DEVELOPMENT AND TRADE

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i. Aid and Development for a New Globalization

By Josep Borrell Fontelles[1]

As President of the Development Committee in the European Parliament, I have had the opportunity to observe first hand just how awful the world we live in has become. Current inequalities have widened the North-South gap, tensions have worsened in a more and more interdependent world, and climate change has become a real threat that can no longer be ignored.

The year 2008 witnessed the re-emergence of famine as a consequence of a boost in agricultural products that proved to be stronger and quicker than petroleum. Afterwards, a brutal slowdown in the worldwide economy started, leading to the present global crisis. Once again, the developing countries will be the most vulnerable as they suffer the consequences of the decrease in their exports, in their emigrants' remittances and in international development aid.

One should start by analysing the evolution and the actual perspective of the Official Development Aid. After a protracted decline during the 1990s, funding for Official Development Assistance (ODA) has grown steadily over the last decade. The share of ODA directed to low-income countries has been above 60% since the 1970s, and reached about 67% over the 2001-2005 period. Sub-Saharan Africa's share of total ODA has been growing for almost half a century, from a little more than 20% in the 1960s to over a third of total ODA today. The share of the social sectors in total sector allocable ODA to low-income countries has also grown, from 29% in the early 1990s to 52% in 2000-2004. However this increase of ODA is deceiving because much of it has been due to debt relief, and to a lesser extent to emergency assistance and administrative costs of donors.

Donors promised to increase funding by some $50 billion a year by 2010 compared with 2004, but OECD (Organization for Economic Cooperation and Development) studies of their budget allocations found a shortfall of some $30 billion and the Development Co-operation Report calls on donors to boost their forward spending plans. Actually aid is expected to decrease in 51 countries in between 2005 and 2010, mainly in Africa and Asia. Four of these 51 states are in situations of conflict or fragility, thus programmed decreases could radically impede their recovery.

The manner in which aid is given and spent is as critical as is the amount. Developing countries also have their own role to play in ODA. For instance, they could increase their revenues sharply by strengthening their tax systems ensuring that those who are able to pay do so, plugging the drains of tax evasion and avoidance, and battling corruption. When receiving countries have better means, both economically and in infrastructure, they can better prepare and coordinate forecast projects and thus greatly increase the effectiveness of any aid given.

AID and MDGS (millennium development goals)

The global poverty reduction impact of aid varies with its allocation across countries. This affects donors' allocation criteria: should they go for maximum global poverty

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reduction or should they aim at reaching the MDGs in each country? Should aid compensate disadvantaged countries and try to create equal opportunities for all? These alternatives have a substantial impact in terms of foregone global poverty reduction.

Unless the sector targeting of aid becomes more focused on MDG needs, even much larger amounts of aid may not be enough. Various developing countries, particularly those in Sub-Saharan Africa, will in all likelihood miss not only the most prominent MDG of halving absolute poverty by the year 2015, but also the more specific targets, like those related to health and education. Rich Western nations are urged to stick with the UN Millennium Development Goals (MDGs) despite the turbulence in the global economy. A report released prior to the meeting of the UN MDGs in New York in September 2008, found that development aid needed to increase by $18 billion per year between 2008 and 2010 to meet the Official Development Assistance (ODA) pledge by developed countries towards fulfilling the goals.

The global financial crisis needs to be addressed independently of matters relating to aid towards MDG commitments. It is all too easy for rich countries that have been hard hit by the financial crisis, to shy away from earlier ODA commitments or justify the unfeasibility of increased ODA spending. However, what these countries often refuse to acknowledge is that while their country may be experiencing higher levels of unemployment or foreclosures, in many developing countries the crisis is translated into even wider-spread poverty and mass-starvation. Thus, during this time of economic upheaval it is vital that each individual country carry out their own responsibility to deliver on the goals.

1. Financing for development

As the rich world struggles to deal with its financial crisis, the commitment made at the Gleneagles G8 Summit in 2005 to deliver $130 billion in official development assistance by 2010 seems less and less likely to be met. Even before the crisis there were questions as to how these commitments would be implemented. In the last few years aid numbers have been inflated by large debt relief programs, which do not involve cash transfers, but merely write-offs of often worthless debt. But most debt has now been forgiven and the aid numbers are slipping again.

The question is how can the current level of ODA be optimized? What possibilities are there to improve financing for development? We need not only to mobilize more ODA, but also to make sure that this is spent wisely on those types of infrastructure, services and social protection that provide the maximum benefit for the world's most vulnerable people. Consequently, we should focus much discussion on aid effectiveness, as we did in the Accra Conference in September 2008. All the more so, given that the outcome of Doha proved to be less then successful.

For sometime now the effectiveness debate has been narrowly focused on growth, the new obsession among some bilateral donors, but the time has come to move forward and focus on its impact on poverty. This is especially so for chronically poor people, many of whom get left behind by growth, even if aid does help to raise the recipient countries´ growth rate.

We also need to move the debate on innovative sources of finance into the fast lane. It has puttered along since Monterrey despite the best efforts of the Action Against Hunger and Poverty Initiative of Brazil, France, Chile and Spain that was launched at the UN in 2004. Since there are such vast and diverse proposals on

innovative finance, the best way to accelerate progress would be to focus for the moment on just one or two of these proposals.

The nexus between finance and climate change is one obvious focal point. At the just-concluded UN MDG summit, the EU, Mexico, Norway, and Switzerland were among those states pushing on the climate change issue. In particular, carbon taxation has come to the forefront. According to a Swiss Government proposal, a $2 per ton levy on carbon dioxide would raise around $48 billion per year. This is a brilliant way to raise funds using the riches and waste of the developed world to finance desperately needed aid in the developing countries, while at the same time promoting cleaner air, and a better environment from which all global citizens can benefit.

Aid effectiveness, fragmentation and emerging donors

The global aid architecture has become increasingly complex, with the growing importance of non-DAC and other "emerging" donors as well as with a high degree of aid proliferation and ODA fragmentation. New donors bring with them more resources to help developing countries reach the Millennium Development Goals, but also new challenges for coordination and standardization, in particular as limited data is available regarding aid volumes and terms. The impact of the proliferation of aid channels can be seen from the perspective of both donors and recipients.

From the donors' viewpoint, earmarking, in addition to complicating budgetary management, may lead to a misalignment between donors' and recipient countries' priorities. By constraining recipients' flexibility in allocating resources, earmarking may contribute to under-funding of other investments which are more important for economic growth and poverty reduction, while funding certain projects that are much less cost-effective.

From the recipients' viewpoint, the growing importance of sector/thematic international organizations and private donors further increases the complexity of the aid architecture. The problem is particularly pronounced in the health sector, where the effectiveness of increased ODA will rest on finding an appropriate balance between providing resources for disease and intervention-specific health programs, and for strengthening health systems.

The Paris Declaration signed in March 2005 following a 2nd High Level Forum, is a sign of progress, albeit uneven across countries and donors. This international agreement of over one hundred ministers, heads of agencies and other senior officials, committed their countries and organizations to increase efforts in harmonisation, alignment and management of aid for results, with a set of monitorable actions and indicators. The declaration lays down a practical, action-orientated roadmap to improve the quality of aid and its impact on development. The 56 partnership commitments are organized around the five key principles: ownership, alignment, harmonisation, managing for results, and mutual accountability.

Despite the proposals made, some international actors seem to see the Paris agenda as an end in itself, rather than one of a number of means to improve aid quality. Another problem is that the ODA is gradually being overtaken by other financial flows, particularly the sudden growth in philanthropic funds but also by new forms of private sector financing, foreign direct investment and remittance income. There are now about 225 bilateral and 242 multilateral agencies funding over 35,000 activities each year. For 24 countries there are 15 or more donors that combined provide less than 10% of that country's total aid.

The transaction costs, both for donors and recipients, are massive and could easily be reduced if donors' efforts were more coherent, co-ordinated and focussed. The fragmentation of aid flows among official aid donors has been widely commented on. There are more than 60,000 publicly funded aid projects currently underway, of which more than 85% are smaller than $1 million. Thirty thousand new projects are started per year.

It is important to note that twenty years ago 22 members of the OECD/DAC accounted for 95% of total aid to developing countries. Today, aid to developing countries is delivered via more than 150 multilateral agencies, 33 bilateral members of the OECD/DAC, at least 10 non-DAC governments and a growing number of global Vertical Funds. Furthermore, the number of donors per country has multiplied threefold in two decades. Some developing countries have more than 700 active (sometimes very small) projects and receive more than 400 missions a year, each with its own specific requirements. With these statistics it is hard to deny that a solution to aid effectiveness is crucial!!

In September 2008, a 3rd High Level Forum in Accra was held. With over 1700 participants the Accra Forum was an unprecedented alliance of development partners, including developing and donor countries, emerging economies, UN and multilateral institutions, global funds and civil society organisations. One of the goals was to take stock of the Paris Declaration targets two years before the 2010 due date and to set priorities that would accelerate those goals. Among the topics discussed was the still high transaction costs associated with aid, in particular, inordinate numbers of donor missions and reports make it difficult for country authorities to focus on delivering better results.

The lack of predictability of aid flows also makes it difficult for countries to plan. A survey showed that in 2007, only 46% of aid flows were disbursed according to schedule. The outcome of the 2008 Forum is the Accra Agenda for Action (AAA). Built on solid evidence, it lays the foundations for a reinforced approach to achieving the MDGs by 2015. The bottom line is that governments must allocate the human, financial, technological and natural resources available to them in a way that will truly make a difference in people's lives.

2. Financial crisis and developing countries

Following the financial crisis that broke out in the US and other Western economies in late 2008, there arises a serious concern about its impact on the developing countries. Almost daily the world media reports scenarios of gloom and doom, with many predicting a deep global recession not seen since the 1930's.

Remember that during this financial crisis, developing countries are also experiencing drastic decreases in their tax and GDP revenue, but to compound their problem, they are also confronting large decreases in their revenue from foreign aid, on which they are dependent to fund their very infrastructure. This makes developing countries extremely vulnerable during such a crisis, as their infrastructure may partially or completely collapse leaving them unable to meet even the most basis needs of their populations. Therefore, the crisis accentuates the urgent need for Western economies to accelerate financial development in poorer countries regardless of financial and political difficulties. This can be done by strengthening domestic financial systems and mobilizing domestic resources, as well as reforming the international financial system.

Europe plays a key role in the development architecture. Not only should Europe maintain its development activities, but it should transform them into an

engine for growth. By investing in the less-developed neighbouring regions, Europe could achieve several important objectives. It could narrow the gaps that threaten regional stability (fragile states), and gain the international influence that it has long deserved, while at the same time contributing to the search for an adequate economic response to face the current crisis.

The importance of allocating aid to fragile states

State fragility has serious repercussions for national and international security and prosperity. Many fragile states are ravaged by conflict and have become "failed" states. Some have only recently emerged from devastating civil wars and still remain fragile. The World Bank created the LICUS Initiative (Low Income Countries Under Stress) for countries where traditional aid approaches have failed, but continued foreign aid is desperately need. Among some of the most fragile states LICUS classes Afghanistan, Cambodia, Central African Republic, Comoros, Haiti, Liberia, Somalia, Sudan, and Tajikistan.

Fragile states have weak state policies and institutions, and have a high risk of conflict and political instability, many in the midst of civil conflicts. These states can fail in three ways: by causing negative spill-overs for citizens of neighbouring countries, by failing to provide basic security for their own citizens, and by failing to create and maintain an environment for the progressive and sustainable reduction of poverty. One can argue that in any of these three aspects of failure, fragile states can amass and impose costs which, if large enough, may justify international intervention.

Some authors calculate that the combined total cost of failed states (using the World Bank's classification of LICUS) is around US$276 billion annually, which is more than twice what international aid flows would be if the OECD countries actually reach the UN target of giving 0.7% of their GDP in aid. This suggests that there are significant financial and political benefits in finding solutions for the dilemmas of fragile states. In addressing these dilemmas specific to fragile states, LICUS tries to build state capacity and accountability, while stressing the importance of peace, security and development linkages. Further priorities include donor harmonization, a need for a strong and flexible institutional response, and field presence so that there is monitoring for abuses as well as productivity.

3. Climate change and development

There are two key dimensions to the climate change challenge: mitigation and adaptation to its irreversible effects. If we do not act against climate change urgently, advancing development and reducing poverty will become much more difficult and could even face reversals.

Poor and vulnerable developing countries will continue to be hit the hardest as they do not have the means to adapt, and their lives depend very much on real basics like food and drinking water. In short, climate change will undo global efforts to eradicate poverty and hunger. We should be reminded that the least developed countries are not responsible for the climate change we are facing today, albeit they will suffer its worst effects. The question of "climate justice" must therefore be at the forefront of the human development agenda.

4. A new vision for a development agenda

It is time for a new vision of social justice, which extends beyond simple measures against poverty. Of course there must be recognition that delivering a 'social

minimum' is a priority, whether in the form of humanitarian aid or social protection. But far beyond the minimum, we need to bring to the development agenda a vision that includes social policy and infrastructure for developing countries. These countries need to be empowered to begin to develop their own infrastructures that will be capable of sustaining their domestic social welfare system long-term.

It is clear that due to the different factors and new global challenges discussed earlier in this chapter, (climate change, the financial crisis, debt relief, etc.) the current levels of ODA are far from sufficient to meet the UN´s MDG´s. The effort to increase aid must continue on all fronts.

The impact of globalization has transformed the concept of growth in real terms. We have seen that growth does not necessarily translate into poverty reduction or development. On the contrary, today in emerging economies growth often means an increase in migration, pollution, and an increase in the informal economy, which in turn produces increased inequality and poverty. The approach that has been used for years in the development community needs to be re-evaluated. As a global community we must recognize these changes and begin to adapt our development and growth agenda accordingly so that growth is accompanied by the necessary elements to truly increase equality and reduce poverty in developing economies.

Globalization also means that there are more streams of development funding aid available from more countries and organizations then at any time in the past. However, it also means that governments must collaborate more effectively than they currently do, so that the multiplied aid flows are not slowed down or even lost in endless bureaucracy. So much time and money is wasted because of a lack of coordination both among donor countries, and among receiving countries and projects. And more importantly, the UN agencies and other development umbrella organizations must be reformed and find ways to simplify and multi-lateralize aid so that donor countries and organizations can more easily channel development funding to the needs at hand.

Improved harmonization means an increase in the effectiveness per dollar, and also has the potential to reduce the enormous costs associated with transferring funds to developing countries. When this begins to happen, (ie:similar projects that are in the same sector in the same country are coordinated) then the maximum amount of aid can reach the neediest areas and be the most effective. Only then can we truly start to see an acceleration of progress towards the MDG´s.

Part of the reforms needed among institutions include an increase and coordination of the controls and assessments of development projects. There should always be independent evaluations so that development partners are held mutually accountable. This is crucial so that precious aid is not wasted on fraud and abuses, but can reach the targeted sectors without delays. I believe that the EU is an essential pillar of the new development architecture and should play a crucial role in the process of assessment and accountability.

On the other hand, it is easy to appreciate some weariness of the European public opinion about the problems related to global development, which seem to be never-ending. The lack of confidence concerning aid effectiveness increases in view of the depressing scene represented by the real-estate patrimony that some African Chiefs of State possess in former metropolis.

Furthermore, the current crisis sparks off defensive reactions against emigration, considered once as a part of the solution but nowadays as an important part of the problem. However, Europeans as well as the citizens of most developed

countries should bear in mind and accept that not only is our future intimately tied to that of developing countries, but also that we will be unable to raise walls high enough to protect our isle of relative prosperity from an ocean of absolute misery.

ii. Trade is Part of the Solution to the Current Economic Crisis

By Pascal Lamy[2]

GENEVA – The economic crisis that is unfolding around us has generated a great deal of reflection on the international architecture that harnesses globalisation.

For many years, critics of globalisation have taken aim at the so-called Washington Consensus which advocates deregulation, minimal government interference in markets, privatization and, yes, open trade. Many in the international institutions have used the Washington Consensus as the benchmark when drawing up policy recommendations and those who have found fault with more market driven economic policies argue today that the Washington Consensus should be scrapped.

Much re-examination of this institutional infrastructure is not only healthy, it is essential. What is clear is that there are gaps in the regulatory structure of the international economy that need to be filled. It's clear as well that a response to the crisis we face today must be a global one because the problems we have encountered are global in nature. The financial meltdown is a clear illustration of this. Money moves around the planet at the touch of a keystroke and lax rules pervade the financial industry. And yet we do not have a global regulatory structure for finance; we do not have a comprehensive system of transparent financial rules and procedures; we do not have a system for addressing international financial disputes.

However, as we reassess international economic governance, we must take care that we do not throw the baby out with the bathwater. In composing a new architecture, we must learn from the lessons of history. One such lesson is that open trade works. It is the most efficient means of resource allocation and we know that those countries with open trading regimes generate more wealth than those which do not. We also know that inclusion in the global trading system helps poor countries grow and develop. Through active participation in the trading system, governments of developing countries have been able to lift some 400 million people out of abject poverty. China's accession to the WTO is a good example of this. Moreover, open trading relations between nations foster greater international harmony and cooperation.

Critics of the WTO and the trading system sometimes make the mistake of confusing trade opening with deregulation or privatization. They see a financial system which lacks adequate regulation and has spiralled out of control, fuelled by excess and ever riskier instruments. But this is not the case with trade. More than 60 years ago, the architects of the global international system recognized that isolationist policies in trade had contributed to worsening the Great Depression and had fuelled economic nationalism. During these 60 years – first with the GATT and then with the World Trade Organization – trade has been a multiplier of growth and an insurance policy against protectionism. Today, sophisticated global rules ensure that countries follow internationally-agreed procedures in their commercial

[2] Director-General, World Trade Organisation

transactions. When countries divert from the rules and disputes arise, we have an advanced and highly successful system of dispute resolution.

All of this permits trade opening to take place in an environment which is transparent, predictable and credible. Our rules-based system is global in nature but this does not mean that it is a "one-size-fits-all" prescription for opening trade. Developing countries are not expected to adhere to the same rules as more advanced countries. They have longer transition periods in which to apply WTO rules and greater flexibility in applying their commitments. Moreover, roughly a fifth of the WTO's budget is devoted to technical assistance programmes which are designed to provide developing-country officials with the training they need to better understand how the trading system can be of benefit to their countries.

The poorest countries are afforded the greatest flexibility of all. In fact, in the Doha Development Round negotiations which are currently underway, Least Developed Countries are not required to reduce any of their tariffs or subsidy outlays and are not expected to open their services markets. Yet, developed countries are expected to do the maximum in support of the LDCs, largely through the scrapping of all quotas and duties on at least 97% of LDC exports.

However, while trade is an engine for growth and development, it does not mean that trade is good for everyone, everywhere at all times. Just as factors like technological change have an impact on income distribution, there are losers from more open trade in industrial as well as developing countries. There are inevitable structural adjustments associated with it. Some sectors, firms or individuals gain from trade, while others have to adjust into alternative activities, if they can, in the face of new competitive realities. There are also countries that, frankly, cannot participate in the global economy. They lack the institutional, legal, technical and financial capacity to make trade work for them.

All this makes a powerful case for addressing the social tensions arising from inequality, be this through public provision of basic services, better education and training opportunities or fiscal reform. On the other hand, countries that miss out on international production opportunities risk being marginalized through globalisation. Firms' decisions on location are strongly influenced by the quality of the institutional framework, the costs of setting up a business and the quality of infrastructure. Not addressing these issues is likely to limit the participation of low-income countries in production networks, despite their advantage in terms of factor prices. Being left out is surely much worse than trying to manage change and localized losses against a background of generalized gains.

It is therefore clear that the politics of trade have to be properly managed if societal gains are to be realized. Increasing inequality will be associated with an increase in opposition to trade and, ultimately, with more restrictive trade policies. Greater inequality will lead to increased calls for protectionism.

Restoring the confidence of citizens in trade requires ensuring that the right accompanying domestic policies are in place, whether on health, pensions, taxation or education. In fact a double agenda is needed, coupling trade opening on the one hand, with the right domestic policies on the other. This is true for developed as much as for developing countries. The latter, however, maybe not possessing the necessary financial means. This is where development assistance comes into play.

The WTO is at the centre of an international effort to boost Aid for Trade. For many countries the opportunities offered by the multilateral trading system cannot translate into reality unless and until it is accompanied by efforts to boost their productive capacities, to address bottlenecks or to help manage the adjustment. Aid

for Trade is a good example of how the international community can work together in a coherent manner to address these shortcomings. At the WTO Ministerial Conference in Hong Kong in 2005, the WTO placed the Aid-for-Trade agenda as a necessary complement to the results of the Doha Round. Since then the WTO has been working with other international organizations such as the World Bank, regional developments banks, OECD, UNIDO, UNDP, UNCTAD and ITC, with bilateral donors and with beneficiary countries, to mainstream trade in development programmes as well as to ensure adequate funding is provided for these projects. Today, as the economic crisis bites into our economies, it is important not to forget the commitments made to assist developing countries improve their productive capacities.

