Globalisation and Children's Rights

What role for the private sector?

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Save the Children

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and Children's Rights

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Save the Children

Save the Children UK is the UK's leading international children's charity. Working in more than 70 countries, we run emergency relief alongside long-term development and prevention work to help children, their families and communities to be self-sufficient.

Drawing on this practical experience, Save the Children UK also seeks to influence policy and practice to achieve lasting benefits for children within their communities. In all its work, Save the Children UK endeavours to make children's rights a reality.

Acknowledgements

Many thanks to all colleagues within Save the Children UK who have contributed to the production of this report. The text was written by John Hilary, Angela Penrose, Fiona King, Annie Heaton and John Wilkinson, and edited by Bill Bell.

Published by
Save the Children UK
17 Grove Lane
London SE5 8RD
UK

First published 2002
for the World Summit on Sustainable Development
(Johannesburg, South Africa, 26 August – 4 September 2002)

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Registered Charity No. 213890

Typeset by Neil Adams, Grasshopper Design Company
Cover Photograph: Dan White
Printed by Copyprint UK Ltd

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Abbreviations

ACP – African, Caribbean and Pacific
DFID – Department for International Development
EU – European Union
FDI – foreign direct investment
FTAA – Free Trade Area of the Americas
GATS – General Agreement on Trade in Services
GATT – General Agreement on Tariffs and Trade
HIPC – Heavily Indebted Poor Country
IDA – International Development Association
IFC – International Finance Corporation
IFPMA – International Federation of Pharmaceutical Manufacturers' Associations
ILO – International Labour Organization
IMF – International Monetary Fund
LDC – least developed country
NEPAD – New Partnership for Africa's Development
NGO – non-governmental organisation
OECD – Organisation for Economic Co-operation and Development
PRSP – Poverty Reduction Stratergy Paper
PSDS – Private Sector Development Strategy
SAP – structural adjustment programme
SCM – Subsidies and Countervailing Measures
TRIMS – Trade-Related Investment Measures
TRIPS – Trade-Related Aspects of Intellectual Property Rights
UNCRC –United Nations Convention on the Rights of the Child
UNCTAD – United Nations Conference on Trade and Development
UNEP – United Nations Environment Programme
WHO – World Health Organization
WSSD – World Summit on Sustainable Development
WTO – World Trade Organization

Preface

The 1992 UN Conference on Environment and Development in Rio de Janeiro won significant agreement to the view that there is more to development than just economic growth. The Rio Earth Summit achieved consensus on the need also to value quality of life, to conserve natural resources and to deliver on health, education and social justice. It called on the international community to secure fair treatment for the dispossessed in our society today, as well as fair treatment for the generations of tomorrow.

Now, ten years on from the Earth Summit, sustainable development looks more like a dream than a realistic prospect for the future. The major report produced by the United Nations Environment Programme (UNEP) in preparation for the 2002 World Summit on Sustainable Development shows that not only are the natural resources of the earth being depleted at an unsustainable rate, but that the most vulnerable children in the world continue to be denied their basic rights. If current trends continue, the resources of the planet will be unable to sustain even the next generation (UNEP 2002).

This bleak scenario is not inevitable. The UNEP report presents clear choices which will determine what type of world we leave to our children. One option is 'business as usual': to continue with the 'markets first' model of globalisation which subordinates social and environmental policies to the forces of the free market. Yet the UNEP forecast shows that this approach of competition, market openness and increased privatisation leads inexorably towards environmental degradation, increased poverty and, in the worst case scenario, a world where the richest nations fall back on military oppression in order to defend their interests.

On the other side, there is the real possibility of a new global order where social and environmental goals are given priority, balancing the momentum for economic development at any cost. The UNEP forecast sees this 'policy first' approach leading towards genuine achievements in health, education, gender equity and poverty reduction, while at the same time promoting the positive contribution of the private sector. At its best, a visionary 'sustainability first' model based on equitable values and institutions leads to a more radical set of changes based on principles of social justice and ecological integrity.

To Save the Children UK, sustainable development means that each generation should leave to its children a world at least as diverse and productive as the one it inherited. It also means guaranteeing the rights of all today's children, so that they can fulfil their potential in the struggle for development. The millions of children still denied their basic rights as a result of poverty, violence or environmental degradation testify to the international community's failure to make this vision a reality. The 2002 World Summit on Sustainable Development offers an opportunity for today's adults to step back and rethink the future.

Executive summary

The economic dimensions of globalisation may seem a remote concern to children. Yet globalisation affects the lives and prospects of children in very real ways. Poor children in particular are among the most vulnerable when local economies are opened up to global market forces.

This report looks at two aspects of economic globalisation: foreign private sector investment and the privatisation of basic services. Each represents an increased level of involvement of the private sector in the lives of children, and each raises serious concerns in respect of children's rights.

Foreign investment is often heralded as one of the great benefits of globalisation for poorer communities. At its best, such investment can provide new opportunities to young people and their families not just through direct employment but also through linkages to the local economy.

In order to encourage these links to the local economy and to ensure that foreign investment contributes as fully as possible towards development, many governments have placed performance or entry requirements on foreign investors. Foreign companies are often required to form joint venture partnerships with domestic firms, to source a certain proportion of their inputs from local firms, or to engage in technology and skills transfer to the local workforce. Yet it is these pro-development policies which have been targeted for removal by the investment liberalisation agreements of the World Trade Organization.

In some cases, the impact of multinational corporations on children has been profoundly negative. Several companies continue to violate the International Code of Marketing of Breastmilk Substitutes. After a decade which has seen a marked increase in the use of voluntary codes of conduct, there is now increasing recognition of the need for binding regulation of multinational corporations in order to protect children's rights.

The second trend of importance for children is the increased involvement of the private sector in the provision of basic services. Save the Children UK has long experience of the problems caused by the introduction of commercial principles into services such as health, education and water. Increased involvement of the private sector raises serious concerns over the equity, quality and capacity of services responsible for delivering children's most basic rights.

Despite these acknowledged problems, the World Bank has committed itself to increasing promotion of the private sector as a provider of basic services. Through a range of new strategy papers at both international and national levels, the Bank has positioned itself as champion of private sector service provision even as it admits that the arguments it has traditionally used to support this stance are not backed up by evidence. In addition, trade and investment agreements at the international, regional and bilateral levels threaten to open up key service sectors in the interests of private sector service providers, not of children.

In light of the concerns outlined in this report, Save the Children UK is making three sets of recommendations in order to help make globalisation work in the interests of children, not against them:

- a binding international framework for corporate accountability, including international standards on corporate practice, financial and operational transparency, and effective monitoring and liability mechanisms
- a reversal of the current trend towards deregulation of investment, and a revision of international investment agreements in order to restore national capacity to regulate foreign investors effectively in pursuit of national development goals
- a thoroughgoing review of the commitment to increased privatisation of basic services in institutions such as the World Bank.

Children need a child-friendly model of globalisation if they are to realise their basic right to survival and development. Only a thorough reorientation of the current model can realise such an outcome for all the world's children.

1 Globalisation: a threat to children's rights?

The economic dimensions of globalisation may seem a remote concern for children. Annual meetings of the World Trade Organization (WTO), the G8 and the World Bank – and gatherings such as the World Summit on Sustainable Development – can often seem irrelevant to the lives of ordinary girls and boys.

Yet, as argued below, globalisation affects the lives and prospects of many children around the world in very real ways, and can be a significant force for good or ill in their lives. The way in which economic globalisation, in particular, has developed is the result of very deliberate choices made by both public and private sector decision makers. Such choices, like all economic decisions, can be either 'child-friendly' or 'child-blind'. The dominant economic paradigm which is currently driving globalisation needs to be challenged by a perspective which makes children and the protection of children's rights visible in all aspects of economic policy-making.

These considerations suggest that there is a need to rethink some of the policy choices underlying globalisation in order to safeguard children's rights and protect their best interests. Stefan de Vylder (Save the Children 2000) suggests that child-friendly economic choices should be characterised by such features as:

- an emphasis on equity and on pro-poor policies which support an inclusive, broad-based, participatory model of growth
- predictability and stability
- a long-term perspective
- a strong emphasis on human and social development rather than on economic development alone
- priority given to accumulating and conserving social capital and trust
- protection of job security and an emphasis on job creation.

To this list might be added policies which support the sustainable provision of universal, affordable, high quality basic services such as education and primary healthcare. Forms of economic globalisation which met these criteria would indeed be child-friendly and could play an important role in fulfilling children's rights – a goal to which all but two governments in the world have formally committed themselves through ratification of the United Nations Convention on the Rights of the Child.

