Economic Development in the UN
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One of the most paradoxical aspects of the current economic environment is that after numerous UN development decades, global summits and conferences, little advance has been made in increasing the economic well-being of the majority of the world's population living in developing countries. Even more paradoxical is the virtual disappearance of development policy. Much of this can be traced to the success of the Washington Consensus in dominating economic development policy in the 1980s. In place of development strategies tailored to individual country circumstances it substituted a generalized framework for development based on the full integration of developing countries into the global trading system. Free trade and capital flows, deregulated goods and financial markets, operated by the private sector in a macroeconomic environment of price stability and balanced government budgets became the common objectives that were to ensure convergence of per capita incomes of developing countries to the levels achieved by their more advanced trading partners. Free competition to sell goods and freedom to invest capital in the global market to earn the highest rates of return would create mutual benefits for all who engaged in the new system of global integration. Development policies came to be seen as impediments to the level playing field that was required to ensure the creation of these benefits.

The proximate cause of the support for this view was the 1980's debt crisis and the Reagan-Thatcher shift in economic policy. However, both were produced by the 1970s petroleum crisis that created the recycling of petrodollars via Eurocurrency markets as lending to developing countries and the inflation that brought the introduction of monetarist policies to combat it. These events were considered as inconfutable scientific evidence of both the failure of active policies to support growth in developing countries and policies to support full employment in developed countries. And even more paradoxically they occurred just after the

1974 UN General Assembly decision to launch a “new international economic order” in which more favourable prices of primary commodities would replace direct foreign aid as providers of development finance.

However, the concerns of developing countries have never played a central role in the post-war economic order, even in the period before the petroleum crisis. The basic motivation of the Bretton Woods System was to secure peace and monetary stability in war-ravaged Europe and its major objective was reconstruction of European economies, not development policy. Indeed, most developing countries in Africa and Asia were still formally or informally linked to colonial masters and had been spared direct involvement, while most Latin American countries, which had achieved independence in the previous century, remained politically neutral and were outside the theatre of war. The two of the three proposed pillars of that System, the International Monetary Fund and the International Bank for Reconstruction and Development, were formed in negotiations dominated by a small group of experts representing the victorious allied powers before the end of the war. The Bretton Woods System preceded the formation of the United Nations itself, and was in fact a North Atlantic regional association reflecting the interests of the US, the UK, Canada and France. It should thus not be surprising that the Bretton Woods institutions do not provide full democratic representation, in particular to developing countries in the South.

Half a century later, it is easy to forget the distortion that were introduced into the world economy by the Second war. Aside from its political position, Latin America became the provider of raw materials for the war machines of the European powers. Cut off from European producers of capital and consumer goods, domestic production became the only real alternative. Thus, Latin America had a natural de facto industrial import substitution policy with a primary commodity driven export basket. In any event, the interwar period had seen the collapse of free trade and the gold standard as a doctrine in Europe.

In addition to discussions of European recovery, the post war discussions were dominated by the needs to restore currency stability and free trade as the pillars of recovery. If it had not yet achieved the position of dominant world producer before, the US certainly emerged from the war with virtual dominance in industrial productive capacity and wealth. Since free trade is always in the interest of the dominant producer, the US as the only industrial power with its productive capacity still intact and fearing a domestic recession, sought a rapid return to free trade. Free trade was also a major political objective of the US government since the war was considered to have been the result of conflict between the British, Japanese and German trading blocs; in the words of Cordell Hull, the US secretary of state, “If goods cannot cross borders, soldiers will”.

Since the restoration of free trade required that importers of US goods had to be able to convert their currencies into dollars to pay US exporters it required the convertibility of currencies for the payment of current account deficits. Current account convertibility thus became the basic objective of the IMF, while the IBRD was to look after European Reconstruction. Given the concentration of both the means to pay and productive capacity in the US, this required the transfer of means to pay to the Europeans which occurred through the US Marshall Plan. Its operative arms, the OEEC, intervened directly in the planning of European recovery, and the European Payments Union, in currency stability. It is important to note that both of these institutions contravened the full application of the principles of free trade and free markets; they effective allowed the European countries to rebuild their economies by discriminating against US producers by constraining imports to the available Marshall Plan resources and available foreign exchange reserves. Given this need to accumulate dollars, it is not surprising that Europe recovery was based on building up export capacity at the expense of US producers. The creation of the EEC was just a natural extension of this policy. It is interesting to note the difference between the approach of Hull and Marshall; the cold war producing a reversal of US foreign policy and acceptance that European recovery and a buffer against Soviet expansion were incompatible with the instant introduction of free trade.