We know that open trade makes sense economically and geopolitically. We know that the sophisticated system of multilateral rules provides a transparent framework. However, it is also true that the system needs to be made more equitable and relevant, particularly for developing countries, through the conclusion of the Doha Round.

In spite of all we have learnt about the advantages of such a system, the threat of protectionism is growing. The global economic crisis has produced fear and even panic in many quarters of our planet. Wherever I go these days I speak to political, business and union leaders and what they say to me can be summed up in the words “pessimism” and “fear.” Fear of massive job losses. Fear of a sharp decrease in trade which is stalling an important engine for growth, especially for many developing countries. Fear of lack of credit even for relatively safe operations, such as those to finance trade transactions, which is compounding the decline in trade flows.

The world growth projections today are at 0 per cent, with developed countries posting a negative growth of -2 per cent and developing countries a positive one of around 5 per cent. The positive growth comes from emerging countries which are highly dependent on trade. Global export volumes will contract by 2.8% in 2009, says the IMF. In emerging countries, which are heavily dependent on exports for their growth, this has set off alarm bells.

Trade has become another casualty of the recession provoked by the severe financial crisis which in turn was caused by lack of regulation, supervision and excess. In these times of serious economic crisis, our biggest challenge is to ensure trade is part of the solution and not part of the problem.

In this period of uncertainty and fear, calls for a stronger role for governments and regulators to intervene resonate well. However, for this to be successful, all actors have to agree on common targets and enemies and work together. Global cooperation within and across countries is therefore of the essence. At times of global economic crisis, enemy number one is isolationism. In 1930, the US Congress passed, and President Hoover signed, the Smoot and Hawley Act which sharply raised US tariffs on more than 20,000 products. Other countries retaliated, raising their tariffs on US goods. The Great Depression followed. Whether it is with tariffs or with new, more sophisticated versions of Smoot and Hawley, today we run the risk of sliding down a slippery slope of tit-for-tat measures.

To help WTO Members have a better and real-time idea of global trends in international trade and trade policy developments, we have set up a radar tracking trade and trade-related measures taken in the context of the current crisis. As of now, our radar picture shows that most WTO Members appear to have successfully kept domestic protectionist pressures under control. WTO Members have expressed their

concerns about rising protectionist pressures both in their export markets and from their domestic constituencies. They have also made many good suggestions on how we can improve the reports we provide them with on the application of trade measures. Our hope is that in providing a clear picture of these developments, world leaders can better appreciate the dangers and respond forcefully to such isolationist pressures. I have been heartened to see that a number of world leaders have acted against measures that would have, at the very least, annoyed their trading partners.

This is not to say that governments must remain inert as job losses mount and social unrest grows. Governments must act to alleviate the social pain which is mounting. Although job protection does not mean protectionism. Social protection means improved training, better health care, more flexibility in pension plans and a social safety net guarding against workers displaced by foreign competition being consigned to society's sidelines. Protection, yes; isolationism, no. Governments must provide answers to the social unrest which is brewing behind the massive job losses. The stimulus packages governments are adopting must provide answers to those who are being left behind in this crisis.

This is also the time to shore up global trade rules, making them more equitable, transparent and relevant. For more than 60 years these rules, which the WTO oversees, have provided a strong foundation for economic growth and development. A conclusion of the Doha Development Round of global negotiations would strengthen these rules and help ensure that trade is part of the solution to the economic downturn. A Doha Round on its own will not lift us out of this deepening recession, but more open trade would provide an important economic stimulus in its own right. It will also send the political signal that at harsh and difficult times, governments are capable of working together to provide the kind of global answer which is so desperately needed.

This is why WTO Members should pick up from where they left off in 2008 and enter the negotiating arena with renewed commitment. I am encouraged to find support in this respect from many political leaders around the world and I count on them to show the way forward. We have accomplished around 80 per cent of our set targets in the Doha Round but with the necessary political guidance, the willingness to compromise and realistic expectations, I am convinced that we can conclude these negotiations rapidly.

Yes, we are living in a changing world but, more importantly, we are living in a changed world, one which requires a new approach and a new infrastructure to help us chart a new course for international economic cooperation. A renewed commitment to rules-based open trade must be part of this paradigm.

iii. Europe and Africa Standing Together?

By Ms. Aminata Traoré [3]

Europe and us

One of the features of a Europe comprising 27 members is to include colonial powers such as Great Britain, France and Belgium. After all, the former Belgian minister of Foreign Affairs and current European Commissioner for development, Louis Michel, declared about Africa "If France, Great Britain and Belgium adopt a common strategy, the others will follow." [4] That's often how our fate as Africans is sealed, without us knowing, and inevitably to our detriment.

Europe being a key component of the machinery, our position in this market globalisation has already been designated. Our continent has been the backyard of Europe, where it can and wants to continue to draw upon our natural resources and select among workers strictly according to its needs. The modernisation of agriculture, industrialisation and trade to fulfil on a long-term basis the legitimate needs of the people have often remained pious vows, as the contents are not the same whether it is the dominant or the downtrodden. One can say the same regarding democracy, governance and human rights which the powerful and mighty respect to a certain extent, but in their climes they often deny and trample these same values. African leadership which ensues from such an asymmetry in the power struggle is formatted and weakened during dialogue.

It is like this because Europe knows how to thank and reward leaders, whom it takes for granted, and make its mark, all the more so since it prides itself on being the first "donor" to the continent.

With the Cotonou Agreement, which is a turning point in the relations between the EU and the ACP countries, Africa jumped in the so-called free market with an invisible hand which supposedly outdoes sovereign States in terms of wealth creation and distribution. Disqualified on this basis, the postcolonial State had to disengage itself not only from the production, marketing and the banking system, but also from vital social sectors that people desperately need. That's how the vast majority of Africans are now deprived of education, healthcare, drinkable water because they are not able to afford them.

Crises

Three decades of African economies' restructuring under the guidance of the International Monetary Fund (IMF) and the World Bank have ruined our societies and our lives. And now the mainstream economic model, which accounts for all sorts of miseries, hardships and humiliations, has reached deadlock in the countries of "happy" and triumphant globalisation.

The US-triggered subprime mortgage crisis in August 2007 is often presented by the defenders of the system as the spark that ignited the financial planet, with

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[3] Forum pour l´autre Mali, UNDP

[4] Louis Michel : « L'Afrique est une tâche sur la conscience occidentale ». Jeune Afrique l'Intelligent. N°2233 du 26 octobre au 01 novembre 2003, page 32

dramatic social and economic consequences. In actual fact, it is the straw that broke the camel's back. Such a situation was foreseeable and unavoidable due to the expansionist and predatory logic that has fuelled globalised capitalism. New products should create business opportunities for some, which is to say the initiators but what about the others. In this case it's people from underdeveloped countries that are becoming ever more impoverished day by day, despite the fact that their wealth contributes to fuel the engine of growth. The expansion and predatory exploitation destruction process is not specific to financial capitalism, whose recasting by moralising its actors is not enough to curb the crisis as it is.

It has been systemic and rampant, under other forms since the 80's, where in Africa, Latin America and Asia the severe structural adjustment programmes (SAPs) of the Bretton Woods institutions were supposed to hold it back and restrain it. Instead they translated into painful, unpopular, and inappropriate reforms.

The lack of African information and reflection continues to conceal the role of the groundswell of economic liberalism. The winners of globalisation are confronted with the worst crisis since 1930. In the United States, Europe and elsewhere, banks which greatly lack funds, scarcely lend anymore to companies or individuals. In these countries, a drop in production, factory closures, mass redundancies and lay-offs are rife.

Africa does not escape from the consequences of the abrupt and brutal evolution of the global environment. How is it going to cope and come through? Is it going to lose the "gain" of economic reforms, ask worried liberals from here and elsewhere. From my point of view, there are two essential questions. Will Africa also have to pay dearly for the failure of the system or, take advantage of the present situation to move away from the supervision of world powers and IFI's? Will Europe, its powerful neighbour, finally make concessions by acknowledging the right of Africans to think for themselves, to choose not only their leaders but also their proper economic and monetary policies, true to their interests?

We must demonstrate audacity, insight and political courage because our continent can no longer afford to be seen as the anti-model, to be looked after and kept on the straight and narrow; on the global market that leads us into the abyss. The model is not in crisis in Africa. It has been a failure from the very start.

From the G8 to the G20

Attending the G20 could be a false challenge and a distraction for us. Those behind it have no intention of relinquishing the advantages, nor the margins of manoeuvre they have created for themselves thanks to reforms. This authority won't do more than the G8 which may, during several summits, have granted a few seats to leaders from the South that were viewed as reputable, that is to say in full agreement with the market dogma and disciplined in the dismantling of their economies in aid of large Euro-American groups. To pledge 0.7% of their recovery and stimulus packages to save banks, as the British Prime Minister Gordon Brown considers doing, is a blend of diversion and corruption, as long as there are no serious discussions on where responsibilities lie for the ruin of African economies. Let's remind the reader that it was under the G8 presidency and the European Union presidency that Great Britain organised the 2005 Gleneagles Summit (Scotland) which made a mountain out of a molehill.

Many Africans have fond memories of the impressive Blair Commission report, as well as Bob Geldolf's ten giant concerts which strengthened and accredited the reality of poverty and deprivation in an Africa whose foreign debt should have been

alleviated. The aim was never to go beyond capitalism as a process of alienation and pauperization of the vast majority of Africans, and corruption of the elite. Debt relief for 18 poor countries, including 14 from Africa, and an increase in public aid appropriation for development of 50 billion dollars per year through 2010 lengthened the list of vain promises. The trick was to cancel and write off debts that the states are unable to reimburse without granting them the additional resources needed. In return for this false generosity, the beneficiary states are compelled to carry on with and deepen economic policies that impoverish, dehumanize and force entire sections of the population to emigrate.

Risks

The great vulnerability of Africa given the consequences of the world financial and economic crisis, has to do with the hypocrisy of “rich” nations as well as our own lack of vision, solidarity and political courage. Nevertheless, we will have to face up the following realities:

- The drop in demand for raw materials which our economies highly depend on, as the production falls in importing countries
- The reduction of the volume of money transfers and remittances from emigrant workers due to the lay-offs that will continue to increase
- The reduction of public aid for development, that of Europe having already dropped in 2007, where it accounted for only 0.38% of the GDP of the EU
- The flight and net outflow of investment, although apart from certain strategic sectors, investment was not pouring in before, despite many African states being subjected to the required reforms.

Most analysts do not comprehend the alarming political risks at stake. They regard the worsening of tendencies among African leaders and negotiators, as a reason to give even more choices and decisions to world powers which impose their conditions.

Within its borders, the recent exacerbation of the international environment will generate new tensions and far more corruption in the quest to capture diminishing resources. The auctioning off of wealth will continue if people are not more well-informed and organised in order to protect African heritage and public goods.

Opportunities

The collapse of the capitalist system could have, in the mindset of people from underdeveloped countries and in terms of North / South relations the same healthy impact as the participation of our countries had in the Second World War. We came through with a new look at the colonial system after realising it was not unshakeable, immutable and that settlers were not invincible.

With regard to the neoliberal order, we must also say once and for all, that it is a dead-end and the disastrous economic policies it mandates constitute nothing less than violence perpetrated against a people. The G20, as I previously mentioned, is not the place for discussion as its most powerful members have yet to prove that they are credible or sincere interlocutors.

More concretely, Africa needs to ask the fundamental question of political, monetary, economic and food sovereignty which also lay at the very heart and core of the struggles for national liberation. It was also on the agenda in the 80’s when after two decades of dependent and outward-looking development, postcolonial States came to the realisation that they were mistaken in terms of challenge and

strategy. It is in this context that in April 1980, heads of States and governments of the Organisation of African Unity (OAU) adopted the Lagos Plan of Action in the Nigerian capital. This document was the successful conclusion and culmination of a long process of dialogue during which African countries devised the Monrovia strategy for the economic development of Africa. In one fell swoop, the World Bank discarded and jettisoned the Lagos Plan of Action and replaced it by a neoliberal agenda implemented through structural adjustment plans.

With the orientation and control of the continent's development no longer in the hands of its own leaders, our role becomes only to keep up the pace of reforms, that is to please Washington, Brussels, Geneva and other strategic places of decision-making, and consequently to betray our populations instead of feeling indebted and loyal to them.

Isn't it surprising that, after having converted the democratic transitions of the 90's into opportunities to liberalise African economies, the United States of America, Europe and their allies posed as defenders of the rights the African people and as judges of their leaders? Isn't it a way of patronizing us by asking us to think and act locally by voting, instead of repositioning ourselves in the globalised world which at present works to the detriment of our interests?

Citizenship

It is urgent and of the utmost importance to contemplate political alternation in Africa in the light of what is at stake worldwide, e.g. trade, debt, environment and migratory flows. It is no longer a matter of going from one election to another, well or poorly organised, of entrusting our fate to the hands of leaders who are prepared to make concessions and compromise all their principles for the control of external resources, including the European Union's aid. When they try to escape formal democracy by looking after the interests of their people, Europe tries to dissuade and deter them. The signing under pressure of the Economic Partnership Agreement (EPA) with the EU illustrates how the continent's democratisation efforts are being sabotaged and undermined. It aims to abolish and do away with non-reciprocal trade preferences and replace them with a free trade agreement, in accordance with the rules of the WTO. ACP countries will have to gradually remove and dismantle their trade barriers to become more competitive by 2020.

Critical civil society and many well-informed African decision-makers know from experience that when it comes to 'free trade' rich countries are at liberty to cheat and grant themselves the right to distort and dissimilate in the competition game. One perfect example regards the farm subsidy policies in the United States and the European Union which have stifled and throttled the African cotton industry. The defenders of the free and competitive market, especially right-wing parties, do not disarm. They are determined to corner African States more to have them sign the EPAs that are even more unjustified since the model they derive from is ailing.

In September 2005, at the Economic Forum of Alpbach (Austria), I was asked by the organisers the following question: "Are Europe and Africa standing together at this time of globalisation?" It is a burning question given the financial and economic crisis which has shaken the world system. "I'll believe it when I see it », I replied, making reference to the asymmetry in the power struggle between the regions and the right that Europe arrogates itself to interfere. To truly stand together means equality, justice and transparency in bilateral relations. The freedom of movement is one of the best guarantees.

Repressive migratory policies in Europe contradict its discourse on democracy, human rights and justice that are not only incumbent on African leaders. The responsibility of thinking masters and sponsors is engaged. The latter cannot provoke chaos through neoliberal policies going against the interests of the African people and then clear their conscience by asking humanitarian organisations to plug the gaps. Global governance and peace in Africa require the clarification of the intentions of Western and emerging powers, particularly China, in its quest for greedy acquisition of raw materials and farmland.

The profile of new migrants be it laid-off workers, young unemployed graduates, peasants, or fishermen, is highly edifying given the damage inflicted on Africans in the name of a global market which is both unfair and destructive.

Our distress calls as victims of the market have fallen on deaf ears. Allocating 0.7% to "poor" countries from their recovery packages which bail out bankrupt banks, does not remedy the situation. The required funds to fight against the food and environmental crisis remain clearly insufficient and sometimes non-existent.

Europe could have been an ally as well as a privileged interlocutor in Africa by giving a different globalisation than the terrible model based solely on profit. The dilemma for Africa is that, once we are rid of the burden of odious debt, and equipped with industries that fulfil its needs, exporting of goods besides raw materials, it will still not be of interest to Europe or the other great winners of globalised capitalism, including China.

Duty to assert truth and justice

The way for the continent to extricate itself from the current stalemate lies in clarity, sincerity and insight. We must examine, deal with and eradicate the harm that befalls Africa. The responsibility for this work of clarification is incumbent upon us as Africans. We need to revisit and compare former strategies to free ourselves from the crisis, especially the Lagos Plan of Action which has been completely overlooked because it has been denigrated, while the New Partnership for Africa's Development (NEPAD) has been acclaimed by the international community.

The authors of the Lagos Plan of Action were right in considering that the African crisis of the 80's was a by-product of the world crisis. They were also right in concluding that the answer was closely linked to the improvement of the international environment and the withdrawal and pull-out from the global market for further regional integration and self-reliance.

The current situation has reinforced and vindicated their thesis. The international environment has kept deteriorating, except in the realm of business which is at the centre of most states' concerns; reforms for capital and goods to move freely. That's how at the beginning of the 21st century, 20% of the world controls 60% of the planet's wealth. For an Africa confronted with endemic, massive and chronic hunger and starvation, HIV/Aids and wars, it is not only a matter of coming through and surviving the current crisis, but also of confronting capitalism in its most deadly and destructive form. This prospect urgently requires the dynamism and activism of national, sub-regional and regional economies, based on the creation and distribution of wealth in accordance with our own needs and by protecting our own ecosystems.

It's about rewriting our vision and our priorities, not by continuing with the Lagos Plan of Action as written then but by revising it so that it is relevant for today's challenges. The new vision which will emerge will most certainly contrast with the New Partnership for Africa's Development (NEPAD).

Favouring and prioritizing human beings

The only prospect that corresponds to Africa today, but also to Europe and the rest of the world is to once again focus our efforts and resources on human lives and ecosystems, which are both endangered by the cult of growth and competitiveness. Lessons can be learned from the last century's and more recent years' trials. Alternatives to chaos can be found in the values of culture and society that the people are able to promote if they are given the opportunity to learn, understand and involve themselves more in the process of decision-making. It's about "weaving the new cord to the former one", as goes an African saying, in order to reconstruct our crumbled and shaken beings, manhandled and distorted social bonds and endangered environment. This prospect starts with awareness and speaking out, by Africans in their national languages and at all levels regarding their daily lives, but also regarding global challenges: trade, climate change, debt, migratory flows…

The other Europe, the people's Europe, is well aware of the asymmetrical nature of the power struggle between their continent and Africa, as well as our common fate. Prepared to fight along with African civil societies, the existence and the struggle of these committed Europeans allow me to conclude that in face of the crisis of capitalism, the people of Europe and Africa can stand together. With their inexhaustible inner richness, their determination to live in peace, as equals and standing together, they can save human lives and the planet from the often foolish and destructive logic of the market.

iv. The Development Agenda as a Global Social Contract

By Nancy Birdsall[5]

(This essay has been taken from a lecture given by Nancy Birdsall to the Dutch Scientific Council (WRR) on December 8, 2008, The Hague)

Reframing the traditional development agenda

We are in the midst of an extraordinary moment. On the one hand, in my country, there are enormously high expectations of a more pragmatic, active government calling on Americans' shared interests in a better world beyond, as well as within our borders. On the other hand, we are all absorbing the grim new reality of a financial crisis born in America now escalating into a global economic disaster, threatening the well-being of people everywhere and, sadly, undoing the recent gains against the terrible poverty so many people suffer in emerging-market and low-income economies.

I believe those of us in the development community need to seize this moment and make of the current crisis an opportunity for a major change in the way we think about the development agenda. I want to suggest that we reframe the conventionally defined development agenda as, in large part, the construction by an activist international community of a global social contract. A 21st-century global social contract should be designed to maximize the benefits of global economic interdependence (or to use the popular term "globalization") while minimizing the risks and costs not only for the world's poor, but for the world's indispensable middle class, both the large middle class in the rich world's mature democratic economies and the incipient middle class within emerging markets and in a few low-income countries.

Defining development as construction of a global social contract suggests two challenges for development advocates. First, it suggests a definition of development as a global imperative in which all nations and peoples have a common interest rather than as a matter primarily of aid as charity passes from rich to poor nations. Indeed, if the current crisis increases awareness on the part of the world's rich and powerful (people and nation-states) of their dependence on prosperity and security in emerging markets and other developing economies, that would be the silver lining in today's cloud of gloom over the sinking global economy because it could motivate citizens and voters in the rich world to pay more serious attention to their own interest in progress in the developing world. Second, it suggests putting high priority on strengthening the institutions that manage and protect our common interests by fostering growth and sustainable development worldwide. In our global economy these institutions including the multilateral development banks, the World Bank, the United Nations agencies, the International Monetary Fund, the World Trade Organization, the Basel Committee, and many more constitute the global "polity" we

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need to manage the investment, protection and other functions that a robust global social contract implies.

The ongoing crisis: a more activist state; a hyper-connected global economy

Discussion of these points should be prefaced with two observations about the current crisis that bear on the overall message.

First, the ongoing crisis will not lead to a fundamental rejection of markets but to a redrawing of the line between the state and the market in the mature Western economies. On the one hand, what Churchill said about democracy is also true of market-driven economies: ”terrible until you consider the alternatives.” On the other hand, there is little doubt that American-style capitalism is under siege. The state is resurgent, especially in the United States and the United Kingdom, where the era of Reagan and Thatcher has run its course anyway and is now decidedly over. In all the advanced economies, markets, particularly financial markets (the cowboy sector of American capitalism, which has in turn spread to Europe as well), will be “fettered,” that is, more regulated. In the next few years, the views of people like, Ha-Joon Chang, will be far more influential than they have been as the balance of state and market in what are mixed economies shifts, and a more activist state emerges in Europe, Japan, and America[6].