This report looks at two emergent aspects of contemporary economic globalisation which appear not to satisfy these criteria and which raise real concerns about the protection of children's rights. There is every sign that they are 'child-blind' and that, as a result, they may cause significant damage to children's lives. Both concern specific ways in which the private sector is now involved in development.

Save the Children UK believes that the private sector has an important role to play in development and has a significant contribution to make to poverty reduction and the safeguarding of children's rights worldwide. Many multinational companies have already

shown an increasing commitment to taking greater social and environmental responsibility for their operations and activities in the developing world. Such companies have played an important leadership role in demonstrating what can be achieved and in showing that such approaches enhance rather than detract from their overall business activities. However, not all companies have taken this view and, as a result, continue to fail the communities and people with whom they work and do business.

This mixed performance in terms of responsiveness to local communities and their development needs is of growing concern as the private sector assumes new roles in development. Such concerns are especially worrying when it is the lives and futures of children that are at stake. Yet, as this report describes, current international policy-making is creating new openings for the private sector in such areas as the provision of key basic services for children (including education, healthcare and water) and in tackling major childhood diseases. How appropriate is the private sector's involvement in such areas and, where it is appropriate, how can it best be managed to ensure that the public interest – and the best interests of children – are the absolute priority?

To consider these questions this report looks at two quite specific aspects of economic globalisation:

- foreign private sector investment
- the privatisation of basic services.

Each of these aspects of globalisation is examined separately in the chapters that follow and the report concludes with recommendations as to how they could be made more child-friendly. To begin with, this chapter provides an overview of some of the ways in which economic globalisation affects children and the processes and institutions through which it operates.

1.1 Children and economic globalisation

Economic globalisation is the process through which local communities become increasingly exposed to global market forces and the multinational companies which dominate global trade and investment. For children, this exposure can be positive or negative, as the following examples indicate:

- In August 2001 the public water regulator in the Philippine capital of Manila was persuaded by private sector water providers to raise water rates by over 50 per cent, after several months of bitter dispute (PSIRU 2001). Manila's private water providers are jointly owned by French and US companies in partnership with domestic Philippine owners, and were allowed to raise prices despite not meeting their obligations to provide a 24-hour service. In such circumstances poorer families risk not being able to pay the higher rates, in which case many will be forced to collect water from untreated sources instead. This exposes children to serious risk of dysentery and other water-borne diseases as a result of losing access to safe supplies.
- Clothes factories in Bangladesh's export processing zones provide jobs for 1.5 million

workers, many of them young women from poor rural families (Grumiau 2001). The factories produce clothes for the global market, supplying leading brands such as Levi Strauss, Gap, Nike and Marks & Spencer and generating over US$4 billion in exports each year (making it by far Bangladesh's most significant export sector). While some working conditions for the young women are far from ideal, they offer an important source of income and independence at a time when other opportunities are few and far between.

- Following initial exploration work in the late 1960s, mining multinational Freeport set up its giant gold and copper mine in the Timika area of West Papua (Irian Jaya) in 1973. Indigenous people living in Timika have mounted a long campaign of resistance to the mine, protesting against the process which handed Freeport control of their land in the first place, and against the widespread environmental devastation the mine has caused since its operations began. The Indonesian security forces called into Timika have been accused of committing extrajudicial executions, 'disappearances' and torture in the area, including the murder of several children. Freeport has been accused of complicity in these violations of human rights (Catholic Church of Jaypura 1995, Australian Council for Overseas Aid 1995).

In ways such as these, globalisation reaches into the lives of children across the world. Yet the fruits of globalisation have gone mainly to regions of the world which were already well equipped to benefit from its opportunities.

As stated by UN Secretary-General Kofi Annan in his keynote report to the UN General Assembly's Special Session on Children, held in May 2002:

> *The pattern of growth in the 1990s meant that those children who most urgently needed a share in global prosperity were often those least likely to obtain it.*

This pattern is set to continue into the future. The World Bank predicts a possible US$355 billion increase in global income by 2015 as a result of continuing trade liberalisation, but admits that the net gains to Sub-Saharan Africa and South Asia will be minimal (World Bank 2002a). Yet Sub-Saharan Africa is the region with the highest child death rates in the world, while South Asia is home to 100 million of the world's 150 million malnourished children – precisely those whom Annan identified as being most in need.

Far from just being excluded from the benefits of globalisation, however, many of the world's most vulnerable children have suffered from its negative impact. Nowhere has this been more evident than in those countries which have faced financial crisis as a result of exposure to global markets. Even when these crises are temporary, losing out on food, education or healthcare can have a lasting effect on children's development:

> *World Bank studies of the impact of the Mexican and Thai financial crises show that, even after the economies of these two countries recovered, health status was still affected. During the transitory but acute recessions, children were*

> *taken away from their schools, entered hazardous jobs or prostitution rings, or sustained permanent brain damage if they suffered from acute malnutrition.* (Cornia 2001)

Even in countries heralded as the success stories of globalisation, children face increasing threats. Despite income gains in some regions, China has also seen increases in child poverty. By the early 1990s increasing numbers of street children became visible in Chinese cities, selling flowers, collecting bottles, begging, scavenging or engaged in street crime (West and Yang 2001). The replacement of the commune health system with user fees and private healthcare has led to a resurgence in diseases such as tuberculosis and schistosomiasis, a fall in child immunisation rates and an increase in both stunting and under-five mortality over the past 15 years (UNICEF 2000, Bloom 1997).

Globalisation and children's rights

On 20 November 1989 the United Nations General Assembly adopted the United Nations Convention on the Rights of the Child (UNCRC). Today the UNCRC is the most widely endorsed international human rights treaty, signed by all countries in the world and ratified by all but two (Somalia and the USA).

The UNCRC sets out the full set of rights which governments must guarantee to all children, without discrimination. These include:

- "the right of the child to the enjoyment of the highest attainable standard of health", including measures to ensure "the provision of adequate nutritious foods and clean drinking water" (Article 24)
- "the right of the child to education" (Article 28)
- "the right of the child to be protected from economic exploitation" (Article 32)

Several of the key rights in the UNCRC are threatened by globalisation and the rules governing international trade and investment, as described in this report. Yet governments made a solemn undertaking in the Vienna Declaration and Programme of Action adopted at the 1993 World Conference on Human Rights that "the first responsibility of governments" is the protection and promotion of human rights and fundamental freedoms, as enshrined in conventions such as the UNCRC.

This means that human rights (including children's rights) should take precedence over international agreements promoting further globalisation. Governments must ensure that any future expansion of trade and investment liberalisation contributes towards rather than undermines their stated obligations on human rights.

1.2 Trade and investment

Globalisation requires the ongoing incorporation of domestic economies into global markets. This creation of a global economy has already seen dramatic increases in international trade and investment. The volume of world merchandise trade doubled over the past decade alone, with annual growth during the 1990s averaging twice that of domestic output (WTO 2001a). Foreign direct investment flows have grown 20-fold in just 20 years, to a world total of US$1.27 trillion in 2000 (UNCTAD 2001a).

One of the specific ways in which globalisation operates is through the liberalisation of trade and investment regimes. This report focuses in particular on this aspect of globalisation – an aspect which has all too often been neglected by those concerned with children's well-being. This liberalisation of markets entails the removal of regulations which are described as 'unnecessary barriers' but which are often key means of achieving national policy objectives – including the fulfilment of children's rights. This double agenda of liberalisation and deregulation which is at the heart of current globalisation now threatens to undermine sustainable development and pro-poor, child-friendly policies across the world.

- **Trade and investment liberalisation**
  The expansion of trading opportunities in goods can make a significant contribution to poverty reduction in developing countries. Good examples of this include the EU's agreement to offer preferential market access to small farmer banana growers in the Windward Islands, or fair trade purchasing initiatives which guarantee producers a decent livelihood and safe working conditions.

Unfettered trade liberalisation, on the other hand, promotes the creation of the free market's 'level playing field' in place of the pro-poor objectives of fair trade. However, when the starting conditions for countries across the world are so highly unequal, such a 'level playing field' simply advantages those who are richer and more powerful. While this has provided new economic opportunities for some people in developing countries, it has also exposed many poorer communities to market forces which they are unable to withstand or take advantage of, leading to the further impoverishment of poor families and their children in rural and urban areas alike.

Even in cases which are often seen as the more successful examples of globalisation, farmers are often left vulnerable to price shifts in world markets and therefore to potential impoverishment. Furthermore, the apparent success of the reorientation of agricultural production towards the global market in one developing country can often occur at the expense of another country or region. The rapid expansion of coffee production in Vietnam in recent years, for example, is now seen as undermining prices and livelihoods in Latin America.