At this point it is important to note the existence of two dogs that didn't bark: capital flows, which were thought best to be kept under control lest they challenge convertibility and trade, and concern for development as a policy objective. It is interesting that free capital flows appear as an objective just as economic development disappears as a declared policy objective in the aftermath of the 1982 debt crisis.

Economic development as an objective of the UN first appears in the Economic and Social Council's call for a Conference on Trade and Employment which was to provide the Charter for the third pillar of the Bretton Woods System, the International Trade Organisation. One of the first acts of the Economic and Social Council had been the creation of an Economic and Employment Commission (with subcommissions on Employment and Economic Stability and Economic Development) to promote full employment on an international scale through UN coordination of economic policies.[1] As is well known, Keynes's initial concerns that asymmetric

[1] The Report of the first meeting of the Preparatory Committee for the United Nations Conference on Trade and Employment in Part II, Chapter I, Section G, paragraph 1 notes that "In present circumstances the direct action necessary to maintain full and productive employment and a high and stable level of effective demand must, in the main, be the sum of individual national efforts. Nevertheless there are certain ways in which the appropriate intergovernmental organizations might, acting within their respective spheres and consistently with the terms of their basic instruments, make some direct contribution to the maintenance of employment and the stability of world demand.

2. It is considered that the Economic and Social Council, in consultation with the appropriate inter-governmental organizations, might usefully study the possibilities in this field. In addition to a consideration of the impact on employment and production of a lowering of barriers to trade, such studies might well cover such measures as the synchronization of credit policies so as to ease terms of borrowing over a wide area in times of general deflationary pressure, arrangements to promote stability in the incomes, and so in the buying power, of

adjustment to balance of payments disequilibrium would cause a tendency to global deficiency of effective demand had not been adopted in the Articles of Agreement of the International Monetary fund except in the much weakened "scarce currency clause". With Michal Kalecki on the UN staff in New York and with the help of Cambridge based advisors, these concerns were kept alive in the Employment committee and were transmitted to the Resolution for the Conference that was to oversee the creation of the ITO. Thus, the ITO was to incorporate those parts of the Keynes's plan that had been left out in the Bretton Woods agreements and the call for free trade as an agent of development was to be based on the pre requisite of full global employment levels.[2]

However, these concerns were primarily those of the developed countries, and in particular were an expression of bi-lateral discussions between the US and the UK, as was

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producers of primary products, the timing of expenditure on international capital projects and the encouragement of a flow of capital in periods of world deflationary pressure to those countries whose balance of payments needs temporary support in order to enable them to maintain their domestic policies for full and productive employment.

[2] The *Report of the first session of the Preparatory Committee of the United Nations Conference on Trade and Employment* dealt in Section E with "The removal of maladjustments in the balance of payments":

1. The Preparatory Committee considers that a country, even though it is maintaining full employment at home, developing its economic resources and raising its standard of productivity and maintaining fair labor standards, may, nevertheless, exercise a deflationary pressure upon other countries. This will be so if it is persistently buying from abroad and investing abroad too little in relation to its exports. Indeed its export surplus may be the means where by it is maintaining its own domestic employment.

2. It was not suggested that countries, which are experiencing difficulties through unfavorable balances of payments, may not themselves be partly responsible for the maladjustments. F of or example, countries with adverse balances of payments, whose difficulties are being intensified by flight of capital from their currencies, might properly be called upon to put a stop to such capital export. But in so far as the pressure on their balances of payments is due to the failure of countries with excessively favorable balances of payments to spend their external purchasing power on imports or to utilize it for productive investment abroad, the main responsibility for the necessary re-adjustment should not fall on the countries which are under pressure.