One likely change in the balance will come in the form of an expanded domestic social contract by which citizens contract with each other through the state to guarantee access to health, education, and other public goods and protect against individual risks and the systemic risks that markets generate. This will be true especially in the United States, leading to a kind of convergence with Europe in the nature of the welfare state. Everywhere that democratic politics works reasonably well; the domestic social contract will be strengthened, especially the protection for the middle class. In the United States, where the median wage has not risen in almost two decades and where “globalization” has become the scapegoat of a stagnant median wage and failed health and other social insurance policies, it will otherwise be politically impossible to retain even begrudging support for open trade markets and minimal levels of legally sanctioned immigration.

The only question is whether a strengthened domestic social contract will take the form of increased public spending on health, education, and public infrastructure and a shift in the tax burden toward the rich in order to reduce taxes on the middle class, or direct government subsidies to protect “middle class” jobs in domestic industries, with attendant risks to the current global trade regime. I hope it will be the former, but one way or another, implicitly or explicitly, governments in affluent democracies will be emphasizing increased support for their middle class majorities.

The second observation is that the hyper-connectivity of the global market, including the reality of the rich world’s interdependence with the poor world, has been driven home. We have seen in the last couple of months a desperate effort at greater international coordination of macroeconomic and financial-sector policies because a failure of international coordination, as in the 1930s, means running the risk of a recession turning into a long and deep global depression. There are calls to eschew beggar-thy-neighbor policies, both on the financial side (as when guaranteeing deposits in Ireland led to flight out of banks elsewhere) and in the real economy, to avoid (under the umbrella of “social” efforts to protect jobs) new trade and industrial

[6] Chang, Ha-Joon. “Globalization and the Role of the State.” Address to the Scientific Council for Government Policy, The Hague, the Netherlands, 8 December 2008.

protection programs (though by early December such programs were already being actively discussed in Russia, France, and the United States).

Perhaps most noteworthy, is that with the first-ever meeting last year of the heads of state of the G-20 (the G-7 plus 13 emerging markets including Brazil, Russia, India, China, Indonesia, South Africa, and others), we may have seen the beginning of the end of the increasingly irrelevant G-7 club of nations. The G-20 meeting took place near the end of a year in which almost all of the paltry growth in the United States was due to exports of which almost 40 percent went to developing countries. In contrast to the past, this time it is the United States and to some extent Western Europe that bear responsibility (among other things due to their regulatory failures) for today's economic losses throughout the world. And for the first time the rich countries are dependent on growth and effective countercyclical policy in China, Brazil, the Middle East, and elsewhere to help keep their own economies afloat next year; they cannot manage any recovery, for themselves or for others, alone.

For today's rich countries, there is potential tension between a more activist state, which at the national level is more likely to intervene in support of home industries and jobs, and the demands on coordination of interdependence. Let us hope that in 2009, in contrast to the 1930s, "activism" takes a different form and the world's richest and most powerful sovereign states will be able to subsume short-term domestic political interests to the general global welfare if only because protecting global welfare is actually more consistent with their own overall long-term interests.

What do these two observations, a more activist sovereign state and a continuing interdependence among sovereigns, have to do with the idea of a global social contract? The following: to save the hyper-connected global economy from its excesses and to make it fair and politically sustainable, there is a need for some sort of "activist" polity at the global level analogous to the state at the domestic level. An activist global polity is needed to construct and manage a contract at the global level analogous to the social contract at the domestic level that exists in one form or another in most mature democratic societies. On the one hand a global social contract sounds worryingly utopian. On the other hand, it is simply about adapting to the reality of a global market-driven economy that implies a convergence of global political necessity with the longstanding development agenda.

In the remainder of this essay, I will discuss further the logic of a "global" social contract for rich nations, given their increasing interdependence with developing countries; describe the logic of a "social" contract, given the shortcomings and risks of market-based globalization; and then set out briefly four actions rich countries should put on their development agenda to build a durable and enforceable global contract.

A global social contract

Why global? Global interdependence

The rich world's own security and material prosperity depend increasingly on shared growth and on stable and competent governments responding to their people's demands and needs "out there" in poor countries. One straightforward reason why this is true is that the relative size of the rich world economies and populations is declining. Under reasonable assumptions about future growth rates, the combined economies of the BRICs (Brazil, Russia, India, and China) will soon be larger than those of the G-7; they are simply likely to grow faster in the next several decades than rich countries, as their much lower per-capita incomes continue to converge

slowly to those of the rich world. The middle class in those and other emerging markets is likely to be twice the size of the entire population of the United States within the next 20 years. Three of the world's five largest companies by market capitalization are Chinese, and by some accounts four of the top ten richest people in the world are Indian nationals. As this century unfolds, it is in these fast-growing economies that rich-world producers will find new markets and rich, new investment opportunities, and from them will emerge the ideas, people, and innovations that will improve consumers' lives everywhere.

At the same time, most developing countries, even geopolitically ascendant China and India, contend with widespread poverty and misery and the attendant social and political problems. In India, approximately 2 million children die before age five, and 21 million children of primary-school age do not attend school. Their new middle classes are weak and often disengaged politically except when their own parochial interests can be served. (Indeed, my own analysis of income distribution data for over 50 countries indicates that most developing countries have no more than 20 percent of their populations in what I would define as the middle class – living on at least $10 a day per person and below the income of the 95th percentile of the total population; what we think of as middle-class consumers in Egypt, India, Indonesia, and Peru are actually among the 5 percent of richest households in their countries, and thus not in the "middle" at all.)

A small middle class cannot provide the ballast that undergirds responsible and effective government as in the rich-world economies, where the large middle class supports the rule of law, respect for property rights and human rights, and access for all to education and economic opportunities. Growth without development in Pakistan and in Bolivia, Nigeria and other natural resource–based economies, and setbacks following a decade or more of growth in Côte d'Ivoire, Zimbabwe, and even Venezuela have been far more about local political failures than economic ones. Even those low-income economies with responsible leadership such as Ghana, Mali, and Morocco face daunting problems of management and capacity constraints that deeply undermine their well-intentioned efforts to reduce poverty.

Yet the global community, including all of you and me, relies on competent governments everywhere to play by certain rules in our global society. Incompetent and corrupt governments are weak links in the chain that provides global security and enables global prosperity. Deforestation and the resulting climate risks in the Congo and Indonesia; avian flu incubated in Vietnam; consumer safety breakdowns in food and toy manufacturing in China; terrorist groups in the Philippines and Pakistan; none of these risks cannot be contained within the borders of the poor countries where they begin.

From both the perspective of new opportunities out there, and of new cross-border risks, development matters. It is in the interests of rich countries to bind themselves in some contractual form to engagement with poor countries.

Why social? Three market shortcomings

Market reform and outward-oriented economic policies are not to be disdained. They are a good part of the explanation for the rapid growth and huge reductions in poverty of the last two decades and more in China, India, Bangladesh, and Vietnam, just as they were earlier in the East Asian Tigers. In China, it was liberalization of agriculture that started the process; in China and in India since the late 1980s a more business-friendly environment and openness to foreign investment have contributed. In Latin America and Africa, good macroeconomic policies in the last two decades,

helped along recently by the global commodity boom, have brought growth rates as high as 6%, and in the democracies of Africa 7-8%, finally bringing reductions not only in the rate of poverty but in the absolute numbers of people living in poverty in many countries.

But I am no globophile. Markets as a mechanism for organizing societies have fundamental shortcomings, and the effects of these are easily intensified in the case of global markets. Let me mention three.

First, markets leave people and countries without the right assets behind. First, markets reward productive assets. They tend to lock in pre-existing income and wealth inequality or, generate along with growth, increasing inequality.

For individual people, the right asset in today's global economy is higher education (and the skills and flexibility that higher education signals and reinforces). Since the late 1980s, the salary premium to higher education has been rising virtually everywhere. Although the supply of graduates of higher education has been increasing almost everywhere in the world, the demand for their skills has increased even faster, fuelled by rapid technological change (consider the influence alone of the World Wide Web) and the nearly instant diffusion of new technologies in globally connected markets. The demand for highly skilled and talented people at the global level has set off intense competition among rich countries to institute immigration policies not just to permit but to encourage the entry of skilled workers thus contributing to the much higher emigration rates of skilled compared to unskilled people from developing countries. (New research suggests that the benefits of that emigration for sending countries probably exceed the costs; I mention it here as an indicator of the reality of a global market rewarding education, not necessarily as a problem in itself.)

For countries, the key asset appears to be stable and sound government institutions committed to the rule of law, human rights, and property rights. An example of the wrong "asset" for countries is a comparative advantage in production and export of primary commodities, whether agriculture or, especially for immature democracies with minimal accountability to citizens, oil or other non-renewable mineral resources. Countries that entered the 1980's highly dependent on commodity exports such as Angola, Bolivia, Ghana, Malawi, Nicaragua, or Nigeria, that have failed to diversify into manufacturing, lost out on more than two decades of growth, in contrast to China, Malaysia, and (more recently) Vietnam. One plausible explanation is that entry into manufacturing (and now perhaps into IT services) encourages the accumulation of skills by increasing the returns to human capital, and the diffusion of innovations that fuel endogenous growth.

We entered the 1990's with pre-existing inequalities within countries in education and a dramatic gap between the competence and stability of rich-country governments and that of the poorest countries. The differences in assets have helped ensure that income inequality has risen in the majority of developing countries enjoying at least some growth; and that between the initially richest and poorest countries the gap in average incomes has grown dramatically, essentially because the poorest countries have grown little if at all, while the richest have continued to move ahead.

A second shortcoming of markets, particularly financial markets, is volatility. In 2008, we saw how the tightening of fuel and food markets led to price spikes that were particularly painful for importing countries that had relied on global trade of these products. In the absence of any global arrangement or rules to make those markets more resilient and less volatile, it is not surprising to hear renewed calls for

energy independence in the United States and food security in the Philippines and Indonesia, despite the efficiency losses and other costs that shifting from openness to real autarchy in these markets would imply. But of the triple whammy in food, fuel, and finance that poor countries suffered this past year, it is the financial one that will be the most costly and the best remembered, particularly in the emerging-market economies that had opened their financial and capital markets.

Financial crises hurt all countries, but developing countries have tended to suffer much greater relative losses in the past, losses of 10 percent of GDP and more, compared to 2 to 3 percent in rich countries following banking crises. And within countries, the poor who lose jobs and income often sell assets or take their children out of school, implying permanently lower lifetime income. In Mexico many children who left school during the 1994-95 tequila crisis, never returned.

For the relatively poor the results are long-lasting in other ways as well. An example: the high public debt that follows government rescues of banks and other financial institutions, crowds out private investment and job creation and reduces the fiscal space for spending on infrastructure, education, and health programs that benefit the poor the most and help build a middle class. There is good evidence that the labor share of total income relative to capital, declines during crises and never fully recovers. Thus, volatility is complicit in contributing to income inequality.

A third shortcoming of markets is that they cannot and do not address "public" goods, i.e. products and services on which market actors cannot make a profit (or fully capture the benefits were they to invest or spend). Basic education is publicly financed almost everywhere in the world because basic education is a quasi-public good. Parents (and their children) can capture some of the benefits of going to school but not all the benefits that societies reap, when more people are schooled. By the same logic, most governments spend public resources to prevent contagious diseases. The classic case of a public good is control of pollution: the factory owner who implements pollution controls pays the cost of control (in the absence of a subsidy) but captures only a small part of the benefits to his community. At the global level, the classic counterpart case is the reduction of greenhouse gas emissions. Countries that commit resources to reduce emissions cannot capture all the benefits for themselves. Just as local pollution control requires that some government entity impose regulations or create offsetting incentives through taxes or subsidies, global-level control of greenhouse gas emissions is likely to require that an activist international community (including at the least the major polluter countries) impose controls or agree on incentives.

Climate change is another example of a global problem that hits the poorest people and countries the hardest. By an unfortunate twist of fate, tropical countries that contributed least to the accumulation of gases are likely to suffer the worst declines in agricultural productivity, in precisely the sector where the poor within countries are heavily concentrated. In the absence of corrective action at the global level, projected declines in agriculture in India are on the order of 30 percent in the next 70 years, and as much or worse in parts of Africa. Sea level rise in Bangladesh, drought and floods, and the expanding reach of malaria and other diseases in many tropical areas will also hit hardest the most vulnerable. And even for the same risks, poorer people and poor countries have fewer resources with which to protect themselves and adjust to changes and will therefore suffer much higher welfare costs if not higher absolute costs from the effects of climate change.

Other global public goods that the market naturally neglects (in these cases a pecuniary market failure) include agricultural research and development likely to

benefit people and places with low incomes and limited market power, and health research and development on malaria and other diseases that primarily afflict the poor. These are areas where in the last several decades large philanthropies like the Gates Foundation have stepped in to compensate for chronic underfunding by rich-country "donor" governments.

In short, in the absence of government intervention, markets alone are not a sufficient organizing principle for socially and politically stable societies. They tend to generate inequality, since alone they favor those who already have financial or human capital or other assets (such as political privileges or family connections). They fail to protect the poor and vulnerable during financial and other crises, and alone will not provide the pension, health and other social insurance needs that reduce insecurity among the middle class (and invite reasonable risk-taking and innovation); and they naturally fail to provide for key public goods (due to what economists refer to as missing markets or market failures).

Building a global social contract: A development agenda

The conventional development agenda begins (and too often ends) with an emphasis on the quantity of aid. Let me suggest a four-part agenda for building and sustaining a robust global social contract, which includes but goes well beyond aid.

First, as is the case within country borders, there should be a laser-like focus on avoiding harm to any members of the global community. An apt example is the imperative, from a development point of view, that rich countries during this global economic crisis do not yield to the protectionist pressures that were so calamitous in the 1930s for the then "world" economy. I am optimistic they will not as there is a further understanding today of the dependence on global trading opportunities.

Doing no harm also requires changing some current rich-country policies and programs. The Common Agricultural Policy, which ends up hurting developing country agricultural producers, is an obvious example in Europe, as are cotton, sugar, and other forms of agricultural protection in the United States. The subsidy and protection for corn-based bio-fuel in the United States is discouraging investment in bio-fuels in which developing countries have or could have a comparative advantage. The WTO-agreed intellectual property rights regime reflects a trade-off between access and innovation pushed by the United States and others in the 1990's that is inappropriate for the world's poorest countries where the premium has to be on access, particularly to new medicines. And then there is the tough issue of migration.

A colleague of mine at the Center for Global Development argues that emigration is development. Certainly for the unskilled, emigration from a poor country to a rich country is the single easiest and most effective escape from poverty. Nigerian, Haitian, and Honduran construction workers and taxi drivers with little education can instantly increase their incomes fivefold and more by simply moving from their home to a rich country. Immigration is a difficult domestic political issue in all countries, rich and poor, and it would be naïve to expect all countries to liberalize this market as they have liberalized trade and capital markets. But development advocates could be more assertive in calling for easing of current illiberal restrictions on the movement of people across borders, given the growing evidence of the benefits of such movements for both sending and receiving countries.

The idea of do no harm extends as well to enforcing anti-corruption rules on investors abroad and actively supporting the Extractive Industries Transparency Initiative, the Equator Principles, the Kimberly process, and other efforts to bind

private and public agents to good behavior in their dealings with developing countries. Cooperating on programs to document and fight illegitimate and illegal tax and capital flight also falls into this category.

Second, again as is the case within country borders, all governments should allocate more resources to global public goods by spending both at home and abroad. As happens within countries, there should be some redistribution through taxes and expenditures of the burden and benefits of such spending from rich to poor, in this case across countries, in the enlightened self-interest of the rich. A good example is investments in clean-energy technologies to minimize climate change, including spending within rich countries on energy research and development. Naturally there is concern that rich governments will divert resources from traditional aid programs to "global" programs; but, in fact, recent evidence suggests that the effects of climate change are already imposing high welfare costs on the world's poor, so whatever trade-off there may be, is far less clear than heretofore assumed. Ideally, in the context of a climate change treaty, the much greater per-capita emissions of rich countries compared to poor will imply major compensatory financial transfers from the former to the latter to purchase emissions rights. Those transfers would not be aid, with its administrative and proto-paternalistic burdens on poor countries, but legally based transactions in which all parties honor contractual obligations. In any event, R&D on clean energy would ideally include a major focus on sun, wind, and bio-fuel technologies that would tap the comparative advantage of developing countries, many of which literally have more sun than rich countries, and would be compatible with the needs of low-income and rural populations.

Other global public goods include public investment in new and improved medicines and health delivery technologies, and in agriculture (for example to create a Green Revolution in Africa and elsewhere) oriented to the needs of people in developing countries, and public contractual commitments to finance successful development and deployment of such technologies by the private sector.

Whether called "aid" (or better not – Jean-Michel Severino who heads the Agence Francaise de Developpement with his co-author Olivier Ray suggests the term "global public finance" in a recent paper)[7], rich countries should develop and agree on clear norms and agreed financing mechanisms (the European Union aviation tax is an apt example) for the allocation of resources to global public goods relevant for poor countries and poor peoples.

Third, donor countries should focus on the quality and at the least maintain the current quantity of traditional aid. In domestic social contracts, some transfers (publicly financed education) are meant to support future growth by maximizing society's investment in human capital and to level the playing field in ensuring access to health and education; some transfers (public subsidies and provisions for old age and health insurance) provide social insurance across the board for all income groups; some transfers (welfare payments to the indigent and unemployable) are primarily humanitarian in the interests of social solidarity. It is not always easy or useful to draw clear lines around these three purposes. As with domestic transfers, so with foreign aid it is not always easy or useful to distinguish between aid for "growth" and aid in the interest of global solidarity. The Millennium Development Goals obviously address both growth and solidarity objectives; budget support provides for both; infrastructure investments and agriculture are usually viewed as mostly about long-term growth.

[7] Severino, Jean-Michel, and Olivier Ray. "The End of 'ODA': Death and Rebirth of a Global Public Policy." Washington, D.C.: Center for Global Development. 2009.

The bottom line is that aid can be framed as the counterpart of domestic public spending on health, education, credit programs for small businesses and so on which, as with domestic spending, has multiple purposes. It compensates for the shortcomings of markets discussed above, both in the political interest of retaining the benefits of an open, global economy for all and in response to the solidarity impulse in an increasingly interlinked world. The striking difference of course is in the amounts spent – on the global social contract by rich countries less than 1% percent of GDP, while on the domestic counterpart upwards of 20%.

The shadow of a "contract" exists at the global level in the form of the commitment of the traditional donor countries to spend at least 0.7 percent of their own GDP on aid – but of course (as amply demonstrated at the UN Doha Conference November, 2008 on financing for development) it is in fact only the shadow of a contract. In the face of political resistance to increasing aid in the next year, donor agencies would be smart to focus on getting better results for resources they already commit, and in ways that would create accountability of recipient governments to their own citizens, rather than to donors. At the Center for Global Development, we have suggested one practical innovation toward that end (we call it cash-on-delivery aid)[8], and there are others worth trying and systematically evaluating. Donors could easily and instantly move on far greater transparency of their allocations and expenditures, and all could increase the proportion of their aid that goes through multilateral institutions as one way to minimize recipient governments' transactions and administrative costs.

Fourth, and perhaps most fundamental, is the tougher issue of creating an effective global polity to manage a global social contract. The global economy has far outstripped the institutions and clubs of nations that make up the global polity. In effect the economics of globalization has run far ahead of the politics of globalization. At the international level we have only the faintest shadow of the equivalent of the activist state at the national level, to fetter or manage a global economy or to provide the protection against its ravages for vulnerable global citizens concentrated in developing countries. What we do have is a hodgepodge of official and quasi-official institutions in which various combinations of nations make up the membership (the UN and its 20-odd separate agencies, the IMF, the WTO, the multilateral banks, the Bank for International Settlements, the club-like groups of nations (G-7, G-20, G-77, G-24). But in contrast to the sovereign state, this international polity is relatively weak and ineffective. In contrast to the democratic legitimacy of most states, this polity lacks legitimacy. As a result, in contrast to the condition of the domestic social contract in the world's mature Western economies, the global social contract for which this international polity is responsible is fragile indeed.

Yet the interdependence among nations illustrated by today's financial and economic crisis highlights the need for a more "activist" international polity; not with the power of sovereign states but certainly with more resources and responsibilities than it has today. In the near term, an activist international polity is needed not only for the coordination of a timely global fiscal stimulus and agreement on regulation of global financial markets, but also to agree on some minimal levels of protection (without protectionist trade and other policies) against the downside for vulnerable global citizens everywhere. Beyond today's crisis, ensuring that the global market works better for the poor and middle class, as well as the rich, in some imitation at

[8] Birdsall, Nancy, William D. Savedoff, and Katherine Vyborny. Cash on Delivery: A New Approach to Foreign Aid. Washington D.C.: Center for Global Development. 2008. http://www.cgdev.org/section/initiatives/_active/codaid

the global level of the domestic social contract , seems critical to the political sustainability of market-based globalization.

