

## New Approaches to International Donor Assistance

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I want to talk this evening about the challenges of economic development, and particularly in the context in which we live – that is in the context of globalization.

I would like us to understand globalization in a bit more unblinkered manner than I think we do. When I say "we," I have to acknowledge right at the beginning that I'm often thinking of "we" in the United States, and too often thinking about "we" in the US government that has so much influence on the way the world reacts to globalization, so much power, and unfortunately so little understanding of what's really happening. I think that for us to understand better what the tasks of international development assistance are, what the great challenges facing the Canadian International Development Agency (CIDA) or IDRC, or, in the United States, USAID, or other aid agencies, really is, the starting point, for me, is, again, the medical analogy: it's a good diagnosis, it's to understand what ails the system. And I think we have not gotten, ladies and gentlemen, a truly proper understanding of globalization, of what it means, of how it's affecting different parts of the world differentially, and therefore of how most effectively to intervene to pursue the goal we're all here to pursue: promote broad-based economic development and the alleviation of suffering in very poor countries.

I don't think we're going to be able to pull this off without a better understanding of why it is that while some parts of the world are indeed surging ahead right now economically – and some very poor countries are surging ahead economically – large parts of the world are not surging ahead. They are falling farther and farther behind. The diagnosis that's usually made of this differential economic performance, in my view, is puerile, utterly simplistic, and heavily motivated by one wish of the United States, which is that the teeming masses don't confront the US taxpayer. And we designed a philosophy, an interpretation, an ideology that basically says: "If you're having problems out there, well, you'd better clean up your act, you're on your own." The problem is that this diagnosis simply misunderstands, in a quite deep way, what globalization and market reforms can accomplish and what they cannot accomplish.

I, myself, in my professional career (which I have to admit, after just celebrating my 25th college reunion last weekend, is now well into its third decade of practice as a macroeconomist) have learned a lot by experience and by watching what it is that the tools that I was trained to use could and could not accomplish. I came into this, if you'll forgive a little bit of personal digression, as a finance specialist and as a macroeconomist, and I learned fairly early on how to turn the dials of exchange rates, monetary policy,

budgetary policy, financial market policy, and so forth, for the purposes of macroeconomic stabilization. And for many, many years I was engaged in helping countries in hyperinflation to attain some kind of stability. And often, I'm happy to say, with reasonable results in achieving such stability. But I also learned some very important lessons from that, and that is: what are the real powers of those tools and what are the real limits?

So – just to continue a little bit of personal digression if you'll forgive me – I began practical work as a macroeconomist in Bolivia. I think it was such a remote and desperate place they were willing to have anyone come, and I answered the call, certainly not knowing what I was getting into, and only after the fact discovered how fundamentally it changed my life.

This was a country of impoverished people, of course. It still is a country of very poor people. It was a country that, in the preceding five years before the 1985 stabilization, had a reported decline of per capita income of more than 30 percent. That's a catastrophe in the scheme of things if you're already amongst the poorest. And, by the time I arrived there, the inflation over the preceding 12 months had reached 24,000 percent cumulatively. So this was a pretty mean disease – that's why I say it wasn't so pretty to watch. It was a very tough kind of circumstance of probably – by the count that I made at the time – the seventh highest hyperinflation in the history of the world. Sadly, it was subsequently surpassed, like many others that came at the end of the 1980s and the early 1990s.

But Bolivia did succeed in ending the hyperinflation and in establishing stability, and even, in the context, consolidating a new democratic process, which was also unique for a country that was on record as being the most unstable polity in the world over the preceding 160 years of its independence. This was a country that had had about 140 governments in 160 years, including one day – in 1979 I believe it was – when I think there were four heads of state after several succeeding coups that day. But in any event, they succeeded in consolidating democracy and stability at the same time.

But I learned something very important working with Bolivia over many years, and that is that they did not achieve significant economic growth afterwards. They did succeed in breaking a free fall that was horrendous and tragic. They did succeed in restoring economic growth, but it was growth in the order of around 2 percent per year per capita, which, for a very poor country, is surely a very long haul out of underdevelopment. Remember the rule of 70: if you divide 70 by the annual growth rate, it's the number of years that it takes to double the per capita income. Or double the variable, so at 2 percent per capita, it's 35 years to double the per capita income. And that means if you were what Bolivia was – roughly about \$600 per capita at the time of this stabilization – it might take 35 years to reach \$1,200, and then another 35 years to reach \$2,400, and so forth. Obviously, to say "Well, next century you may reach the level of development that the United States reached 50 years ago," isn't exactly the target of global development.

