

Development in the globalized context and the role of international institutions



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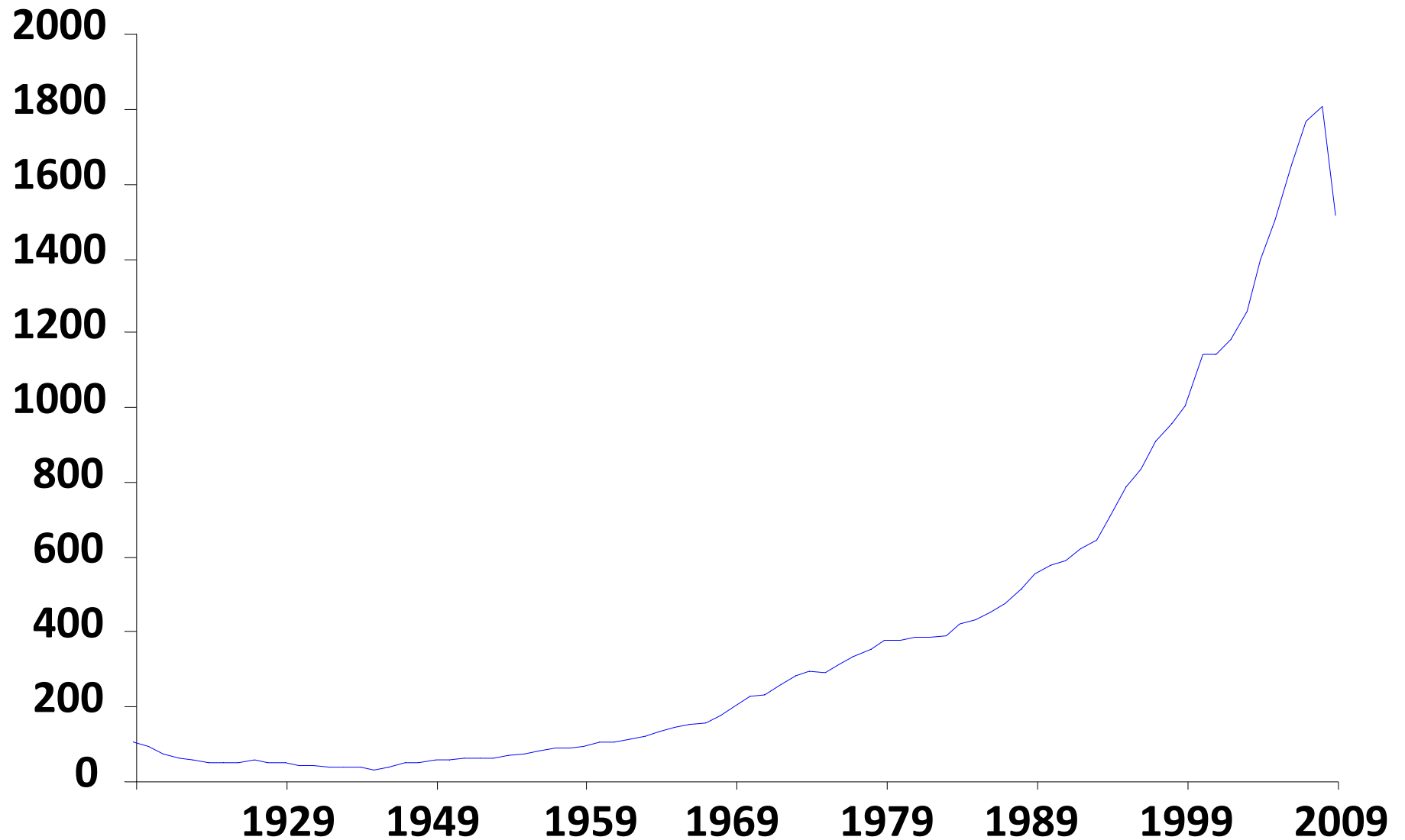
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17 October 2010, Weil der Stadt

World Trade Index (1929=100)



Source: CPB

Trade and development

Development often is correlated with trade (but: U.S. versus Germany)

Economic Reasoning: Comparative (Cost) Advantage (David Ricardo)

