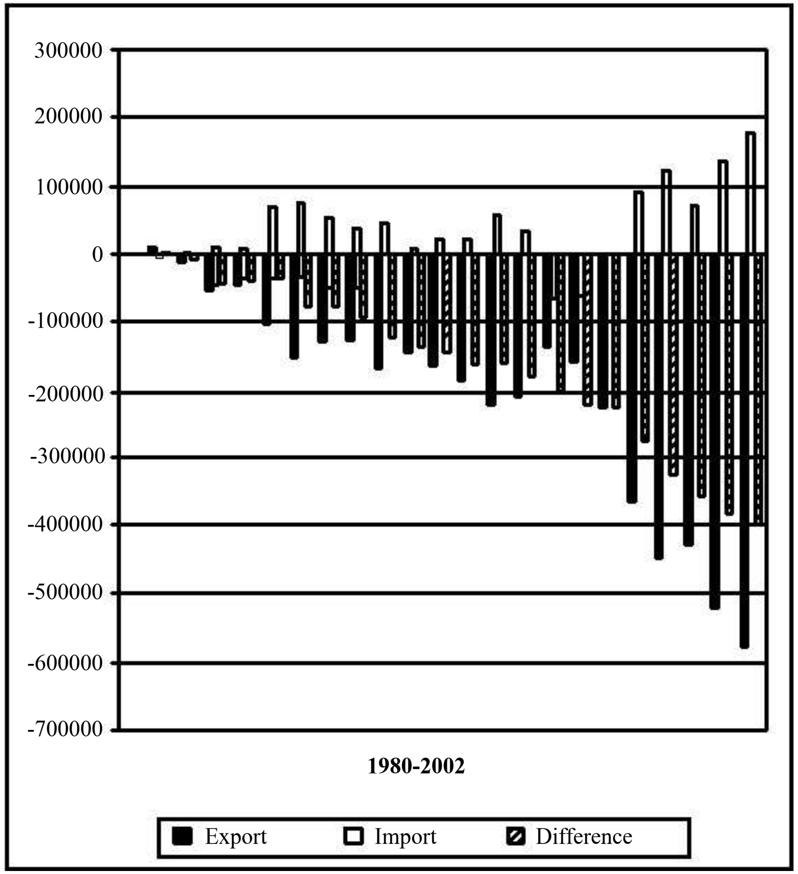
There is another transfer that is not easy to assess financially either, but which in terms of size is even more important than that referred to in the category of loans and private investments. This has to do with the development of the terms of trade. The terms of trade are used to indicate the relationship of the average prices of exported goods to those of imported goods. For developing countries in general, this has been deteriorating since 1980. As a result, developing countries must supply more and more energy in their exports, in the form of human and natural values, in order to be able to 'pay' the proportionately higher costs of their imports. The old example of a coffee exporting nation having to export an ever-greater number of bags of coffee to be able to import one jeep has lost none of its relevance. I have attempted to express these losses in monetary terms. Again using UNCTAD data (UNCTAD, 2004, Table 6.5), I have calculated what the monetary value of exports and imports would have been if the average prices had remained constant, and then compared these new values with the actual monetary value of exports and imports in order to then be able to ascertain the relative gains and losses (see table 3).

Table 3: Terms of trade gains and losses 1980 - 2002 (US $ millions)

	All developing countries	Major oil-exporting developing countries	Other developing countries		
			All other countries	Major industrial exporters	Other counties
Exports	-4.568.976	-1.873.463	-4.099.870	-2.838.512	-886.368
Imports	912.028	-842.656	1.660.633	1.995.431	48.367
Difference	-3.656.948	-2.716.119	-2.439.237	-843.081	-838.001

These losses are enormous, and in all categories considered (major oil exporters, industrial exporters and others). By comparison, during the same period from 1980 - 2002 the developing countries received a total of US $ 1.321 billion in official financial flows, including the loans financed by those countries themselves. The terms of trade loss during the entire period from 1980 - 2002 is that in triplicate. Obviously the size of these losses is not related just to prices, but also to the size of participation in international trade. Terms of trade losses are hardly seen as problematic these days. This might be because they are in contradiction of the assumed effectiveness of participation in world trade. Additionally, if we examine the terms of trade deterioration on an annual basis, we see a steady increase in that loss (see Figure 5). This can be partly explained through the increased amount of international trade by the developing countries.