So I would put high on the development agenda the need to move beyond ad-hoc bilateral arrangements between rich and poor countries in 2 ways. First is the strengthening of the international institutions where the solidarity norms and the global equivalent of taxes, subsidies and regulations for the global polity need to be embedded. In the case of the development agenda, these include most obviously the IMF, the multilateral banks, and the United Nations; but also the WTO, the Basel Committee and so on. Second, for the financial institutions, is the reform of their governance to make them more representative and therefore more credible and effective in developing countries; I as well as others have written extensively on this issue. It is not surprising that the global trade, intellectual property migration and other regimes reflect the greater market (and military) power of rich countries; and that on such difficult issues as immigration that the domestic political constraints within rich countries tend to trump the needs of world's poor. That does not mean that for solidarity reasons, and to politically sustain a global market system with all its benefits, the development community should stand aside and accept the hand dealt. On the contrary, it means there is logic in constant vigilance or readiness as global citizens to swim against the tide of market and political power at the global level, just as we do as responsible citizens within each of our countries, in the interests of a better world for all.

In conclusion: Restating two points about the global social contract

A global market-based economy has tremendous potential benefits for improving lives by generating and allocating resources well, but only if it is complemented by a robust global social contract through which rich and poor nations bind each other to commitments in the interest of the common global good. In conclusion, I would like to restate two points about this global contract.

First, it provides a way for the development community to think differently about aid and to think beyond aid. Aid as part of a social contract across nations and peoples can be thought of not only in its traditional form of investment in people, infrastructure, and better government, likely to raise economic growth over the medium term, but also in the form of solidarity or redistributive transfers to protect and improve the welfare of unlucky fellow global citizens today. Furthermore, aid is only one mechanism by which rich and poor nations interact. Beyond aid are trade, migration, investment, climate change, and other policies of rich nations by which they directly or indirectly affect poor nations and which should be shaped to promote development and the common global interest.

Second, management of a robust global social contract requires a strong and effective global "polity" to provide opportunities for the unlucky, protect the vulnerable, and bind us all to agreed rules and commitments through and by which those opportunities and protections are guaranteed. Development advocates in this 21st-century setting of global hyper-connectivity ought to put considerable priority on strengthening the institutions that make up our current global polity. A key aspect of their strengthening is to make them more representative and legitimate. Without greater representation of developing countries; small and poor, large and geopolitically ascendant, we put at risk the political and social sustainability of the market-based global economy itself. It is in the end through these institutions that the habits and norms, as well as the rules of a global social contract, are most likely

to be shaped in a way that will put global markets and globalization to work for the majority of people everywhere.

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v. Ensuring a Better Deal for Women

By Jayati Ghosh[9]

Background

The financial crisis has drawn attention away from some important features of the preceding boom: it was both unequal and ecologically unsustainable. The economic boom drew rapaciously and fecklessly on natural resources. It was also deeply unequal. Contrary to general perception, most people in the developing world did not gain from that boom; instead, the poor effectively subsidised the rich. This was true internationally, as central banks of developing countries parked their growing foreign exchange reserves in the US, so that the South provided net finance to the North instead of using such resources for its own development. It was also true within countries, as profits soared but wage shares of national income declined sharply and agrarian distress persisted.

The speculative housing bubble in the US attracted savings from across the world, including from the poorest developing countries, so that for at least five years the South transferred financial resources to the North. Developing country governments opened up their markets to trade and finance, gave up on monetary policy and pursued fiscally “correct” policies that reduced public spending. So development projects remained incomplete and citizens were deprived of the most essential socio-economic rights.

Furthermore, despite the evident economic dynamism in some parts of the developing world, there was no net transfer of jobs from North to South. In fact, industrial employment in the South barely increased in the past decade – even in the “factory of the world” China. Instead, technological change in manufacturing and the new services meant that fewer workers could generate more output. So old jobs in the South were lost or became precarious and the majority of new jobs were fragile, insecure and low-paying, even in China and India. The agrarian crisis in the developing world hurt peasant livelihood and generated global food problems. Rising inequality meant that the much-hyped growth in emerging markets did not benefit most people.

So the recent growth was not inclusive. But unfortunately the slump will be only too inclusive, forcing those who did not gain earlier to pay for the sins of irresponsible and unregulated finance, through loss of livelihood and reduced living standards. This is particularly true in the case of women in the developing worlds, whose lives have already been materially altered by many rapid social and economic changes. This essay examines these issues with special reference to women in developing Asia.

It is commonplace to say that changes in the lives of women mirror broader changes in society, but possibly that statement has been more true globally over the past two decades than at any time in the previous century. There have been major and rapid changes in the living and working conditions of women across the world, which

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have both reflected and been expressed in equally substantial changes in global economics and politics.

Global capitalism is known to be systemically unstable and recently deflation and chronic unemployment have emerged as important characteristics even in periods of apparently high aggregate growth. The persistence of fairly high rates of open or disguised unemployment even in areas or sectors of high growth is now recognised. Interestingly, even though there has been something of a global boom in commodity markets and in certain developing economies for the past decade, employment generation has not really picked up commensurately and agrarian crises continue to plague most developing countries. Meanwhile, economic territories continue to be contested in new imperialist patterns, which cover not only conflicts over stable resources such as oil and other primary commodities, some new areas, which were earlier not even considered part of the realm of material transactions. The newest and most rapidly growing markets are those in intellectual property, and certain services and utilities that were earlier assumed to be the monopoly of public provision, such as power, water and telecommunications. Debates over permitted carbon emissions also amount to struggles over resources. At the same time, technological changes have also furthered the process of global corporate dominance by enabling the vertical disintegration of production and the spatial integration of ownership and control.

These broader changes in the international economy have affected national and international labour markets. The most significant change is the increase in open unemployment rates across the world. By the beginning of the century, unemployment rates in most industrial countries were higher than they had been at any time since the Great Depression of the 1930s. But even more significantly, and in a break from the past, open unemployment was very high in developing countries. It has continued to grow thereafter, even though the general absence of social security provision or unemployment benefits in the developing world usually means that people undertake some activity, however low paying, and usually in the form of self employment. It is notable that open unemployment has been growing in the developing countries that are currently seen as the most dynamic in the world economy, such as China, East and Southeast Asian countries and India, and in many of these economies, it has combined with the persistently high rates of underemployment.

The decline in formal sector employment, especially in developing countries, has been associated with the proliferation of workers crowded into the informal sector, especially in the low-wage low-productivity occupations that are characteristic of "refuge sectors" in labour markets. While there are some high-value-added jobs increasingly to be found as "informal" self-employment (including, for example, software and some high-end IT-enabled services that allow home-based professional work) these are relatively small in number and certainly too few to make much of a dent in the overall trend, especially in countries where the vast bulk of the labour force is unskilled or relatively less skilled. In turn, this has meant that the cycle of poverty-low employment generation-poverty has been perpetuated and even accentuated because of the diminished willingness or ability of developing country governments to intervene positively in expanding employment generation.

The emergence of global production chains is also an important feature in recent years. These are not entirely new, and even the current chains can be dated from at least the 1980s. However, two major sets of changes have dramatically increased the relocation possibilities in international production. Technological changes have allowed for different parts of the production process to be vertically split and locationally separated, as well as created different types of requirement for labour involving a few

highly skilled professional workers and a vast bulk of semi-skilled workers for whom burnout over time is more widely prevalent than learning by doing. They have also enabled geographical relocation in service activities which were previously locationally rigid. Organisational changes have been associated with concentration of ownership and control as well as with greater dispersion and more layers of outsourcing and subcontracting of particular activities and parts of the production process. Therefore, we now have the emergence of international suppliers of goods and services who rely less on direct production within a specific location and more on subcontracting a greater part of their production and distribution activities. This has led to the emergence and market domination of "manufacturers without factories", as multinational firms such as Nike and Adidas effectively rely on a complex system of outsourced and subcontracted production based on centrally determined design and quality control. More recent outsourcing in services ranging from publishing to back-office work also combines some amount of flexibility (which implies greater control over workers) with centralised control.

In addition, there is much greater use by international capital of the skilled labour to be found in some developing countries, with the internationalisation of service industries, including banking and finance. This has greatly enhanced labour mobility of a small section of more skilled and professional employees, even as other labour finds it much more difficult to move, and aggregate rates of labour migration are lower than they have been in the history of capitalism. This has contributed in no small measure to the enthusiasm for the process of global integration among such groups of skilled workers in developing countries. In fact, an important reason for the success of imperialist globalisation has been its ability to draw local elites and middle classes across the world into its own ranks, to offer part inclusion into a privileged international space within which the travails of the local working poor can be forgotten, even while their crucial role in generating productive surplus within the local economy is perpetuated.

Finally, a crucial feature of work processes across the globe has been the increase in unpaid labour within households – dominantly (but not exclusively) performed by women, as governments renege on basic social responsibilities for the provision of public goods and services, and more of the care economy is devolved onto the unpaid sector. The peculiar combination of increased unemployment and increased requirement of unpaid labour is thus an attribute of labour markets globally.

The Asian region

All these processes are particularly marked for developing countries in Asia. This is now the most "globally integrated" region in the world, with the highest average ratios of trade to GDP, the largest absolute inflows of foreign direct investment, substantial financial capital flows and even significant movements of labour. These have been associated with very rapid changes in forms of work and life, especially for women. Indeed, the effects on economies and societies in the region have been seismic in their speed and intensity, and particularly in gender relations. The rapid growth of aggregate incomes (and equally rapid and sudden declines in some economies) have been accompanied by major shifts in employment patterns and living standards, as familiar trends are replaced by sharp social changes that are now accelerated and intensified.

There have been very rapid shifts in the labour market in the space of less than one generation, as Asian women have been first drawn into paid employment, especially in export sectors, and then ejected from it. The phase of disproportionately high use of women in export-oriented manufacturing in several rapidly growing Asian economies in the 1980s and early part of the 1990s was followed by a period of subsequent ejection of older women and some younger counterparts, into more fragile and insecure forms of

employment, or self-employment or even back to unpaid housework (Ghosh 2004, 2009). Women have moved – voluntarily or forcibly – in search of work within and across countries and regions, more than ever before. Their livelihoods in rural areas, dominantly in agriculture, have been affected by the agrarian crisis that is now widespread in most developing countries. Across societies in the region, massive increases in the availability of different consumer goods, due to trade liberalisation, have accompanied declines in access to basic public goods and services. At the same time, technological changes have made communication and the transmission of cultural forms more extensive and rapid than could have even been imagined in the past. All these have had very substantial and complex effects upon the position of women and their ability to control their own lives, and many of these are still inadequately understood.

The most significant change for women throughout the developing Asian region since the early 1980s was their substantial increase in labour force participation, which was then followed by a decline in the early years of this century. This was similar to a worldwide pattern of increasing work participation by women. But the Asian experience was somewhat different, in that (unlike, say, Latin America) this was part of – and even led - the general employment boom created by export-led economic expansion. (Chhachhi and Pittin 1996, Seguino 2000) This trend towards feminisation of employment in Asian countries resulted from employers' needs for cheaper and more "flexible" sources of labour, which meant more casualisation of labour, shift to part-time work or piece-rate contracts, and insistence on greater freedom of hiring and firing. All these aspects of what is now described as "labour market flexibility" became necessary once external competitiveness became the significant goal of domestic policy makers and defined the contours within which domestic and foreign employers in these economies operated.

Women workers were preferred by employers in export activities primarily because of the inferior conditions of work and pay that they were usually willing to accept (Lim 1994). They had lower reservation wages than their male counterparts, were more willing to accept longer hours and unpleasant and often unhealthy or hazardous factory conditions, typically did not unionise or engage in other forms of collective bargaining to improve conditions, and did not ask for permanent contracts. They were thus easier to hire and fire at will, or according to external demand conditions. Life cycle changes such as marriage and childbirth could be used as proximate causes to terminate their employment and engage a younger and fresher set of female workers. Greater flexibility was thus afforded to employers to offer less secure contracts. Further, in certain of the newer "sunrise" industries of the late 20th century such as computer hardware and consumer electronics, the nature of the assembly line work - repetitive and detailed, with an emphasis on manual dexterity and fineness of elaboration - was felt to be especially suited to women. The high "burnout" associated with some of these activities meant that employers preferred to hire workers who could be periodically replaced, which was easier when the employed group consisted of young, mostly unmarried, women who could move on to other phases of their life cycle.

The feminisation of such activities had both positive and negative effects for the women concerned. On the one hand, it definitely meant greater recognition and remuneration of women's work, and typically improved their relative status and bargaining power within households, as well as their own self-worth, thereby leading to some empowerment. On the other hand, since most women are rarely if ever actually "unemployed" in their lives, as they are almost continuously involved in various forms of productive or reproductive activities (even if they are not recognised as "working" or paid for such work) paid employment for them may lead to an onerous double burden of work

unless other social policies and institutions emerge to deal with the work traditionally assigned to (unpaid) women.

Given these circumstances, it has been fairly clear for some time now that the feminisation of work is not cause for unqualified celebration by those interested in improving women's material status. It is now becoming evident that the feminisation of labour in export-oriented industries may have been even more dependent upon the relative inferiority of remuneration and working conditions, than was generally supposed. Especially because it turned out to be a rather short-lived phenomenon. Already by the mid 1990s – the height of the export boom - women's share of manufacturing employment had peaked in most economies of the region, and in some countries it subsequently declined in absolute numbers (Ghosh 2008). Some of this reflected the fact that such export-oriented employment through relocative foreign investment simply moved to cheaper locations: from Malaysia to Indonesia and Vietnam; from Thailand to Cambodia and Myanmar and so on. But even in the newer locations, the recent problems of various export sectors such as the garments industry worldwide have meant that jobs (especially for women workers) were created and then lost within the space of a few years.

As women became an established part of the paid workforce, and even the dominant part in certain sectors (as indeed they did become in the textiles, readymade garments and consumer electronics sectors of East Asia) it became more difficult to exercise the traditional type of gender discrimination at work. Besides an upward pressure on their wages, which caused gender wage gaps to come down to some extent, there were other pressures for legislation to improve their overall conditions of work. But these strategies designed to improve the conditions of women workers tended to reduce their relative attractiveness for those employers who had earlier relied precisely on the inferior conditions of women's work and their greater flexibility in terms of hiring and firing to keep their costs low and enhance their export profitability. The rise in wages also had the same effect. As their relative effective remuneration improved (in terms of the total package of wages and work and contract conditions), their attractiveness to employers decreased.

Subsequently, manufacturing in Asia tended to occupy a much less significant position in the total employment of women, and also relied less on female employment at the margin. It is increasingly evident that export-oriented production does not always result in feminisation of the workforce, which is essentially dependent upon the relative inferiority of female wages and work conditions. If mechanisation and newer techniques require the use of more skilled labour, or if the gap between male and female wages in not sufficiently large, export activities do not need to rely more on women's labour. In conditions in which both male and female workers have been forced by adverse conditions in the labour market to accept adverse low-paid and insecure work contracts, as occurred not only in post-crisis East Asia but in other countries of the region, there has been less overt preference for young women workers than was previously observed.

The nature of such work has also changed in recent years. It was already based mostly on short-term contracts rather than permanent employment for women; now there is much greater reliance on them as workers in very small units or home-based production, at the bottom of a complex subcontracting chain. This became even more marked in the post-crisis adjustment phase. In South-east Asia, women have made up a significant proportion of the informal manufacturing industry workforce, in garment workshops, shoe factories and craft industries. Many women also carry out informal, temporary activities in farming or in the building industry. Home-based workers, working

for themselves or on subcontracts, make products ranging from clothing and footwear to artificial flowers, carpets, electronics and tele-services.

The increasing use of outsourcing is not confined to export firms. However, because of the flexibility offered by subcontracting, it is clearly of even greater advantage in the intensely competitive export sectors and therefore tends to be even more widely used there. Much of this cross-border outsourcing activity is based in Asia, although Latin America is emerging as an important location once again. Such subcontracted producers vary in size and manufacturing capacity, from medium-sized factories to pure middlemen collecting the output of home-based workers. The crucial role of women workers in such international production activity based in Asia is now increasingly recognised, whether as wage labour in small factories and workshops run by subcontracting firms, or as home workers dealing with middlemen in a complex production chain.

A substantial proportion of such subcontracting extends down to home-based work, which provides substantial opportunity for self-exploitation, especially when payment is on a piece-rate basis; also such work is typically left unprotected by labour laws and social welfare programmes. However, even such home-based work may be in crisis, as the textile and garment exports from developing countries face increasing difficulties in world markets and the pressure of competition forces exporters to seek further methods of cost-cutting. The extreme volatility of demand for labour that characterises factory-based export-oriented production has also become a feature of home-based work for export production.

But paid work defines only part of the labour conditions of women. Recent economic policies and processes have generated more unpaid work as well. Macroeconomic policies of national governments that have systematically reduced employment opportunities for both men and women and allowed agriculture in the South to become a precarious and unviable occupation, have also reduced the quality of and access to public goods and services and thrown open many parts of everyday life to in equalising market processes. In general these economic policies have generally been in the interests of large corporate capital. The rich, and especially large corporations, have benefited from competitive offers of substantial and growing tax benefits, while the common people have been told that there is no money in the state treasury for basic public goods and services. Food security has been threatened in poor countries; other economic rights have been denied; social sectors such as health and education have been underfunded; and workers' protection has been reduced. The increasing emphasis on markets has implied the commoditisation of many aspects of life that were earlier seen as either naturally provided by states and communities, or simply not subject to market transaction and property relations. For example, the inability or refusal of several governments to provide safe drinking water has led to the explosive growth of a bottled water industry. A whole range of previously publicly provided services and utilities like power distribution and telecommunications have been privatised. Even the growing recognition accorded to intellectual property rights marks the entry of markets into ever-newer spheres.

All this affects women and girls most directly. When incomes from work in the family go down, women are forced to seek any form of employment that will keep the household going. When there is less access to food, women and girl children tend to eat less. When the health services are inadequate, women (especially mothers) not only suffer the most, but they also have to bear the responsibility of looking after the sick and the old. When schools lack basic facilities or charge higher fees, girl students find it difficult to attend and get relegated to household tasks. When cooking fuel and clean

drinking water are hard to come by, women have to somehow provide them for the family. So such government policies have led to large increases in the unpaid labour of women, and thereby contributed to a worsening quality of life for them.

In addition, these economic changes have other adverse social consequences for women. The increasing emphasis on markets and profitability requires luring more consumers into the web of purchase through advertising and attempts to manipulate peoples' tastes and choices. In this effort, advertising companies have notoriously used women as objects to purvey their products. The dual relationship with women, as objects to be used in selling goods, and as a huge potential market for goods, creates a peculiar process whereby women are encouraged and persuaded to participate actively in their own objectification. The huge media attention given to beauty contests, "successful" models, and the like, have all fed into the rapidly expanding beauty industry in developing Asia, which includes not only cosmetics and beauty aids, but slimming agents, beauty parlours, weight loss clinics, and so on. Many of these contribute to the most undesirable and retrograde attitudes to both women and their appearance, which can push women into newer forms of social oppression that may be no less demeaning than earlier explicitly patriarchal forms.

One important response by Asian women to these changes has been economic migration. Asia has become one of the most significant regions in the world both for the cross-border movement of capital and goods, and for the movement of people. The picture of women's migration in Asia today is complex, reflecting the apparent advantages to women of higher incomes and recognition of work, but also the dangers and difficulties of migrating to new and unknown situations with the potential for various kinds of exploitation. The desperation that drives most of this economic migration, and the exploitative conditions that it can result in, should not be underestimated. But it is also true that the sheer knowledge of conditions and possibilities elsewhere can have an important liberating effect upon women, which creates a momentum for positive social change and gender empowerment over time.

Looking ahead

It is clear that globally we need a clear change in economic strategy. Obviously, finance must now be controlled and directed. But it is equally important to increase public expenditure: to revive demand in flagging economies, to manage the effects of climate change and bring in widespread use of green technologies, and importantly, to provide minimally acceptable standards of living for citizens of the developing world. We must promote redistributive taxation and other policies to reduce economic inequalities, both within and between countries.

Of course, crises tend to make things worse, not better. As economies slow down, more jobs will be lost and people, especially those in the developing world who did not really gain from the boom, will face deteriorating conditions of living. But the gloom and doom is not inevitable. Now that there is overwhelming evidence of the failure of the economic model on which the boom was based, we can think afresh about how to organise economic life, both nationally and globally.

Such new thinking has got to take into account the changed international context, in which the overwhelming dominance of the US is likely to be replaced by inter-imperialist rivalry and scramble for resources and markets, in which it will be harder for any individual country (or even the G-8) to impose conditions on others. Several points must be noted if we want real democratic change and not just more of the same.

First, obviously finance must be controlled and the "innovations" in financial markets that are actually no more than sleight-of-hand scams must be disallowed.

Otherwise we will remain vulnerable to more financial crises and continue to face speculative swings in prices of important commodities like food and oil. And poor countries will continue to send to rich ones, the capital they desperately need for their own development.

Second, fiscal policy and public expenditure must be brought back to centre stage. Across the world, we need significantly increased public expenditure: to revive demand in flagging economies, to manage the effects of climate change and bring in widespread use of green technologies, to fulfil the promise of achieving minimally acceptable standards of living for everyone in the developing world.