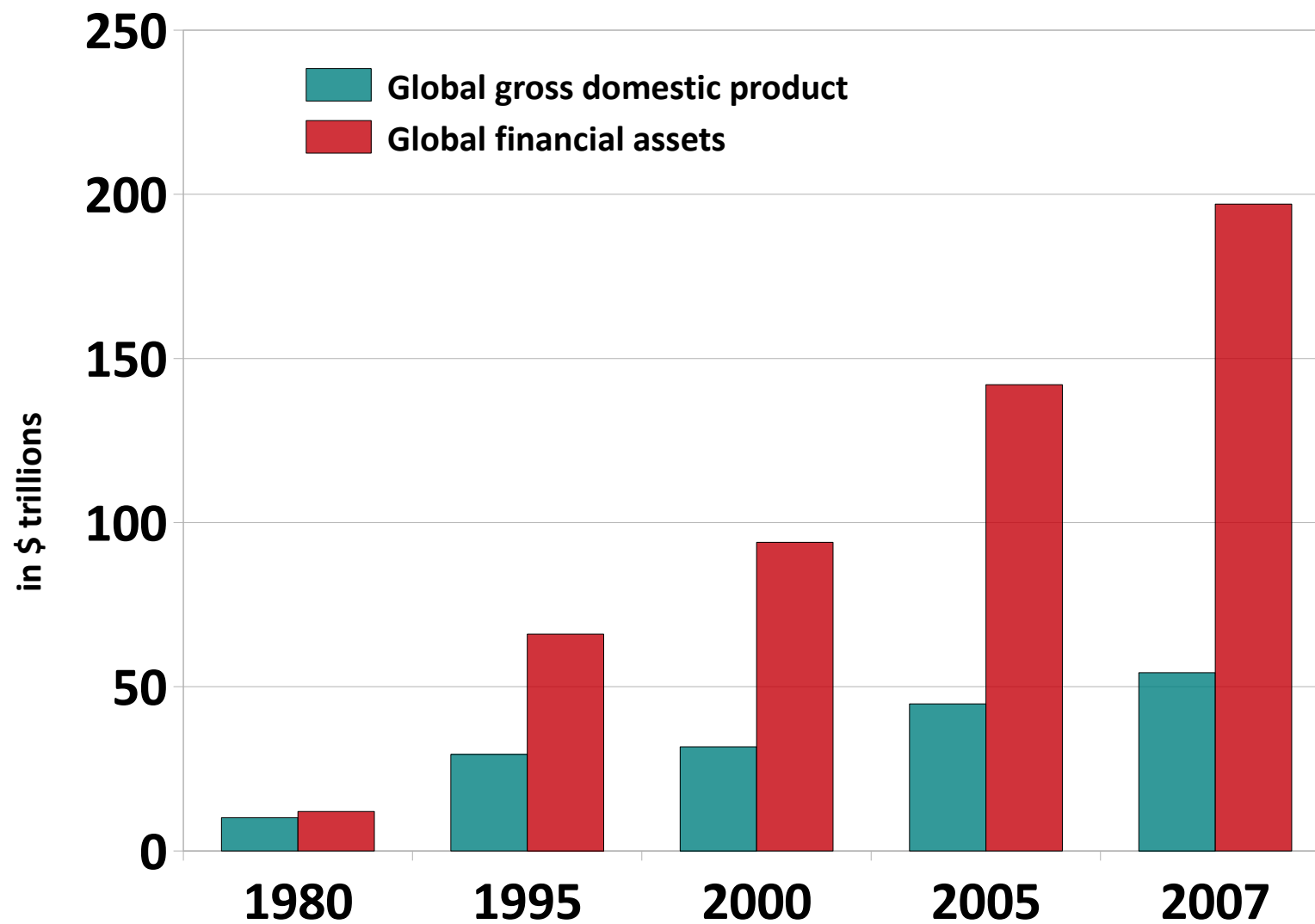
Development through trade liberalization?

- Development took place with different levels of openness
- Dangers: monocultures; export dependency; home market losses
- Successful: mixed approach, limited/lopsided openness

Success stories with trade

- **state planning and regulation plays an important role (e.g. Japan)**
- **access to knowledge (e.g. South-Korea, China)**
- **protection of infant industries and certain sectors (e.g. South-Korea)**
- **education and social security (e.g. China versus India)**
- **no membership in trade institutions necessary (e.g. China, Vietnam)**

