
Development in a Global Context

by Jeffrey Sachs

There have never been more countries in need of international development assistance yet many misconceptions prevent accurate diagnoses of their problems. This article suggests we have to look beyond economic analyses if we want to begin making real progress.

Let me begin with some personal observations. I was trained as a macro-economist and learned fairly early how to turn the dials of exchange rates, monetary policy, budgetary policy, and financial market policy for the purposes of macro-economic stabilisation. For many years I was engaged in helping countries in hyper-inflation to attain some kind of stability, often, I am happy to say, with reasonable results. But I also learned some important lessons about the real limits of these tools.

The Power of Geography

I began my international career in Bolivia. It was such a remote and desperate place they were willing to have anyone, and I answered the call, certainly not knowing what I was getting into or realising how fundamentally that experience changed my life.

Bolivia was and is still a country of very poor people. In the five years before 1985 it reported a decline of per capita income of more than 30 per cent. That is a catastrophe if you are already amongst the poorest nations. By the time I arrived there inflation over the preceding 12 months had reached more than 24,000 per cent cumulatively. That made it the seventh highest hyper-inflation in the history of the world. Sadly, it was subsequently surpassed by many others.

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But to summarize a long story, Bolivia did succeed in ending the hyper-inflation and in establishing stability and even, consolidating a new democratic process, which was also unique for a country that was on record as being one of the most unstable in the world.

Bolivia succeeded in restoring economic growth to about 2 per cent per year per capita, which, for a very poor country, is surely a long haul out of underdevelopment. At that rate if per capita income was about \$600 at the time of stabilisation, it would take 35 years to reach \$1,200, and then another 35 years to reach \$2,400. In other words by the next century Bolivia might aspire to reach the level of development that the United States reached 50 years ago. This is hardly a realistic target for global development.

What I really learned from Bolivia was that there are much deeper underlying problems that must be addressed before we can start to worry about rates of growth. I learned this not from text books on macro economics but by observing conditions in Bolivia.

When I flew into La Paz where the airport was 12,000 feet above sea level and the air very thin, I realized this was an unusual country. Visiting Lake Titicaca, the highest lake in the world, was an unusual experience. The mountains were beautiful and the Altiplano was exceptionally stark, but I was not trained, to think in a serious

way, what the consequences of all of those factors were for economic development.

We thought, "Well, they are only growing at 2 per cent per year because they fixed the exchange rate this way or that way," but were completely ignorant of the fact of what life happens to be like up in the Andes Mountains at 12,000 and the profound difficulty of getting Intel to come and build a semi-conductor factory up in the Alto or getting Nike to produce shoes near Lake Titicaca or other tricks of the trade that are part of the process of creating jobs and creating export growth and incomes for poor countries.

Bolivia is very much a country of its geography. This is such an obvious point yet it took me 15 years to understand what that really means. I came to understand very directly when I worked in Vietnam for a short period of time. It had miserable, corrupt government, terrible regulations, very little participation of civil society, a pretty authoritarian old guard, mismanagement around the state enterprise, and yet it was growing several percentage points per year faster than Bolivia. Why? Because they had a beautiful long coast that was excellent for bringing in Taiwanese firms and Korean firms and many other firms that wanted to make television sets and sandals and footwear and T-shirts and other things which created jobs and income.

So I realised that globalisation actually does not treat all parts of the world equally. I began to question this mantra of governance that proclaims when things go wrong it is clearly because poor people do not govern themselves properly. The world is really a more complex structure and development is a much more complex process than some of the simple visions we have of everyone running the same race or everyone participating in the same globalisation process.

The more I have seen and the more I have thought about it, the more I have come to understand how incredibly powerful are geographical factors which are barely noticed in our professional discourse. The most obvious one is that almost all of the tropical world today is poor. Almost all of the temperate world is either richer or former communist. It is hard to be in the temperate zone and not to have been under the Soviet thumb and still to be poor. If you look at the roughly 1 billion people that are in the World Bank's category of high-income countries, 992 million of them are in countries in the temperate zone. There are only two economies on that list in the tropics. Singapore, with its 3 million people, and Hong Kong. There is no other economy in the top 30 in the tropics. I challenge you to look at any macro-economics text book to find even one sentence about this most powerful geographical gradient in the entire world. You can look at

500 recent papers on economic growth and 497 of them will not even mention geography once.