3. In the Preparatory Committee there was wide support for the view that where fundamental disequilibrium in a country's balance of payments involved other countries in persistent balance of payments difficulties, which affected adversely the maintenance of employment in those countries, the country concern should make full contribution the action designed to correct the maladjustment. The particular measures that should be adopted e.g., the stimulation of imports or the removal of special encouragements to exports, an appreciation of the country's exchange rate, an upward revision of its internal price and cost structure, an increase in foreign investment, etc.) should, of course, be left to the government concern to determine.

pointed out in an insightful commentary on the draft charter for the ITO, supplied by the US delegation and adopted as the point of departure for the Conference discussions. The Indian government note points out that the document was based on

> “Informal discussions (better known as the Article VII discussions) between the two Governments ... initiated in 1943 for the purpose of "determining, in the light of governing economic conditions the best means of attaining the above-stated objectives by their own agreed action and by seeking the agreed action of other like minded Governments." It is not necessary to give a detailed account of the discussions which lasted until the winter of 1945; for a full understanding of the proposals, however, some reference should be made to the economic objectives of the two governments and to the points of identity and a difference of outlook between the experts which were brought out in the course of the discussions.

The main points are -

> (i) The problem which faces the U.K. and the U.S.A. is not primarily one of expansion or development but of preservation of the levels of production and employment which have already been attained. As leading industrial powers, the prosperity of both depends on the ready supply of cheap raw materials and on expanding markets for manufactured goods. Exports on an ever-increasing scale, rather than internal development, is the primary objective of both. The insistence on world-wide reduction of tariffs and the removal of trade barriers and on "equal access to the markets and raw materials of the world" which is characterized

every statement of policy made by either government, whether during or after the war., is thus easily explained.

(ii) Throughout the discussions, the emphasis was mainly on the removal of trade restrictions, and little concern were shown for the problems facing an undeveloped country which might find it necessary to apply such restrictions or regulatory devices for the development of its resources. Under pressure exerted by countries of the British Empire, the U.K. made a half hearted attempt to assert the right of undeveloped countries to apply tariffs "for a limited period under adequate safeguards for the protection of infant industries." The USA, however forgetful of its own history, was not prepared to concede even this limited "right".

(iii) With regard to quotas, it was agreed by both countries that their use for protective purposes should be prohibited, but a country faced with balance of payments difficulties should be allowed to apply such restrictions. The object was clearly to help the U.K. in fighting over her special difficulties, while denying the use of this effective instrument for the regulation of trade to other countries which are faced with a different set of problems.

(iv) As a wealthy industrial power, the U.S.A. is in a position to aid its industries by means of cash subsidies. In the course of the discussions, therefore, the U.S. representatives showed unwillingness to agree to complete prohibition of export subsidies and supported the use of general production subsidies as a legitimate method of protection of "infant industries". In this matter also, no consideration was shown for the interests and requirements of undeveloped countries whose financial resources are limited. The U.K. pursued a middle course, opposing the use of export subsidies which are calculated to injure British trade, while agreeing with the U.S. view that protection the infant industry should ordinarily be given by means of production subsidies......

(vi) The agreement finally reached between the experts of the two countries is embodied in the proposals. The analysis shows that the experts were concerned almost exclusively with the problems of their respective countries and the scheme which has emerged from their talks represents a compromise between interest and policies of the U.K. and the U.S.A.

However, there were considerations of the contribution that development could play in furthering world trade, although these were primarily in the nature of increasing the level and reducing the volatility of global effective demand. The discussions did, however, allow for protective measures to be taken in the name of development: In Chapter 2 of the Preparatory Committee Report, entitled “Industrial Development” Section A, paragraph 2 states that “It is thought that one of the chief gains from development is found in the resulting greater diversification within and between the primary, manufacturing and service industries. Such diversification can contribute to increased stability in the economy of a country and confer upon it great social and cultural benefits. The development of manufacturing industries will be of particular importance as it is through such development that the greatest measure of diversification of production and employment opportunities can be achieved.”

In Section B, paragraph 1, “ Adaptation of Economies” it notes that “As the less developed countries progressively undertake the production of a wider range of commodities for their domestic markets, it is likely that the more highly developed economies, which formerly supplied the markets of the less developed countries, will be faced with problems of adapting their economies to the changed circumstances.”