Global GDP and global financial assets



Source: McKinsey, World Bank

Financial market capitalism

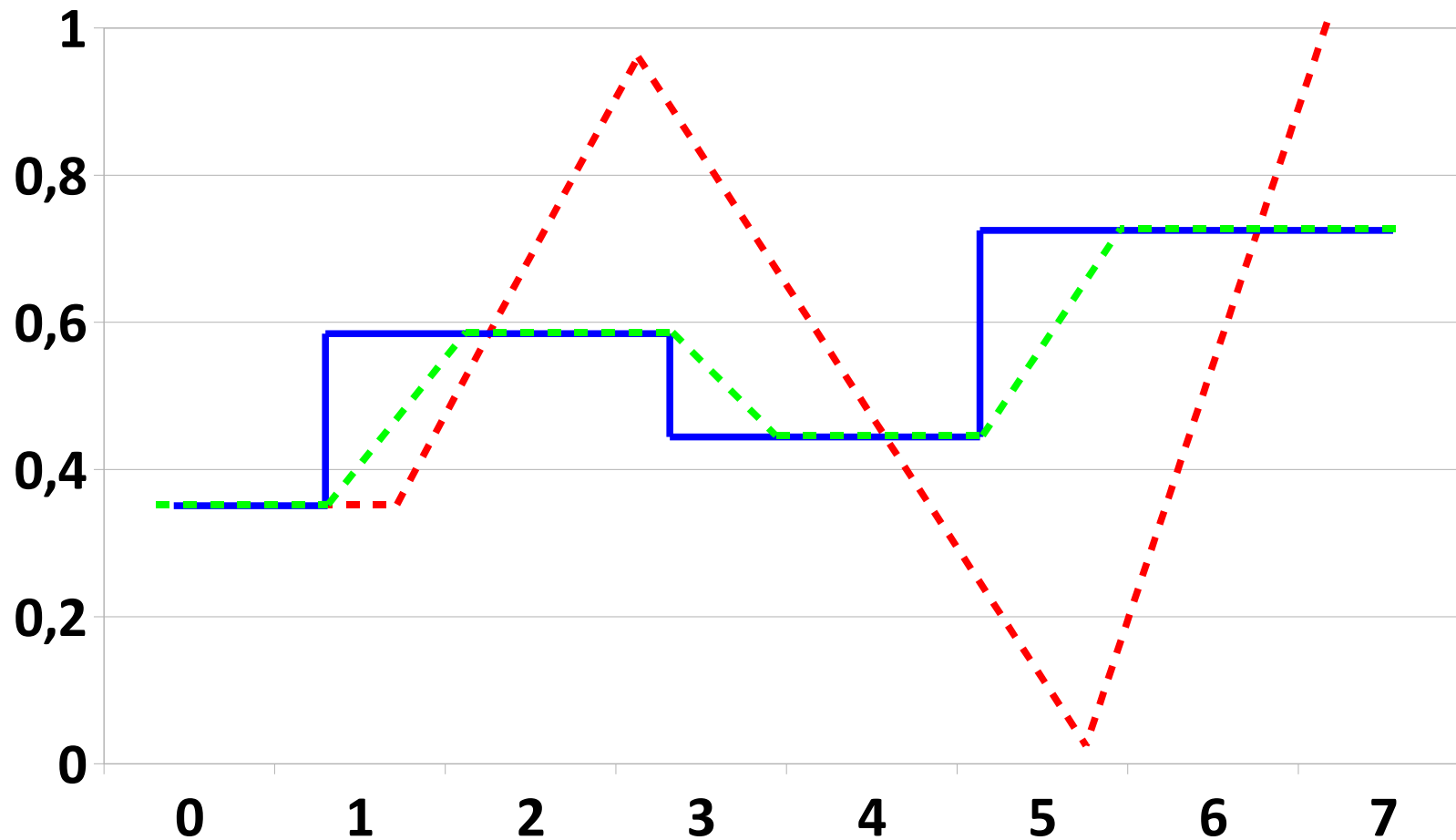
- Liberalization of markets, investors, products
- Short-term speculation and excessive risk taking
- Growth and dominance of financial sector
- Privatization
- Competition between states; tax havens
- Wealth inequality
- Global imbalances
- Instabilities and financial crises increase
- **But:** non-financial industry remains very important

Financial market deficiencies

- Financial markets are no well-functioning markets
- Price mechanism upside down:
price increase strenghtens demand
- Technical trading, herd behaviour
- Bull and bear markets
- Instability, bubbles, and crises

Financial market price discovery

- fundamental value
- - - effective price discovery
- - - ineffective price discovery



Financial Crises (selection)