If you look at landlocked countries in the world, like Bolivia, you will find no success stories, except if you happen to be landlocked surrounded by rich countries. So there are a couple of rich landlocked countries like Switzerland and Luxembourg but there is a world of poor landlocked countries in South America, in the tropical Sub-Saharan Africa and in Central Asia including Uzbekistan, the world's only double landlocked country, meaning all of its neighbours are landlocked. You have to cross two international borders to get to a coast!

There is not a success story among them. Overland transport costs are extraordinarily high. You do not ship most goods by air, except at a very late stage of economic development. If you want to get started in economic development, if you do not have access to a sea port, it is very tough. If you look at the temperate zone coastal regions that are within a hundred kilometres of a navigable waterway or with the oceans, it turns out that those thin strips of land of the east coast and the west coast of North America, of Chile, Argentina, southern Brazil, Australia, New Zealand, coastal China, Japan, Korea, and western Europe, account for about 8 per cent of the inhabited landmass of the world but about 52 per cent of the world's GNP.

There is a tremendous, differentiation across the globe by ecology, climate, location, proximity to markets, proximity to coastline and to sea navigability, which is driving the process of economic development right now and which is poorly elucidated and very rarely even acknowledged in official discourse. This is partly because it is politically incorrect to say that not everyone is running exactly the same race and partly because rich countries might have to do something about it, to help, if it became acknowledged that it is not just a matter of will power and good governance but deeper problems that needed to be confronted. That is one thing the United States, for example, does not want to acknowledge.

If we look at what is happening in the world of globalisation, we find that some significant parts of the world are absolutely hurt by globalisation, while other parts are benefiting wonderfully. The rich are benefiting from globalisation, not because they are exploiting poor countries. I do not think that almost anything in economics has that zero-sum aspect to it – but because rich countries are innovating, dynamic economies that have, as Adam Smith taught us over 200 years ago, benefited from an expanded scope of the market. If you are producing technology for a unified market, the bigger that market is the higher are the returns to innovation. Innovation has this core property that you produce the blueprint once and then you produce at marginal cost at much

lower cost than the one-time invention or discovery that is behind the innovation. The larger the market that you can sell your products over, obviously, the higher return to that innovative activity. So if you are like the United States or Canada or western Europe, you will basically be a beneficiary of globalisation because of expanded markets.

A lot of other parts of the developing world are beneficiaries of globalisation and let me state very clearly there is no way that any poor country in the world can develop other than being part of the world economy. So I would say that globalisation, on the whole, is a necessary condition for development for poor countries, but the point I am going to make is that it is far from sufficient. So if you look at where the poor countries are that are benefiting from globalisation, they are a significant chunk of the world.

The protesters are wrong to think it is just the rich getting richer and the poor getting poorer. It is much more complicated than that. Some of the poor, like China, are getting rich very fast.

China, in 1978, was an extremely poor country. They suffered through nearly five centuries during which they went from world leaders to among the poorest places in the world. Since 1978 China has been the fastest growing country in the world because it was actually one of the only coastal temperate parts of the world that was impoverished. The place has boomed, with 9 per cent per year per-capita growth. This is utterly the product of globalisation. So if you want to know, can globalisation lead to development, China is the paradigmatic success story.

However, it is a success story of the coastal provinces of China, which have about 300 million people experiencing the most remarkable boom in history, with exports rising from about \$15 billion a year in 1978, to about \$240 billion a year last year. If you look at the interior of China, though, the central provinces or the western provinces, the growth rate goes down systematically as you move towards the west. It is very difficult to do development across the Himalayas, much easier across the Pacific, so they just become poor as you move to the west, and the growth rates go down, until you get, basically, impoverished regions of very low growth and very high ethnic unrest in the Chinese west.

That kind of gradient is found everywhere in the world. If you look at eastern Europe the best predictor of

success or failure in the post-communist transition is how many miles you are from Frankfurt. Thus Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Croatia and Estonia are enjoying rapid growth.