Now, here's a basic point, ladies and gentlemen, which is mainly a testimony to the incredible trade in capacity of macroeconomists I have to say, but it's actually a deeper problem. I understood when I flew into La Paz that since the airport was at 12,000 feet above sea level and the air was very thin, that this was an unusual country. And I understood that visiting Lake Titicaca, the highest lake in the world, was an unusual experience and that the mountains were unusually beautiful and the Altiplano was unusually stark. But I was not trained, actually, to think about in a serious way of what the consequences of all of those factors were for economic development. And my colleagues wrote "Well, they're only growing at 2 percent per year because they fixed the exchange rate this way or this way," or other things 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 build a semi-conductor factory up in the Alto in such circumstances, or getting Nike to produce its 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 that perhaps it took me 15 years – and I'm still learning – to understand what that really means. But I came to understand very directly when I worked a few years later with Viet Nam for a short period of time. Viet Nam was growing at 6 percent a year. It had a miserable government; corrupt, terrible regulations. It was so much worse in governance than Bolivia ever was, much less democratic – of course there was much less participation of civil society. There was a pretty authoritarian old guard, a lot of corruption and mismanagement around the state enterprise. And yet it was growing at several percentage points per year faster. And it was absolutely obvious why: 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 created income.

So you begin to understand, in much too slow a way, that globalization actually doesn't treat all parts of the world equally; that it's not all this mantra of governance which has become so fashionable which holds that when things go wrong it's clearly that poor people don't govern themselves properly; that the world is really a more complex structure and development is really 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 globalization process.

Now, the more I've seen and the more I've thought about it, the more I've come to understand how incredibly important it is to centre the specific characteristics of the society, the country, in thinking about how globalization is affecting that society and the challenges [it faces]. Everywhere we look, for example, ladies and gentlemen, there are incredibly powerful geographical factors at play which are barely noticed, or barely noted at least, in our professional discourse. For example, the most obvious one is that almost all of the tropical world till today is poor. Almost all of the temperate world is either rich or formerly communist. It's hard to be in the temperate zone and not have been under the

Soviet thumb and still be poor – that takes a lot of work. There are a few places that do that, but very, very few. 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 two economies in that list in the tropics – two – one country and one special district. They're 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 macroeconomics textbook to find even one sentence about this most powerful geographical gradient in the entire world, where it came from, why it persists, what we might learn from it, what the implication is for development. You can look at 500 recent papers on economic growth and 497 of them won't even mention geography once. I know three that do, two by me and one by a colleague.

It's a very peculiar thing. If you look at the 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, Switzerland and Luxembourg. And then there is a world of poor landlocked countries: in South America, Bolivia and Paraguay; 14 utterly impoverished landlocked countries in tropical Sub? Saharan Africa – Chad, Mali, Niger, Central African Republic, Rwanda, Burundi, Zambia, Malawi, and so forth – not big success stories economically; the landlocked countries in Central Asia – the "stans" (Turkmenistan, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan) where there's nothing going on economically except pumping oil, because that's the one commodity that you can fruitfully transport over 1,000 miles across borders. And you have to pity Uzbekistan in this regard: it's the world's only double landlocked country, meaning it's the only country all of whose neighbours are landlocked, so you have to cross two international borders to get to a coast. It's the only place like that in the world. And Laos and other landlocked countries – there's not a success story among them in the world. It's tough being landlocked: overland transport costs are extraordinarily high still. You don't ship most goods by air, except at a very late stage of economic development. And if you want to get started in economic development, if you don't have access to a sea port, it's very, very tough.

So this is also not an accident. When I used some GIS data recently to look at the temperate zone coastal regions that are within 100 kilometres of a navigable waterway or the ocean, it turns out that those thin strips of land on the east coast and the west coast of North America, of Chile, Argentina, southern Brazil, of Australia, New Zealand, in the temperate region of northeast Asia, of coastal China, Japan, Korea, and of Western Europe, are about 8 percent of the inhabited landmass of the world. But at least 52 percent of the world's GNP is produced in those thin strips.