Third, restructuring the world order will have to be based on conscious attempts to reduce income and wealth inequalities, both between countries and within countries. We have clearly crossed the limits of what is “acceptable” inequality. The effects are upon us every day: in growing socio-political conflicts; in the spread of enthusiasm for terrorism and violence among the dispossessed and the frustrated; in the growing insecurity of daily life anywhere.

Reducing inequalities is not going to be easy. It will require the North to reduce its consumption of scarce resources and carbon emissions, which means some reduction of average consumption generally. It will require the global elite, spread across both developed and developing worlds, to curb extravagant lifestyles. It will require wage shares of national income to rise from their current very low proportions, with corresponding declines in the shares of profits and interest. And it will require governments in powerful developed countries to recognise that they can no longer call the shots in all important international decisions.

Finally, in order to ensure a better deal for women in the future, it is necessary to address four critical areas:

- Ensuring more availability, and better terms and conditions for paid employment of women.
- Reducing the pressures for and alleviating the conditions of unpaid work.
- Increasing the access to basic needs and to essential health, nutrition, sanitation and education.
- Managing the implications of ecological damage for social reproduction for women’s lives, and laying the foundation for more sustainable growth strategies.

vi. Transnational Migration in the Era of Globalization: Issues, Prospects and Concerns

By Praven Jha [10]

Introduction

This article documents and analyses the movement of labour, in particular during the recent years of the so-called globalization period, across countries in search of employment. It brings into sharp contrast the fundamental asymmetry between the treatment of labour mobility and capital flows, and the theoretical assumptions of mainstream orthodoxy. It argues that while the rhetoric of globalization has been premised on greater integration in terms of trade and factor flows, labour mobility is highly regulated through restrictive instruments.

Increasing inequality, reduced transportation costs and demographic imbalances in recent years have created pressure on migration, both on the demand and supply sides. However, the challenge of overcoming developmental obstacles and enhancing individual functioning through the instrumentality of migration requires that the issues of labour mobility be given favourable status vis-à-vis that of capital and finance.

This paper begins by exploring some contentious issues regarding globalization, and then provides an outline of labour mobility in a historical context. This is followed by a discussion of determinants and factors that influence the magnitude of migration at the national level and the benefits associated with it, and concludes by summarizing the main points emerging from the entire discussion.

Globalization: Some Contentious Issues

As is commonly acknowledged, globalization is a complex phenomenon and its most prominent dimension in the current phase has been the increasing integration of the global economy through trade, investment and finance flows. Theoretically, as well as practically, this integration involves a considerable erosion of a nation's capacity and willingness to intervene in the economic sphere in several important respects. The underlying premise of such a process is that increased competitive pressure together with 'market-friendly' regulation is enough to generate socially optimal outcomes. Leaving aside the logic of this argument and without getting into any larger debates about the huge paradigm shift in macroeconomic policy regimes globally, we need to take note of the obvious arguments here in which the proponents of globalization have been quite selective in their championing of the 'virtues of liberalization and globalization', revealing the implicit bias of their analysis. This feature comes out starkly, for instance, when we contrast the characteristic responses of protagonists of globalization towards the flows of finance and labour.

While economists such as Dornbusch declared in no uncertain terms that: "The correct answer to the question of capital mobility is that it ought to be unrestricted" (Quoted in [13]); the typical discussion in developed countries regarding immigration is

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the following: “Sure, our borders are long and porous, but that doesn’t excuse the United States from stating its objectives for immigration. What types of immigrants should this country admit? And how many immigrants does it want?” Borjas, [5])

The tenor of the analysis in the above-quoted article is strongly unsympathetic to the cross-border movement of workers. In general, the presumed economic ground to oppose migration is that it would have substantial adverse distributional consequences in receiving countries.

In other words, the argument of detractors is that migration from developing countries would bring down wages and create unemployment in these countries. This argument has been advanced despite the fact that several statistical studies failed to find any negative correlation between migrant population and wage levels.

Berkeley economist David Card, in a series of papers [6,7], systematically examined data that flies in the face of critics’ claims that migration has an adverse implication on the labour market opportunities of native workers. Card [6], studied the impact of migration on the lower end of labourers in Miami, when in the context of an influx of migrants the labour force swelled by as much as 7%. Data showed that it did not result in a reduction in the wage rate of native labourers, nor their employment opportunities. Again, using the US census data of 2000, Card [7] finds that the relative wage of native dropouts (i.e. the wages of unskilled labour) was uncorrelated with the supply of less-educated workers. Since the argument that large migration must reduce wages is based on a partial equilibrium approach, which arguably operates through changes in supply of the labour force, this finding renders the entire argument empirically untenable. Card [7], after careful examination of data, concludes: "Although immigration has a strong effect on relative supplies of different skill groups, local labour market outcomes of low skilled natives are not much affected by these relative supply shocks."

A number of alternative hypotheses have been advanced to explain this phenomenon. However, in our view, it is the neglect of migrants’ impact on the total demand of goods and services that holds the key for understanding this apparently paradoxical result. Migrants are not only the source of labour in the countries of their destination, but also raise the level of aggregate demand through their consumption expenditure, implying negligible adverse consequences for domestic labour in terms of employment opportunities and wage rates.

We may also emphasise that critics’ concern about unemployment and sources thereof are completely misplaced. Indeed, the era of globalization witnessed an increase in the global open unemployment market, which in 2003 was estimated to be about 188 million. However, the main reason behind job loss during this era is not labour mobility, as alleged by the critics; rather it is the deceleration, and in extreme cases, even collapse of real economies following the ascendance of neo-liberal macroeconomic policy regime globally for almost three decades now, and the rise of finance capital as, arguably, the most significant entity in the contemporary global economy. In other words, holding migration responsible for unemployment in developed countries is hardly a tenable argument; it is not the case that on the aggregate employment front, developing countries have gained at the expense of the developed countries through migration or even a whole range of relatively recent labour practices such as ‘off-shoring’ or ‘body-shopping’ etc.; rather the transition to what several researchers describe aptly as a neo-liberal economic regime which has hurt the prospects of employment generation everywhere. In fact, the ILO, through its several publications during the last couple of decades, has expressed serious concerns over the unemployment growth in the global economy. According to the ILO Global Employment Trends Report (GET), the global

unemployment rate would rise to 6.1% in 2009, up from 5.7% in 2007, resulting in an increase in unemployment of 18 million workers in 2009. In the worst case scenario, however, the global unemployment rate may go over 7.1%, resulting in an increase in the global number of unemployed of more than 50 million.

Sure enough, countries that become particularly acute victims of finance capital are prone to major shocks in the real economy as well as on the employment front, as was powerfully evident during the 1990s, for instance in the change of the unemployment rate in Latin American and East Asian countries in pre and post crisis years. In the immediate years following the financial crisis unemployment rates grew from 6% to 7.3% in Brazil, from 5.3% to over 10% in Chile, from 14% to 17% in Columbia, and from 2% to 3.7% in South Korea, (ILO [1]). If further evidence is needed, the activities in the global economy during the last 18 months, in particular in the USA, Japan, and several OECD countries should leave no doubt; the mayhem created by finance capital is there for all to see. As per the ILO Global Employment Trends Report (GET), unemployment rates sharply increased by 7% in developed economies and reached 6.4% in the European Union, in 2008. The unemployment rate in Latin America and the Caribbean witnessed an increase of 1%, in East Asia 3%, in South East Asia and the Pacific 2%, and in Central and South Eastern Europe 3%, reaching respectively the levels of 7.3%, 3.8%, 5.7%, and 8.8%. Relatively insulated regions such as Northern Africa, the Middle East and Sub-Saharan Africa have managed to sustain their pre-crisis employment levels so far; however the impact of the global downturn unleashed by the financial turmoil will sooner or later impact employment prospects in those regions too. Given these facts, even several ardent advocates of 'market fundamentalism ' are running for cover, as these countries are entering a period of one of the worst recessions since the Great Depression.

Therefore it is the dominance of the neo-liberal ideology promoted aggressively by finance capital that has encouraged the pursuit of deflationary macroeconomic policies, thus indirectly lowering employment growth. Neither labour mobility has increased nor have changes in labour practices as noted above taken place.

Patnaik [11], in his DD Kosambi lecture, points out at least three different mechanisms through which globalization, particularly financial globalization, creates conditions for a secular tendency towards income deflation and employment stagnation, and it may be worthwhile to recall his arguments here. To begin with, globalization, as mentioned earlier, is first and foremost a process of financial integration, resulting in massive cross-border financial flows. Given the potential of such flows to give rise to economic instability in a particular country, the issue of maintaining ‘investor’s confidence’ becomes a matter of paramount importance concerning macroeconomics. One particular recipe for maintaining such confidence is the reduction in the scale of government expenditure. As Patnaik suggests, apparent arguments for such reduction are based on fallacious reasoning of ‘sound finance’, which was rejected comprehensively quite sometime ago by Prof. Joan Robinson as ‘the humbug of finance’. This aversion to financial capital for government expenditure, mainly stemming from a steadfast ideological opposition to an interventionist state, is made concrete mostly by ‘Fiscal Responsibility’ legislations.

The legal limit on the relative capacity of the State to intervene in an economic sphere is further complemented by the process of competitive tax reduction by developing countries for attracting the flow of capital, reducing import duties because of trade liberalization, and reducing domestic indirect taxes. Failure to do so would amount to negative protection. The net result of all these changes is a reduction in one of most

important sources of demand: Government expenditure, thus resulting in income deflation and employment reduction.

Secondly, globalization contains an implicit tendency towards the destruction of domestic producers, particularly in developing countries. Inflows of short-term financial flows exert upward pressure on the exchange rate, which, in the absence of intervention, results in currency appreciation, lowering the export demands. Even when such pressures are absent, in-flow of imports and diversion of demand from high labour-intensive traditional goods towards imports or low employment intensive luxury goods have the effect of reducing employment in developing countries.

Thirdly, the source of income deflation, highlighted by Patnaik as directly emerging from the process of globalization, is the declining term-of-trade of petty producers, in particular peasants. With the monopolistic power to set prices, an autonomous shift in terms-of-trade is brought about through the resulting higher prices for manufactured goods. This shift in terms-of -trade is conceptually equivalent of a tax imposed on peasantry, with similar aggregate-demand-reducing macroeconomic consequences. Furthermore, even as the terms-of-trade are occasionally moving in favour of such products, the presence of large transnational corporations in the marketing of primary commodities ensures that the terms-of-trade obtained by actual producers nevertheless is largely unaffected by favourable developments.

The explanation of declining employment flexibility of growth in the neo-liberal economic order, manifested in the form of globalization, therefore lies in these reasons; not the ones adduced by opponents of migration. In conclusion, it is financial globalization, not increasing migration, which is responsible for current unemployment.

A Historical Profile of World Migration

Migration, in the modern sense of mobility of labour from the labour-abundant economies to labour-shortage economies goes back to the 15th Century (Nayyar [10]). Migration, in this period mainly consisted of slave labourers captured from the Western coasts of the African continent to the newly-discovered American continent to work on plantation farms and in households. The Atlantic slave trade was the trade of African people supplied to the colonies of the New World. Starting from the 16th century, it went unhindered until around about the 19th Century. West Africa and Central Africa were the source of this trade and destinations included new European colonies established in South and North America and the Caribbean islands. The continuous supply of slaves was ensured through coastal trading with Africans, and also by direct capture by European slave traders through raids and kidnappings. The current estimate of forceful migration of Africans in this period ranges between 10 and 12 million, excluding the considerable number of slaves who died during the course of migration under inhumane conditions.

Following the end of slavery in the British Empire in 1838, plantation owners turned to indentured labour to provide services on plantation farms. An indentured servant is a type of debt bondage worker. The labourer was contracted by of an employer for a set period of time, and received necessities, including food, drink, clothing, lodging and transportation. These servants emigrated from a number of places, including China, Portugal and India. As a result, the ethnic composition of the Caribbean islands has changed considerably: Indo-Caribbeans form a majority in Guyana, and are present in considerable numbers in Trinidad and Tobago, Suriname, Jamaica, Grenada, Barbados, and other Caribbean islands. Nayyar [10] documents the case of indentured labour in the United States of America, where the source of migration happened to be Japan. The second phase of global migration, a very significant phenomenon during the

second half of the19th Century and even later, was therefore in the form of indentured labourers from India and China to the Caribbean nations, Southeast Asia and Southern Africa to work in mines and plantations, mainly after the abolition of slavery in the USA and Britain. Movement was quite substantial. Roughly 50 to 70 million people migrated, which was around 10% of the combined population of India and China (ibid.).

Along with the forced movements of people, there was a voluntary flow of migration from Europe to America, New Zealand, Canada, Australia and South American countries (ibid.), which emerged as attractive destinations for settlement due to several factors. Starting from 1870 and before the outbreak of First World War, roughly 50 to 70 million people, as per different estimates, left Europe. Nayyar [10] argues that, going by a conservative estimate, this amounted to one-eighth of their population; in some countries such as Britain, Italy, Spain and Portugal, it was as high as 40% of the total population. This process of migration was driven, on the one hand by the of the abundance of natural resources, in particular land in newly-settled territories, and on the other hand by increasing the displacement of labour due to the rapid decline of agricultural employment, without a compensating increase in manufacturing employment. Political ties between labour-exporting and importing countries together with close cultural links meant that this phase of migration was relatively smooth: political friction now characterizing migration issues were, by and large, absent.

World War I was followed by the enactment of immigration laws and erection of institutional barriers in the mobility of labour. Documentary requirements such as passports became mandatory.

Table 1: Migrant Population Profile (world)

Indicators	1960	1970	1990	2000	2005
Estimated number of international migrants at mid-year (Total) (In Million)	75	81	154	176	190
Estimated number of refugees at mid-year (In Million)	2	3.8	18	15	13
Estimated number of female migrants at mid-year (In Million)	35	38	75	87	94
Estimated number of male migrants at mid-year (In Million)	40	42	78	88	96
Population at mid-year (In Million)	3023	3096	5279	6085	6464
International migrants as a percentage of the population	2.5	2.2	2.9	2.9	3.0
Female migrants as percentage of all international migrants	46.2	47.2	49.0	49.7	49.6
Refugees as a percentage of international migrants	2.9	4.8	11.9	8.9	7.1

Source: United Nations [2]
Note: The number of international migrants generally represents the number of persons born in a country other than that in which they live.

Table 2: Growth Rate of Migrant Population (World)

Period	Growth rate of migrant population
1970-1975	0.7
1975-1980	1.3
1980-1985	2.7
1985-1990	6.7
1990-1995	1.3
1995-2000	1.4
2000-2005	1.5

Source: United Nations [2]

Unemployment during the Great Depression also reduced the political feasibility of labour imports, resulting in a low level of labour migration. Thus global migration, for a while, declined.

The period after World War II witnessed a revival of labour migration. This phase peaked in 1985 (see Table 1). After that there was a distinct moderation in the migration rate, as it came down from 2.7% in 1980-85 to below 1.5% in the subsequent years (see Table 2).[11]

Starting from 1970, there was incremental tightening of immigration laws, resulting in low over-all rate of growth in migration. However, the period of globalization saw, on a large scale, the emigration of people with technical skills from developing countries to developed countries. New destinations such as oil-exporting OPEC members also emerged as a destination for low-skilled labourers. Temporary migration of low-skilled workers also took place in the form of guest workers in Western Europe and the import of seasonal Mexican labour by US.

Nevertheless, the proportion of migrants to total population worldwide has remained roughly constant, at between 2.9% and 3% (see Table 1), precisely in the period when trade and investment flows took off in the years of globalization. This intriguing stagnation is best explained by the fact that unlike trade and finance, where openness was peddled by international organizations, labour migration has, by and large, been conspicuous by its absence in international negotiations.

Table 3: Estimated Migrant Population: Area-wise (2005)

Area	**Migrant Population (Million)**	**Migrant Population (% of Total Population)**
Africa	17	1.9
Asia	53	1.4
Europe	64	8.8
Latin America & Caribbean	6.6	1.2
Northern America	44	13.5
Oceania	5	15.2
Total	190	3

Source: United Nations [2]

Apart from the magnitude of migration, the regional distribution pattern conforms to the broad developmental stage of the recipient countries. In Africa, migrant stock as a proportion of the population is higher than in Latin America and Asia, mainly due to the presence of displaced people and refugees. Northern America, particularly the United States, has emerged as a key destination for, more often than not, technically qualified professional migrants (see Table 3).

A common classification is to group international migrants into permanent migrants, (also known as emigrants) and temporary migrants (Nayyar [10]). Temporary migrants are further divided into those having professional qualifications and unskilled or semi-skilled. Apart from these usual categories, illegal migrants and refugees also

11 Period of 1985-90 is non-comparable, as creation of new nation-states out of erstwhile Soviet Union inflated migrant stock figures.

account for a significant share of the migrant population. Statistical information on a global level about these categories remains sparse (ibid.).

Factors Determining Magnitude and Pattern of Migration

Existing literature on migration identifies the determinants of the magnitude and patterns of migration under three broad categories: push-factors, pull-factors and obstacles to migration. Push and pull factors are those factors which respectively push people into migration or attract them.

Push and pull factors together account for the migrant's often difficult decision to leave their native land. Although not exactly quantifiable, such decisions entail substantial emotional costs. It follows therefore, that for migrants to make such a decision, the perceived opportunities must be very high. Such opportunities include perceived differences in wage levels, probability of employment and difference in life style. Globalization, by increasing the inequality across the nation-states has thus created pressures on migration.

The declining absorption of labour in the agriculture sector, and the lack of a corresponding increase in industrial employment constitute an important push factor, especially for semi-skilled workers in developing countries.

On the demand side, demographic imbalances have been playing the role of a catalyst: the median age of the population has been steadily increasing in developed countries. With a larger share of older people in their population, industrialized countries require labour from the developing world to sustain their lifestyle and productive activities.

Improvements in information and communication technologies, the advent of cheap mass transportation facilities and the consequential decline in the transaction cost of global migration in recent years, has led to the significant demand for the creation of migration. Given this demand, intermediary institutions supporting and facilitating global migration have also cropped up, thus making the process of migration slightly easy for migrants.

These factors imply that in the era of globalization, with an increasing integration in terms of trade and finance flows, there should be a strong tendency towards labour mobility. However, as previously mentioned, migration has proportionately remained constant at the level of around 3%. This paradoxical situation could be explained in terms of asymmetric 'rules of the game': that is, institutional arrangements underlying global migration.

Existing Institutional Framework for Labour Mobility

In sharp contrast to trade in goods, there is no multilateral forum, institution or framework for coordinating the migration-related policies, leaving the entire question to national jurisdiction. Mode-4 in GATS is one possible exception that deals with the cross border supply of services. However, such services deal with temporary and professional migrants, which constitute a tiny fraction of the cross-border movement of people and where developing countries do not mostly have a comparative advantage.

In the absence of such a framework, migration is dealt with by domestic laws and consular practices. Such laws explicitly stipulate various restrictions on the movement of labour, including numerical quotas. Additionally, the actual process of migration is directly affected by the consular practices, which serve as an extra barrier for migration. In contrast to "National Treatment" given to foreign investment, guest workers have to wait for a general amnesty and face "E-verify" programs. These direct and indirect methods of restricting labour flows are responsible for an almost stagnant migration, even when integration in other ways is increasing.

Thus as Nayyar [9] noted: "This asymmetry, particularly between the free movement of capital and the restricted movement of labour across countries, lies at the heart of inequality in the rules of the game for globalization in the twentieth century." Apart from its direct relevance on the fairness of the rules of globalization, absence of a regulatory mechanism on a global level is also responsible for increasing incidents of illegal trafficking of labour, particularly of children and women, by criminal syndicates. Such immigrants often end up as being acute victims of economic, racial and social exploitation. Obviously there are no institutions and mechanisms to address the injustices they are subjected to, as they are devoid of even basic recognition.

We may also note here that every once in a while, terrible tragedies relating to illegal migration are reported by the media, and obviously not all the incidents come to light. In March 2008, 15 illegal immigrants aboard a rickety boat were rescued by U.S. authorities off the San Diego coast after an apparent botched maritime smuggling attempt. 15 dehydrated and sunburnt passengers were taken off the 24-foot boat, named Seaulater, by authorities nearly a day and a half after leaving Rosarito Beach bound for Southern California. They were allegedly charged $4,000 each for the passage.

Other migrants also face similar life-threatening and dangerous circumstances in order to work in predominantly an informal sector, often on low wages. Interestingly, not only is there an outflow of labour from developing to developed countries, but also of finances; for instance the USA has seen an inflow estimated to be more than $100 billion per year. This asymmetric flow sustains the differences in living conditions, which further act as a catalyst for labour migration.

Potential and Current Benefits of Migration

Migration is a potential source of growth, employment creation, poverty alleviation, macroeconomic stability and welfare improvement, not only for developing countries, but for the world economy as a whole.

Given the demographic imbalances, where developed countries are increasingly facing structural constraints due to the ageing of the population, developing countries have a younger population; migration can result in distinct welfare gains, both for the nation as well as the world economy.

Problems associated with an ageing population such as high dependency ratio and declining labour force could be mitigated to a great extent by the transfer of a workforce. This conclusion is further buttressed by the presence of high open and disguised unemployment in developing countries, implying a low opportunity cost of labour transfers.