Major companies are moving their labour-intensive and standardised technologies to production plants in Bohemia, Austrian firms are moving all sorts of furniture companies and steel works, metal works, machinery, over to Slovakia, and so forth. That is globalisation at work, the flow of capital, of technology of foreign-direct investment to production sites in low-wage countries across the border, and that is leading to growth that is fast enough to narrow the gap between the reforming countries and the European Union. But you go further to the east, to Moldova, to Ukraine, to other former soviet republics you will not see economic development taking place.

A few companies go to invest or to produce for the local market. Proctor and Gamble goes to make detergent for the Russian market. Coca-Cola bottles cokes just about anywhere in the world, but you would not go there as a production-based or globalized production systems as you would in Poland or as you would in coastal China. So you do not have globalisation creating this big uplift of economic activity.

In Africa there is a very sharp north-to-south gradient. North Africa, aside from Libya and Algeria, has some modest success, at least, in Tunisia, a little bit less in Morocco, and surprisingly okay in Egypt. That is because the Mediterranean is a short shipping distance to western European ports and once those north African countries opened up, it was easy to bring in the apparel factories and some of the automotive component factories, to take advantage of the lower wages. You got a lot of German tourists coming to the beaches of Tunisia and that creates some economic growth. Go across the Sahara and it is fair to say that there is not one single country in Sub-Saharan Africa with sustained economic development right now.

Perhaps the worst thing that happens to you is to be called a success story by the World Bank. It is almost a guarantee that you will fall apart the next year. There is such a desperate grasp to find a success story with these phoney remedies that they have, that they name some and then the next year it falls apart, so they look to the next one. But there is not a robust place of economic development in Sub-Saharan Africa. And if you say, "What about Uganda?" which has had good growth, it is true that with a few more years Uganda will get back to its 1971 income level. This is a country recovering from the devastation of a generation. It is true that when you end a war you can make the statistics look okay, but do not count that as robust economic development. They are

getting the cotton to grow again after years of deprivation. So it is a good thing, but it is not evidence of sustained economic development.

In the Americas we have the same geographic gradient. NAFTA will lead to economic growth and democratisation in Mexico. And it will help Canada and the United States. So I think this is a good example of mutually beneficial trade. But it reaches approximately to Mexico City. It does not reach to southern Mexico. That is not the fault of NAFTA. That is the limits of geography. Mexico is being stretched apart right now, with the northern states growing at 3 or 4 percentage points faster than the southern states. Interestingly, the illegal migrants that are coming to the United States, and probably Canada are not coming from northern Mexico they are coming from southern Mexico. They go all the way up and right through the northern states. So they are a lot of people from Chiapas that have come into the United States in recent years.

In general, some of this reach is going to Central America. Costa Rica is a relative success story. Honduras, as these things go, is a relative success story. All of Central America, of course, is benefiting from the end of the wars that ripped apart the region for decades. So there is no doubt there is some benefit. It is not such a strong pull in Nicaragua. The ports are on the wrong side. The impoverishment continues.

But if you go into South America, you are not seeing economic development right now. The Andean region, 130 million people, is absolutely in disastrous shape. Venezuela, Colombia, Ecuador, Peru, Bolivia, there is no success story right now. Bolivia is the best of all, and I know how fragile that is. You have regions that are burdened by the Altiplano, by the incredibly high transport costs and by the fact that the one competitive advantage that they have is producing cocaine for the U.S. market. Rather than give Entrepreneur of the Year Awards there, we go in and shoot the entrepreneurs. So it is a real problem. Fighting markets is never easy. When you try to suppress the lead sector of the economy, it is actually quite devastating. It creates massive corruption, massively undermines civil society and it is creating havoc, actually, through the region because of the demand coming mainly from the U.S. Market. Nobody has a good solution to it, but the U.S. solution of militarising this is a complete non-starter and it just rips apart the region. Not a politician in the United States wants to think seriously about it.

Even the southern cone, the temperate richer part of Latin America, is in pretty poor shape. Argentina is chronically in crisis. The rich country in the region, Chile, is a success story, in terms of good governance and democratisation right now but do not overrate what is go-

ing on because, while they have had good economic growth, it is a country still dependent on copper and off-season fruit for the U.S. Market. That is a very thin reed for long-term economic development.