So there's a tremendous, tremendous differentiation across the globe by ecology and climate – or more specifically location, proximity to markets, proximity to coastline and to sea navigability – that is driving a lot of the process of economic development right now. This is poorly elucidated and very rarely even acknowledged in official discourse. This is partly because it's politically incorrect, a bit, to say that not everyone is running

exactly the same race; partly because rich countries might have to do something about it, to help, if it became acknowledged that it's not just a matter of will power and good governance but deeper problems that needed to be confronted. And that's the one thing the US does not want to acknowledge, period.

So if you look at what's happening in the world of globalization, you'll find that, not just in these static levels – that is snapshot differences of income – but in processes right now, it is absolutely fascinating the differentiation that is taking place in the world. The fact is that a lot of the world is being left behind for some identifiable reasons once you make the diagnosis, and probably some significant parts of the world are being absolutely hurt by globalization, while other parts are wonderfully benefiting. I think there's no doubt that the rich countries are benefiting from globalization, not because they're exploiting poor countries – I don't 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 225 years ago in *The Wealth of Nations*, benefited from an expanded scope of the market. If we're producing technology for a unified market, the bigger is 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's behind the innovation. The larger the market is that you can sell your products over, obviously, the higher return to that innovative activity. So if you're like the United States or Canada or Western Europe, you'll basically be a beneficiary of globalization because of expanded markets, just like Adam Smith said.

Now, a lot of other parts of the developing world are beneficiaries of globalization. Let me state very clearly that there is no way any poor country in the world can develop other than being part of the world economy. So I would say that globalization, on the whole, is a necessary condition for development for poor countries. But the point I'm going to make is that it's very, very far from sufficient. If you look at where the poor countries are that are benefiting from globalization, they're a significant chunk of the world. The protesters are wrong to think it's just the rich getting richer and the poor getting poorer. It's much more complicated than that. Some of the poor are getting rich very, very fast – most famously, China, of course.

China, in 1978, was an extremely poor part of the world. They had had a very bad streak of luck and bad politics from 1433 until 1978, by my count. So they went through five centuries of one damn thing after another – if it wasn't the Mongols, it was the Opium War. It was really a very bad stretch and they went from one of the world's leaders to among the poorest. Since 1978, however, 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. And so it had some major advantages. I haven't told you why the tropics are poor or why I think it may be true that they are – I'm coming to that in a moment.

In any event, China had some good real estate that had been very badly used. Remember, under the Ming Dynasty, they closed up unilaterally in the 15th century. Even when Adam Smith wrote about China, he said this is a very rich country, but closed and static. And so the world surpassed China slowly, slowly, slowly. Then in the 19th century things really went haywire when Europe arrived at the border and had to make the world safe for free trade in narcotics in 1839 to 1842 – this is as if the Colombian drug cartel came and bombed New York harbour to make sure they could get all the cocaine in without restriction -- which was the national policy of the British Empire in the 19th century.

And, again, one damn thing after another, finally culminating in Mao. That was another damn thing until 1976, when he died, and Deng Xiaoping began the reforms in 1978. And the place has boomed since then with 9 percent per year per capita growth. Utterly the product, ladies and gentlemen, of globalization. China could never have done this without globalization. So if you want to know if globalization can lead to development, China is the paradigmatic success story.

Now, it's very interesting, it's a success story of the coastal provinces of China, which have about 300 million people in them, from Shandong in the north, the Manchurian provinces, down through Hunan Island – 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. That's a really stupendous growth rate of exports, about a 15? fold increase over the period of a few decades. If you look at the interior of China, though – the central provinces, so called, or the western provinces – the growth rate goes down systematically as you move toward the west. Our west is the Pacific Ocean, a very nice west indeed, and their west is the Himalayan Mountains. It's 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, down, 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 everywhere in the world that we look right now. So I went a little bit more in detail to stress that point that globalization can work, but it works differentially. If you look at Eastern Europe (I had the personal experience to advise many of the countries in transition, and some of them worked), Russia had a miserable decade; Kyrgyzstan, you'd barely notice; Mongolia you'd barely notice, it's been miserable. It doesn't really matter too much when you're 1,500 kilometres from a port. You can open up, you could close, no one's going to go in there. You're just not going to get industry going.