Many children in the world belong to farming communities, and agriculture remains the largest employment sector in developing countries. Exposing poorer farming communities to global competition poses

grave risks to food security and child nutrition, as has been found in countries as diverse as Ghana, Mexico, Uruguay, Zimbabwe, Kenya, India and the Philippines (Madeley 2002, PANAP 2002, Murphy 1999). Where local produce is undercut by cheap foreign imports, many families dependent on agriculture for employment lose their primary source of income. Ultimately this leaves poor families unable to satisfy their basic food needs, driving many to migrate to towns and cities, where their additional presence threatens the livelihoods of the urban poor in turn.

- **Deregulation**
  Globalisation also threatens to bring about substantial deregulation as part of on-going efforts to remove 'unnecessary barriers to trade'. An early example of this came in 1990, when the US Government, on behalf of its powerful tobacco lobby, called for a disputes panel under the General Agreement on Tariffs and Trade (GATT) to contest Thailand's longstanding ban on tobacco imports – one of a range of measures which that country had adopted to tackle the public health consequences of smoking and to protect local producers.

  At the hearings, the World Health Organization (WHO) contributed evidence from other countries in Asia and in Latin America to show that liberalisation of cigarette markets as proposed by the USA typically results in an increase in smoking, as public health programmes are unable to compete with the marketing budgets of the world's most powerful tobacco companies. The GATT disputes panel, however, ruled that the import ban was an unnecessary restriction on trade, and found in favour of the USA. The ruling has become a precedent for subsequent decisions at the WTO (Hilary 2001).

Despite the extensive evidence of the harm it has brought to poor and vulnerable communities, liberalisation of trade and investment regimes remains a central element in the economic blueprint prescribed for countries the world over. The next section considers the role of some of the major multilateral institutions in promoting this blueprint.

1.3 The role of the World Bank, the IMF and the WTO

While much of the growth in international trade and investment seen in the past two decades has been made possible by new technology, the driving force behind today's globalisation is government policy-making, both at the national level and in global forums such as the World Bank, the IMF and the WTO. The rules and policies agreed in these bodies – described more fully in the next chapter – determine many of the new risks and opportunities which today's and tomorrow's children will face in their lives.

Not all countries have an equal say in the formulation of these global rules and policies on trade and investment. Both the World Bank and the IMF operate on the basis of 'one dollar, one vote', so that the world's richest countries control the lending policies of the two institutions by

virtue of an in-built majority. Poorer countries, by contrast, are compelled to follow the policy prescriptions of the World Bank and the IMF if they wish, for example, to gain debt relief under the Heavily Indebted Poor Country (HIPC) initiative, or to have access to essential loans on concessional terms.

The WTO portrays itself as a more democratic body, ultimately reliant on a system of 'one member, one vote'. Such a picture is deceptive, however, since there is no voting at the WTO. Instead, the WTO works on the principle of 'passive consensus', whereby members are adjudged to be in agreement with any decision which they do not explicitly oppose. This has created an opportunity for richer countries to pressurise poorer ones into silent acceptance through implicit or explicit threats of reduced aid, cancellation of preferential market access, etc – including allegations of personal attacks on individual developing country delegates themselves (Kwa 2002).

The World Bank and IMF have now joined forces with the WTO on a common agenda of trade liberalisation, as their Joint Statement on Coherence made explicit at the WTO's Seattle Ministerial Conference in 1999. However, the IMF has already included trade liberalisation as a 'key element' in its own programmes for the past 20 years, imposing structural conditions and other trade liberalisation measures on a wide range of developing and transition economies (IMF 2001). Similarly, the World Bank made 238 loans in support of trade liberalisation or foreign exchange policy to 75 different countries between 1981 and 1994, while 65 per cent of its adjustment operations in the period from 1995 to 1999 supported exchange rate and trade policy reform (World Bank 1999).

In this way the World Bank and IMF have traditionally been able to dictate terms to those countries which need to satisfy their loan conditionalities. However, the WTO is now forcing the pace of trade liberalisation at the global level. The new round of international negotiations launched at the WTO's Doha Ministerial in November 2001 is designed to achieve sweeping trade liberalisation in a wider range of sectors than ever before. While many developing countries oppose this agenda, richer country governments have overridden their objections in order to satisfy the demands of their own business communities.

1.4 The role of international business

The WTO has made no secret of the influence which international business has had on its agenda to date. During the Uruguay Round of trade negotiations, held from 1986 to 1994, corporate lobbyists succeeded in expanding the WTO's agenda into the new areas of services, intellectual property rights and trade-related investment measures. The General Agreement on Trade in Services (GATS), for instance, relied heavily on corporate pressure to see it through a contentious birth process. In the words of David Hartridge, former Director of the WTO's Trade in Services Division:

> *Without the enormous pressure generated by the American financial services sector, particularly*

> *companies like American Express and Citicorp, there would have been no services agreement.* (Hartridge 1997)

Similarly, the TRIPS Agreement (on Trade-Related Aspects of Intellectual Property Rights) was only made possible through relentless pressure from the corporate sector. Under the leadership of the chief executives of Pfizer and IBM, patent and copyright lobbyists in the USA pushed for intellectual property rights to be included as a central concern in international trade negotiations. Together with their counterparts in European and Japanese industry, they ensured that this hitherto obscure issue made it onto the agenda of the Uruguay Round. Moreover, they also saw to it that their initial proposals for a business-friendly intellectual property code were clearly reflected in the final TRIPS Agreement – despite consistent opposition from developing countries (Matthews 2002). Since this time the TRIPS Agreement has been a focus of increasing concern over its implications for the access of developing countries to key public goods such as affordable medicines (eg, anti-retrovirals to combat infection with HIV) and plant and genetic resources for agriculture. Both these examples have clear implications for children's rights to survival and the highest attainable standard of health, and their right to food.

Corporate influence is now entrenched in the consultation processes through which EU and US governments formulate their positions for negotiations at the WTO. In the European context, the European Services Forum was set up in 1998 at the instigation of the then EU Trade Commissioner Leon Brittan precisely in order to advise the European Commission on future rounds of GATS negotiations. The Commission's Director General for Trade at that time, Robert Madelin, announced to a London conference of service providers in 1999 that the European Commission was going to 'rely heavily' on the European Services Forum and on national industry federations in formulating its requests of other countries in the forthcoming GATS negotiations.

Given this background, it is hardly surprising that the draft EU negotiating requests prepared by the European Commission and leaked in April 2002 reflect the agenda of the European services industry. The Commission has long acknowledged that it sees GATS as "first and foremost an instrument for the benefit of business, and not only for business in general, but for individual services companies wishing to export services or to invest and operate abroad" (European Commission 1999). The UK's Department of Trade and Industry – one of the chief *demandeurs* in the current services talks – has confirmed that, for all the talk of a 'Doha Development Agenda', the UK Government approach is strongly influenced by the interests of its own business community.

The importance of liberalisation for multinational corporations is clear. Multinationals account for 80 per cent of world investment, and rely on the removal of investment controls in order to relocate to lower-cost production environments, gain access to new markets and take over foreign competitors. Multinationals also account for around 70 per cent of world trade, and clearly benefit from the lower tariffs which come with

trade liberalisation – indeed, a third of world trade is intra-company trade between affiliates of the same multinational company. Multinationals are the motor driving globalisation today.

The direct power which multinational corporations wield is equally striking. One of the main achievements of the 1992 Rio Earth Summit was the Framework Convention on Climate Change, which led in turn to the adoption of the Kyoto Protocol five years later. The EU finally honoured its commitment to ratify the Protocol in May 2002, but pressure from corporations such as oil giant Exxon Mobil has stymied progress in the USA.

Liberalisation of trade and investment rules – and a corresponding relaxation of regulations governing their activities – is clearly of benefit to companies wishing to expand their operations around the world. Whether it is of benefit to some of the communities in which they operate is less clear. The next chapter examines some of the key factors determining whether globalisation is a force for good or ill.

2 Regulating foreign investment

Increased foreign investment is heralded as one of the major benefits of globalisation for poorer countries, poorer communities and their children. Multinational corporations have increasingly taken advantage of new communication and production technologies to relocate to countries where costs (especially labour costs) are lower, predominantly in transition economies and in the developing world. As a result of this foreign direct investment (FDI), developing countries stand to gain access to new sources of capital, technology, skills and employment, as well as to benefit from the multiplier effects of such investment on the local economy. Children may benefit from these developments through increased family income (enabling them, for example, to attend school, receive medical care or improve their diet) and/or through the involvement of such corporations in community schemes and projects.