So globalisation is having some profound effects on reshaping the world, but not in a glib way that everyone is now benefiting in wonderful ways, but in much more complicated ways. Regions of disadvantage are finding that they are actually losing what little physical and human capital they have. It becomes easier to move.

Africa is sending doctors to Canada in large numbers. This cannot be right from a global resource allocation point of view. They are almost no doctors in Africa.

A child that is properly nourished will not die of measles, but an undernourished child can be swept away by measles. That is why there are still one million children in the world dying of measles every year.

I do not have time to survey all the literature on the problem of development in the tropics but basically, the tropics are hot, and high temperatures are conducive to biological processes that support infectious disease transmission and undermine food productivity. All that luxuriant growth in the tropical rainforest, we know is not the same thing as producing food in the Amazon. It is almost impossible to run a farm in the Amazon. The reason is that soil nutrient depletion is extremely rapid, except in certain parts of the tropics, highland areas, which have a much lesser rate of soil depletion; alluvial regions, where the rivers bring silt, nutritious silt; or volcanic soils. But for much of the tropical world what you have is high temperatures, rapid mineralization of organic materials in the soil, and this leads to processes, according to the agronomists and the ecologists, that deeply undermine food productivity. In Africa, where you have tremendous water control problems, and almost no irrigation possibility, except for very small micro-irrigation projects, the combination of the high temperatures, water control factors, the soil depletion factors are extremely powerful in undermining food productivity.

Now, if we just focus for another moment on the topics, endemic diseases like malaria, which can only be transmitted year-round in tropical environments, has by itself had devastating consequences on economic development, probably one percent growth per year over extended periods of time of reduced growth in malarious environments, by estimates that we have made in our institute. This is not to be confused with the situation in cer-

tain temperate parts of the world which have malaria a few months of the year in very low transmission rates. Year-round malaria is a tropical phenomenon and Africa is, home to the killer version of malaria resulting in two-and-a-half million deaths per year.

I want to turn to the implications of all of this for I am not trying to promote the hopelessness of the world or the inherent fatality of poor economic development in many parts of the world. It is a prologue to saying if we are going get serious about economic development, we have to know how to diagnose the problems that we were facing. I do not believe we make serious diagnoses in the international community. If we did, we would find that the problems are harder, they are deeper, they are more stubborn and they are more costly to do something about than what we like to think. One more International Monetary Fund mission to reduce tariffs, one more financial market reform law to get some foreign investors into an emerging market will not do it.

We pretend, the development is costless, that it is basically your own fault if you are not developing, that somehow all tropical countries are poorly governed and all temperate countries must be beautifully governed.

What Must be Done

Economic development requires, in my opinion, a serious approach to three issues. First, to social development and by "social development", I mean the capacity of a society to raise children that are healthy and that receive an education. Large parts of the world cannot do this right now. Large parts of the world face disease burdens that are so vast and resources that are so scarce that they are utterly trapped in a poverty/disease spiral. Without healthy infants and toddlers, you do not have school-going children; without healthy children, you do not have school graduates; without healthy adults that are not dying of AIDS by the millions, you do not have a healthy work force. Many parts of the world do not come close to meeting these basic conditions right now.

I am chairing a commission for the World Health Organization called the Commission on Macro-Economics and Health, which has the task of trying to cost out how much it would actually cost to address these health problems in the poorest countries and to ask honestly how much can a poor country at \$300 per capita really afford out of its own resources. When I went into this commis-

sion, we had members from the IMF, the World Bank and others, and I said, "We need more money from the world." They said, "No, no, more efficiency. Stop buying arms, stop military spending, stop wasting," and so forth. It took about a year to just ask the following. Suppose you are a superbly well governed \$300 per-capita country. How much can you spend on health? What they have acknowledged is that maybe you can muster 4 per cent of the budget for health because the taxing ability in an informal economy is much less. No poor country comes close to 8 per cent of GNP on health. But suppose you had no war, you had not debt because we stopped talking about the debt relief and actually gave it, what will you have? You would have \$24 per person per year. Try to control an AIDS pandemic, holo-endemic malaria, rampant tuberculosis, rampant diarrhoea and acute respiratory infection, immunisation programs, safe delivery for maternal health, mother and child health, micro-nutrient supplementation, on \$24 per capita. I dare you. It is just impossible. This is another message some wealthy countries, particularly the United States absolutely do not want to hear.