So what worked in the transition? If you want the best predictor of success or failure in the post-communist transition in 1989, it is not who your economic adviser was, it is the miles from Frankfurt. So Poland, Hungary; Czech Republic; Slovakia – whose capital, Bratislava, is about half an hour taxi cab ride from Vienna; Slovenia, right across the border from Klagenfurt, Austria; Croatia; Estonia, a one hour cruise from Finland: these are places where globalization is working just like it should. What's happening? What's

happening is that large manufacturers are moving their labour? intensive and standardized technologies to production plants in places such as Bohemia, in western Poland; Austrian firms are moving all sorts of furniture companies and steel works, metal works, machinery, over to Slovakia, and so forth. That's globalization at work: the flow of capital, of technology – foreign? direct investment is the best vehicle of this – to production sites in low? wage countries across the border. And that's leading to an economic, if not a boom, at least what we would call “convergent growth,” that is growth that's fast enough to be narrowing the gap between the reforming countries and the European Union.

But if you go further to the east, go to Moldova, to Ukraine, to Moscow – well, Moscow is a little different, but to Russia in general – to the “stans” that I mentioned, you won't see economic development taking place. A few companies go to invest there, maybe to produce for the local market. Maybe Procter and Gamble goes to make detergent for the Russian market locally, or maybe Coca? Cola bottles Cokes just about anywhere in the world, but you wouldn't go there as a production? based or globalized production systems as you would in Poland or as you would in coastal China. And so you don't have globalization creating this big uplift of economic activity.

Take a look at Africa. There's a very sharp north? to? south gradient. North Africa, aside from Libyan and the Algerian civil war, has some modest success, at least, in Tunisia, a little bit less in Morocco, and surprisingly okay in Egypt. That's 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, some of the automotive component factories, and so forth, to take advantage of the lower wages. You get a lot of German tourists coming to the beaches of Tunisia and that creates some economic growth. Globalization is working.

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 – not one. And almost the worst thing that happens to you is to be called a success story by the World Bank. It's almost a guarantee that you'll fall apart the next year. There's such a desperate grasp to find a success story with these phoney remedies that they have, they're all so fragile, that they name some and then the next year it falls apart so they look to the next one. But there's not a robust place of economic development in Sub? Saharan Africa. And if you say, “What about Uganda, for example?”, which has had good growth. It's 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's true that when you end a war you can make the statistics look okay, but don't count that as robust economic development – that is not. That's getting the cotton to grow again after years of deprivation. So it's a good thing, but it's not evidence of what we're looking for, of sustained economic development.

And if you look at the Americas, we have the same geographic gradient right now. What's working best in the developing countries in the Americas? Northern Mexico.

NAFTA really is a beautiful thing, actually, for economic development. It will lead to economic growth and democratization in Mexico. And it will help Canada and the United States. I have no doubt about it. 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's not the fault of NAFTA, that's the limits of geography. Mexico is being stretched apart right now, where the northern states are growing at 3 or 4 percentage points faster than the southern states. And interestingly, the migrants – the undocumented illegal migrants -- that are coming to the United States, and probably Canada, they're not coming from northern Mexico, they're coming from southern Mexico. They go all the way up and right through the northern states. So there are a lot of people from Chiapas who 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 and decades and decades so there's no doubt there is some benefit. It's 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're not seeing economic development right now. So this gradient of the Americas being connected to the US engine does reach approximately through Central America, mainly through northern and central Mexico, but not farther south.

But 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 of it, 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 they have is producing cocaine for the US market. And rather than give Entrepreneur of the Year Awards there, we go in and shoot the entrepreneurs. So it's a real problem.

