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FROM LA MADDALENA TO L'AQUILA

G8

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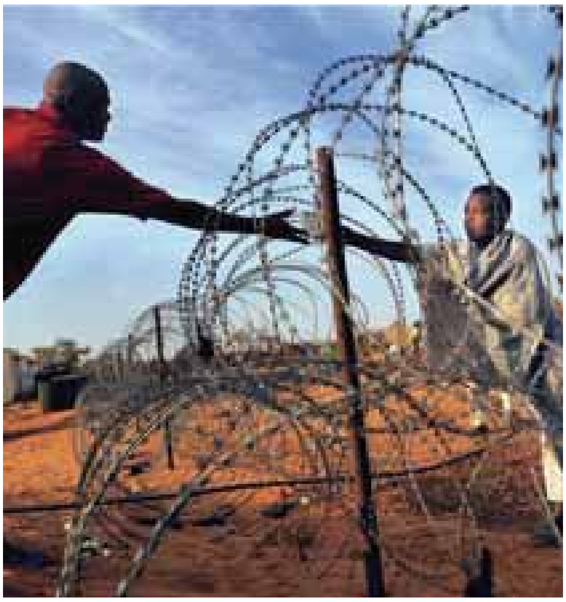

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Restructuring development

Developing countries are hardest hit by the global economic downturn. Policy measures must be taken to shore up their trade-related infrastructure

By Diéry Seck, director, Centre for Research on Political Economy

In an attempt to mitigate the fallout, developed countries are spending considerable energy trying to understand the causes of the unprecedented global economic crisis and financial meltdown that grip the world. It is widely recognised that the developing world is also affected, but the extent and nature of the challenge that it faces are less scrutinised and are the object of fewer specific recommendations regarding remedial policies. With respect to trade and investment, developing countries must tackle pressing issues that are heightened by recent events. As a result of the global credit crunch, they find it harder to secure external financing for their imports, with adverse consequences for their economies, while fragile states struggle to procure basic necessities for their populations. Least developed countries (LDCs) that rely disproportionately on commodity exports face declining demand. They cannot increase – at least in the short run – the level of aid that they receive in the form of grants or concessionional loans, or borrow externally on commercial terms. In recent years, aid flows have proved insufficient in volume and inadequate in composition to represent a meaningful tool for development or a proper substitute for trade finance.

> Aid flows have proved insufficient in volume to represent a meaningful tool for development

Consequently, developing countries need to find suitable answers to the following two policy questions. First, through what channels does the current crisis affect their trade-related development prospects and what are the appropriate remedies? Second, how can the volatility in the availability of trade finance be reduced so that economic growth can proceed smoothly and exposure to contagion regarding global economic and financial downturns can be lessened? One of the overriding priorities of developing countries is sustained social development in line with the Millennium Development Goals, a process predicated on fast and consistent economic growth. The empirical evidence of the last 30 years shows that the fastest patterns of economic growth have been led by exports, underlining the importance of significant investment in export-supporting infrastructure. Therefore, in the current context, more attention should focus on identifying adequate policies for trade-related infrastructure investment.

Policy formulation that seeks to address the adverse impact of current and future crises on export-induced

economic growth should take three considerations into account. First, developing countries need to integrate further into the global economy in order to reduce their increasing marginalisation and to avail themselves of the world's massive trade and investment opportunities. Yesterday's Asian tigers and today's India and China have shown the way. Many other countries can follow suit. Second, efforts should be made to reduce the distortions introduced in developing countries' economies by heavy reliance on mispriced foreign loans obtained from concessionary windows. These distortions tend to induce non-optimising use of capital and chronic over-borrowing, which lead to crippling debt service burdens. Finally, in their attempt to catch up with the rest of the world, LDCs face the conundrum of choosing between advanced infrastructural technology, for which they are not endowed with the required human capital, or being content with investments that are labour intensive for the sake of job creation, but may not be competitive in an export-oriented strategy.

The policy reform proposed below is based on the dual assumptions that official development assistance will not significantly increase in the coming years and that built-up infrastructure can unleash the export potential of developing countries. Furthermore, larger export volumes secure a higher capacity to finance imports, rather than external debt service, and provide some hedge against variations in the availability of external trade finance. Developing countries could attain considerably higher levels of export-supporting infrastructure through public-private partnerships at the global level. For the purpose of development, it is more vital to provide adequate infrastructure to economic agents than for governments to claim ownership of it. Therefore, developing countries should identify projects and globally attract profit-seeking concerns that would build and operate to make money.

Larger export volumes secure a higher capacity to finance imports

If its domestic resources are not sufficient, a country could – at its convenience and with the help of an investment bank or an international financial institution, or perhaps both – convene a forum of global firms and the donor community to present its portfolio of planned infrastructure investment projects. The country's public and private sectors would expose the nature and extent of their intended involvement in each project and match it with the stated interest of foreign firms and the pledges of donors for the programme as a whole or on a menu basis. The meeting would commit all actors to a level playing field for all projects and help enforce compliance with standards and norms of human rights, the environment and international trading rules.

Operationally, the process could be inspired by Paris Club meetings, but the global private sector would take the lead and precedence over donors. The forum could be dubbed the Infrastructure Public Private Partnership Paris Meetings or I4P Meetings. I4P Meetings would be ideal for regional initiatives with considerable economies of scale or scope, such as the New Partnership for Africa's Development (NEPAD), because they would easily accommodate projects of a transnational magnitude and help deal with the complex issue of the harmonisation of national legislation or policies. The developed world would also benefit from the proposed initiative because utilisation of its existing productive capacity would be enhanced – especially in times of economic crisis – and a more integrated developing world would contribute more meaningfully to global welfare.

Relevant projects include airports, harbours, railway systems or networks of toll roads serving main export crop areas. The provision that end-users pay prices subsidised below market rates could be accommodated if government or a foreign donor settles directly with the operator the shortfall of revenues caused by the subsidy. The scheme differs from a classic Build, Operate and Transfer arrangement because, even in the presence of government contributions, it is not a sovereign investment and the operator owns it in perpetuity, unless contractually stated otherwise. In this manner, infrastructure becomes a public good in private hands and need not compete with other developmental or social priorities for government funding. Then, trade and growth can proceed unimpeded. ◆