Table 4: Remittances Compared with Some Selected Sources of External Finance (in billions $)

Source of finance	**2000**	**2005**
Remittances (Total)	131	262
Developing Countries	84	191
Industrial Countries	47	71
FDI (Total)	1524	1001
Developing Countries	271	628
Industrial Countries	1252	373
Portfolio Investment (Total)	1513	3273
Developing Countries	84	188
Industrial Countries	1414	3058
Loans (Total)	508	1239
Developing Countries	4	76
Industrial Countries	504	1165

Source: Singh [14]
Note: Figures may not add up due to rounding off.

The global positive impact of labour mobility is further reinforced by the special role it plays for home countries, mostly developing nations. Remittances sent by migrants can help support a sustained growth process in the source country, with enhanced consumption demands. It also typically leads to savings and investment on the household level, creating a virtuous circle of income generation, especially when migration is from poor and rural regions. Moreover, with the emerging shortage of labour in rural areas, it increases the bargaining power of remaining labourers, thus creating pressure for an increased wage revision and improved livelihood opportunities.

Experience of migration, acquisition of skills and exposure to new opportunities result in higher productivity for workers, even when migration is temporary and migrants have to return home. Remittances have also been found to be responsible for the success of micro-enterprises in recipient countries. Cumulatively these factors imply a strong positive impact of migration on human development and the reduction of poverty, so much so that it has come to be equated with a “New Development Mantra” by some analysts [8].

Table 5: Remittances, Poverty and Inequality in Selected Countries

Country	Year	HCR	PGR	Gini Coeff.	Migration	Remittance
Bangladesh	1996	29.07	1.6	0.336	0.09	10.78
Brazil	1997	5.1	0.5	0.517	0.11	8.08
Colombia	1996	10.99	1.21	0.571	1.06	16.16
Ghana	1999	44.81	8.71	0.327	0.32	1.44
India	1997	44.03	NA	0.378	0.12	11.10
Indonesia	1998	26.33	1.69	0.315	0.1	4.71
Mexico	1995	17.9	2.92	0.537	7.39	40.30

Source: Adams and Page [4]
Note: HCR: Head Count Ratio; PGR: Squared Poverty Gap Ratio; Migration % of population; Remittances per capita official (1995 $)

In recent years, the impact of migration on human development and poverty has been the subject of rich micro-level literature, which concludes that remittances have a significant positive implication on poverty alleviation [3]. Adams and Page [4] evaluated the impact of international migration and remittances on poverty in developing countries based on a data set that includes information on international migration, remittances, inequality, and poverty for 71 low-income and middle-income developing countries. These countries were selected because it was possible to find relevant migration, remittances, inequality, and poverty data for all of these countries since the year 1980.

In their study, Adams and Page [4] found that the level of remittances per capita has a negative and statistically significant impact on each of the three poverty measures: headcount, poverty gap, and squared poverty gap. Estimates for the poverty headcount measure suggests that, on average, a 10% increase in per capita official international remittances will lead to a 1.8% decline in the share of people living in poverty. Remittances will have a slightly larger impact on poverty reduction when poverty is measured by more sensitive poverty measures: poverty gap and squared poverty gap. A selective list of countries documented by Adams and Page [4] is produced in Table 5.

Moreover, at the macro level, remittances play an important role in bridging the foreign exchange gap, and complementing national savings. In particular, India has been an important beneficiary in this regard, being the largest remittance receiver in the world. As Table 4 suggests, migrants remitted close to $262 billion in developing countries. As the proportion of GDP, it was 1.4% of the GDP of low-income countries in 2001 (Ratha [12]). This flow is quite substantial; as unlike the other sources such as portfolio investment, it is not subject to sudden reversal and indeed acts as a buffer in such situations, reducing the negative implications associated with the vicissitudes of speculative finance capital. For example, remittances continued to grow steadily in 1998-2001, even as capital flows witnessed a sharp reversal, as a consequence of ASEAN crisis [12].

Besides being a large and relatively stable source of external finance to the developing countries, remittances are more equally distributed among developing countries, with even relatively poorer countries having access to this source of financing for their current account deficits. Ratha [12] documents that the top 10 countries which received the highest remittances in 2001 accounted for 60% of total remittances; this is

substantially lower than the share of the top 10 in total GDP, total exports and capital inflow which were respectively 68%, 72% and 74% in the same year. It follows therefore that remittances are relatively more equally distributed among developing countries than other sources of external finance, such as exports.

One potentially disadvantageous outcome of migration, in the context of developing countries, is the reality of “brain-drain”- the flow of highly educated professionals from developing countries to the developed world. Given the asymmetric distribution of costs and benefits, it amounts to an unrequited transfer of scarce resources from developing countries to a developed one; this anomalous situation needs to be corrected through appropriate policies.

To summarize, migration is an important catalyst for development, without entailing any significant trade-off, both on the macro and micro level.

Conclusion

The present era of globalization is marked by a persistent tension on account of two opposite factors. For one, technological changes and dynamics of globalization itself are creating demands for the transnational movement of people.

Technological changes, increasing inequality in terms of opportunities, and unemployment in developing countries are some of the factors giving rise to such demands. All the same, growing demand for migration continues to be constrained by restrictive domestic immigration laws and consular practices. Such policies are entirely dictated by the interests of labour-importing countries, paying scarcely any heed to the needs of labour-exporting countries. The absence of any multilateral framework for dealing with the issue of labour migration in an equitable manner is thus indicative of the deeper problems associated with globalization. It is high time that appropriate multi-lateral dialogues take place between countries of origin and destination, covering key issues and policy concerns.

The current state of affairs is unsatisfactory, not only from a broader and richer perspective of fairness, well-being and development, but also in the narrower, conceptual framework of efficiency and optimality.

On a policy level therefore, this analysis underscores the urgent need to create an international institutional framework for the contribution of migration to mutual development. The interests and rights of migrant workers deserve at least as much attention as the whole range of ‘rights’ extended to the interests of capital.

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vii. Gone with the Offshore Wind.....tax, economic justice and the development agenda

By Marta Ruiz Carnés[12]

The current global crisis is producing very serious consequences for developing countries. Many voices are asking whether the renewed political attention to financial regulation will address the huge illicit flows of resources that leave developing countries every year. Tax havens, the majority in Europe and in African, Caribbean and Pacific (ACP) countries play a major part in this and are putting up a fight not to lose their status as secrecy jurisdictions. However, putting tax havens under control is not only a matter of concern for developing countries, it has global implications. In 2009 the UK Prime Minister stated "We want the whole of the world to take action. (…) against regulatory and tax havens in parts of the world which have escaped the regulatory attention they need." Mr. Brown has indeed good reasons for taking action on tax havens. After the Northern Rock bank nationalisation in 2008, the government was criticised for losing control of it. The reason was that most of the "healthy" liabilities of the bank were held offshore in Jersey, in a separate company leaving the most risky lending on the Rock bank's own balance sheet. The Government would therefore not be able to access these mortgages to pay off the debt.[13] A good example of how tax havens enable the privatisation of profits and socialisation of losses.

Developing countries suffer much further the consequences of the crisis. Increased vulnerability led by deregulation and liberalisation policies pushed for the last three decades; shortage of Official Development Assistance and reduction of available loans as a result of the credit crunch, are only some of the impacts that developing countries have been, and will be facing in the future. To these should be added the permanent leak of financial flows that fly every year to the North, as a result of an unfair and badly regulated financial system. While much of these reverse flows result from global imbalances of the financial system, such as the accumulation of dollar based reserves, a considerable amount are unrecorded tax haven channelled flows resulting from corruption, criminal activities and above all, tax flight from transnational companies. However, when it comes to the development agenda much of the attention keeps focusing on the some US$100 billion worth of aid flows and the insufficient and highly conditional debt relief initiatives. Illicit flows exceed by far the official inflows received in terms of aid, debt relief or private foreign direct investments all together.

The financial crisis is triggering a renewed interest in tackling tax havens and some political leaders are beginning to bang the drum for the reform of tax havens. At their 22nd February preparatory meeting held in Berlin ahead of the G20 summit, EU leaders agreed on the need to crack down on tax havens and establish sanctions. French President, Nicholas Sarkozy, stated "We want to put a stop to tax havens, (…) with a list of tax havens and a series of consequences." Adding that "Europe wants to see an overhaul of the system," and stressing that "A new system without sanctions

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[13] See article "Northern Rock nationalisation runs into £49bn Granite barrier"; In : www.timesonline.co.uk/tol/news/politics/article3406368.ece

would not have any meaning."[14] German Chancellor Angela Merckel pointed to the need to "eliminate blind spots (…) when it comes to financial-market products, market participants and instruments." and added that "a list of uncooperative jurisdictions and a toolbox of sanctions must be devised as soon as possible".

There is a broad consensus on addressing tax havens as a major problem but the question is whether these statements will be translated into equally strong measures or will just be followed by cosmetic changes. The fact that Europe hosts many tax havens will not make substantive changes an easy task for the most proactive European leaders. This article sheds light on the role played by tax havens, the weakest link of an unfair financial system that is being questioned these days and that seriously threatens development. It will also raise key recommendations for change.

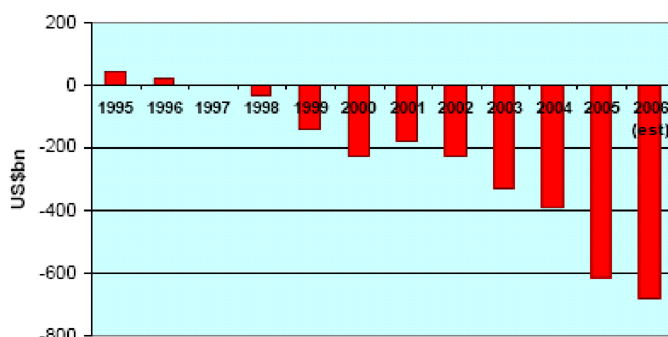
A broken system where the South finances the North

Many European politicians and citizens believe that Europe finances developing countries fairly generously and the EU generally positions itself as the leading donor of Official Development Assistance. In fact the reverse is the case. The UN Department of Economic and Social Affairs estimated that for Sub-Saharan Africa and generally for the least developed countries, the net financial flow has become progressively smaller and even turned negative in the last few years. Figure 1 shows the volume of financial flows between Southern and Northern countries.

Global imbalances

For middle income countries, which receive more investment, an important part of their outflows are interest and debt repayments, as well as profit repatriation from foreign direct investments. For emerging economies in general, especially for China, a large share of the outflows results from the accumulation of U.S. treasury bonds. While this outflow is not a loss, it prevents them from using their reserves for domestic productive investments. This huge accumulation of reserves is the response to protect their currencies from speculative attacks, and to prevent previous financial crises led by capital account liberalisation, financial sector deregulation and speculative capital flight.

Figure 1 Net financial flows between developed and developing countries 1995-2006



Source: UN DESA: World Economic Situation and Prospects 2007

[14] See: http://bloomberg.com/apps/news?pid=20601087&refer=home&sid=arqqvejukth4

The IMF's damaging advice

The International Monetary Fund (IMF) is responsible for overseeing the financial system. Since the 1980s it has instead spearheaded the liberalization and deregulation of global financial markets in most developing economies. This has made these economies more vulnerable to external shocks and to capital flight.

The removal of capital controls and financial sector deregulation, both promoted by the IMF, has removed countries' immunity to this financial contagion. Furthermore, the following of IMF's advice after the crisis, further depressed the economy and exacerbated its dramatic social consequences. Under IMF advice, Indonesia had to diminish its fiscal deficit by reducing health expenditure by 12% in 1999. Education expenditure was also cut by 41% in 1999. According to World Bank estimates, the Indonesia, Chile, Thailand and Uruguay crises cost more than 30% of their respective GDPs. As a result of the financial crisis, real wages in Indonesia fell by 41% and 2.5 million jobs were lost. In Korea, 2.1 million non agricultural workers lost their jobs and 1.4 million in Thailand[15].

In response to the current crisis, the IMF is back into action, linking its "traditional" structural adjustment conditions to the rescue packages. This raises serious concerns in the EU, where the IMF is active in new Member States. A recent ETUC paper reads "Europe not leaving new Member States at the mercy of IMF" and explains "growth dynamics in these countries will get short circuited, especially if the IMF returns and imposes its usual anti-growth/anti-social stabilization measures"[16].

This system shows that we are very far from achieving the world's governments' pledges at the UN Financing for Development conference in 2002 to "mitigate the impact of excessive volatility of short-term capital flows" and to strengthen "prudential regulations and supervision of all financial institutions, including highly leveraged institutions". It is ironic that seven years ago, when negotiators agreed this text, the recommendations were aimed at decision makers in Asia and Latin America, not in Europe or North America where the crisis originated.

[15] Eurodad, CRBM, WEED, Bretton Woods Project. "Addressing development's black hole, regulating capital flight". May 2008. See: www.eurodad.org/uploadedFiles/Whats_New/Reports/Capital_flight_report.pdf

[16] European Trade Unions Confederation. "Action for recovery. A European plan to re-launch the economy: investing in people, the environment and innovation". See: www.etuc.org/a/5589

The follow-up Conference on Financing for Development held in Doha end 2008, simply reiterates that “macroeconomic policies (should) attach high priority to avoiding abrupt economic fluctuations”. On tax evasion, the text only mentions “effectively combating tax evasion” without even mentioning the need to tackle tax havens. The wording on progressive tax systems as a means to enhance domestic resource mobilisation was erased in the last minute term[17].

Cross border illicit flows or the hidden art of the iceberg

Illicit flows can be defined as “The deliberate and illicit disguised expatriation of money by those resident within the country of origin”.[18]

By their nature, illicit flows from developing countries are very hard to estimate since they escape national and international controls. Attempts to scope these flows show that they represent a huge amount of money flying out of Southern countries each year. Recent estimates released in 2008 are close to $ 1 trillion per year at an annual growth rate of 18%.[19]

The Global Financial Integrity (GFI) breakdown cross border illicit flows into three main components[20]:

1. Firstly, bribery and corruption, that represent around 5% of the global amount. The stolen wealth looted by corrupted political leaders, bribes paid to elites and looted in private bank accounts are among the main causes of these illicit flows.
2. Secondly, criminal illicit flows that include terrorist financing, smuggling, drugs money and other crime-related money, account for about 30% of the problem.
3. Finally commercial transactions encompassing trade false pricing and false invoicing with the aim of escaping taxes, account for 65% of the problem. The largest percentage of cross border illicit flows is therefore channelled through commercial activities, and operated through tax havens.

While much public attention has been given to the first 5%, including the programme Stolen Assets Recovery initiative (STAR) launched by the World Bank and the UNDOC[21], tax related capital flight generated by transnational corporations and channelled through tax havens remains the biggest problem - both globally and in particular for developing countries.

Why taxes matter for development?

Low income countries (LIC) suffer from a chronic lack of domestic resources and dependence on external funding. This is conditional and unpredictable. The mobilisation of domestic resources was identified in 2002 as one of the key pillars of the UN’s Monterrey Consensus on Financing for Development. But very little progress has been achieved in this area. Establishing capital controls, and instituting an effective fiscal policy constitute key instruments for governments to raise regular and predictable resources.

[17] See. Doha Declaration at: http://daccessdds.un.org/doc/UNDOC/GEN/N08/630/55/PDF/N0863055.pdf?OpenElement
See also Eurodad’s article: //www.eurodad.org/whatsnew/articles.aspx?id=3218

[18] Definition used by Raymond Baker and other analysts, including the Tax Justice Network.

[19] Global Financial Integrity. « Illicit financial flows from developing countries 2002-2006 », November 2008. See: www.gfip.org/

[20] The World Bank has also used these estimates. See footfnote 10.

[21] See: www.unodc.org/documents/corruption/StAR-Sept07-full.pdf

After thirty years of policy liberalisation, tax administrations in most LIC are very weak and extremely dependent on indirect taxation, namely Value Added Tax (VAT) penalising the lower incomes. The average tax revenue in LIC was approximately 13% of their GDP in 2000, less than half of the average, 36% for OECD countries. Moreover, the ability to raise direct taxes amount to 2-6% of GDP in poor countries, compared to 12-18% in developed countries.22 Under these conditions, mobilisation of domestic resources through progressive taxation systems remains a huge challenge for poor countries. Tax evasion and avoidance from developing countries represents a significant multiple of global ODA every year. This leakage is facilitated by tax havens, providing the necessary infrastructure and services in total opacity.

Plugging these tax leaks will help redistribute wealth, restore government policy space and foster responsibility and accountability towards the population. For these reasons, the promotion of progressive tax systems, the strengthening of tax administrations and the fight against tax flight and tax havens need to be addressed as a priority within the area of development finance.

In its report "Death and taxes", Christian Aid outlines the crucial role taxation plays in a democratic society and summarises it in 4 R's: Representation: by paying taxes, people contribute to building a strong state but they also become agents in the process of development – holding governments to account. Direct taxation of incomes and profits is the major channel in this process. Revenue: governments need taxes to provide systems of health, education, social security (…) and investments in infrastructure. Redistribution: taxes should reduce poverty and inequality, and ensure that the benefits of development are felt by all. 'Re-pricing': taxes can be used to deal with related social problems, for example, taxing carbon emissions to tackle climate change or taxing tobacco to limit damage to health23.

Capital flight and debt in Africa

Conservative estimates published by UNCTAD in 2007 show that Sub-Saharan African countries lose an annual average of $13 billion in capital flight.24 The total amount of capital flight between 1970 and 2004 from a 40 country sample, amount to US$420 billion in real terms. Capital flight represents 82% of the sample countries' GDP and almost 300% of the debt stock for that period. The authors conclude that Sub-Saharan African countries are net creditors to the rest of the world and add, "If we could restore the stolen assets then there would be more than enough money to pay the debt".[25] They also explain that Africa has the highest ratio of privately held capital abroad in the form of capital flight. In 1990, about 40% of African private capital was held abroad.[26] Trade mispricing is a further key conduit for illicit flows in Africa, as UNCTAD suggests: "capital flight from Sub Saharan Africa is fast approaching a trillion dollars, more than twice the size of its aggregate external liabilities".[27]

[22] SOMO. Taxation and Financing for development. P. 2 & 3. October 2008.
[23] Christian Aid. "Death and taxes. The true toll of tax dodging". May 2008. P.40
[24] UNCTAD. Economic development in Africa, 2007.Based on findings from Boyce and Ndikumana. See: www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_151-200/WP166.pdf
[25] Eurodad interview with L. Ndikumana, May 2008.
[26] Boyce and Ndikumana 2008. Op. cit. P.8
[27] Global Financial Integrity. "Illicit financial flows from developing countries: 2002-2006" Nov. 2008.

What are tax havens?
Tax havens have at least one or more of the following features:
Firstly, they provide low or zero taxes for non residents. Secondly, they provide high levels of secrecy to conceal the beneficiaries of companies, trusts, and bank accounts. Thirdly, they do not require any economic substance to the transactions booked in the jurisdiction. Finally, they provide preferential tax regimes for non residents to encourage profit and income shifting from other countries.

Despite the fact that tax havens account only for about 3% of global GDP, they play a key role in global finance and global economy. According to the IMF, tax havens represented, in 2004, at least 50% of global financial flows and were involved in more than one third of global Investment Portfolios. UNCTAD estimates that more than one third of TNC foreign direct investment go to tax havens and explains that this trend has been increasing since the 1990's. The Tax Justice Network estimates that rich individuals deposit around US$ 11.5 trillion in tax havens, representing a net loss of worldwide government tax revenue of US$255 billion per year. As mentioned above, GFI estimate that illicit flows from Southern countries channelled through tax havens, amount to US$1trillion per year and growths at an annual rate of 18%.

When it comes to identifying tax havens, one would easily first think of the white sandy beaches in the Caribbean. In reality, the city of London represents on its own around 40% of all the activities related to tax havens. London's financial centre is the first to attract foreign banks. Around one third of global currency transactions transit through the UK, making some authors state that "London is with no doubt the largest tax haven in the world" 28. Many others are dependencies or overseas territories of European countries, such as: Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, (all UK dependencies), Aruba and Netherlands Antilles (dependencies of the Netherlands)29. Other European tax havens, Switzerland, Monaco, Andorra and Luxemburg for example, account for 30% of all offshore activities. Only the remaining 30% is covered by the Pacific and Caribbean sunny territories we initially think of.

According to the Tax Justice Network, the list of European tax havens is much longer than the one set up by official bodies. Some European tax havens other than Andorra, Monaco, Switzerland and Liechtenstein would be: Belgium, Cyprus, Germany (Frankfurt), Gibraltar, Hungary, Iceland, Ireland, Italy (Campione d'Italia & Trieste), Latvia, Luxembourg, Malta, The Netherlands, Portugal (Madeira), San Marino, Spain (Melilla) and UK (City of London). Europe is therefore a key player in the fight against tax havens and the interests at stake are huge.

Who uses tax havens?
Rich individuals wanting to escape regulation and taxes and criminal groups and corrupted individuals using tax havens for money laundering, are among the prominent users. In this article however, we will focus on commercial and financial actors, which account for the biggest share of the cross border illicit flow problem.