Fighting markets is never easy, and when you try to suppress the lead sector of the economy, it's actually quite devastating. It creates massive corruption, massively undermines civil society, and it is creating havoc, actually, throughout the region because of the demand coming mainly from the US market. Nobody has a good solution to it, but the US solution of militarizing 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, which is the temperate richer part of Latin America, is in pretty mediocre – poor – shape. Argentina is chronically in crisis right now, and the finance minister, Domingo Cavallo -- who was a classmate of mine 28 years ago in first year macroeconomics – just made, I think, a very questionable devaluation yesterday that he promised never to do. It's just a sign of how bad the situation is in what used to be, of course, the rich country in the region. Chile is a success story in terms of good governance and democratization right now, but don't overrate what's going on because, while they've had good economic growth, it's a country still dependent on copper and

off? season fruit for the US market. That's a very thin reed for long? term economic development. And Brazil? Too complicated to talk about. It's a country of the future, and always will be. There's a lot to say, but it would, a little bit, take me off track.

What's going on in the world? What's going on, clearly, is that globalization is having some profound effects in 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're actually losing what little physical and human capital they have. It becomes easier to move and some places you move out of. So Africa is actually sending doctors to Canada in large numbers and Canada is actually recruiting doctors in large numbers. This can't be right from a global resource allocation point of view. There are almost no doctors in Africa.

What is it with the tropics? Basically, it's a fascinating story. And I'd be happy to share papers with people who are interested, in our institute's website, that tried to discuss some of these things and hypothesize about them. But, basically, the tropics are hot, and high temperatures are conducive to biological processes that support infectious disease transmission and that 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's almost impossible to run a farm in the Amazon. And 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 are high temperatures and rapid mineralization of organic materials in the soil. This leads to processes that, according to the agronomists and the ecologists, deeply undermine food productivity. And 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, the water control factors, and the soil depletion factors are extremely powerful in undermining food productivity.

Now, it seems on the evidence, if we just focus for another moment on the tropics, that endemic diseases like malaria, which can only be transmitted year? round in tropical environments (and not to be mistaken with the light touch that the temperate parts of the world used to have – malaria in a few months out of the year, in very low transmission rates). Year? round, holo? endemic malaria, which is only inherently climatically or ecologically a tropical phenomenon, by itself has devastating consequences on economic development. By estimates that we've made in our institute, probably 1 percent per year, over extended periods of time, of reduced growth in holo? endemic, malarious environments, compared to non? malarious environments – a very systematic gradient. And Africa is, of course, the falciparum malaria – that's the killer version of malaria – site par excellence in the world, with still probably 1.5 to 2.5 million deaths per year due to malaria.

Time runs, and I want to turn to the implications of all of this. This is not a lecture about 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 that if we're going to get serious about economic development, we have to know how to diagnose the problems we're facing. And I don't believe we make serious diagnoses in the international community. If we did, we would find that the problems are harder, they're deeper, they're more stubborn, and they're more costly to do something about than what we like to think, which is one more IMF mission to reduce tariffs, one more bid, or to pass one more financial market reform law to getting some foreign investors into an emerging market. That's what we pretend: that development is costless, that it's basically your own fault if you're not developing, that somehow all tropical countries are poorly governed and all temperate countries must be beautifully governed, and all landlocked countries are poorly governed and all coastal countries are better governed, and all the other linkages that must be presumed or must be ignored by the way we treat these issues.

Economic development requires, in my opinion, a serious approach to three issues. First, to social development, but in context. And by "social development" I mean the capacity of a society to raise children who are healthy and receive an education. And 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're utterly trapped in a poverty/disease spiral. So the first part of development is social development. Without healthy infants and toddlers, you don't have school-going children. Without healthy children, you don't have school graduates. Without healthy adults who aren't dying of AIDS by the millions, you don't have a healthy workforce. And many parts of the world don't come close to meeting these basic conditions right now.

I'm chairing a commission for the World Health Organization called the Commission on Macroeconomics and Health, which has taken on 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 a poor country at \$300 per capita can really afford out of its own resources. When I went into this commission, 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, 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're a superbly well governed \$300 per capita country. How much can you spend on health?" And what they've acknowledged is that maybe you can muster 4 percent of our budget for health because the taxing ability in an informal economy is much less. Maybe out-of-pocket spending, maybe, could be 4 percent also.