To what extent, though, is FDI a strong force for poverty reduction and development in poorer countries? One major limitation is its geographical spread across the developing world. The top ten developing country recipients accounted for 83 per cent of the total US$240 billion in FDI inflows to the developing world in 2000. In the same year the least developed countries (LDCs) saw a 15 per cent fall in their share of total FDI to just US$4.4 billion. Furthermore, investment in Angola alone, predominantly for oil extraction, accounted for 40 per cent of this FDI to LDCs, leaving just US$2.6 billion for the remaining 47 LDCs to share between them (UNCTAD 2001a).

Relatively small amounts of FDI of course may still be important to individual countries as a source of capital. The US$382 million which Mozambique received in FDI during 1999, for example, represented 56 per cent of the country's gross fixed capital formation that year; the US$94 million received by Saint Lucia made up 74 per cent of its total. Such access to foreign capital remains important to many developing country economies, although over-exposure to foreign investment can also give serious grounds for concern (Woodward 2001).

Another limitation on the positive role that FDI might play in assisting pro-poor development is that a significant share of it occurs through mergers and acquisitions rather than 'greenfield' investment (ie, the construction of new production facilities). In fact, corporate takeovers make up a large proportion of the overall global figures and have a very different impact on local economies from new investment. While takeovers have traditionally made up a smaller proportion of FDI flows to developing countries, US$70 billion of the US$240 billion in FDI to developing countries in 2000 came in mergers and acquisitions.

In particular, the last decade has seen an increase in the number of cross-border privatisations in developing countries, in which foreign companies have taken over state-owned enterprises.
In absolute terms the largest privatisations by foreign corporations have taken place in economies such as Brazil, Argentina, Venezuela, the Philippines, Peru, Kazakhstan, Mexico and Colombia. But even in the LDCs, 24 of the 50 largest mergers and acquisitions during the 1990s were privatisations of state-owned enterprises. The majority of FDI registered to Senegal between

1997 and 1999, for instance, came not through 'greenfield' investment but through the privatisation of the country's public utilities (UNCTAD 2000, 2001b).

In human terms, as the considerations above suggest, the impact of foreign investment depends on the circumstances in which it takes place. There are many examples of corporations making a positive contribution to development and poverty reduction. Some of this positive impact will come through corporate philanthropy, as in the partnership between foreign and domestic businesses in supporting community-based AIDS programmes in South Africa (see box). In other cases, companies offer their workforces and suppliers terms and conditions which represent a genuine attempt to contribute to the welfare of the local society and economy – for example, wages and conditions far above national minimum levels, which allow parents and children the opportunity to benefit more fully from their employment.

Business helping to tackle HIV/AIDS in the community in South Africa

Naledi Hospice runs community-based HIV prevention and support services in Free State, South Africa, including a number of hospices and day care centres for children and adults in Bloemfontein and peri-urban areas such as Botshabelo. Much of the support for their work comes from the private sector. ABSA Bank covers the salaries and other costs of the community workers both at the hospice and in the peri-urban areas, as well as paying for some medicines. Woolworths provides food twice a week to the children's hospice, where it is either used immediately for meals or made into soup – generally 40 litres of soup is made each week and fed to HIV-positive and other affected children in day care centres, with some being sent home to the children's families. Nando's invites children from the hospice to have free meals at its local restaurant in Bloemfontein.

Volunteers from the First National Bank go once a week during working hours to the children's hospice to read stories and play with the children. Pick 'n' Pay donate their services to support fundraising events, and have helped many times in such functions. SABMiller have offered to use their enterprises as training bases for young people from the new peri-urban day care centres. In the new adult hospice centre, each one of these businesses – plus others such as Rotary, Anglican, etc – have paid for the construction and furnishing of a room.

The case of the Naledi Hospice provides a good example of the positive impact which business can have in a local community heavily affected by HIV/AIDS. In general, however, there is a lack of focus on children in existing corporate HIV/AIDS programmes in South Africa (King and Heaton 2002). In response to this, Save the Children UK and the South Africa Business Coalition on HIV/AIDS have produced a toolkit to encourage companies to work together with others at community level providing care and services for children affected by HIV/AIDS.

Most of the positive impact of FDI, however, comes through the linkages which countries make between FDI and the local economy. The importance of these linkages is well attested in developed and developing countries alike, where the indirect employment benefits from FDI can provide up to four or five times the number of new jobs supplied directly by the investor (UNCTAD 2001a).

The 'rationalisation' process which accompanies takeovers, however, more typically leads to job losses, as companies aim to maximise bottom line efficiency through staff redundancies. Privatisations of state utilities represent a particularly severe example of this, with many government employees losing their jobs. This in turn can result in children losing their access to basic services as a result, for example, of being withdrawn from school.

Even where FDI does provide additional new jobs, the process of attracting investment can also take a heavy toll on workers' rights. In their attempt to offer the most appealing investment climate to foreign companies, many governments have engaged in a 'race to the bottom' in competition with other countries vying to attract FDI. Often this has meant keeping minimum wage rates as low as possible, or denying workers in export processing zones basic labour rights – including the protection of child workers from exploitation.

2.1 Accentuating the positive: using foreign investment to its full potential

Making foreign investment work for development is about maximising the positive impact which foreign companies can have on local communities. One way in which this has happened has been through enhancing the linkage between foreign investments and domestic firms. Government support has been crucial in many developing countries in building such links between foreign investors and domestic suppliers. While some multinational companies consciously aim to develop local linkages, others will often prefer to source their inputs from global rather than local suppliers, particularly when they have already invested time and energy in developing global supply arrangements on special terms and with quality control mechanisms included. Often, indeed, there may be no readily available local supplier in host economies for some of the inputs multinationals need.

Developing countries have tried to encourage this linking of foreign investment to local and national economic development more broadly by setting out performance requirements for multinational companies. Governments have required foreign companies investing in their country to employ local staff in key positions, to source inputs from local suppliers, and to engage in training and technology transfer. They have also required foreign investors to form joint ventures with local partners or imposed ceilings on the level of foreign capital participation in order to provide a structural link between FDI and local development.

However, these policies to maximise the positive impact of foreign investment – which reflect a concern for a more sustainable development model – are now being systematically challenged by the international trade agreements of the WTO:

- The WTO's TRIMS Agreement (on Trade-Related Investment Measures) prohibits local content requirements on foreign investors, whereby companies must source a given proportion of their inputs from domestic firms. Local content requirements have traditionally been the most widely used tool in poorer countries' attempts to link FDI with the domestic economy. The TRIMS Agreement applies to trade in goods only.

- Similarly, the WTO Agreement on Subsidies and Countervailing Measures (SCM) prohibits governments from providing subsidies contingent upon the use of domestic rather than imported goods (local content subsidies), another mechanism for encouraging linkages with the domestic economy. In addition, incentives to encourage foreign investors to engage in technology transfer or training of local suppliers are actionable under the Agreement – an anti-development provision which UNCTAD has called to be removed. The SCM Agreement also applies to trade in goods only.

- GATS bans access conditions on foreign investment in services which have been committed for liberalisation, thereby prohibiting countries from setting equity ceilings on foreign investment or from requiring multinationals to establish joint ventures with local partners, unless the host country has registered these requirements as specific limitations in their national GATS schedules in advance. In addition, 'national treatment' provisions in GATS prohibit governments from placing any special requirements on foreign service providers – unless, again, the measures are specified in the country's national schedule. In those sectors committed for liberalisation, this has wide-ranging implications for government attempts to maximise the positive impact of FDI (Hilary 2002).

- The EU continues to press for new investment negotiations to start at the WTO, and managed to engineer mention of such negotiations in the Doha Ministerial Declaration despite consistent opposition from a clear majority of developing countries. Ultimately, the Declaration was adopted only through the Chair's clarification that each WTO member "has the right to take a position on modalities that would prevent negotiations from proceeding", thereby postponing to the 2003 Ministerial any decision on whether new investment negotiations will actually be started at the WTO. As billed in the Ministerial Declaration, the negotiations would address FDI and other forms of long-term cross-border investment.

Under the rubric of creating a more attractive environment for investors, the WTO's agreements undermine developing countries' efforts to use

foreign investment to its maximum development potential. The same criticisms have also been levelled at the World Bank and IMF's attempts to 'enhance' the investment climate in developing countries, such as through the World Bank's new Private Sector Development Strategy (see next chapter).

