Remarks at the

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"Comparing German and Canadian experiences: Getting development right"

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Maureen O'Neil
President, International Development Research Centre (IDRC)

Friends and colleagues:

The title of this morning's session is impressively ambitious. It directs us to the Washington Consensus, Asian development, contrasts between China and India, and the comparative development experiences of Germany and Canada. For myself, I will interpret these terms more as an invitation than an obligation. I will be selective.

I will look first at one or two aspects of the Chinese and Indian development stories. Then I will turn to Canadian development policy, and the government's "International Policy Statement" published last April. And I will conclude with a word on equity, growth—and the unexploited potential in promoting new and small business in developing countries.

First, on China and India:

To begin with, it seems to me there is no great distance "between Washington Consensus and Asian experiences"—certainly not in the cases of China or India. Without pushing the point too far, it is fair to say both China and India adopted the main tenets of the Washington Consensus as quickly and thoroughly as almost any other government in the world. China was carrying out many of the Consensus instructions before the Consensus existed.

Both countries have introduced policy regimes consisting of more open markets, deregulation, promotion of domestic and foreign private investment, trade liberalization, and considerable privatization—in short, much of that original 1989 Washington Consensus program.

Results in both countries have been dramatic: high growth rates, explosive economic transformations, and significant poverty reduction in absolute numbers. But both countries share real difficulties. They share severe and persisting inequalities of income, power and opportunity (some getting worse, not better). And each confronts fiercely threatening environmental harms. Overarching these difficulties are chronic deficiencies in the quality of governance in both countries.

China has plainly recorded the most astonishing economic growth. The record is familiar to us all, and I will not recite the numbers.

It is also worth noticing that China, by many measures, has been far more globalized than India since its present era of reforms opened in 1978. China has increased its membership in international organizations tenfold. It has signed and ratified nearly 200 treaties. It joined the WTO in 2002. On *Foreign Policy* magazine's "Globalization Index", China ranks 54th out of 62 countries. India, by contrast, ranks 61st out of 62; only Iran is less globalized.

Equally evident, however, are the inequalities of Chinese development—inequalities between rich and poor, urban and rural, Southeast and Northwest, male and female. And by most accounts, inequalities between rich and poor are growing deeper.

Addressing these inequalities would test the capacities of even the best of governments. But governance in China, to say the least, is not the best. It remains authoritarian, hierarchical, secretive, arbitrary, and endemically corrupt. (Transparency International ranks China at 71 out of 146 countries on its "Corruption Perceptions Index". India ranks 90th . Germany places 15th and Canada 12th.)

Still, China has made extraordinary progress. On the UNDP's Human Development Index, China ranks 85th out of 177 countries in 2005. It was 99th in 2000.

India, by contrast, ranks 127th this year on the Human Development Index—much lower than China and only one rank higher than in 2000.

China has obviously enjoyed a couple of advantages over India. China began key reforms more than a decade before India—and was arguably more globally connected long before that. Moreover, China has always had Hong Kong. Today, Hong Kong businesses employ about 12 million people in China; some 3,600 foreign companies are managing their investments in China from regional headquarters in Hong Kong.

But India has suffered other disadvantages. For the moment I will mention one: governance. Notwithstanding important policy reforms undertaken in 1991 and since—particularly in liberalization and decentralization—the quality of governance in India generally remains inadequate to its needs.

For one thing, there is a systemic mismatch between the responsibilities of the states in India, for such matters and health and education, as against the power of the central government in New Delhi to levy taxes. This is a problem common to many federations—Canada included. But it is greatly aggravated in India by the extent of cronyism and graft still prevailing in the institutions of India government. One scholar of Indian affairs has likened the bribery and patronage in Indian governance to a gigantic eBay—"anything that can be sold, is."

It may be true that India graduates more engineers in a year than Europe and the United States combined. It is also true that India still has the world's largest number of illiterate adults, in a population still riven by caste, class, gender and geography.

Canada and India have a turbulent history in aid relations, with controversies and reversals continuing to this day. India was among the first and largest of Canada's ODA recipients in the 1950s and 60s. But the relationship was curtailed sharply in 1974, when India detonated its first nuclear explosion—helped in part by Canadian material. Recovery was slow, and was interrupted again when India conducted its nuclear tests of 1998. Then, in 2003, India announced it was abandoning bilateral aid from several countries, including Canada. Months later, the Canadian International Development Agency announced it would phase out its bilateral India program by March 2006.

Just last month, on the other hand, Foreign Affairs Minister Pierre Pettigrew announced a resumption of nuclear cooperation—including the supply of Canadian dual-use nuclear items to India's civilian nuclear facilities. This initiative was immediately condemned by critics—among them Lloyd Axworthy, a former minister of foreign affairs—as a betrayal of long-standing Canadian non-proliferation policy.