Direct development issues come up in Section C: Conditions of Industrial Development: “In any country the conditions of the industrial development of economic resources include capital, capital goods and materials markets, an adequate technology, managerial skill and technicians and trained artisans in sufficient numbers. When any of these conditions are unsuitable, international and domestic action may be taken to modify the situation. This international action may be such as to facilitate the supply of capital, capital goods and materials, to provide skilled management, trained technicians and artisans and to improve technology. Individual countries may take action to plan and carry out development projects, to raise standards of industrial management, and to provide for the training of their own nationals as technicians and artisans, and subject international obligations, they mean by the use of protective measures that provide a reasonable share of the home markets to the commodities being produced in their own territories.” The role of resources and capital is considered in Section D: Provision of Capital in paragraph 2. ... In view of the importance of industrial development to expansion of world trade, it is felt that all members of the International Trade Organization should recognize that they have a responsibility to cooperate within the limits of their power to do so with the appropriate international organizations in ensuring that there is a regular flow of capital to those countries in particular which have limited capital resources. ... 3. A country embarking on a program of development involving substantial imports of capital goods may be faced with the possibility of balance of payments difficulties. It is considered that if at any time a country anticipates that such difficulties are imminent, it should be permitted to impose qualitative regulation of its imports so that the appropriate balance may be kept between its imports of capital and consumer goods.

Finally, developed countries are given some responsibility for ensuring that developing countries can achieve their plans in Section G Mutual Responsibilities: “In the carrying out of programs of industrial and general economic development, therefore, there will be an interdependence between the less developed and the more highly developed countries. In relation to the international supply of facilities for economic development including capital funds, capital goods and materials, equipment, advanced technology and trained personnel, the preparatory committee is of the opinion that all countries should recognize that they have mutual responsibilities. It has already been noted that countries in a position to supply these facilities should impose no unreasonable impediments that would prevent other countries from obtaining access to such facilities. It is equally important, however, that country's receiving such facilities should treat the supplying countries including their business enterprises and citizens, in conformity with the provisions of any other relevant international obligations and, in general, but they should take no one reasonable action injury as to the interests of the supplying country.” and in Section H

1. “As a general rule newly established industries depend, initially at least, upon domestic markets for the sale of their products. The Preparatory Committee was of the opinion, therefore, that where necessary members desiring to promote industrial development should have or should be afforded reasonable freedom to employ protective measures so that an adequate portion of their local markets maybe assured to the commodities concerned. However, since an unwise use of protective measures by any country for the purpose of promoting industrial development places an undue burden on the economy of that country and imposes unwarranted restrictions on

international trade, it is desirable that countries promoting development should not make a moderate use of such protective measures."

These measures do not, however, take into account the fact that the economic evolution of most developing countries has been dominated by primary resource dependence. This is the result of a number of factors. The relative lack of natural resources in the major centres of industrial development, whose location was determined more by communication and power sources, led to the colonization of the primary resource producing areas and active policies to prevent their potential as eventual industrial competitors. The move from colonization to democratization left these countries with an inherent primary resource dependence that was independent of comparative advantages or resource endowments. It was historical path dependence and developed country industrial strategy, not relative prices. The doctrine of free trade also represented a major impediment for as List pointed out, it was a policy that was advocated by the dominant producer only after it had achieved this position through an active industrial development policy. But, such free trade policies also appealed to the elites of the newly democratized developing countries whose position and wealth was based on these countries dominant position as primary commodity exporters.

As a response to the needs of these countries to break out of this vicious circle of primary commodity dependence, the ITO called for generous regional preferences to build regional markets of sufficient size to support industrial production units of sufficient size to reap scale economies and compete with developed country imports. This would have been a reversal of policy practiced by the US since the depression, based on reciprocal bi-lateral trade treaties with Latin American countries for mutual concessions and equality of treatment, which virtually precluded domestic industrial production or regional agreements (cf. the 1930 InterAmerican Conference in Montevideo).

Given the negative impact of the disruption of world trade some form of trade organization had been envisaged to accompany the IMF and IBRD. Within the British proposals, based on Keynes's ideas, the idea was to support global demand by reducing trade fluctuations. Keynes had gone further and suggested a commodity stabilization fund, and there were also proposals for commodity based currencies that had similar objectives. However, once the IMF and IBRD had adopted the return to free trade, the institution could have little else as an objective save a code of multilateral principles for commercial policies which would be applied equally to countries of different levels of development came into fatal conflict with the desires of developing countries to introduce an active development objective in which the developed countries contributed to the process of development. Although relatively few of developing countries' proposals were included in the final Charter, both the US and the UK failed to approve it with the result that the Bretton Woods System became a two-legged stool and development remained outside the official purview of the UN.