I stress the United States because, as the world's largest donor, it is living comfortably behind its oceanic fortress. If the U.S. spends nothing on the poor countries, we are not going to have development. If there is one major thing that Canada could do imminently, it would be to pound on the U.S. to get serious. Do it nicely, I know. No one wants to pound on the U.S. But the U.S. does nothing compared to its potential.

The U.S. just gave \$200 million for the Global Fund for Health, a wonderful initiative. Two-hundred-million U.S. dollars from the United States is 72 cents per American to fight the global AIDS pandemic. We have the equivalent of the Black Death right now. We will have tens of millions dead from this pandemic, probably the most lethal pandemic in world history, and the United States has just seen fit to give 72 cents per American. We will not turn the corner on development in poor tropical countries with this approach. I do not care how many more IMF missions go to Chad, they will not stop a single mosquito from biting. They are on the wrong track. They do not get it. It is not their job. They do not even belong in Chad. It is a huge misunderstanding of the world system to have the IMF running poverty programs. Why do we not have the WHO running poverty programs in Chad? Because the IMF is three blocks down from the White House and the WHO is 3,000 miles away. If the world had been more clever and put the World Health Organization on 19th Street, and put the IMF in Geneva we would have controlled public health a long time ago because U.S. presidents would have understood it is good for their foreign policy. But they do not get it right now.

They send the IMF to organise seminars on malaria, which has got to be the worse resource misuse imaginable.

Social policy is very expensive. Getting children in schools, treating people for disease, expanding public health, will require twenty-five- or thirty-billion dollars a year more in foreign assistance and it should all be aimed at the low-income countries. It should not go to Brazil, it should not go to Mexico, it should not go to middle-income countries, who need it, but they do not need it anywhere like Chad and Mali and Niger and Burkina Faso and Central African Republic and Tanzania and Malawi.

Twenty-five or thirty billion a year could make a real difference. That is all of one-tenth of 1 per cent of the GNP of the donor countries. Given that the United States is right now at .01 of 1 per cent of GNP for the least developed countries, that is, one penny for every hundred dollars of U.S. income. We could afford to do more. There are a billion people in the rich countries. Twenty-five billion means \$25 from everybody in the rich countries. To live in a civilised, humane world, that is a pretty small price to pay, but we are just nowhere close in my country to realising this right now. We are going to have the demonstrations and we are going to have the protests and we are going to have growing unhappiness and millions of deaths until we begin to understand this basic fact of how rich we are and how poor these countries are and how it is not a matter of lecturing then about governance. You cannot run a health system at \$5 per capita or \$10 per capita, or even \$24 per capita. You cannot hire managers, you cannot keep doctors.

Do you know how much the World Bank put into AIDS control between 1996 and 2000 for Sub-Saharan Africa? Five cumulative years, 49 Sub-Saharan African countries, 10,000 speeches, how much did they actually give...or lend? They gave nothing. How much did they lend? Thirty-one million dollars. Thirty-one million over five years, six million a year. So the system is not working. And it is mainly the United States' fault because the U.S. runs these institutions and it does not want to look at the truth. The truth is that the United States, and all the rest of us but especially the United States, would have to do more and we do not want to find out the truth.

There is a second dimension of reform and that is economic reform. I want to mention that not everything the IMF does is wrong. It is just that it believes that everything it does is everything that needs to be done. That is the biggest problem with the IMF, that it thinks it defines development when all it is doing is defining a small piece of development. That is what I learned. Turning those dials is fine, but it does just a small part of the overall process of development.

I do not want to say more about economic performance, except I believe in it. It is just so far from sufficient as to be amazing that we believe somehow that this IMF/World Bank structural adjustment was a development strategy. That is the problem.