1980ies Latin american and african debt crisis

1987 Stock exchange chrash, U.S. savings&loans crisis

1992/93 European currency system

1994/95 Mexico

1997/98 Asia

1999 Brazil

2000 Argentina, New economy

2001 Russia, Turkey

2007- global

1945-1971: 38 crises

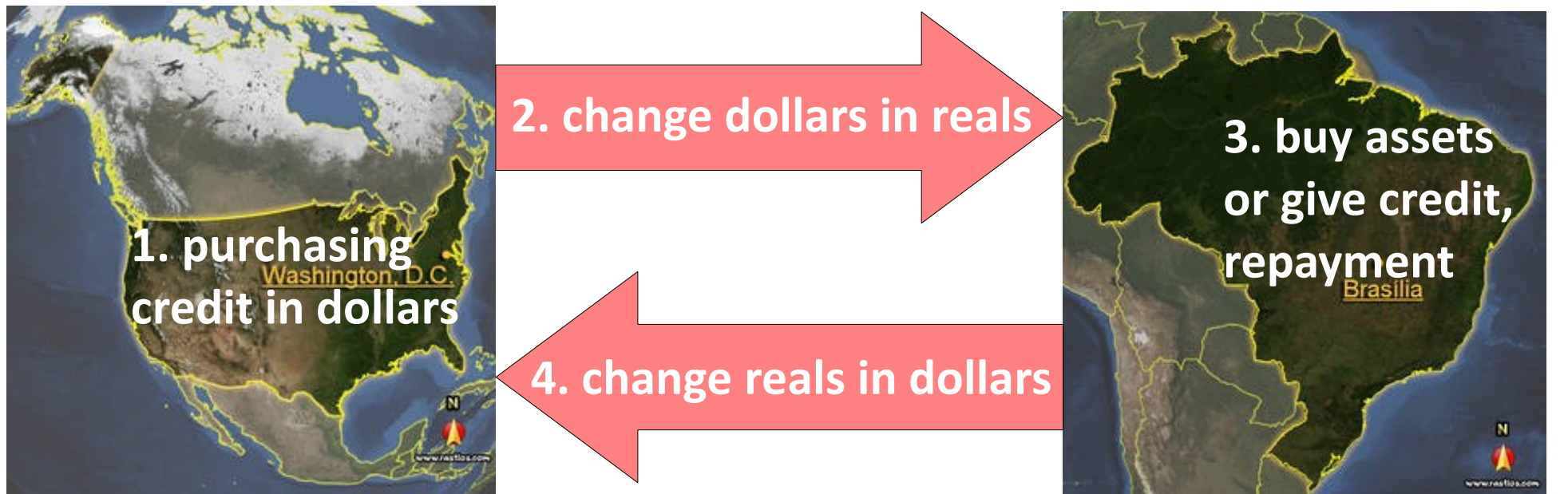
1973-1997: 139 crisis

Financialised food markets: the 2007/08 price spike



Source: FAO 2010