The eventual substitute, the GATT, precluded any form of regional association other than full customs unions. This was a provisions that was eventually utilized by the European countries, but proved to be virtually useless for developing countries for, as Germany has continued to remind its less advanced neighbours such as Italy and Spain, full union requires economic convergence, and this prerequisite was absent. Thus, the creation of the GATT virtually eliminated any official channel to meet the problem of commodity dependence. It left developing countries with only three alternatives: to remain outside of GATT and engage in import substitution on a scale which was insufficiently large in most countries to be successful (that Brazil was the only country to succeed in this strategy is not surprising); form regional trade associations such as LAFTA, which did not provide fully integrated market access either but was a substitute for regional preferences; or sign bilateral complementarity agreements with developed countries for preferential access.

However, the emphasis in GATT on the introduction of most favored nation clauses in trade agreements largely undermined any of the three strategies. First, since most bi-lateral agreements are struck between developed countries, they reflect their peculiar interests; their extension through MFN to all trading partners then implicitly imposes the same conditions, which need not be those most appropriate to developing country conditions. They also cut across any attempt at preferences in regional associations. Finally, it frequently became the case that countries that had secured initial advantages through bi-lateral agreements outside GATT found those advantages eroded or eliminated and thus faced a choice between discrimination under the existing bi-lateral agreement and joining GATT to obtain MFN treatment. The level playing field first proposed at Havana thus was eventually introduced through the various rounds of GATT tariff reductions, again undercutting any possibility for regional preferences to create sufficiently large markets.[3]

The region eventually chose LAFTA in a form that was consistent with GATT regulations and it started at about the same time as the EEC. However, in contrast to Europe, it was a failure in increasing intra-regional trade, and used as proof of the failure of import substitution, despite the reservations on its appropriateness expressed by Prebisch. It did

[3] It was only in 1979 that the GATT approved the "Decision of the Contracting Parties on Differential and More Favourable Treatment, Reciprocity, and Fuller Participation of Developing Countries" that exempted developing countries from Article XXIV on customs unions and free trade areas; in 1964 developing countries had been relieved of making reciprocal concessions to benefit from MFN treatment and in 1971 a ten-year waiver of the MFN

however, function in a manner similar to the EEC in attracting large developed country multinationals into the Area, and set the basis for their dominance of industrial production in the region as a result of the large number of bilateral complementarity agreements that it produced. It was thus the multinationals that benefited from the more concentrated markets rather than developing country producers. And while there were benefits to the trade balance, the imports of capital goods and semi-finished goods from the developed countries that it entailed more than offset any beneficial impact on final goods outputs.

The failure of developing countries to achieve their objectives in Havana and through GATT, along with statehood for most former colonial commodity producers finally led to the creation of UNCTAD in 1964 as a permanent organ of the General Assembly to carry the development objective into the UN. It was also viewed as the substitute for the failed attempt to create an ITO with development as its objective. Expressly it called for an agenda[4] to include discussion of "international trade problems relating particularly to commodity markets".

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clause was granted for GSP schemes and was made eligible for extension in 1979. The debt crisis struck before advantage could be take of these concessions.

[4] The 3 August 1962 EcoSoc Resolution convening the first Conference read in part:
Bearing in mind the vital importance of the rapid growth of exports and export earnings of developing countries, of primary products and manufactures, for promoting their economic development, *Recognizing* that the developing countries have in recent years suffered from the drop in prices of primary products and the worsening of their terms of trade with industrialized countries and that the losses arising therefrom have hampered and delayed the implementation of their long-term development programmes and that measures to impart stability in international commodity markets at remunerative levels are vital for the development of less developed countries, *Considering* the importance of all countries and all regional and sub-regional economic groupings pursuing trade policies designed to facilitate the necessary expansion of trade of developing countries and encouraging the indispensable growth of their economies, *Bearing in mind* the importance of increasing the net inflow of long-term capital to developing countries and improving its terms and conditions so as to take account of their special requirements and problems, *Noting* the Declaration on promotion of trade of less developed countries and the proposed programme of action of the last Ministerial meeting of the contracting parties to the General Agreement on Tariffs and Trade in November 1961 and expressing the hope that significant progress will continue to be made in implementing the above programme of action, *Considering* the numerous replies of the Governments of Member States to the questionnaire of the Secretary-General on the desirability of convening an international conference on international trade problems relating particularly to commodity markets and on the agenda of such a conference, ...