The third area I would mention is what is sometimes called industrial policy, sometimes called sectoral development, what I call it business development. It is the confusion that the IMF and the World Bank and the U.S. have had, whether deliberate confusion or not, of saying that opening your economy and freeing up markets and other things is the same as a sector development strategy, and that is the way to get your agriculture working or it is the way to get industry working. No successful country in the world lacks an active industrial policy. It is true of Canada, it is true of the United States. There is no such thing as a free market industrial policy that works. Markets are very important. I believe the private sector is definitely the engine of growth everywhere. But in Canada and the United States, we know that you need an active government to promote higher education, to promote science, to promote particular industrial sectors. The United States has an active industrial policy to promote Internet-based technology. We spend \$90 billion a year on basic science right now. We are actively promoting the U.S. private biotechnology industry. We are actively promoting nano technology. We are actively promoting information communications technology. We have a very sophisticated industrial policy. I mention that because then we turn around to other countries and say, "Do not have an industrial policy. That is planning." So that is the third piece that is missing. I do not know how many countries I have been in where the World Bank was there just before or just after to say, "Surely do not give any tax holidays. Do not create any industrial zones, no export processing zones, no special science parks. That is bad. Do not choose winners. Do not have any winners, for that matter." I have been very upset about how the IMF destroys the chances of poor countries to get foreign investment for years through this kind of policy on business development because they know nothing about business. Their job is exchange rates and budget. They do that fine. But how dare they make recommendations about industrial development.

I was making this point and a very fine, nice IMF economist stood up, and said, "Jeff, you know, it just does not

make sense what you are saying." He said, "You know, if everybody gives tax holidays, all you are doing is just giving away tax revenue, you are not helping. If everybody gives the same incentives, no one has benefited." I said to him, "You know, that is a really interesting observation, except there is one flaw with it. The flaw is that the IMF only runs half the world. The other half gives tax holidays. What the IMF makes sure is that not one country under its control gets foreign investment. That is what happens." If we really had a world regime, that would be a different thing. But what we have is this crazy business, where Washington tries to run the business environment of countries, and it is failed miserably for 20 years.

Despite 20 years of structural adjustment lending, the one undoubted thing one can say about Africa is that there is been no structural adjustment, whatever else you want to say. The exports in 1980 were 95 per cent primary commodities. The exports in the year 2000 were 95 per cent primary commodities. The same ones, coffee, tea, sisal, natural rubber, iron ore from Mauritania, copper from Zambia, diamonds, hydro-carbons from west Africa, a few other minerals, that is it. Where is the great textile centre of Africa exports? Where is the apparel industry in Dar es Salaam? It does not exist. Where is the electronics assembly industry that Asia has or the million workers like in Mexico in the Maquila sector that were a major boost to early industrialisation in the 1980s and '90s? It does not exist. Structural adjustment got it 100 per cent wrong. They created no base for new industry.

Conclusion

Basically, I will close where I started. We need a serious strategy. We need a strategy that understands that globalisation is no panacea. It is no curse. It is a reality. It is a reality that is going to do a world of good for large parts of the world. It will bring hundreds and hundreds of millions of people, maybe a couple of billion people, into economic development. International trade is a good instrument for that. Foreign-direct investment is a very powerful instrument for that, if you can get it. But it will not solve the crises of Sub-Saharan Africa, it will not

solve the crises of the Andean region, it will not solve the crisis of a large part of the Eurasian landmass. For that we were going to have to think a lot harder. We were going to have to invest heavily in health, which is going to cost tens-of-billions of dollars from the rich countries because the poor countries are too poor to do it. We were going to have to invest massively in science to address problems of low agricultural productivity in the tropics, recognising that our entire consultative group for international agricultural research, has an annual budget combined of the 18 specialised tropical farms that is less than half of Monsanto's Research and Development budget. So we are going to have to get serious about investing in science and technology to address the particular problems the tropical regions face in their development.

Believe it or not, I am basically an optimist. I basically believe that we are so rich and so blessed with technology, so indescribably ahead materially of where we had any expectation or right to expect a hundred years ago, that if we really had some humane view of the world, the rich and the poor, together, could solve these problems.

I really believe that technological advance has been the underpinning of the incredible quality of material well being that we have in the rich world. I believe that similar investments in science and technology could make similar contributions for the poor if their problems were addressed. The IDRC makes a magnificent contribution to this because it is dedicated to creating knowledge for development, and that is at the core of the whole process. If we can get our act together and do this, we can really change the world for the better.