Global interest rate parity, arbitrage and carry trade



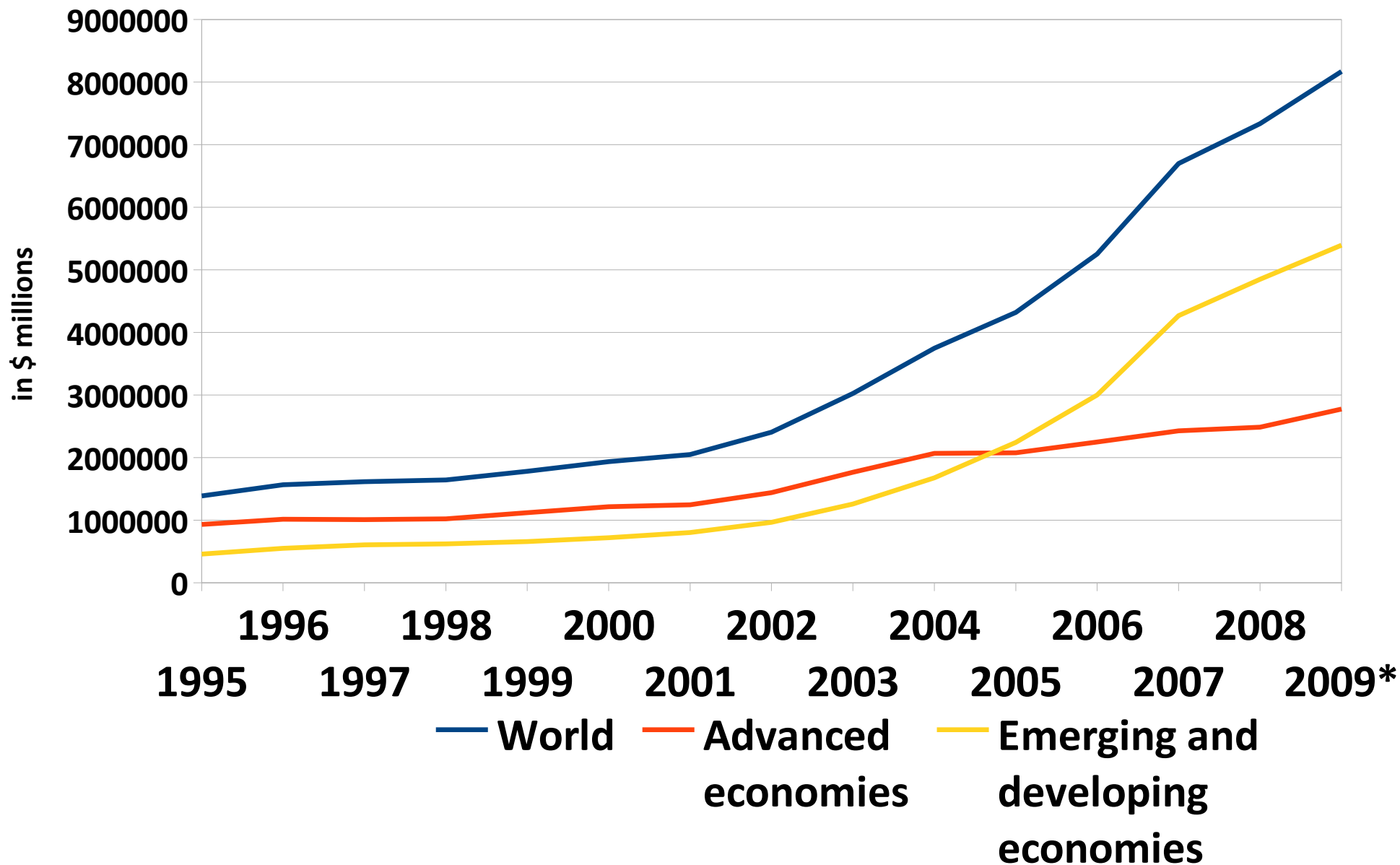
U.S.: interest rate 1 %

Brazil: interest rate 10 %

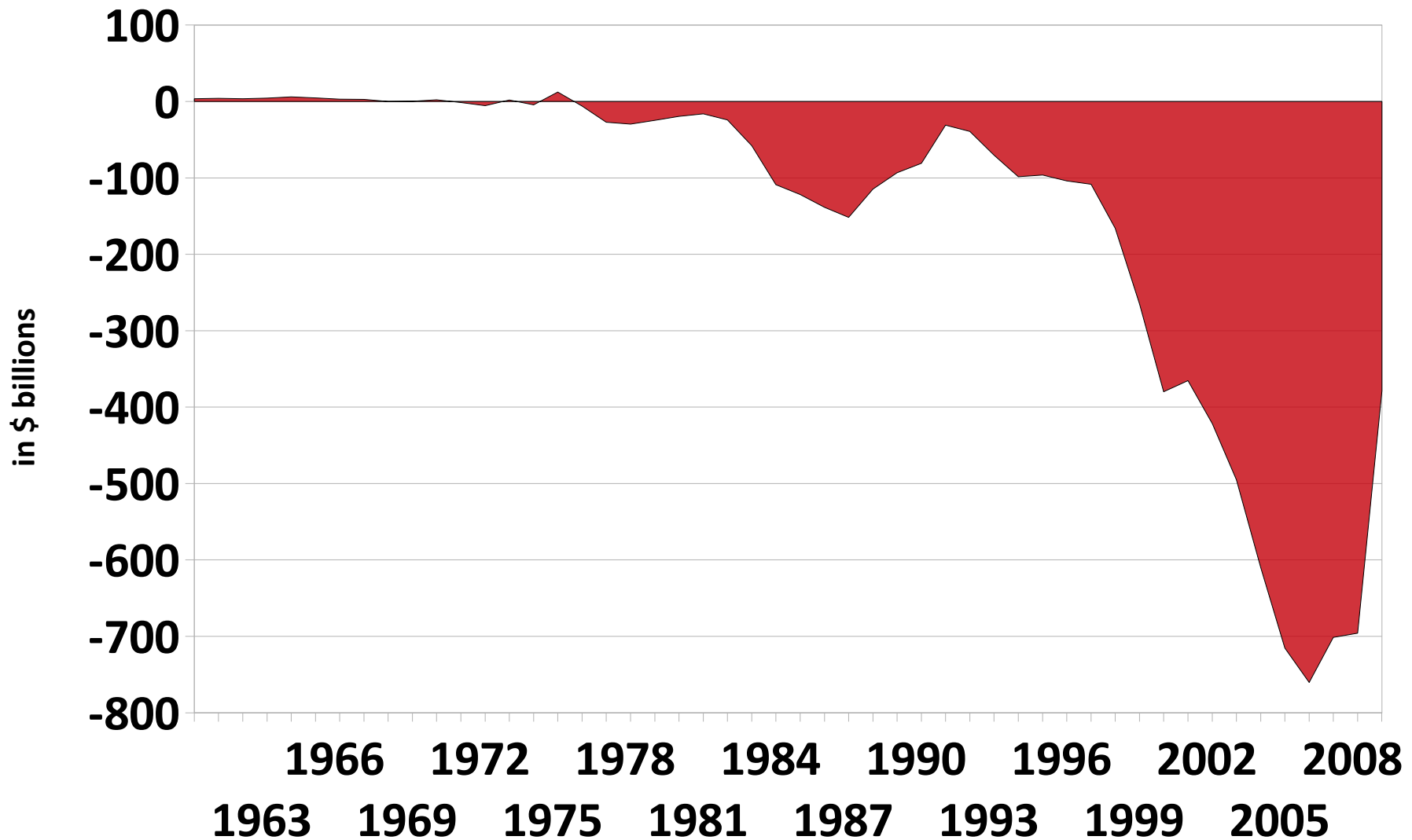
October 2009: Brazil sets capital inflow controls and taxes

Recent IMF Working Paper: „Capital controls on certain types of inflows might usefully complement prudential regulations to limit financial fragility and can be part of the toolkit..“