But, even the United Nations did not initially recognize economic development as one of its basic objectives until the 1947 Economic and Social Council Preparatory Committee to set up the International Trade Organisation made it the primary objective, and the majority of what are now considered as developing countries achieved independence after this date. Thus, not only was there very little concern for development as an issue, there was only a small constituency for development issues until the 1960s. A regional commission with a development objective, CEPAL, was formed by ECOSOC in 1948. The role and theories of Raul Prebisch in the early work of both CEPAL and UNCTAD are well known. The elimination of primary commodity dependence as well as the reversal of the declining terms of trade became the objectives of official development policies in the organisations that he headed.

UNCTAD attempted to implement Prebisch's strategy of improvement through trade, but even the limited success in the introduction of the General System of Preferences (GSP) was quickly eroded by the MFN tariff reductions negotiated in the GATT. The seeming improvement in the trend of commodity prices that followed the petroleum crisis and NIEO initiative also proved illusory and indicated that primary commodity dependence was not the sole cause of slow development. The debt crisis demonstrated that financial factors were of equal or even greater importance. However, it would be over fifteen years before the UN recognised this issue and launched the Financing for Development initiative.

The petroleum crisis also brought with it the decline of the Bretton Woods System and the introduction of both floating exchange rates and increased international integration of capital markets. And although free international capital flows were not originally part of the Washington Consensus, they were implicit in it. The Washington Consensus was in fact the private sector equivalent of an IMF letter of intent. Under Bretton Woods the IMF had two roles, lending to countries in balance of payments difficulties to allow them sufficient time to take appropriate policy action to maintain exchange stability and to design economic policies that would guarantee that the lending would be repaid. This meant policies that generated balance of payments surpluses sufficient to meet repayments. But, in the debt crisis the lending had been done by private sector banks, and it had not been for balance of payments financing but for domestic investment, as least notionally. Free of the need to defend exchange rate stability, the WC could concentrate on generating funds to repay the bank loans. This meant increasing exports and abandoning import substitution. Both the Ricardian theory of comparative advantage and the Hecksher-Ohlin-Samuelson theory are based on exploiting the benefits of economic specialisation based on natural advantages due either to productivity or national endowments. Such theories ran counter to policies of industrialisation through import substitution, and instead required the operations of free markets to determine the areas in which developing countries might specialise. This meant opening goods markets to international competition. Specialisation also required investment in the appropriate sectors, and this meant opening capital markets to allow the free flow of capital resources to the areas in which a country might usefully specialise. If the operation of free markets and free capital flows produced primary resource dependence then it was inappropriate to introduce policies to eliminate it.

Thus, free capital flows were an implicit condition of the operation of the Washington Consensus and the Consensus had no prejudice against primary commodity specialisation. The result would be specialisation in those areas in which developing countries could produce balance of payments surpluses that would allow them to repay the outstanding debts. However, this does not reflect the facts of trade in most developed countries. Trade in developed countries is increasingly "intra-industry" trade. That is, trade in the same products, which is just the opposite of specialisation. Trade appears to be based on competitive advantage rather than comparative advantage. Nor does trade seem to be determined by relative factor endowments in developed countries. Resource rich countries such as Norway and Sweden have industrial exports that far surpass their production of wood and wood products.

Further, foreign direct investment flows, rather than moving from countries with divergent rates of return, are primarily intra-developed countries. As such, they do not support specialisation. It thus appears that both trade and investment flows tend to be concentrated in countries at the same level of development, as Prebisch has originally suggested. Thus, developing countries were being asked to base their policies on a theory that could not apply to them because they were precluded from introducing policies to bring economic convergence. The policies of the GATT, and then of WTO, require developing countries to participate in a global trading system in which developed countries are grouped into unions or have natural geographical conditions sufficient to give them the minimum size necessary to generate development. This is the level playing field in which it is considered fair competition for novices and professionals to compete as equals. What was rejected at Havana was accepted in Marakesh. It has now been called to question in Seattle.

It is clear that Prebisch's call for increased manufactured goods production was with the aim of diversifying export baskets and thus stabilising export earnings. However, the recent experience of developing countries in the context of the globalised economy has not been good. The manufactured goods that are introduced in developing countries tend to be those that have reached the end of their dynamic product cycles and thus have prices that behave much like primary commodities, falling rapidly relatively to newer production or to other more advanced goods. Thus, concentration in manufactures has improved exports, but it has not tended to stabilise payments balances or export earnings. Excluding oil-exporting countries, developing countries have seen a steady deterioration in their terms of trade despite increased manufacturing exports that has averaged -1.3% from 1982-88 and -1.5% from 1989-96. For the 1997-8 period of the financial crisis, terms of trade losses represented over 4% of incomes (see *UNCTAD, Trade and Development Report, 1999*, p. 85). It is instructive that despite stagnation in growth in 1999 in Latin America, balance of payments will continue to be negative and for most countries in the range of around -4%. The 5% growth objective called for in the First UN Development Decade would produce current account deficits that are unsustainable and certainly produce an exchange rate crisis and a reversal of capital flows similar to the 1980s and 1990s (See UNCTAD, op. Cit. p. 92).