Figure 5: Terms of trade gains and losses - all developing countries (US $ millions)



Liberalization and economic growth

It could be argued that these forms of reverse development aid are lamentable, but do not say anything about the actual contribution that financial transfers and liberalization of trade have made to the economic development of the developing countries. For example, one might argue that foreign private investments and international trade, their characterization in terms of profit drains and unequal trade notwithstanding, have actually increased productivity. There is, in fact, recent research covering precisely this topic, from which an image emerges different to that which the conventional wisdom would lead us to expect. Halit Yanikkaya, for example, has tried to find an answer to the question, 'Do open economies grow faster than closed economies?' Yanikkaya published an article on this in 2003 with the results of his research into the relationship between economic growth and trade restrictions or trade liberalization. He concluded thus:

> 'Surprisingly, unlike the literature on the growth effects of trade intensity ratios, findings of empirical studies of trade restrictions are considerably different from predictions of theoretical studies. Even though the theoretical growth studies provided no conclusive evidence about the direction of growth effects of trade barriers, especially for developing countries, a great majority of the empirical studies concluded that there exists a significant and negative relationship between trade restrictions and growth. Whereas, our results are much closer to the predictions of theoretical studies and evidently contradict the findings of earlier empirical studies. We believe that our results cast substantial doubts on the conventional view that suggests a robust and negative relationship between trade barriers and growth. In other words, all measures of trade barriers used in the study are significantly and positively correlated with growth. Thus, our results actually provide considerable evidence for the hypothesis that restrictions on trade can promote growth, especially of developing countries under certain conditions.' (Yanikkaya, p.85)

Egor Kraev (2005) very recently published his research entitled 'Estimating GDP effects of trade liberalisation for developing countries'. Kraev researched the effects of that liberalization for the period 1975 - 2001 on both the balance of payments and the gross domestic product (GDP) of the countries involved. Kraev used data from the World Bank and the IMF, limiting himself to the low-income countries on which sufficient data are available, and calculating according to the starting year in which trade liberalization was implemented in each country. In total, this research covers 32 countries, most of which are situated in Africa, although large countries like Bangladesh, India, Indonesia and Pakistan are also included. Kraev specifically addresses the consequences of the disappearance of demand that might occur as a result

of liberalization:

> 'Trade liberalization in poor countries led to an increase in exports, and to an even higher increase in propensity to import. This led to a worsening of the trade balance, and at the same time a decrease in net demand for domestically produced goods and services, which likely caused a decrease of domestic income (GDP).' (Kraev, p.2)

Kraev shows that these losses of demand have serious consequences. Quantifying this, he comes to the conclusion that for all 32 countries combined, the total loss of GDP during that period, measured in US dollars at year 2000 rates, was almost 900 billion. As Table 4 (from Kraev, 2005, p.14) shows, the losses for these 32 countries measured in terms of GDP percentages were also enormous.

Table 4: GDP impact as percentage of the respective country's GDP (selected countries)

	1975 - 1979	1980 - 1984	1985 - 1989	1990 - 1994	1995 - 1999	2000 - 2001	Average
East Asia and Pacific			4.40%	10.90%	11.00%	20.90%	11.80%
Latin America and Caribbean			14.00%	18.80%	25.50%	29.40%	21.80%
Middle East and North Africa				22.50%	21.20%	16.10%	20.70%
South Asia			4.60%	6.70%	10.60%	15.60%	10.20%
Sub-Saharan Africa	7.60%	12.70%	11.30%	8.40%	10.80%	16.70%	11.20%

We can conclude the following: the assumption that the liberalization of trade is a stimulant for economic growth in developing countries is extremely debatable. In fact, there are many indications that justify the contrary conclusion that this liberalization hampers further development. This is a conclusion also drawn by the British aid organization, Christian Aid. Based on Kraev's research they conclude the following about sub-Saharan Africa:

'Trade liberalization has cost sub-Saharan Africa US $ 272 billion over the past 20 years. Had they not been forced to liberalize as the price of aid, loans and debt relief, sub-Saharan African countries would have had enough extra income to wipe out their debts and have sufficient left over to pay for every child to be vaccinated and go to school. Two decades of liberalization has cost sub-Saharan Africa roughly what it has received in aid. Effectively, this aid did no more than compensate African countries for the losses they sustained by meeting the conditions that were attached to the aid they received.' (Christian Aid, 2005, p.2)

Development cooperation and self-sustainable development

The worldwide domination by the neo-liberal development model also has worldwide consequences. It has manifested not only in phenomena like poverty, inequality and deterioration of the environment, but has also had far-reaching structural repercussions. Human and natural resources are withdrawn on a large scale from the means of existence for people in developing countries. This is only very partially compensated for by financial flows from the North to the South, financial flows that strengthen the aforementioned process of withdrawal. Through this alone, the developing countries are already severely limited in their possibilities for the future.

The productive potential (human and natural resources) in developing countries is thereby progressively aimed at production primarily for export, not at increasing the standard of living in those countries. In an institutional sense, the economy is increasingly dominated by private business, with the maximization of profit as its main aim. Through the tendency of capital to concentrate, the door is opened to an increase in power of the large international private actors. Therefore, the power of local public authorities to implement policies primarily aimed at an all-inclusive general welfare is limited. This does not exclude an increase in prosperity. Nevertheless, a lot of research shows that an increase of the average level of prosperity, insofar as this can be ascertained, is coupled with increased inequality and the marginalization of a large part of the population.