Foreign Exchange Reserves

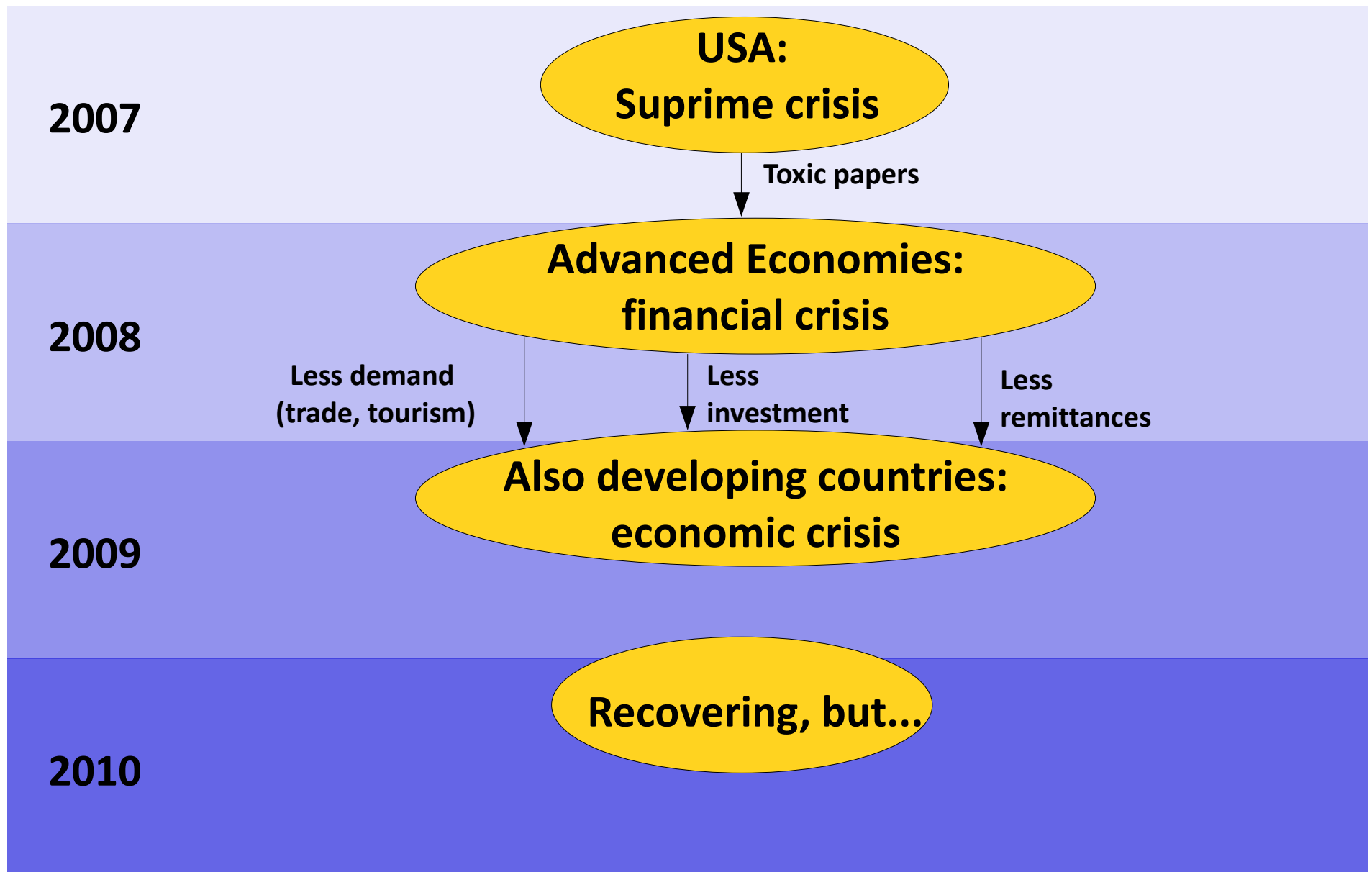


U.S. trade balance deficit – mainly financed by China

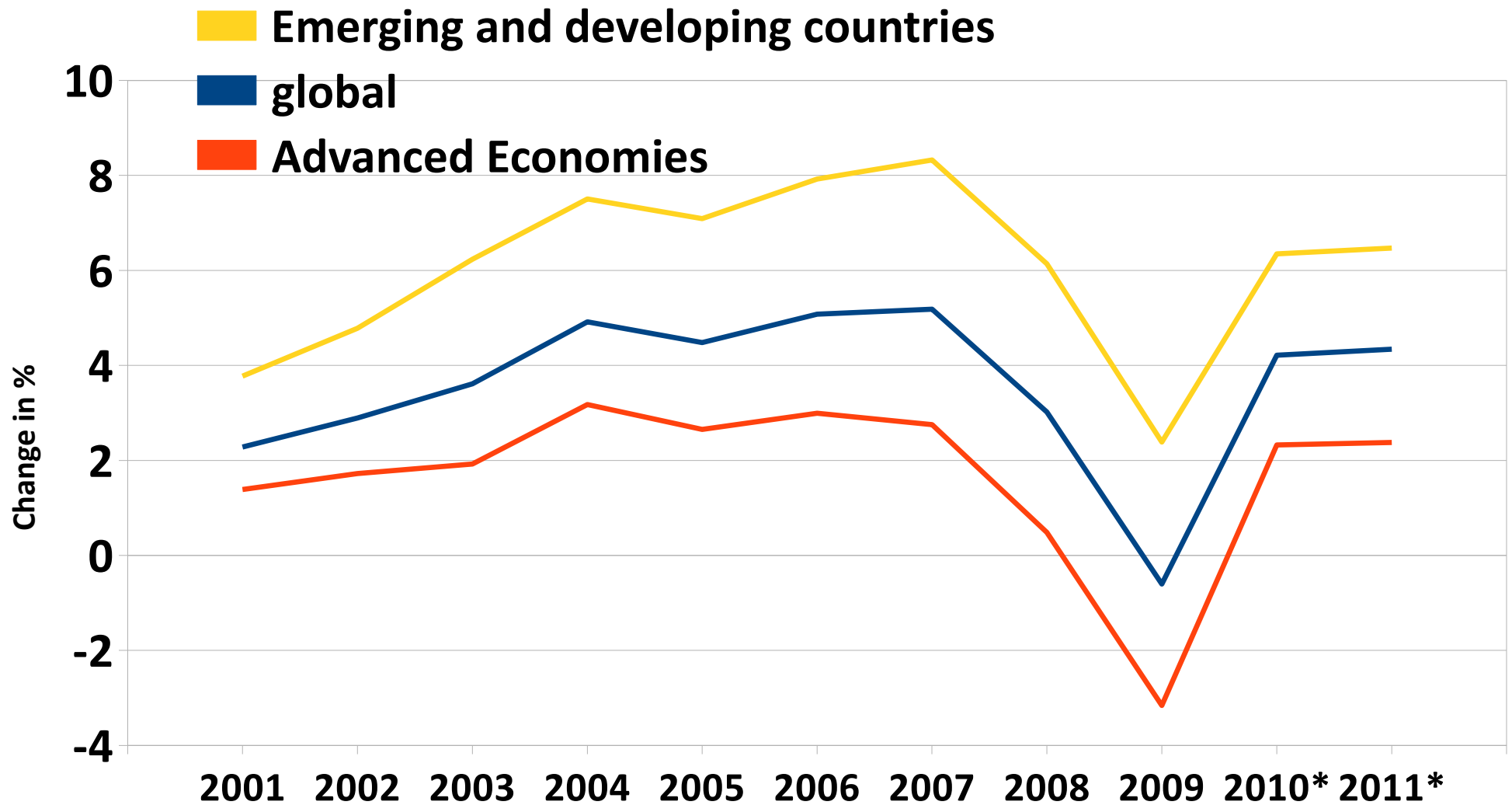