From this point of view it should be recognised that it is not export promotion or import substitution of manufactures, but industrialisation in those production activities that benefit from economies of scale and rapid increases in productivity that should be the target of policy. If specialization in manufactures gives the same declining terms of trade as primary commodities nothing is gained by increasing the share of manufactures in output. It has often been noted that a prerequisite for such knowledge-based increasing returns activities is an educated labor force with high quality technological skills. This is true, but it is a necessary, not a sufficient condition. India has developed a highly skilled labor force of computer programmers, but this has not translated into the same real per capita income levels as programmers in the United States. Cuba has a highly educated population, but this has not allowed income levels to be increased rapidly.

What is required is that the high skills be applied in industries that are knowledge intensive and provide the possibility for high rates of productivity increase. Although developing countries are currently campaigning to achieve equal market access in those areas that are most protected in developed countries, these are usually industries such as agriculture and textiles and assembly or processing of high-technology goods which yield little in terms of increasing returns or knowledge benefits.[5] While market access under the "level playing field" is important for developing countries, it is also just a necessary and not a sufficient condition. To gain entry into production and export of those activities that produce large income gains it will still be necessary to build regional units on the basis of regional trading preferences that are not full customs unions to ensure that markets are large enough and provide enough domestic protection to give time for the domestic economy to engage in development and learning by doing in high knowledge increasing returns activities. These are precisely the kind of activities that have been favoured, encouraged and protected by developed countries in their active periods of development. And these are precisely the activities that developed countries, through free trade and protection of intellectual property seek to keep out of developing countries.

It could be argued such strategies may have been viable for Germany in the 19th century or the US in the 20th, but they are no longer possible given the degree of integration of global production under transnational corporations. For example, it would seem folly for a developing country or regional grouping to close its markets to develop a domestic competitor of Microsoft. But, this is not the point. By failing to develop a domestic software industry and the associated

[5] Erich Reinert gives the following example: "Today the world's most efficient producers of baseballs, in Haiti and Honduras, make 30 US cents an hour. Baseball production has not yet been mechanised, and their production consequently absorbs very little formal skills. The world's most efficient producers of golf balls, at a high-tech plant in New Bedford, Massachusetts, have an hourly wage which is 30 times higher than the world's most efficient baseball producers. Haiti, could, instead of exchanging 30 hours of labour producing baseballs for export for 1 hour of US labour in imported golf balls, optimise national welfare by producing golf balls less efficiently than the US. Even if the United States managed to stay 10 times as efficient as Haiti producing golf balls, the Haitian would, in terms of balls at today's prices, still be 3 times as rich under autarky in golfballs than under specialisation and free trade. Haiti's poverty is intimately tied to the nature and characteristics of the profession in which it specialises, and potential optimising paths clearly exist. Under autarky in sporting balls, Haiti could improve its position compared to free trade." Erich Reinert, "The Other Canon and The Theory of Uneven Economic Development," mimeo, SUM, Oslo, 1999.

acquisition of skills and knowledge from learning by producing, the country will be automatically precluded from whatever technology replaces Microsoft. Had Japan and Korea never started producing lousy automobiles they never would have been able to produce the cars that eventually came to dominate global markets and to produce rapid increases in productivity and per capita incomes. Because not every single country can follow this policy due to the small size of most countries, globalisation makes the introduction of regional grouping and preferences even more important than it was when Prebisch first raised the issue. It is not sufficient to accept that trade is the engine of growth and that outputs must be diversified into manufactures that are exportable. Production must also be concentrated in those activities that provide high productivity gains through increasing returns. It is only when a country can capture these productivity gains for the entire population that per capita incomes can rise. When these gains are appropriated by transnational companies these gains are separated from the country in which production takes place and accrue to the home country.   Developing countries can only benefit from globalisation if they can capture these gains directly, either through regional groupings or fostering their own multinational companies. It seems clear that the former must precede the latter, but this is precisely what the post-war system has denied to developing countries.