Ultimately, these initiatives represent a transfer of rights from countries to multinational companies, undermining the principle of mutual benefit under which foreign investment can profit both investor and host economy alike. This transfer of rights from the public to the private sector has been a dominant theme in many other international trade and investment treaties, such as the OECD's failed Multilateral Agreement on Investment (MAI) and the WTO's now infamous TRIPS Agreement. As UN Secretary-General Kofi Annan remarked at the 2001 World Economic Forum in Davos:

> *How do you explain, especially to our young people, why the global system of rules, at the dawn of the 21st century, is tougher in protecting intellectual property rights than in protecting fundamental human rights?*

2.2 Binding versus voluntary codes of conduct

Recognition of the need to protect communities and the environment from the threat of unprincipled multinationals led to the development from the 1970s onwards of a UN Code of Conduct on Transnational Corporations. However, opposition from developed countries ensured that the final draft of the Code, published in 1990, never progressed any further. Indeed, the 1992 Rio Earth Summit marked the death knell for attempts to introduce corporate regulation at the global level. The UN Centre on Transnational Corporations, which was responsible for developing the Code, was soon downgraded; its partner UN Commission on Transnational Corporations was dissolved in May 1994.

In place of binding regulation of multinational corporations, the 1990s saw a marked rise in voluntary codes of conduct created by individual companies or industry associations. These have been developed not only to cover the impact of FDI but also in relation to the marketing and sourcing activities of international business. These voluntary codes may represent genuine attempts to improve corporate performance, or they may be public relations exercises undertaken in order to appease corporate critics. They may sometimes be both: Save the Children UK's experience as a founder member of the UK's Ethical Trading Initiative is that the clothing and tea industries, which have been the target of concerted consumer campaigns, are taking a lead on monitoring and implementing core labour standards. The white goods and electronics industries, which have not experienced consumer campaigning in the same way, are lagging behind.

The most obvious drawback of voluntary codes is that they apply only to those who agree to them. Voluntary codes in the tobacco industry have proved to be a failure for precisely this reason, while comprehensive advertising bans and price increases have had a measurable and sustained impact on smoking.

Baby milk companies: still violating the Code

Save the Children UK promotes breastfeeding as the optimal food for infants. Breastmilk not only provides a well balanced and complete diet for infants; it also carries a range of health benefits and is free. Aside from the clear benefits of breastfeeding, there are also clear risks associated with artificial feeding. WHO estimates that 1.5 million infants die every year as a direct result of not being breastfed.

There may be circumstances where breastfeeding is not possible – for orphaned infants, for example, or for infants whose mothers make an informed choice not to breastfeed. The International Code of Marketing of Breastmilk Substitutes and subsequent World Health Assembly resolutions aim to protect this choice from commercial influence and thereby support, protect and promote breastfeeding.

Much of the debate concerning the marketing of breastmilk substitutes has focused on Nestlé's marketing practices. Nestlé is widely regarded as the market leader in infant foods and therefore at the forefront of developing new marketing approaches.

However, Save the Children UK monitoring exercises in China (1997), Brazil (2000) and Vietnam (2001) have revealed violations of the International Code by Nestlé and other infant formula companies. In correspondence with Save the Children UK, Nestlé has remained cautious over the global application of the International Code, preferring instead to adhere to national legislation – which in some countries is weaker than the International Code, or simply not enforced.

Similarly, in October 2000 British Prime Minister Tony Blair challenged business leaders of companies listed on the FTSE 350 index to publish annual environmental reports on a voluntary basis by the end of 2001. Government figures show that only 79 of these top 350 companies (23 per cent) produced substantive reports on their environmental performance by the deadline, and only 24 others indicated their intention to do so.

One of the other criticisms of voluntary codes is that they are typically much weaker than binding international regulations. The OECD's survey of 233 codes of conduct found that only 18 per cent contained an explicit reference to international standards (OECD 1999). Whether or not they cite their provenance, voluntary labour codes adopted by multinational companies tend to be selective in their inclusion of core ILO standards such as the provision of living wages or trade union rights. In particular, under 50 per cent of codes reviewed in the OECD's inventory included a clause on child labour (Jenkins 2001).

The pharmaceutical industry provides a prime example of how corporations prefer weaker voluntary codes to binding international standards. The WHO Ethical Criteria for Medicinal Drug Promotion represent the comprehensive standard which should guide all pharmaceutical companies' promotional activities,

but pharmaceutical companies favour instead the weaker Code of Pharmaceutical Marketing Practices drawn up by the International Federation of Pharmaceutical Manufacturers' Associations (IFPMA). Yet the IFPMA code does not support even minimum global standards for drug promotion, as it gives precedence to national regulations (Mintzes 1998). This is particularly worrying in developing countries where regulations are weak or non-existent.

The recent spate of corporate fraud cases involving firms such as Enron, WorldCom and Andersen have underlined the need for close regulation of the private sector as an essential requirement of global economic governance. The trend towards voluntary codes must be replaced by a programme of binding international standards, both at the individual industry level and also across industries.

As noted by British Foreign Secretary Jack Straw in September 2001:

> *We must do what we can to encourage corporate responsibility. But we cannot leave companies to regulate themselves globally, any more than we can do in our own national economies.*

3 The privatisation of basic services

Economic globalisation is not just about the liberalisation of investment regimes for private sector companies wishing to produce goods in developing countries. Globalisation also involves the liberalisation of basic services so as to allow private sector providers to operate alongside public providers. However, this process raises serious concerns over children's rights to basic services such as education, health and water.

The negative impact of introducing commercial principles into the provision of basic services has already been clearly demonstrated in the case of user fees for healthcare and education. The introduction of user fees in public healthcare systems in the interests of cost recovery – a policy prescription laid down in the World Bank's *World Development Report 1993* – is now widely accepted to have been disastrous, forcing many families and their children into a 'medical poverty trap' (Whitehead et al. 2001).

The introduction of user fees often came in conjunction with the increased involvement of private healthcare services because of the inadequacies or collapse of the public healthcare system. Indeed, poor families often choose private over public service providers because the total costs (both financial and non-financial) involved in accessing services from the public sector can be greater – especially if travel to distant public facilities requires both expense and loss of income, or if (as often) the private provider offers more flexible terms of payment, such as credit or payment in kind.

As a result, many poorer families have had to watch their children die as a result of not being able to afford medical care, while others have had to sell off essential assets such as land or livestock in order to pay for the care needed, or to secure high-interest loans from money lenders and sink into often unpayable debt. The following statistics indicate the extent to which such medical expenditure causes poverty in developing countries:

- Around 3 million people are driven into poverty in Vietnam each year as a result of meeting healthcare payments – a 4 per cent rise in the poverty headcount (Wagstaff 2001).
- Half of all urban families in financial crisis in Bangladesh cite medical costs of a family member as the cause of their problems (IFC 2002b).
- In one survey in Cambodia, 45 per cent of rural families found to have lost their land had done so as a result of debts relating to medical expenses – the largest single category (Biddulph 2000).

In education, the introduction of fees (whether formal or informal) can make the difference between a child's attendance at school or their removal from the education system. Families make significant sacrifices in order to keep children at school, but poor households in particular are often forced to withdraw at least some of their children in the face of costs they cannot meet. As confirmed by a new study of the cost of education in Sri Lanka, Nepal, Bangladesh, Zambia, Uganda and Kenya:

> *The withdrawal of children from school as a response to increased costs or reduced household income remains a common strategy response.*
> (DFID 2002)

Conversely, when fees are no longer charged, the demand for education is released and in many cases becomes instantly visible. In Malawi, where fee increases in the 1980s had led to large numbers of children being withdrawn from education, the abolition of charges in 1994 saw a 50 per cent rise in primary enrolment almost overnight. Uganda abolished school fees in 1996 and experienced an increase in enrolment from 3.1 million to 5.3 million pupils (Vandemoortele 2000, GCE 2002).

There are of course many acknowledged problems with public service systems in developing countries, where underinvestment has left many health and education systems on the verge of collapse (Simms *et al* 2001). Yet increased involvement of the private sector threatens to exacerbate rather than solve these problems. New or increased charges are all too often the outcome of moves towards service liberalisation through privatisation.

In the case of water, for example, children are one of the most vulnerable groups in the face of the increased charges which liberalisation customarily brings. The privatisation of water supplies has seen dramatic rises in domestic and industrial rates charged to customers across the world (Lobina and Hall 1999):

- Customers experienced a 100 per cent rise in water rates after a subsidiary of French water multinational Vivendi was granted a 30-year concession to supply Tucuman province, Argentina.
- The local subsidiary of UK investor Anglian Water increased domestic water rates to its customers in the Czech Republic by 100 per cent between 1994 and 1997, and by another 40 per cent in 1999.