This would be extraordinary. No poor country comes close to 8 percent of GNP. None for health. No poor country. But suppose you did that. You had no army, you had no war, you had no debt because we stopped faking it about the debt relief and actually gave it – what will you have? You'd have \$24 per person per year. Try to control an AIDS pandemic, endemic malaria, rampant tuberculosis, rampant diarrhea and acute respiratory infection and [provide] immunization programs, safe delivery for maternal health, mother and child health, micronutrient supplementation, on \$24 per capita. I dare

you. It's impossible. It is just impossible. So this is the message the United States absolutely does not want to hear.

I keep stressing the US because , as the world's largest donor – totally out to lunch on reality, living comfortably behind its oceanic fortress – if the US spends nothing on the poor countries, we're not going to have development. We will not. If there's one major thing that this wonderful country could do imminently, it would be to pound on the US to get serious. Do it nicely, I know. No one wants to pound on the US, but the US does nothing compared to its potential. This is the biggest disgrace in the world.

We just gave \$200 million for the Global Fund for Health, a wonderful initiative. US\$200 million from the United States is \$0.72 per American to fight the global AIDS pandemic. We're in 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 \$0.72 per American.

We will not turn the corner on development in poor tropical countries with this approach. I don't care how many more IMF missions go to Chad, they won't stop a single mosquito from biting. They're on the wrong track. They don't get it. It's not their job. They don't even belong in Chad. It's a huge misunderstanding of the world system to have the IMF running poverty programs. It's farcical. Why don't we have the WHO running poverty programs in Chad, like we should? You know why? Because the IMF is three blocks down from the White House. That's why. And the WHO is 3,000 miles away. That's the only reason. If the world had been more clever and put the health organization on 19th Street, and put the IMF in Switzerland, we would have controlled public health a long time ago because US presidents would have understood it's good for their foreign policy. But they don't get it right now. They send the IMF and then the IMF has these ridiculous seminars on malaria, which has got to be the worse resource misuse imaginable.

So the first thing we need is social policy. Social policy is very expensive. Getting children in school, treating people for disease, expanding public health, will require \$25 or \$30 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, which need it maybe, but they don't need it anywhere like Chad and Mali and Niger and Burkina Faso and Central African Republic and Tanzania and Malawi need it. US\$25 or \$30 billion a year could make a real difference. That's all of one? tenth of 1 percent of the GNP of the donor countries. Given that the United States is right now at 0.01 of 1 percent of GNP for the least developed countries -- one hundredth of 1 percent of GNP to the least developed countries in foreign aid. That is, ladies and gentlemen, one penny for every \$100 of US income. We could afford to do more. There are a billion people in the rich countries: \$25 billion means \$25 from everybody in the rich countries. To live in a civilized, humane world, that's a pretty small price to pay, but we're just nowhere close in my country to realizing this right now. And we're going to have the demonstrations and we're going to have the protests and we're 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's not a matter of lecturing then about governance. You can't run a health system at \$5 per capita, or \$10 per capita, or even \$24 per capita. You can't hire managers, you can't keep doctors – they'll come to Canada. You can't do it.

And we're seeing the results. Pandemics run wild. It is probably the case, ladies and gentlemen --I'll make one outlandish statement, but it's probably true, unprovable – that the AIDS pandemic has not been deflected from its natural course by any human intervention so far because we haven't even tried. Even the success story, "the" success story that's playing to Uganda, may be the natural result of ending the war and the rapes that were transmitting HIV in the late 80s, in the mid- to late- 80s, and just the natural end of one wave of the pandemic and the economy reaching, or the society reaching a lower intermediate point.

It's hard to find evidence that we've made any difference at all so far. And when you look at how hard we've tried? You know, we let the epidemic run for 20 years. 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? \$31 million, total, \$31 million over five years – \$6 million a year.

So the system isn't working. And I'm telling you it's the United States' fault overwhelmingly because the US runs these institutions and it does not want to look at the truth. And the truth is that the United States – and all the rest of us, but especially the United States – would have to do more and it doesn't want to find out the truth. So there's a second dimension of economic reform and it isn't in addition to social policy: that is economic reform. That really belongs there. And I want to mention that not everything the IMF does is wrong. It's just that it believes that everything it does is everything that needs to be done. That's the biggest problem with the IMF, that it thinks it defines development when all it's doing is defining a small piece of development. That's what I learned: turning those dials is fine, but it does just a small part of the overall process of development. I don't want to say more about economic performance, except I believe in it. It's just so far from sufficient as to be amazing that we believe somehow that all this IMF/World Bank structural adjustment stuff was a development strategy and it just added up to that much of that. That's the problem.