In any case, Canadian bilateral ODA to India by now is very limited—less than $40 million (Canadian) in 2003-04, according to CIDA. In truth, that amount was overwhelmed by an Indian loan repayment to Canada of $427.8 million (Canadian); this actually resulted in a net inflow to Canada.

Canadian aid to China is similarly modest—and in its own way contentious. For 2003-04, CIDA puts the bilateral ODA figure at $46 million (Canadian). Canadian aid is channelled not to the Chinese government but to NGOs, businesses, academic institutions and the like. And it is aimed at two principal objectives: environmental sustainability (especially rural poverty and natural resource management), and the promotion of human rights, democratic development and good governance, including the rule of law.

Needless to say, criticism of the program has centred chiefly on China's own abuses of human rights—and what might be called its rather comprehensive democratic deficit. But it bears repeating that CIDA's China program (and that of my own organization, I should add) seeks to address that deficit, and in modest ways to correct it.

As I have said, Canadian aid to India and China is very small, both in proportion to the size of those countries and in relation to Canada's overall ODA spending—which itself is not large.

To put the whole Canadian aid program in some perspective, the OECD's Development Assistance Committee estimates Canada's 2004 ODA at $2.54 billion

(U.S.). By comparison, the DAC puts German ODA last year at $7.50 billion. Measured against that notorious 0.7-per-cent benchmark, the DAC calculates Canadian ODA at 0.26 per cent of GNI, while Germany reached 0.28 per cent. In other words, German ODA last year was almost three times larger than Canada's, but nearly identical in relation to gross national income.

Not surprisingly, Canadian and German aid programs are nowadays mostly defined by the agreed priorities set out in the Millennium Development Goals, the Monterrey Consensus and successive G8 declarations. Both countries, after all, took part in negotiating those frameworks.

Canadian aid policy, like Germany's, looks increasingly to local ownership of development planning and execution; capacity-building; partnerships with civil society and the private sectors of developing and developed countries; integration of economic, social and political approaches in both donor and recipient countries; and a more disciplined concentration on results.

All of these now qualify as part of the conventional development wisdom. So too does focus—targeting scarce ODA resources where they will have the best effect. So we find all these virtues, including focus, highlighted in the Canadian government's development policy paper, one of five volumes in its "International Policy Statement" issued in April.

Focus is a notable feature of the paper. By 2010, Canada will allocate two-thirds of bilateral aid to no more than 25 countries.

Neither China nor India is on that list. What is remarkable, however, is the overlap between Canada's 25 "development partners" and the analogous list of "priority partners" published by Germany's Ministry of Economic Cooperation and Development. Germany came to the "focus" strategy several years before Canada. But of Germany's current 36 "priority partners", 21 appear on Canada's list of 25. Of 14 African countries on Canada's list, 13 are on the German list.

This raises several questions: In our shared pursuit of focus, are we donor countries all converging on the same promising development candidates? And will Canada (or others) over the coming years resist the inexorable commercial and political pressures to expand these short lists? It will not be easy to hold the line at 25—or even 36. Afghanistan, for example, is not on Canada's priority list—and would not qualify under the government's declared criteria. But it is now the largest single recipient of Canadian ODA.

Besides focus, another notable element of the new development policy is the commitment to supporting research. In fact, the policy paper commits the government to "devote no less than five per cent" of its annual R&D investment "to a knowledge-based approach to the challenges faced by developing countries." Our estimate is that with my organization, IDRC, which has this as its sole focus and with our contributions to the

Consultative Group on International Agricultural Research (CGIAR), we are probably half-way there.

As a last point, let me comment on what I believe has been a costly failure by all of us in the aid-and-development community. I refer here to the long and general neglect of the business sector in developing countries.

Some of this neglect can be attributed to a natural preference, among public servants and political leaders, for dealing with other public servants and political leaders. Development policy has been devised and advanced, to some degree, in a culture of insiderism—by insiders who have too little knowledge of entrepreneurial business.

As well, I suspect we have concentrated too crudely on the *redistribution* of wealth, and not enough on the *creation* of wealth through innovation and commercial risk-taking. We in the donor countries forget our own history when we ignore the underpinnings of wealth creation in growing economies. Our countries grew prosperous in the mobilization of investment in roads, railways, energy, in the legal protection of property rights, and in the other essentials of productive new business.

Paul Martin and Ernesto Zedillo last year explored these issues in their UNDP report, “Unleashing Entrepreneurship”. I am convinced they were right.

The World Bank, in its “World Development Report 2006”, has called for a new and more sophisticated examination of the interactions between equity and development. As the Bank report argues, equity can foster growth and contribute to economic efficiencies. At the same time, promoting entrepreneurship—with smarter taxes, with rights to land and resources, with readier access to credit and markets—promoting entrepreneurship can speed the progress of both equity and prosperity. Ironically, focusing on the poor may not be the way to help countries to become rich.

Thank you.