It must be concluded that the possibilities for self-development of the poorer parts of the population are limited. Their participation in the growing activity in the sectors led by corporate business will be limited in the long

term, because they are also subject to intensifying international competition. We have already seen this occur in many sectors of economic activity in developing countries. There is a continual movement of economic activity from one country to another. For example, the clothing industry in Bangladesh and India suffers from competition with China. Important parts of the assembly companies stationed in free trade zones in Mexico and Central America are being transferred to other countries without being replaced with new economic activity. The large increase in world production of coffee has led (until recently) to strongly decreased coffee prices causing serious problems for many coffee farmers and their families in, for example, Central America. In other words, the sectors aimed at world trade offer limited prospects for the large masses of urban and rural poor. Added to that is the fact that activities which could expand because they are producing for worldwide growing markets (like soy and tourism) can hamper the opportunities for other activities. There are ever more reports about how the fast expansion of the cultivation of (modified!) soy in countries like Brazil and Argentina is pushing out small farmers, with severe social and ecological consequences. There are also examples of tourism at the cost of local farming and fishing, as well as the local nature and environment (Keune and Vugts, 2002).

This is also true for the sectors aimed at domestic sales. Their production and trade has also become dominated by large companies, which are motivated by profits, and have important competitive advantages such as economies of scale and access to the most modern technologies. Of course this also means that in these markets there are less prospects for small farmers, craftspeople, transporters and traders.

In short, the opportunities for small producers and low-income groups to attain bottom-up development, including development of the most adequate technologies, are decreasing. For them, the most attainable prospects might well be survival strategies. Such strategies could consist of concentrating even more on the production of goods and services for themselves and, through barter, for others in similarly marginalized situations. These are, by definition, prospects not primarily concerned with development but with just surviving as well as possible. And in this context, the development and implementation of special technologies can be of great importance. For example, the technical possibilities to produce building materials with very limited resources and using them for shelter. In other words, survival can also be improved. Even for these survival strategies, however, the prospects are not bright. Take the example of the large-scale cultivation of soy: through various mechanisms (such as buying the land) small, self-sufficient farmers are encouraged to leave their land and live elsewhere.

New parameters for development cooperation

The above considerations might lead to the conclusion that nothing can be done other than giving up. Nothing could be further from the truth. In principle there are realistic opportunities for all kinds of development, including the use of technologies that are adequate for the specific situations people are in. However, these possibilities can only manifest when certain conditions are met. The most important, and certainly the most urgent, is that the pressure on developing countries and their residents to completely throw open their economies must stop. The right to their own development must be acknowledged, and thereby also the right to choose the most adequate development strategy. This demands a profound change in the policy of supra-national institutions like the World Bank, the IMF, the WTO and the EU, as well as the economically powerful countries. Developing countries and regions should have the right to implement measures that offer a certain amount of protection for local and regional development without the threat of international competition.

A second condition is that the various forms of reverse development aid must come to an end. Self-sustained development is impossible when developing countries continue to lose important resources. Stopping this will, of course, have far-reaching consequences for the societies in the North. Debts must now de facto be called off. Products from developing countries must finally receive a fair price. The over-burdening of nature and the environment must end, even if that means that material production and consumption in the rich countries has to be limited. And there will have to be a system of reparation payments with its most important aims being to guarantee the survival of the large masses of the poor and marginalized and to repair the eco-systems of developing countries.

References

Chang, Ha-Joon (2004), 'What is wrong with the 'Official History of Capitalism'? With special reference to the debates on globalisation and economic development', in Fullbrook, Edward (ed.), *A Guide to What's Wrong with Economics,* London: Anthem Press
Christian Aid (2005), *The Economics of Failure: The Real Cost of 'Free' Trade,* London: Christian Aid

Cornia, G. and Jolly, R. and Stewart, F. (1987), *Adjustment with a Human Face,* Oxford: Clarendon Press
George, Susan (1994), *Faith and Credit: the World Bank's Secular Empire,* London: Penguin
Keune, Lou, and Vugts, Jan (2002), 'The economic significance of tourism in Latin America', in Dahles, Heidi and Keune, Lou (eds.), *Tourism Development and Local Participation in Latin America,* New York: Cognizant
Kraev, Egor (2005), *Estimating GDP Effects of Trade Liberalisation for Developing Countries,* London: Christian Aid
UNCTAD (2004), *Handbook of Statistics 2004,* Geneva: UNCTAD
UNDP (1992), *Human Development Report 1992,* New York: UNDP
UNDP (2005), *Human Development Report 2005,* New York: UNDP
WWF (2004), *Living Planet Report 2004,* Geneva: World Wildlife Fund
Yanikkaya, Halit (2003), Trade openness and economic growth, in *Journal of Development Economics,* Volume 72, October 2003, pages 57-89