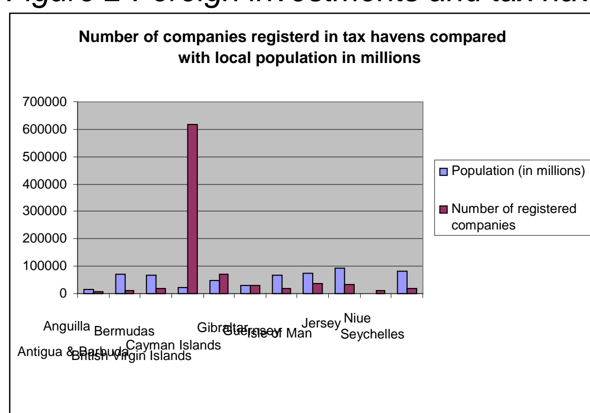
Companies
Foreign direct investment (FDI) has been a key driver for developing countries since the 1990's, promoted by the international financial institutions (IFIs) as one of the key engines for development. But the results of FDI in terms of development are far from

[28] C. Chavagneux and R. Palan. 2007. « Les paradis fiscaux », p.81.
[29] See: www.eurodad.org/uploadedFiles/Whats_New/Reports/factsheet_capitalflight08.pdf
www.eurodad.org/uploadedFiles/Whats_New/Reports/Capital_flight_report.pdf

rosy. In order to attract FDI, countries have generally offered very favourable tax conditions which included tax exemption, tax holidays and other tax benefits, creating very unfavourable conditions for local investors to compete with.

One of the consequences of this unfair system is the development of so called round trip investments, channelled generally through tax havens. In order to benefit from more favourable tax conditions, a local investor will shift to an offshore territory, from where he will invest in his original country but as a foreign investor, thus benefiting from better tax conditions. For years, the British Virgin Islands have been the second biggest investor in China, while in reality it was Chinese investors operating from offshore[30]. The same pattern has been followed in other regions. At the end of the day, small local investors are unable to compete with large ones, increasing the countries dependence on external investors, whose main goal is to maximise profits including by minimising taxes. Figure 2 illustrates this phenomenon, showing the number of companies registered in tax havens as compared to local population of those territories.

Figure 2 Foreign investments and tax havens



Source: Step journal & lawtax.net, 2004[31]

How do companies avoid and escape taxes?

One key mechanism used by transnational companies to escape taxes is the transfer of false pricing or false invoicing. This means setting the price of sales between different entities within a multinational. In principle, transfer pricing is a legitimate practice, as long as it respects the "arm's length principle", that means that the price falls within the open market average price of the same product or service traded between unrelated companies[32]. Problems occur when transfer pricing becomes a tool to set artificially high or low prices in order to minimise taxes. The arm's length principle is largely bypassed, one of the reasons being that more than half of global trade occurs among subsidiaries of the same TNC[33]. Much of these transactions involve very specific goods and services that may not have an open market price reference and that are simply set internally within the group. According to a survey of 476 TNCs nearly 80% acknowledge having transfer pricing at the heart of their fiscal strategy.[34] This suggests that false invoicing and abusive transfer pricing practices are part of the TNCs' parent company strategy in

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[30] Eurodad, CRBM, WEED and Bretton Woods Project. May 2008. Op. Cit p.11
[31] C. Chavagneux and R.Palan.2007. Op. cit. P.63
[32] SOMO, 2008.Op. Cit. P. 8.
[33] Sony Kapoor "Exposing the myth and plugging the leaks", n "Impossible architecture", Social Watch report 2006, www.socialwatch.org/en/informesTematicos/99.html
[34] Chavagneux C. and Palan R. 2007. Op. cit. P. 65.

order to minimise taxes. The parent companies are generally based in Northern countries and have subsidiaries in tax havens, where they can shift untaxed profits.

TNC operations are taxed following the residence principle. They are taxed according to the territory where they are registered. TNCs set up subsidiary companies, where they will be taxed the least. For instance, Microsoft has placed its software intellectual property rights in its subsidiary firm in Ireland. By doing so, Microsoft paid $1billion taxes between 2001 and 2004; a rate of 12.5%, instead of the $2.8 billion at a 35% rate that would have been paid had the property rights remained in the US.[35]

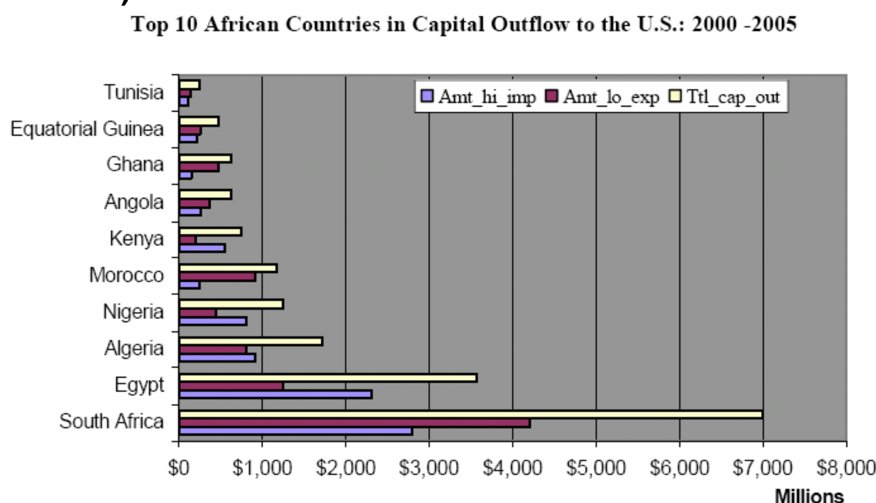
Another example is Ikea's complex structure established through tax havens in order to minimise taxes. Italian magazine Altereconomia published in 2009 "The real fortune of Ikea (...), is not the idea of selling flat-pack furniture (…). Rather that of having built a very complicated company structure, a net created just to use the mechanisms of "tax planning" to pay as few taxes as possible without violating the law"[36].

Some striking examples of how companies false price imports and exports with the only aim of escaping taxes are flash bulbs sold at $US 321.90 each, pillow cases at $US 909.29 each and a ton of sand at $US 1993.67 when the average trade price was 66 cents, 62 cents and $11.20 respectively.[37]

Transfer false pricing strategies become a real development concern as they deprive the poorest from their legitimate resources and divert them through corporate tax planning strategies. According to recent research led by Christian Aid, poor countries lose at least US$160 billion per year in tax losses as a direct consequence of transfer false pricing practices.[38]

Other analysts estimate that capital flight from Africa to the US through trade false invoicing, amounted to more than US$20.5 billion between 2000 and 2005.[39] In this period, capital outflows from Africa to the U.S. grew by more than 50%, both through low priced exports and high priced imports.

Figure 3. Capital flight from Africa to the US as a result of transfer false pricing (2000-2005)



[35] Chavagneux C. and Palan R. 2007. Op. Cit. P.62.
[36] Altereconomia. « Ikea's Duths trick », January 2009.
[37] P. Sikka. In The Guardian "Shifting profits across borders" Thursday 12 February 2009. See: www.guardian.co.uk/commentisfree/2009/feb/11/taxavoidance-tax
[38] Christian Aid. "Death and Taxes: the true toll of tax dodging". May 2008. See: www.christianaid.org.uk/images/deathandtaxes.pdf
[39] The methodology used in this research is based on the Balance of Payments, which excludes some non recorded flows and gives, as a result more conservative estimates.

Source: Maria E. De Boyrie, James A. Nelson, Simon J. Pak. “Capital movement trough trade mis-invoicing. The case of Africa”, 2007

Bananas' virtual trip through offshore land

A concrete example of how transnational corporations shift profits and avoid taxes is the banana industry. Three big corporations, Chiquita, Dole and Del Monte, control more that two thirds of the banana market. They all have their headquarters in the US, where the nominal tax rate is 35% but their profit shifting mechanisms allow them to pay only 8% tax rate. In order to minimise taxes, these companies have been bundling different costs, treasury operations, intellectual property rights, etc, into offshore subsidiaries, allowing them to shift profits towards no tax jurisdictions while reporting lower benefits or even losses and subsequent tax benefits in producer countries. In this case, the trip from the producer country to the consumer in the supermarket, where the banana is sold at 1 Euro price, goes through the following havens:

First, bananas are exported at 13 cents each from the producer country. Here, labour and other production costs account for 12 cents, which makes around 1% of taxable profit booked in the producer country.

Second, the company invoices 8 cents fee charge for the use of purchasing network, registered in the Cayman Islands.

Third, from the Cayman Islands another affiliate based in Luxembourg charges 8 cents for the use of company financial services.

Fourth, a subsidiary in Ireland charges 4 cents for the use of the brand.

Fifth, another affiliate in the Isle of Man charges 4 cents for insurance services.

Sixth, a subsidiary in Jersey charges 6 cents for management services.

Seventh, from Jersey the banana travels to another subsidiary in Bermuda, where it is charged 17 cents for the use of distribution network.

Eight, the banana eventually arrives to the consumer country where it is imported at 60 cents and invoiced to retailers at minimal margin or even at loss. The retailer then adds a margin of about 40 cents, selling them at 1 Euro. This makes a 1% of taxable profit, booked in the consumer country.[40]

Banks, insurance, hedge funds and other financial institutions: Most international banks have subsidiaries in a tax haven. This network has facilitated the transfer and circulation of stolen assets from corrupted leaders, for instance, Sani Abacha's stolen assets circulated via Crédit Suisse, Crédit Agricole Indosuez, BNP and many others. Tax havens have also allowed the financial and banking industry to develop speculative and risky products and host speculative actors. About 80% of hedge funds are registered in The Cayman islands[41]. Furthermore, the whole shadow banking system that has been creating and spreading risky financial products, without any control, was enabled by secrecy provided in tax havens.

Accounting standards: setting and transfer false pricing.

It is not surprising to see that transfer pricing regulations are easily circumvented, given that rules are set by the same companies that use them. Ernst and Young, one of the biggest accountancy companies, is a prominent member of the International Accounting Standards Board (IASB), a private body in charge of setting international accounting rules applied by most countries, and therefore used by most transnational companies. As journalist Prem Sikka explains, transfer pricing is a big business for this company,

[40] F. Lawrence and I. Griffiths, "Revealed: How multinational companies avoid the taxman", The Guardian, 6 November 2007. Quoted by John Christensen, "Taxing transnational corporations" 2009.

[41] C. Chavagneux and R. Palan. 2007. Op. Cit. P.72.

which markets its services with the following statement "Transfer pricing affects almost every aspect of a Multinational Enterprise (MNE) and can significantly impact its worldwide tax burden. Our professionals help MNEs address this burden (…). Our multidisciplinary team helps MNEs develop transfer pricing strategies, tax effective solutions and controversy management approaches that best fit their objectives".[42]

This practice creates enormous distortions in global trade and strongly pushes tax competition, which in general is detrimental to wage levels, working conditions and environmental concerns. It also nourishes huge tax losses at the global level and especially for poor countries where these big companies operate.

Failed attempts to combat capital flight and tax evasion

The Organisation for Economic Cooperation and Development (OECD) is one of the key institutions to deal with tax havens. In April 1998, the OECD first published its report on "harmful fiscal competition" attacking fiscal practices aiming at attracting foreign capital. This led to the publication in 1999 of a list of 47 tax havens. A few months later, in June 2000, only 35 territories remained on the list since some tax havens declared their intention to take immediate measures. In 2001, the George W. Bush administration put strong pressure on OECD's work to combat harmful tax practices. Tax analyst Richard Murphy explains that the OECD "saw no problem in denouncing what it described as harmful tax competition. Many states, led by Switzerland, Luxembourg and the Caribbean havens, argued that a tax regime is a sovereign prerogative (…: this argument gained a powerful ally once the first Bush administration came to power in 2001 and broke ranks within the OECD"[43.] US Finance Minister at that time, Paul O'Neil, stated that: "The US does not support any efforts aiming at dictating at any country what its tax rate or its tax system should be and we will not take part of any initiative aiming at harmonising tax systems"[44.] Following this trend, the OECD updated black list only accounted 7 countries out of the initial 47 and most of them have been progressively excluded on the basis of the good quality of their policies. The last updated list only names 3 remaining un-cooperative tax havens: Andorra, Liechtenstein and Monaco[45.]

The Financial Stability Forum (FSF) was created in 1999 in the aftermath of the Asian financial crises in order to promote financial stability and international cooperation in financial supervision and surveillance. The FSF works closely with the IMF and the OECD and drew up a list of 42 tax havens. In 2005, a new report published by the IMF with a list of 41 countries, expressed that good progress had been made except in two areas: lack of international cooperation and of information exchange as well as inadequate regulatory policy. On the basis of this conclusion, and despite the fact that these two elements are crucial for significant progress, the FSF declared, in 2005, that "the FSF's 2000 list of 42 Offshore Financial Centres which helped the IMF to set priorities (…) has served its purpose and is no longer operative".[46]

Another body active on illicit flows is the Financial Action Task Force (FATF) established by the G7 Summit in Paris in 1989 in order to combat money laundering. The FATF has focused on drugs money laundering and, since 2001, in the financing of terrorism. It set up a list of non-cooperative countries and territories, or countries having rules that might facilitate money laundering, and established 40 recommendations to

[42] P. Sikka. In The Guardian "Shifting profits across borders" 12 February 2009. See: www.guardian.co.uk/commentisfree/2009/feb/11/taxavoidance-tax
[43] R. Murphy. "Tax havens creating turmoil". June 2008.
[44] C. Chavagneux and R. Palan. 2007. Op. Cit. P. 90.
[45] See: www.oecd.org/document/57/0,3343,en_2649_201185_30578809_1_1_1_1,00.html
[46] FSF. Press release 09/02/2007. See: www.fsforum.org/publications/publication_23_41.html

address the issue. It identified 29 dubious territories by the end of 1999 but, in 2000, the list shrank to 15 "non-cooperative countries". According to the FATF only 2 territories were identified as having dirty money circulating: Nigeria and Myanmar, and since 2006, its list of non cooperative territories is simply empty[47].
According to some experts, this name and shame policy has paradoxically strengthened the legitimacy of the strongest tax havens. Some powerful conservative think tanks in the US support them like the "Coalition for Tax Competition" that qualifies the OECD as "A global fiscal cartel to the benefit of a small bunch of overtaxed nations"[48].

A renewed interest to combat tax havens

There is a renewed interest by world leaders, especially in Europe and in the US, to combat tax havens. The Liechtenstein scandal that burst in February 2008[49], exposing the issue of tax evasion in the EU through European tax havens such as Liechtenstein, opened the way to other European territories such as Luxembourg, Monaco and Andorra. But despite strong rhetoric statements from many EU member states that could be summarised in the Swedish Finance Minister Anders Borg's words "Tax paradises in practice become tax parasites,"[50] no concrete steps were taken. As Luxembourg's Prime Minister gladly announced, when his country was pointed as suspect by the public opinion "I look forward to many years of fascinating and fundamental discussion". A few months later, in the middle of the turmoil created by subprime crisis, he still proved to be loyal to his arguments by openly defending bank secrecy "I am of the opinion that the existence of banking secrecy is not at the origin of the financial crisis we are currently experiencing. The fact that we have banking secrecy in individual countries in Europe is not to be blamed for the fact that we are witnessing this financial crisis." [51]

But despite Mr. Junkers fixed position, the financial crisis and its expansion throughout the world, has definitely led to questioning the role of tax havens and secrecy jurisdictions. While Junker praised bank secrecy, his French counterpart Mr. François Fillon sang a completely different tune arguing that "black holes such as offshore financial centers should no longer exist" adding that their disappearance should be a step towards "the refunding of a new financial system"[52]. Similarly, German Finance Minister Peer Steinbrueck openly pointed to Switzerland, saying it had failed to fully cooperate on taxation issues. "Switzerland should be on the blacklist and not the green list"[53] he said. Indeed, tax havens host affiliates of most international banks that created off balance instruments, such as special purpose vehicles that generated the securitization of sub prime debts and other structured toxic products. This renewed interest comes after more than two decades of decreasing efforts from the international community on this matter.

While Europeans are waking up on this issue, the political tide is already moving towards the other side of the Atlantic. While he was still a Senator, Mr. Obama introduced, in 2007, the "Stop Tax Haven Abuse Act", arguing that"We need to crack

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[47] See: www.fatf-gafi.org/document/42/0,3343,en_32250379_32236992_33916420_1_1_1_1,00.html
[48] C. Chavagneux & R. Palan, 2007. Op. Cit. P. 96
[49] See: www.spiegel.de/international/business/0,1518,535768,00.html
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[52] See : www.24heures.ch/actu/monde/2008/10/14/fillon-veut-faire-disparaitre-paradis-fiscaux
[53] See : www.france24.com/en/20081021-world-leading-economies-tackle-tax-havens-oecd-france-germany

down on individuals and businesses that abuse our tax laws so that those who work hard and play by the rules are not disadvantaged"[54]. This act has not yet been approved, but opens a crucial space on the need to establish strict regulations to combat tax havens and tax evasion.

Europe's key role in curbing illicit flows

There are several areas in which European governments can take the lead in order to foster transparency and improve stability at a global level.

Firstly, with the strengthening and expansion of the European savings tax directive (ESD) that is under review. By obliging automatic information exchange, the directive dramatically improves transparency of financial transactions. Nowadays, however, it only applies to individuals' interest income, which represents a very small part of the actual problem. A much broader scope should be applied to this principle. This would include an expansion to all legal entities and to all sources of income, not only interest payments. Such an extension would address illicit flows from commercial and financial actors, currently circulating in secrecy, and draining huge amounts of resources from States. The expansion should also be enhanced at the geographical level, incorporating other non European territories, which, to some extent, has been the case[55].

Secondly, Europe has a key role to play on setting international accountancy standards. This can be done by dramatically improving transparency in the way multinationals present their accounts. The present system allows companies with subsidiaries abroad to present consolidated accounts without breaking them down on a geographical basis where profits have been made. This is currently one of the main obstacles to combating transfer false pricing and profit shifting to secrecy jurisdictions. The European Parliament recently called for a country by country reporting standard for the extractive industry sector[56]. Country by country reporting should not be the exception but the rule applied to all economic and financial sectors, and Europe should firmly push in this direction.

Global financial governance requires a balanced representation of countries not only in financial institutions but also in the standards setting bodies such as the IASB57. The EU Council has expressed concerns about IASB governance and legitimacy: "The current financial turmoil illustrates the importance of a robust and legitimate independent international accounting standard-setting process, which is responsive to the public interest and consistent with the objective of ensuring financial stability". [58]This means not only a stronger representation from other regions of the world - including developing countries - but also the implementation of the principles of neutrality, transparency and public interest in all international accounting standards.

Following the Liechtenstein scandal, the EU Council committed, in 2008, "to implement the principles of good governance in the tax area" and to "improve international cooperation in the tax area (…) and develop measures for the effective implementation of the above mentioned principles."[59]These principles are "transparency, exchange of information and fair tax competition". The Council added "the need to

[54] See: http://taxjustice.blogspot.com/2008/11/obama-and-stop-tax-haven-abuse-act.html

[55] The collaborating non-EU states are: Switzerland, Andorra, Monaco, Liechtenstein, San Marino and all overseas territories dependent on EU member states. The EU has also asked to initiate a negotiation process with Hong Kong, Singapore, Macao, Japan, Canada, Bahrain, Dubai and the Bahamas.

[56] See: www.europarl.europa.eu/sides/getDoc.do?Type=MOTION&Reference=B6-2007-0437&language=EN

[57] International Accounting Standard Board.

[58] See: http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/101732.pdf

[59] See: www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/100339.pdf

include in relevant agreements to be concluded with third countries by the Community and its Member States (...) a specific provision on good governance in the tax area".[60]

These principles have been ratified by the European Parliament's report on tax fraud where it says that Europe should take the lead and make the elimination of tax havens at the worldwide level a priority, and "invites the Council and the Commission to use the leverage of EU trade power when negotiating trade and cooperation agreements with the governments of tax havens, in order to persuade them to eliminate tax provisions and practices that favour tax evasion and fraud". [61]

The effectiveness of such a statement will very much depend on how broadly or narrowly we define tax havens. The OECD has proved to be too narrow when defining tax havens and needs now to dramatically strengthen its work against secrecy jurisdictions.

Conclusion and recommendations

The financial crisis is part of a broader and deeper systemic crisis and therefore, systemic changes will be needed. Combating tax havens is part of a broader set of reforms that many civil society organisations (CSO) are calling for. A large number of CSO are putting forward comprehensive reforms for a new financial system that respects a sustainable model of development. There are many proposals for a fundamental and democratic reform of the international financial architecture in order to guarantee stricter regulation, more transparency and better control of capital. These also include a in-depth democratic reform of the global governance system and fair distribution of global wealth through global taxes and progressive tax systems.[62]The implementation of such measures would be a win-win game for both the North and the South, generating productive and sustainable development-oriented economic growth.