Source: U.S. Census Bureau

The financial crisis and developing countries

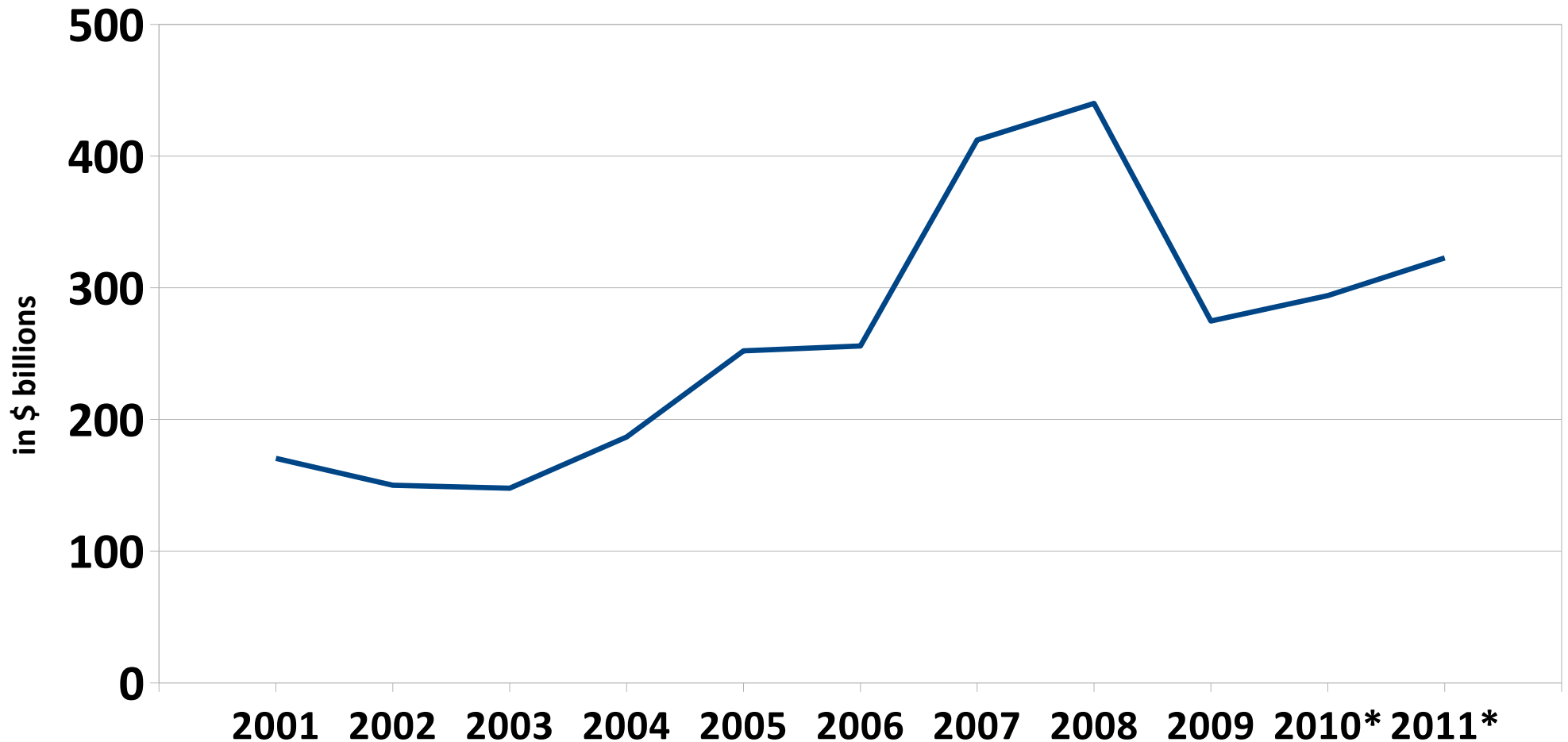


Growth of GDP