The third area I would mention is what is sometimes called industrial policy, what's sometimes called sectoral development, what I would call business development. It's the confusion that the IMF and the World Bank and the US 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, that that's the way to get your agriculture working or it's the way to get industry working, and so forth. No country in the world that is successful lacks an active industrial policy. It's true of Canada, it's 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 absolutely active industrial policy to promote Internet? based technology. We spend \$90 billion a year on basic science right now – \$90 billion. We're actively promoting the US private biotechnology industry. We're actively promoting nano technology. We're 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: "Don't have an industrial policy. That's planning. And don't begin to understand what we do." So that's the third piece that's missing. I don't know how many countries I've been in where the World Bank was there just before or just after to say: "Surely don't give any tax holidays. Don't create any industrial zones, no export processing zones, no special science parks. That's bad. Don't choose winners – don't have any winners, for that matter." And I realize what was really going on with this. 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, I think, know? nothing policy on business development because they know nothing about business. Their job is exchange rates and budget. They do that fine. But how they dare make recommendations about industrial development, I can't imagine.

And so I was making this discussion and a very fine, nice IMF economist stood up, somebody that I really like, and he said, "Jeff, you know, it just doesn't make sense what you're saying." He said, "You know, if everybody gives tax holidays, all you're doing is just giving away tax revenue, you're not helping because it's a zero? sum game or negative? sum game then. If everybody gives the same incentives, no one's benefited." And I said to him, "You know, that's a really interesting observation, except there's one flaw with it. And 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's what happens." If we really had a world regime, that would be a different thing. But what we have is this crazy business, that Washington tries to run the business environment of countries, and it has failed miserably for 20 years.

So the last point that I find very interesting about Africa is that, despite 20 years of structural adjustment lending, the one undoubted thing one can say about Africa is that there's been no structural adjustment, whatever else you want to say. The exports in 1980 were 95 percent primary commodities. The exports in the year 2000 were 95 percent primary commodities. The same ones – coffee, tea, sisal, natural rubber, iron ore from Mauritania, copper from Zambia, diamonds, hydrocarbons from West Africa, a few other minerals – that's it. Where's the great textile centre of Africa exports? Where's the apparel industry in Dar es Salaam? It doesn't exist. Where's the electronics assembly industry that Asia has or that San Pedro Sula, Honduras has, or the million workers like in Mexico in the Maquila sector that were a major boost to early industrialization in the 1980s and '90s? It doesn't exist. Structural adjustment got it 100 percent wrong. They created no base for new industry.

So you can see I have a lot of complaints. Basically, I'll close where I started. We need a serious strategy. We need a strategy that understands that globalization is no panacea. It's no curse. It is a reality. It's a reality that's 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're going to have to think a lot harder. We're 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're going to have to invest massively in science to address problems of low agricultural productivity in the tropics, recognizing that our entire consultative group for international agricultural research – the CGIAR network of tropical agricultural research centres – has an annual budget combined for the 18 specialized centres that's less than half of Monsanto's R and D budget alone. So we're 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, it may not sound like it, I'm basically an optimist. I really am ... that's why I do this. I basically believe that we are so rich, so blessed with technology, so indescribably ahead materially of where we had any expectation or right to expect 100 years ago, that if we really had some humane view of the world, the rich and the poor together could solve these problems. I also am a tremendous technological optimist, I have to say.

I really believe in this stuff. I believe that technological advance has been the underpinning of the incredible quality of material well being we have in the rich world. And I believe that similar investments in science and technology could make similar contributions for the poor if their problems were addressed.

I think that a place like IDRC makes a magnificent contribution to this because it's dedicated to creating the knowledge for development, and that is at the core of the whole process. I wish we had something like this – I'm jealous – south of the border. But I hope that your example, which is a very powerful one and a very esteemed one in the world, will help to inspire some greater responsibility on the part of your southern neighbour because I think if we can get our act together and do this, we can really change the world for the better.

Thanks very much.