In order to enhance policy areas in developing countries and mobilise domestic resources in the long run and on a predictable basis, progressive tax systems should be implemented and promoted by international financial institutions and donors. This directly implies strong efforts to strengthen tax administrations globally but more particularly in the South. It will be unrealistic to effectively combat tax evasion and avoidance as long as tax administrations remain much weaker than perpetrators of these schemes. To put things in perspective, the accountancy firm Ernst &Young alone employs 900 professionals to sell transfer pricing schemes, while the US tax administration employs about 500 full time inspectors to pursue these issues[63]. In Kenya, where estimates of annual capital flight amounts to almost $US700 million[64], only three to five investigators are employed for the whole country.

It is crucial to combat the channels and facilitators of capital flight. Tax havens should be dismantled and their users sanctioned. In order to end bank secrecy, the principle of automatic exchange of information and public disclosure of information should be applied globally.

Global taxes on financial transactions and penalties on operations incurred with non-cooperative territories should be implemented. These would not only penalise tax haven

[60] See: www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/100339.pdf

[61] See: www.europarl.europa.eu/oeil/file.jsp?id=5597642

[62] See the Declaration out of the World Social Forum 2009 "For a new economic and social model. Let's put finance in its place" at : www.choike.org/gcrisis and see also : www.rethinkingfinance.org

[63] P. Sikka. In The Guardian "Shifting profits across borders". Thursday, 12 February 2009. See: www.guardian.co.uk/commentisfree/2009/feb/11/taxavoidance-tax

[64] Annual average for the period 2000-2006. In Global Financial Integrity 2008. Op. Cit. P.67.

users, but would also free resources which could be redistributed to combat inequalities and foster sustainable development.

An international tax organisation, under the auspices of the UN to address tax competition and tax evasion, should be put in place. A first step in the right direction would be the upgrading of the existing UN Tax Committee into an intergovernmental body, in charge of addressing these issues. A first outcome towards the elaboration of a binding framework could be an international code of conduct on tax evasion.

It is fair to say, that many of the Southern small state tax havens that exclusively rely on offshore financial activities, would suffer dramatic consequences from a sudden end to offshore finance. This is why this process should be accompanied by a strong international financial effort to reorient these territories to real economic sectors leading their economies to a sustainable development pattern.

Finally, the IASB should be strongly reformed. Civil society organisations call for its reform into a specialist Commission of the United Nations Economic and Social Committee. The accounting standards rules should prevent excessive risk taking and abusive behaviours. Amongst others, they should seriously address transfer false pricing by establishing detailed country by country reporting standards for all companies operations, including costs, benefits, taxes, etc.

Given the global and systemic dimension of the problems we face today, global responses are needed. Many Heads of State are expressing the need to re-build the financial system. To achieve this, strong measures to combat tax havens must be at the heart of the global agenda. Any regulatory or reform attempt will be useless if secrecy jurisdictions or tax havens continue facilitating a double standard whereby a minority are able to escape tax and regulation, to the detriment of the majority of citizens.

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viii. Community Banks - Microcredit:

(The Brazil Experience)

By João Joaquim de Melo Neto Segundo[65]

"Capitalism has as its basis not only the idea that capital is private property, but also that it is concentrated in the hands of a minority. Due to their lack of capital, the vast majority of people who have to work in order to survive, are forced to sell their capacity to produce to those who own the means of production. Therefore, capitalists have at their disposal a large supply of manpower begging to be hired, usually outstripping the demand.

If these workers had enough credit, many of them would prefer to have their own business instead of working for somebody else. The larger the number of people that open their own business, the greater the possibility of success, since the injection of many small quantities of capital in the market boosts demand, allowing for new businesses to find buyers for their products. There is a need to enhance access to capital for micro and small entrepreneurs, of which there were more than 10 million in Brazil in 2003, in addition to the huge number of unemployed, the million families that are assentadas (people given new land to cultivate) under the agricultural reform and more than 11 million families dependant on the Bolsa Familia (Government program to supplement poor families' income). In spite of the various measures for democratization of credit taken by the current government, with examples such as the six-fold increase in Pronaf (National Credit Program for Family Agriculture), the large majority of those in need are still not taken care of."

The above text was written by Professor Paul Singer and appeared in the newspaper Folha de São Paulo on June 10th, 2007; however, it could very easily have been the preface for a real practice that has been taking place in Brazil since 1998: community banks.

"Community banks offer solidarity-based financial services, in a network of an associative and communitarian nature focused on generating jobs and income within the perspective of the reorganization of local economies, having as their foundation the principles of the Solidarity Economy. Its objective is to promote the development of low income territories by encouraging the creation of local production and consumer networks based on the support of the Solidarity Economy initiatives and its diverse fields, such as socio-productive entrepreneurial activities, service delivery, and support to commercialization (markets, shops and solidarity fairs)."

This definition was agreed on at the second meeting of the Network of Brazilian Community Banks, which took place from the 18th to the 21st of April 2007 at Iparana (CE), and it is meant to explain or clarify an initiative that is gaining more and more momentum within the national economy.

The Background

This topic becomes relevant the moment the world is faced with a crisis that has its origin in the international financial system. This crisis is now widely discussed in the

[65] Mr. João Joaquim Del Melo Neto Segundo, Director of Instituto Palmas, Brazil

different media networks; however, half of the Brazilian population has been excluded from this discussion for quite some time.

The banking industry in Brazil is highly concentrated: the largest 10 banks own 80% of the total liquidity owned by the 105 banks with a commercial portfolio and a credit offer that represents 75% of the total amount. For instance, the two largest financial institutions, Banco do Brasil S/A and Ciaxa Economica Federal are responsible for 25% of the total credit offer.

Despite having grown in the past three years the credit offer is still disappointing in comparison to GDP, barely 27%, when compared to other countries such as Uruguay, Thailand and Chile where the indicator is significantly larger, 40%, 99% and 70% respectively.

Beyond the high concentration of their activities, banks are extremely selective in their credit offer and tend to favour transactions in neighbourhoods with stronger economic foundations. Furthermore, they finance part of the public debt, an activity which provides them with 40% of their profit on average. It is part of the nature of these financial institutions to concentrate their activities on short-term gains, instead of financing the mid- or long-term opportunities.

Banco Palmas: the Beginning

The first community bank in Brazil was Banco Palmas, which was inaugurated in January 1998 in a neighbourhood called Conjunto Palmeira, which is located on the outskirts of the city of Fortaleza. The idea came from the Associaçao dos Moradores do Conjunto Palmeira (Association of Residents of Conjunto Palmeira) which has around 30,000 residents. They developed an economic system which has an alternative micro-credit line (for producers and consumers), incentive tools for local consumption (credit card and social currency) and new ways of commercialization (fairs, solidarity shops/stores) promoting local job creation and income generation.

Banco Palmas has three main characteristics: management responsibilities are borne by the community; an integrated system of local development which promotes credit, production, commercialization and training; and the local currency (Palmas currency), which complements the official currency (real) and is accepted and recognized by local producers, merchants and consumers, creating an alternative and solidarity market between the families.

The Palmas currency is pegged to the real (R$) (1 Palma is worth 1R$), which allows productive entrepreneurial activities within the community, like commerce, industry and services, to exchange currency each time it is necessary to replenish stocks of products that are not produced in the neighbourhood. The Palmas currency is already accepted by 240 businesses, which offer discounts from 2% to 15% to encourage people to buy with the social currency.

In March 2008 the Ministry of Work and Employment (MTE) hired the Federal University of Ceará to make an evaluation of the impact and image of the bank in the Conjunto Palmeira neighbourhood. Some of the findings are worth highlighting:

- 98% of those interviewed consider that Banco Palmas has contributed positively to the development of Conjunto Palmeira.
- 90% believe that the bank has contributed to an improvement in their quality of life.
- 26% believe that their income has increased because of the actions of the bank.
- 22% found jobs thanks to Banco Palmas.
- 61% would give the bank a rating of at least 9 out of 10.

These figures are supported by the words of one of the world's most respected individuals in the area of finance, who states "Banco Palmas is similar to Wir Bank from Switzerland, created in 1934 and it is more advanced than the Grameen Bank of Nobel Peace Prize winner Muhammad Yunnus, because it provides the poor with better help to get out of poverty" (interest rates are lower). This statement comes from Bernard Lietaer, former director of the Central Bank of Belgium and an expert on complementary currencies (from frequent flyer miles to social currencies). Just as it is with the Palmas currency, Wir Bank makes transactions with the Wir currency as well as with Swiss francs. Of course, the scale of transactions of Wir Bank is much higher since they involve 65,000 businesses and the value of such operations is 2 billion dollars a year. Author of the book "The Future of Money" (2001), Lietaer defends the view that social currencies promote certain exchanges that would not happen otherwise and help fight the liquidity problems that occur during recessions. He estimates that currently there are 5000 types of social currency. Furthermore, he firmly believes that "spreading banks such as Banco Palmas as a tool to reduce social tension, should be used as an important precedent for developed countries, such as Switzerland, to follow" (Jornal Folha de São Paulo 02/02/2009).

Instituto Banco Palmas: Spreading the Idea

In order to spread the social technology of the bank, in 2003 the inhabitants of Conjunto Palmeira decided to create the Instituto Banco Palmas. Two years afterwards the entity signed an agreement to enter into partnership with the Secretaria Nacional de Economia Solidária do MTE (National Secretariat of Solidarity Economy) and the Banco Popular do Brasil. The agreement allowed not only Banco Palmas but also the rest of the community banks to have access to credit and to act as banking correspondents of Banco Popular do Brasil.

Thanks to that support it was possible to arrive at the number of 37 community banks by the end of 2008, 25 of them in the state of Ceará, 4 in Espírito Santo, 3 in Piauí, 2 in Bahia and 1 in Mato Grosso do Sul, Paraíba e Maranhâo. These banks are located in areas characterized by poverty, banking and financial exclusion, in quilombolas communities (where descendants of African slaves live), indigenous areas, communities of quebradeiras de coco (women whose job it is to cut open coconuts whose seed is used in industries to produce cosmetic products), and isolated districts in the semi-arid northeast and the urban periphery.

The inhabitants of the majority of these places travel in paus-de-arara (privately owned trucks used to transport people) for about 40km just to pay their electricity bill or to receive their pension. Credit is not even a possibility and thus there is even less possibility of any local development.

This was the case in São João do Arraial (PI), a region where quebradeiras de coco live and work. With 7,000 inhabitants, the city has an 81° HDI (Human Development Index), the lowest in Brazil, and 77% of its population lives on less than half the minimum salary, based on the data from the United Nations Development Programme (UNDP). The county's economy is based on subsistence agriculture, mainly rice, corn, beans and yucca and raising animals such as pigs, cattle, goats and fowl. Moreover, the inhabitants work in the extraction of Babaçu , producing 200 tons of almonds and oil. In order to understand the true dimension of the local poverty it suffices to say that within the county 260,000 USD circulate per month, of which 110,000 USD come from the INSS (National Institute of Social Security), 110,000 USD from the City Hall, 30,000 USD from the government programme Bolsa Familia and just 10,000 USD

from local production, according to data provided by the local government of São João de Arraial.

Similarly to the example above, the inhabitants of this city had to cover around 30km of dirt road to the county of Esperantina if they needed any banking services. Besides paying the bills they also used these trips to buy whatever they needed, spending most of their income in their neighboring county. However, the story of São João de Arraial began to change at the start of 2007, when an NGO called CARE asked Instituto Banco Palmas for advice on how to open a community bank in the city. With the support of the City Hall and the leadership of COCAIS (Council of Community Organizations for Support and Social Inclusion), a seminar was held to present the proposal and …Bingo! The local residents were mobilized. Afterwards, some community leaders and experts from the City Hall went to Fortaleza for a series of training sessions at the Insituto Palmas.

As an infrastructure sponsored by the municipal authorities, on December 12th 2007 the Community Bank of Cocais was inaugurated. Today, it is possible to use it to pay bills, receive pension payments, and have access to credit and social currency for consumption in São João do Arraial. One of the municipal laws to support the Banco Cocais lays down that government workers of the municipality receive their salary from the community institution, giving the option that up to 25% of the payment can be in social currency. Thus, São João do Arraial began to redesign its own development.

The DNA of the community banks is the same everywhere: local economic flow of credits for production purposes (in Real R$) and credit for consumption in social currency, with ownership of the financial system in the hands of the community.

Nevertheless, every institution has its own name and currency and its own social organization which manages the project. A community bank is not a branch of a central bank, even though it follows a reference and common work methods defined by the Brazilian Network of Community Banks.

The Structure

In order to better understand the inner workings of a community bank, it is essential to describe its main structure.

A. Objective of a Community Bank

Promote the development of low income areas, through the encouragement and creation of local production and consumption networks, based on the support of the economic initiatives by the Solidarity Economy and its diverse scope such as: socio-productive enterprises, service provider, support for commercialization (markets, solidarity fairs) and consumer organizations.

B. Characteristics of the Community Bank:

- the community itself decides to create the bank, becoming its manager and proprietor;
- it always acts with two credit lines: one in Real currency (R$) and another one in circulating social currency;
- its credit lines stimulate the creation of local production and consumption networks, promoting the endogenous development of the area;
- it supports enterprises, as a commercialization strategy (solidarity shops, fairs, central office for commercialization etc.);
- it acts in areas characterized by a high degree of exclusion and social inequality;

- it is aimed at a public characterized by a high degree of social vulnerability, in particular the beneficiaries of governmental programmes;
- it aims to establish its financial sustainability in the short term, obtaining subsidies justified by their social utility.

C. Financial Services offered by the Community Bank
  - Local social currency
  - Solidarity credit through the concession delegated by financial institutions such as Banco Popular do Brasil
  - Credit for financing solidarity enterprises
  - Credit for personal and family consumption without interest
  - Popular Solidarity credit card
  - Opening account and account statements
  - Deposits
  - Invoice reception (water, electricity, telephone etc.)
  - Subsidies and pension payments
  - Cash withdrawals with or without credit card

D. Functioning of the credit system in Community Banks
  - The interest rates are lower than the market interest rates.
  - The credit system is fair. In solidarity finances this means for instance, that those with fewer resources pay lower interest rates and those with more resources pay higher interest rates. The interest rates are progressive to ensure a proper distribution of income. In this system the fortunate subsidize the most vulnerable in economic terms.
  - This solidarity dimension has to be understood by the residents and recipients of credit. A policy of lower interest rates is not enough if its application does not raise critical awareness and a sense of solidarity among the population. Only these values can have a mid- and long-term impact in the process of radical transformation of the structures of society.
  - The community itself (members of the association of residents and the credit recipients) owns and manages the credit system. As a result, any income from the credit operations, return on resources, interest and fees have to remain within the community. When we say “remain” it means that the community is at the same time customer and owner of these resources. The self-management aspect is extremely important. Many credit systems that function in specific communities simply provide a credit operation, but the resources generated are directed towards the headquarters of the main bank. This means that the recipients of credit are merely clients and so end up contributing to increase the wealth of the financial institution at the expense of the community.
  - The credit system serves as a supply source for the production chains, the local production and consumption networks, the production arrangements and other ways to foster the creation of solidarity cooperation networks. Credit can be made available to someone but soon they have to be encouraged to participate in one of the local networks of producers and consumers. In other words, it is essential that the recipient of credit (individual or group) is involved in some way with a local production or social network.
  - For the credit analysis other verification tools for the trustworthiness of the client are used than the traditional capitalist instruments. One of the tools often used is

the “neighbour guarantee” or the “introduction” system which basically means the recipient needs to have a reference from a local organization (e.g. association, church, union). Trust, therefore, has to be put in the community which ultimately decides on the future or direction of the credit system

E. The Circulating Social Currency and the Community Bank
The circulating social currency serves as a complement of the national currency (Real R$)), created by the community bank. It is essential to cultivate the circulation of money and wealth within the community itself, strengthening local commerce and generating jobs and income.

These social currencies possess some characteristics that make them different. Let us see what these characteristics are:

a) The local currency is backed up by the national currency (Real R$)). Basically, for each unit of social currency issued, there is a correspondent value in the national currency.
b) The currency is issued with security measures (paper money, watermark, barcode and serial number) in order to avoid falsification.
c) The currency circulates freely in local commerce; generally, those that use the social currency get a discount from businesses and producers to encourage the use of the currency in the municipality or neighborhood.
d) Any producer, shopkeeper or entrepreneur that is registered in the community bank will be allowed to exchange the social currency for the national currency (Real R$) if he or she needs to buy or make a payment outside of the municipality or neighborhood.

Through the partnership with Banco do Brasil, the Instituto Banco Palmas organizes and manages a credit fund, which transfers a start-up sum of 30,000 R$ for each new community bank that is created. Furthermore, Banco do Brasil has also made available the software that it uses to monitor the activities of each bank, in order to avoid mistakes by correcting possible distortions. In this way, out of the thirty-five community banks integrated in the Brazilian network, thirty use the same credit fund and are linked by a computer program.

From the legal point of view, each community bank functions as a Civil Society Organization of Public Interest (OSCIP) of Micro-credit. Instituto Banco Palmas acts as an umbrella organization; it manages the network which provides legal support to all the community banks, the majority of which are just local associations with no institutional structure.

As part of being an OSCIP, Instituto Banco Palmas can establish partnerships with the public sector and official banks, generating resources and technologies for the benefit of the community banks that are part of the network.

Starting up a new Community Bank

For a new community bank to be created three factors are necessary/essential:
1. Local mobilization and a community organization process, and a strong, motivated civil society institution to manage the bank.
2. Availability of premises and infrastructure provided by a local partner, usually municipal City Halls.

3. Organization of training sessions for the agents, credit managers and cashiers, in addition to the sensitization of the local economic actors to join the initiative

It is the responsibility of Insitituto Palmas to certify the creation of a new community bank and to communicate the creation of a new social currency to the Central Bank, even though other organizations that take part in the Brazilian Network of Community Banks also facilitate training and consulting services in other states.

Next steps for Community Banks

Despite the financial crisis the Brazilian Network of Community Banks continues to grow all over Brazil. With its decentralized model and broad social supervision, focused on the balance between local production and consumption, it has already had an impact on the lives of more than 200,000 people.

After so many successful initiatives a new set of goals has been defined for the future.

1. To create 1000 banks by the end of 2010 of which 300 should be in the north-east of Brazil.
2. To have at least one community bank in each state of Brazil by the end of 2009.
3. Develop a legal framework for community banks; a bill Nº 93/2007 supported by congresswoman Luiza Erundina.
4. To set up the Centro Palmas de Refêrencia, a place to train future employees of the bank.
5. To train 200 technicians in community banks by the end of 2009.
6. To obtain 10 million R$ to fund the community banks with low interest rates and long-term repayments
7. To help 2 million Brazilians benefit from proper financial services by the end of 2010.
8. To create the Latin-American Network of Community Banks.

The Insitituto Palmas is aware that in order to accomplish these goals a broad process of training, mobilization and community organization throughout Brazil will be necessary. To find organized areas and properly trained and empowered community leaders are the biggest challenges faced by community banks. Despite the best efforts by different social movements, taking into consideration our vast territory, there are still very few organized communities in Brazil. Of these, only a few give economic issues priority. The vast majority of local organizations are focused on initiatives such as, inter alia, the regularizaçao fundiária moradia (right to build and own a home), access to health services, education, and human rights.

The economic issue, focused on financial and banking exclusion, remains distant from social movements, almost a taboo. The economy is viewed as just for economists, a hard topic that is almost never found amongst the priorities of local organizations. However, an example for the popularization of this type of initiative is being practiced outside Brazil.

In March 2008, the Palmas Institute signed a Memorandum of Understanding for social and economic cooperation with the Ministry of Popular Power for the Communal Economy of the Venezuelan Government.

As part of this agreement, the Instituto Banco Palmas trained a team of 30 technicians of the Venezuelan government in the methodology of the community banks and they established a visit schedule for monitoring and training in Venezuela. At the

same time, the government of Hugo Chavez passed the Law of the Communal Banks, which provides that for each organization of 200 families a Communal Council can be created to form a community establishment. This process has resulted in the foundation of 3,600 community banks in different states of Venezuela.
Thus, a priority for the Brazilian Network of Community Banks is the creation of a legal framework of a similar nature in Brazil. An important step towards this goal is the already mentioned bill Nº 93/2007 by Congresswoman Luiza Erundiana, which is being discussed at the National Congress. The text provides for the creation of the National Segment of Popular and Solidarity Finances. Its approval will constitute a great leap forward in the democratization of the Brazilian financial system – or more importantly – for the financial and banking inclusion of more than half the Brazilian population that continues to have no access to commercial (public or private) banks.

A look at the current international state of affairs encourages us to reflect that this alternative way to understand the world of finance, starting at the local community, stands out as an alternative to the globalized exclusion and speculation so present in the current global financial system. We believe that the poor, when empowered, become the solution; they are capable of creating their own financial system, in harmony with the local culture, strengthening neighbourhood relationships and cooperation.

It is not our objective to create a movement for the elimination of the current financial system. On the contrary we aspire to start a global crusade for the broadening of financial and banking services. It has been proved that commercial banks (public or private) only reach a small part of the world's population, leaving the poor outside of the financial system. Thus, our model becomes essential; it is more democratic, humane, and inclusive. After all, it is named community bank because the common-unity itself is the owner of the bank.

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