Private services can cater for the rich and for those families which are prepared to risk long-term poverty in order to pay for them, but they exclude the poorest members of society. In this respect they cannot provide an answer to the most pressing demand of a children's rights agenda: that all children without discrimination should have access to their basic rights.

Moreover, opening up basic services to private investment is not simply an irrelevance to poor people. In many countries an expanding private sector will draw personnel away from the public sector and exacerbate shortages of trained and qualified staff, precisely as witnessed in Thailand's health system, for example, during the 1980s and 1990s (Sitthi-amorn et al. 2001). Often it is the most skilled staff who make the move to the private sector, lowering the overall quality as well as quantity of personnel in the public system.

In addition, increased involvement of the private sector in basic services undermines the capacity of the public sector by drawing away those customers who offer the highest possibility of financial return. In the case of healthcare and medical insurance, 'cream skimming' of the wealthiest and healthiest patients by the private sector undermines the very ability of public health systems to sustain themselves financially, as it denies the basic principles of cross-subsidisation and risk pooling by which the healthy support the ill, the young the old and the rich the poor:

> *Experience in the USA and more recently in Latin America is that the viability of public and voluntary hospitals and health services is threatened when they have to compete with commercial providers for per-person public funds, private insurance, and copayments. Typically, the public sector has been left to bear the risk for more vulnerable populations but with diminished risk pools (or pooled funding) to finance care.* (Price *et al* 1999)

In recognition of the serious threat posed to children's rights by increased private sector involvement in the provision of basic services, the UN Committee on the Rights of the Child agreed to devote a full discussion day to the issue in September 2002. Yet despite these well documented concerns, there is still a concerted drive to liberalise basic services in developing countries throughout the world. The rest of this chapter outlines the major privatisation and liberalisation programmes in international institutions such as the World Bank, the IMF and the WTO, as well as regional and bilateral treaties on investment and trade.

3.1 Multilateral and bilateral pressures to liberalise services

The World Bank and the IMF, as well as key donor governments, continue to promote liberalisation across key sectors such as health, education and water/sanitation as a key component of future service development. Indeed, the World Bank sees this as an important area of expansion for its constituent agencies and the lending policies they operate – both in loans to developing countries and in direct financial support to private sector companies wishing to invest abroad.

3.1.1 Poverty Reduction Strategy Papers

In 1999 the World Bank and the IMF introduced the new mechanism of the Poverty Reduction Strategy Paper (PRSP). Constructing a PRSP is a condition for obtaining debt relief through the HIPC initiative, as well as gaining access to concessional lending from both the World Bank and IMF. PRSPs are supposed to be developed in a participatory way, drawing on consultations with civil society and providing a greater degree of country ownership than previous structural adjustment programmes (SAPs) imposed by the World Bank and IMF.

However, the World Bank and the IMF have retained the right to pass or fail each PRSP according to whether it fits with their policy prescriptions. It is therefore not surprising that all PRSPs developed to date contain strikingly similar macroeconomic policy recommendations, including the commitments to increased liberalisation which were a feature of SAPs. The joint review of the PRSP approach undertaken by the World Bank and IMF admits this continuity with their own earlier policy prescriptions:

> *It is broadly true that the core macroeconomic and structural elements of the early PRSPs have changed little from the programs of the recent past.* (IMF and IDA 2002)

In order to ensure that countries are fully aware of what is required of them, the World Bank has published a Poverty Reduction Strategy Sourcebook to assist with the drafting of

PRSPs (World Bank 2001b). Along with detailed prescriptions from World Bank and IMF staff on a wide range of other macroeconomic and sectoral issues, the Sourcebook makes clear its approval of foreign investment in services:

> *Establishing policies that encourage competitive and efficient services sectors, such as allowing entry where possible and encouraging foreign direct investment should therefore be a major element of global integration and poverty reduction strategies.*

This recommendation is made in spite of a clear recognition later in the same chapter that liberalisation of services brings major risks for poorer families:

> *New entrants may focus on the most profitable market segments ('cream skimming'), such as urban areas, where the cost of service provision may be lower and incomes higher. Privatization could mean the end of government support. The result is that… prices for low income households may actually increase and/or availability decline.*

As a result of the dominant policy prescription, however, there is a strong emphasis on privatisation of public services in several PRSPs. Many PRSPs announce governments' intention to promote varying degrees of private sector involvement in the provision of public services, with Honduras, Mozambique, Nicaragua, and Uganda all explicitly committed to this step. Burkina Faso's PRSP announces the Government's intention to eliminate public monopolies across public utilities, while Nicaragua and Kenya both aim to increase private sector involvement in water delivery (Marcus and Wilkinson 2002). It is worth noting, however, that in many cases such steps have also been accompanied by increased commitments of public money to supporting basic service provision within the public sector.

3.1.2 Private Sector Development Strategy

The World Bank's new Private Sector Development Strategy (PSDS) was endorsed by the Board of Directors in February 2002. The PSDS sets out the agenda for increased involvement of the private sector in the operations of the entire World Bank Group. In particular, it requires stronger co-ordination between the World Bank's private sector arm, the International Finance Corporation (IFC), and its concessional lending arm, the International Development Association (IDA), which provides loans to 78 low-income countries. Through this collaboration, the World Bank aims to involve private sector participation in up to 40 per cent of IDA operations.

The PSDS is based on two main elements: (a) direct support to the private sector in order to increase its participation in the provision of basic services, and (b) a series of regular surveys of the investment climate in developing countries. These surveys – which are to involve extensive private sector input – will be 'a critical element' in the World Bank's analysis of individual countries' development plans and will be given 'heightened attention' in the Bank's approval of PRSPs. Special emphasis is to be given to extending the effective reach of markets through the removal of entry barriers to investment, a strengthening of the property rights framework, legal and judicial

reforms, corporate governance and simplification of business procedures.

Rather than supporting nationally owned policy agendas, the World Bank's PSDS seeks to link an enhanced investment climate to the possibility of receiving finance from the World Bank. As the next section shows, the desire to bring IDA concessional lending closer to the policies of the IFC is of serious concern.

3.1.3 International Finance Corporation

The IFC is the arm of the World Bank Group that exists to promote private sector investment in developing countries. It does this by providing capital to the private sector in the form of loans and equity investment in situations where other sources of capital are not forthcoming, and by providing assistance to private sector firms wishing to raise capital in international financial markets.

In March 2002 the IFC published a paper outlining its major strategic priorities (IFC 2002a). Central to the IFC's strategy is its continuing 'frontier focus' on markets where there is at present little available capital – including not only countries which attract limited private investment, but also 'frontier sectors'. One such sector is the social sector, and the IFC has particularly targeted the health and education systems of developing countries for its increased promotion of the private sector as service provider. This programme includes the IFC's dedicated website EdInvest, which exists to inform investors of market opportunities for private education worldwide.

The IFC's increasing focus on basic services has been widely criticised in view of the negative impacts which a burgeoning private sector can have on public health and education systems. In particular, the IFC's commitment to increasing the profitability of its investments raises serious concerns in the context of health and education, given that past IFC projects have catered almost exclusively to the richer sections of society, not the poor (Hall 2001).

In response to this charge, the IFC resorts to the standard claim that increased private sector involvement in health and education will reduce pressure on an overburdened public sector, thereby freeing up capacity in the system as a whole. However, an internal IFC health strategy paper (see box overleaf) makes a crucial admission:

> *By producing extra capacity in the sector as a whole, the public sector will be able to redirect its scarce resources to those most in need. This argument has traditionally been very compelling and therefore much used as a justification for private sector involvement.* ***However it is undermined by a lack of any real evidence****.*
> (IFC 2000b; emphasis added)

There is real concern that the IFC's promotion of the private sector will threaten public sector provision of basic services in developing countries. For the IFC to state that the central argument in support of its involvement in basic services is undermined by lack of evidence represents a significant admission and demands a fundamental review both of IFC strategy and of World Bank policy as a whole.

IFC private health strategy targets developing countries

The International Finance Corporation (IFC), the private sector arm of the World Bank, is set to increase its support for the private health sector in developing countries, according to an internal IFC strategy paper in March 2002. The IFC strategy recommends an increase in its current financing of private sector health providers (predominantly in the hospital sector), as well as an expansion into new fields of private sector activity such as private health insurance, pharmaceuticals and biotechnology. In recognition of its growing interest in promoting an increased role for the private sector in basic services, the IFC established a separate Health and Education Department in September 2001 (IFC 2002b).

