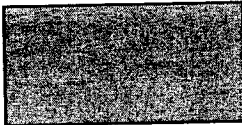




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**TODAY'S PAPER
COMMENT**

Cutting through the development barriers

Ideology won't speed Third World development. But busting bureaucracy and building trust are vital steps, says political scientist ANNA LANOSZKA

By ANNA LANOSZKA
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Recently, in these pages, Paul Martin and Ernesto Zedillo proposed to combat poverty in the developing world with an array of private-sector tools – foreign investment, individual entrepreneurial energy, private-sector development, and mutually beneficial collaboration. Such an ideologically driven approach to development deserves serious consideration. But development is a complex issue.

What's good about the Martin/Zedillo team's work for the United Nations Commission on the Private Sector and Development is that it is inclusive and pragmatic. Philosophically speaking, the commissioners are thinking of development in terms of the expansion of individual freedom. This is in the spirit of 1998 Nobel Prize-winning economist Amartya Sen, who stresses the interconnection among instrumental freedoms such as economic opportunities, political freedoms, guarantees of transparency, and protective security. In this line of thinking, development is not about grandiose visions and abstract economic equations, but rather the talents and potential of individual human beings.

For the UN commission to be successful, it must take a realistic approach to the issue of creating an effective investment environment that benefits the most stakeholders. Perhaps the biggest lesson that we can learn from past failures is the fact that there is no clear hierarchy of priorities when it comes to devising and implementing a set of pro-development reforms. Overemphasis of one aspect of development can lead to the disastrous neglect of another – which can trigger a fast decline in public support, and eventually stall the overall reform process.

For example, it's not enough if a person in a remote village receives a loan to start

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a business, no matter how well-designed the business plan, if ground transportation vital for delivery of parts and workers is in the hands of a local crime lord who demands impossible rates. Nor is it enough to give a budding Third World entrepreneur loans and a licence to become an official distributor of high-tech products if she has to compete with scores of unlicensed street merchants who sell counterfeit or smuggled versions of the same goods more cheaply. Once again,

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the regulatory environment is key.

Nor can the private sector flourish in a jungle of red tape. Last year I was invited to provide technical assistance in an African nation. To supply the local people with the very best high-tech equipment, the sponsoring organization had the latest models couriered from Europe in March. At the end of June, the shipment still sat in a customs office in the national capital – because customs officials, overwhelmed with contradictory regulations, couldn't agree on what rate of duty to apply.

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And, of course, there's the problem of corruption – an issue in politics everywhere, but in developing countries, exacerbated by a vicious cycle of mistrust. If there is instability at home, those who have capital that can be invested in their own country would rather stash it in Luxembourg or Switzerland. Reformers like Mr. Martin and Mr. Zedillo must come up with ways to make the corrupt elements in such developing countries see the benefit of becoming legitimate stakeholders in their own countries.

Capitalism has worked because it has found countervailing forces so that negative human passions such as greed are not repressed, but transformed into positive ambitions. The emergence of liberal democracies has followed, providing incentives for creativity; ensuring exchange of information by creating a marketplace of ideas; and sustaining fair competition, which has led to technological and social advancement.

Along the way, it was hoped that this would eliminate poverty and ensure equality and higher standards of living for everybody. So why are so many people still so desperately poor?

First of all, development strategies, whether Communist or free-market Darwinian, have too often failed because they conceived of human beings not as they are, but how they should be. Dogma is as dangerous on the left as on the right.

Secondly, too many countries preach free-market principles but are, in fact, nothing more than authoritarian regimes where a lucky few control productive resources and access to capital and information, to the neglect of their nation's human capacities. Such states restrict competition, discourage small businesses, sustain unfair tax systems, waste money on huge bureaucracies and armies, and lack domestic transparency.

This is as unhealthy for corporations as for people. Who wants to run a business in a place where laws change weekly (and with them the ministry officials)? Where electricity can be cut off at any time because power lines are old and unreliable, where paved roads simply come to an end because construction supplies have been looted? Where you may pay very little in official taxes, but thugs may appear at any time to demand under-the-table payments? No businesses favour such an unpredictable environment.

Thus, it is encouraging that Paul Martin and Ernesto Zedillo say their commission will come up with ways to unleash "entrepreneurial energy" and build an "enabling

will come up with ways to unleash entrepreneurial energy and build an enabling regulatory environment." They recognize something neglected by the grandiose developmental strategies of the past: the natural predisposition of an individual to become architect of his own fate.

I was born in Poland and arrived in Canada just before Poland's major post-

Communist transformation. I was appalled to hear Western development specialists predict that reforms in former East Bloc countries would fail; they assumed that people in those societies would be too passive and uneducated to become equal business partners with Western firms. It followed that Western businesses would inevitably be exploitative, because Eastern Europeans were unable to play the game by the new rules.

We've since learned that each country is different and its historical and economic background plays an important role in its future evolution. Perhaps the only constant is the hope among human beings everywhere that their energy and creativity not be wasted in suffocating poverty.

Let's hope that the Martin-Zedillo team works to establish the incentives and the environment to bring such individuals together with other private stakeholders, international organizations, and government officials. The UN commission's biggest challenge will be to transform negative appetites and passions, the greed of those who benefit from the status quo, and transform them into positive forces that will benefit everyone.

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