The strategy also lists individual countries which will be targeted for increased private sector health involvement. Over the next two years the IFC plans to focus its promotion efforts on India, Pakistan, the Philippines, China, Poland, Russia, Turkey, Romania, Kazakhstan, Côte d'Ivoire, Kenya, Nigeria, South Africa, Egypt, Mexico, Colombia and Brazil. The IFC has already provided significant finance to the private health sector in many of these countries since the mid-1990s, in both loans and equity investment (Lethbridge 2002). Its global portfolio in health currently amounts to US$274 million, including US$91 million in the pharmaceutical sector.

The IFC describes itself as a pioneer in the private health sector, investing in projects which have managed to elicit little interest from other capital providers. It admits that its private sector health investments carry a higher risk than average IFC disbursements, and that non-performing loans account for 20 per cent of the IFC's healthcare portfolio.

Worse still, projects such as the 64-bed Mwaiwathu Hospital in Blantyre, Malawi (in which the IFC holds an 18 per cent share) have been a failure in both financial and healthcare terms. In a country with one of the highest infant mortality rates in the world, the private hospital has been unable to achieve even a 20 per cent utilisation rate.

Previous IFC investments in private healthcare have been widely attacked for catering only for the needs of the most affluent classes or expatriate communities, and for the negative pressure which this typically exerts on public health systems. The IFC's new strategy recognises this challenge, but gives no indication of how it might address the problem. Instead, the leaked strategy even suggests that private investment generated by the IFC might be a substitute for public funding of health systems, not just additional to it. The potential for undermining public health systems is thereby dramatically increased.

3.2 Donors

Nor is it just in the context of trade negotiations that developing countries face pressure to increase the involvement of the private sector in their economies. Donor governments also wield considerable influence through the funds which they make conditional on policy reform in developing countries, in much the same way as international financial institutions such as

the World Bank and IMF make their loans conditional on the policy prescriptions outlined above.

One notable example is the new Emerging Africa Infrastructure Fund launched by the UK Government's Department for International Development (DFID) in January 2002. Emerging Africa aims to mobilise US$450 million for private investment in infrastructure projects in Africa, with emphasis on sectors such as power, telecommunications, transport and water. The fund will provide lending both to greenfield investments and also to privatisations of public services in African countries. It will not provide financing for public sector investment.

As well as driving forward the increased involvement of private companies in public services, Emerging Africa is presented as an example of 'partnership' between the public and private sectors. While DFID is contributing one third of the fund's initial US$300 million, a consortium of commercial lenders including the Standard Bank Group and Barclays has committed the remaining two thirds. Precisely this type of public-private collaboration is being promoted as the model for the new Global Deal to come out of the World Summit on Sustainable Development.

3.3 GATS and the threat of privatisation

The World Bank and the IMF act as gatekeepers for essential loans and debt relief to poorer countries. Through this mechanism they have also acted as the driving force behind the liberalisation of basic services over the past 20 years. With the introduction of GATS in 1994, however, the WTO has also become a key forum for advancing the liberalisation of such public services, especially in those countries which have not been required to meet World Bank or IMF loan conditionalities.

GATS commits all WTO member states to 'progressive liberalisation' of their service sectors through successive rounds of market access negotiations. These rounds operate on the basis of a 'request-offer' process, with individual countries approaching others to open up service sectors in which they have an aggressive interest. The current GATS 2000 round officially moved at the end of June 2002 from the 'request' to the 'offer' phase, during which countries are expected to decide which service sectors they will offer up for liberalisation. The WTO's Doha Ministerial Declaration stated that initial offers should be submitted by the end of March 2003, although it is now acknowledged that the process as a whole will continue past that time.

The request-offer process operates on a bilateral or plurilateral basis, with *demandeurs* approaching their target countries in secret. This opens the door to exactly the type of power politics which the WTO condemns in its own promotional literature and which multilateral negotiations are supposed to avoid. Developing country delegates have already experienced the intense pressure which can be brought to bear on them in such secret market access negotiations, as in the dedicated set of financial services negotiations which was concluded in 1997.

Governments of the rich countries have been at pains to argue that basic public services are exempt from the GATS liberalisation programme by virtue of the exemption clause in GATS Article I:3. While the WTO acknowledges that the precise extent of the exemption is unclear, what has always been clear is that WTO member states can use the market access negotiations to request others to open public services to penetration by foreign private sector companies. Indeed, WTO Director-General Mike Moore confirmed this in a special statement to mark the end of the 'request' phase in June 2002. In light of the pressure which can be brought to bear on developing countries as described above, this threat of privatisation has caused widespread opposition to the GATS process in countries across the world.

The extent of the threat to public services was indicated by the draft EU requests to be made of 29 other WTO member states as part of the GATS 2000 negotiations, leaked in April 2002 and now available on the GATSwatch website (www.gatswatch.org). The documents, prepared by the European Commission for discussion at the EU's 133 Committee, call on the other WTO members to open up a wide range of service sectors, including several which are public monopolies in the countries concerned. Water services – many of them public sector water services – are particularly targeted for liberalisation, since European companies dominate the global private sector water market.

3.4 Regional and bilateral treaties

While multilateral agreements and institutions such as the World Bank, the IMF and the WTO may attract the greatest attention in debates on globalisation, bilateral and regional treaties can often be even more far-reaching in their efforts to open up services to foreign private sector providers. For example, there are widespread fears that the proposed agreement to establish a Free Trade Area of the Americas (FTAA), which was published in its draft form in July 2001, offers a framework for the USA to promote its services liberalisation agenda throughout the Americas in sectors including health, education, water and environmental services.

For 76 countries in the ACP group of African, Caribbean and Pacific nations, the current renegotiation of their trade relationship with the European Union similarly raises the prospect of increased liberalisation of service sectors above and beyond the level required by multilateral agreements. The Lomé Conventions and Cotonou Agreement which have governed ACP-EU trade relations until now are founded on the principle of non-reciprocity, whereby preferences extended by the EU to ACP exports do not have to be met with parallel preferences for EU exports to ACP countries. The Cotonou Agreement does not comply with WTO rules, however, and the EU and ACP countries now have until 2008 to negotiate new terms.

The EU negotiating mandate states that the new agreements "will provide for a progressive and reciprocal liberalisation of trade in services aiming at assuring a comparable level of market access

opportunities" (EU 2002). This requirement that the developing ACP countries undertake reciprocal liberalisation of services to match that of the EU contrasts with the explicit guarantee in GATS that developing countries must be allowed to liberalise their own services on a non-reciprocal basis and at their own pace.

The same pressure towards increased services liberalisation is evident in the bilateral treaties which countries seeking to join the WTO negotiate as part of their accession process. Russia's bid for WTO membership stalled during 2002 as a result of EU pressure to open up more of the country's services to foreign competition, in the same way as China was required to liberalise key service sectors such as insurance and retail distribution in order to gain admission to the WTO in 2001. Vietnam, which aims to join the WTO within the decade, faced extensive pressure to make liberalisation commitments across a wide range of service sectors – including health and education – in the negotiations leading to its bilateral trade agreement with the USA. The WTO has confirmed that all countries joining the WTO since 1995 have scheduled more GATS commitments than existing members at similar income levels (WTO 2001b).

NEPAD: old wine in African bottles?

The New Partnership for Africa's Development (NEPAD) is a blueprint for African renaissance drawn up the Presidents of South Africa, Nigeria, Senegal and Algeria, and subsequently endorsed by the continent's other political leaders. It proposes a strategy for development in which Africa's leaders commit themselves to rebuild the continent in partnership with developed countries. NEPAD was presented to the G8 summit in Canada in June 2002 with the aim of eliciting tangible support for the plan from the world's strongest economies. While individual G8 leaders have spoken in favour of the strategy, the summit declined to support it with a meaningful injection of new funds.

NEPAD outlines five priority areas for action in the economic arena: infrastructure (especially information and communications technology and energy), human resources (including education and skills development), health, agriculture and access to the markets of developed countries for African exports. In each of these sectors, NEPAD aims to secure greater participation by African countries in the globalisation process.

However, civil society within Africa has cautioned against this increased participation if it simply means further liberalisation along the policy lines laid down by multilateral institutions such as the World Bank and IMF. Africa's experience of the structural adjustment programmes imposed by these bodies was overwhelmingly negative, and commentators are calling for alternative solutions to be considered rather than a repeat of the same set of policies concealed under an African alias (eg, SACBC 2002).

4 Recommendations: making globalisation work for children

If globalisation is to bring tangible benefits to children, the international community will have to ensure that it operates as part of a strong, positive agenda for sustainable development. As emphasised by the seminal UNEP report for WSSD, such an agenda requires that policies to reduce poverty and protect the environment must come before the current 'markets first' approach. Such an agenda would also be truly 'child friendly' and could play an important role in realising children's rights.

To this end, Save the Children UK recommends the following set of measures. They represent concrete and achievable policy measures which could help to ensure that globalisation increasingly works to the benefit of those children who need it most.

4.1 Binding international framework for corporate accountability

If globalisation is to support sustainable development, a legal framework for the accountability of multinational companies is needed. Save the Children UK is calling for an effective, legally binding international framework on corporate accountability and liability which upholds human rights. This framework must be based on the following three principles:

4.1.1 International standards which confer corporate obligations

Regulating transnational corporations requires rules based on legal, administrative and ethical principles, many of which are already enshrined in UN conventions. As the only truly democratic international institution with a charter to promote social progress and to reaffirm faith in fundamental human rights, the United Nations is the most appropriate body to draft such rules.

The UN Sub-Commission on the Promotion and Protection of Human Rights has already developed a set of Draft Human Rights Principles and Responsibilities for Transnational Corporations and Other Business Enterprises. These Principles outline the obligation of multinational companies to promote human rights "within respective spheres of activity and influence", and call for periodic monitoring by national, international, governmental and/or non-governmental organisations of companies' adherence to the principles.

In addition, both industries and governments alike must pay greater respect to existing UN standards as they apply to companies, whether industry-specific standards such as the WHO International Code on Marketing of Breastmilk Substitutes and the WHO Ethical Criteria for Medicinal Drug Promotion, or cross-sectoral codes such as the ILO Declaration on Fundamental Principles and Rights at Work or ILO Convention 182 on the Worst Forms of Child Labour. These codes provide expert guidance on the regulation of multinational corporations in different fields, and must be enforced strictly if they are to provide the protection intended.

4.1.2 Financial and operational transparency

Access to information – especially information on interaction between the private and public sectors – is an essential prerequisite to ensuring

accountability and respect for human rights by both companies and governments alike. Government and intergovernmental bodies such as the UN and EU should publicly list all moneys paid to them by companies in the form of taxes, revenues, royalties, political donations and other payments. They should also establish a corporate lobbyist public registration system, and publish the records of all meetings with companies and NGOs.

Companies should be required to report on their social, environmental, financial and economic impact in individual countries and worldwide. To this end, Save the Children UK is a founder member of both the Corporate Responsibility Coalition, which is pressing for legislation to enforce regulation of UK companies, and the international Publish What You Pay campaign (see box overleaf). Mechanisms are also needed to facilitate scrutiny of company behaviour by the widest range of stakeholders, in order to compare the record of multinational corporations with their own corporate responsibility policies and reports.

4.1.3 Effective monitoring and liability mechanisms

For any of the above accountability programmes to succeed, there need to be formal and credible monitoring systems, independent of corporate involvement, which have the trust and participation of civil society and are adequately supported by public funding. A system of fines would need to be established for offences, with payments feeding back into the system to fund future monitoring. At the national and sub-national levels, developing countries should receive technical and financial assistance to help strengthen their own systems for monitoring standards of corporate behaviour.

In addition, there need to be effective liability mechanisms at both international and national levels to allow citizens to obtain redress in cases of corporate malpractice. One main flaw of existing UN conventions is often seen to lie in their weak enforcement mechanisms. For corporate accountability to become a reality, there needs to be an international mechanism available for those citizens unable to obtain redress through their national legal system, as well as financial assistance for those wishing to bring complaints before such a body.

4.2 Reverse national deregulation of foreign investment

The trade liberalisation agreements of the WTO have undermined national capacity to regulate foreign investment through such mechanisms as local content and joint venture requirements. There must be a thorough revision of the WTO's agreements in order to restore balance to international trade and investment regimes. This programme would include:

- a full exemption for developing countries from the provisions of the TRIMS Agreement. In addition, the review of TRIMS mandated under Article 9 of the Agreement must under no circumstances add more measures to those already listed
- revision of the Agreement on Subsidies and Countervailing Measures (SCM) so as to erase

Publish What You Pay: the call for transparency from oil, gas and mining industries

International oil, gas, and mining companies pay billions of dollars a year to the governments of developing countries which are rich in natural resources, such as Angola and Nigeria. Yet the citizens of these countries count among those worst affected by war and poverty. Countries such as Sudan, Democratic Republic of Congo, Sierra Leone and Liberia have experienced conflict and in some cases the total collapse of political, economic and social structures over recent years, despite having natural riches which could help lift millions of their children out of poverty.

The international Publish What You Pay campaign is calling on these multinational companies to publish the same basic data about aggregated tax payments and royalties to national governments in developing countries that they must already provide in developed countries. Individual companies are obviously disadvantaged in their dealings with governments if they disclose information that other companies are willing to keep hidden, and cannot be expected to comply with the disclosure requirements on a voluntary basis. The campaign is therefore calling for measures to require that oil, gas and mining companies disclose their net payments to national governments as a condition of being listed on stock exchanges across the world.

Oil, gas and mining companies have no control over how governments spend taxes, royalties and fees, and rightly so. But they do have a responsibility to disclose the payments they make so that citizens can hold their own governments accountable. Companies that fail to do so become complicit in the disempowerment of the people to whom the resources ultimately belong.

For more information, see the campaign website: www.publishwhatyoupay.org

the ban on local content subsidies and incentives, both of which provide developing country governments with an important mechanism for linking FDI with the local economy

- a thorough revision of GATS so as to allow developing countries to maximise the benefit of foreign investment in services. In addition, the provisions on domestic regulation (Article VI:4), modification of national liberalisation commitments (Article XXI) and exemption of public services (Article I:3) must also be revised as a matter of urgency (Hilary 2001)
- an undertaking from all developed countries, especially the EU, that they will not press for new investment negotations at the WTO against the repeatedly expressed wishes of a clear majority of developing countries. Experience of the WTO investment-related agreements listed above shows that they have been overwhelmingly unfriendly to development. For the WTO to suggest that it is currently following a 'Doha Development Agenda', its member countries must drop reference to new investment negotiations and concentrate instead on making existing agreements genuinely pro-development.

4.3 Rethink basic services privatisation

The International Finance Corporation (IFC) has admitted that the World Bank's central argument in support of increased privatisation of basic services is undermined through lack of evidence (see chapter 3). In view of this admission and the wealth of evidence which points to the dangers of increased private sector involvement in basic service provision, there must be a thoroughgoing review of the World Bank Group's commitment to privatisation. The World Bank must:

- publicly acknowledge the problems associated with its Private Sector Development Strategy and withhold implementation of it. Instead of continued promotion of private sector provision of basic services, the World Bank should channel maximum support towards quality basic services supplied to all children and their families by the public sector
- withdraw the IFC's plan to promote increased private sector provision of basic services in developing countries
- relinquish the power of veto which it holds with the IMF over Poverty Reduction Strategy Papers (PRSPs). This would allow genuine freedom for governments and civil society to debate and eventually adopt policy alternatives to the liberalisation and privatisation paradigm promoted by the World Bank and IMF.

In addition, individual country donors must refrain from imposing privatisation of basic services as a condition of their own lending. Instead of making release of funds contingent upon privatisation of basic services or devoting badly needed official development assistance to private sector development, donor governments should support equitable and sustainable basic services based on unified public systems of provision and accountability. Only in this way will they be contributing to the realisation of the rights of all children without discrimination.

4.4 Making positive choices

In order to make possible long-term public solutions to public problems, leaders of the world's richest countries should exploit the opportunity WSSD presents to launch a major mobilisation of global resources for sustainable development. Globalisation has its own 'double benefit' scenarios to offer. For example, if the US$360 billion given each year in subsidies to rich country farmers were invested in the public health, water and education systems of the poorest countries instead, not only would the farmers of those countries cease to fear the destruction of their own livelihoods through unfair competition from US and EU exports, they would also see a brighter future for their children as a result of functioning basic services publicly provided for all to enjoy. Such positive choices for sustainable development and children's rights are there for the international community to make, if it has the will to do so.

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For some children, the effects of globalisation can be positive, but for many it is profoundly damaging. Poor children are particularly vulnerable.

Globalisation and Children's Rights examines two economic aspects of globalisation: foreign private sector investment and the privatisation of basic services. Both represent increased involvement of the private sector in the lives of children and raise serious concerns in respect of children's rights. The report explores some of these concerns, and offers a set of recommendations to help make globalisation work for children, not against them.

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