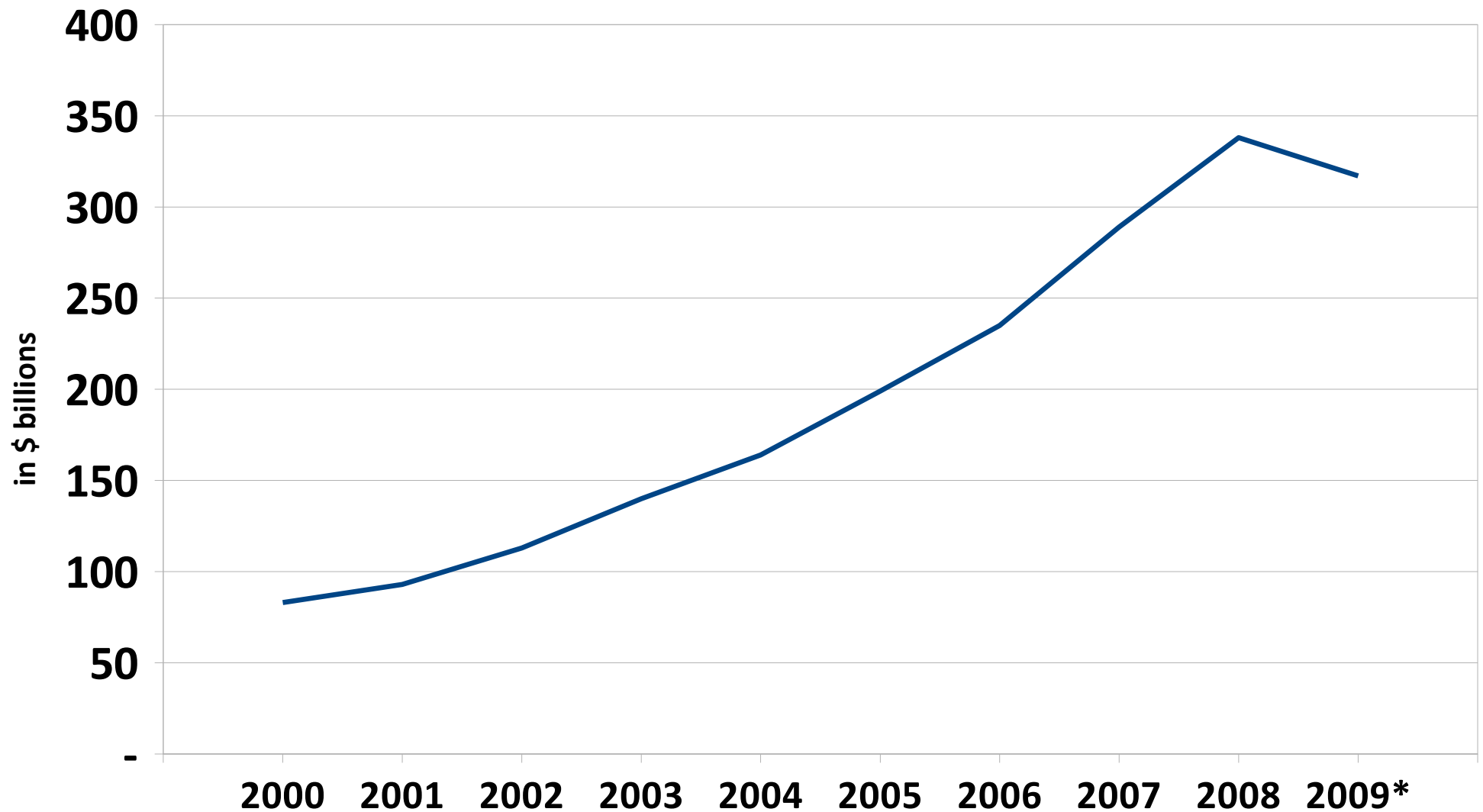
* Projection, Source: IMF, WEO Data, April 2010

Foreign Direct Investments in Developing Countries



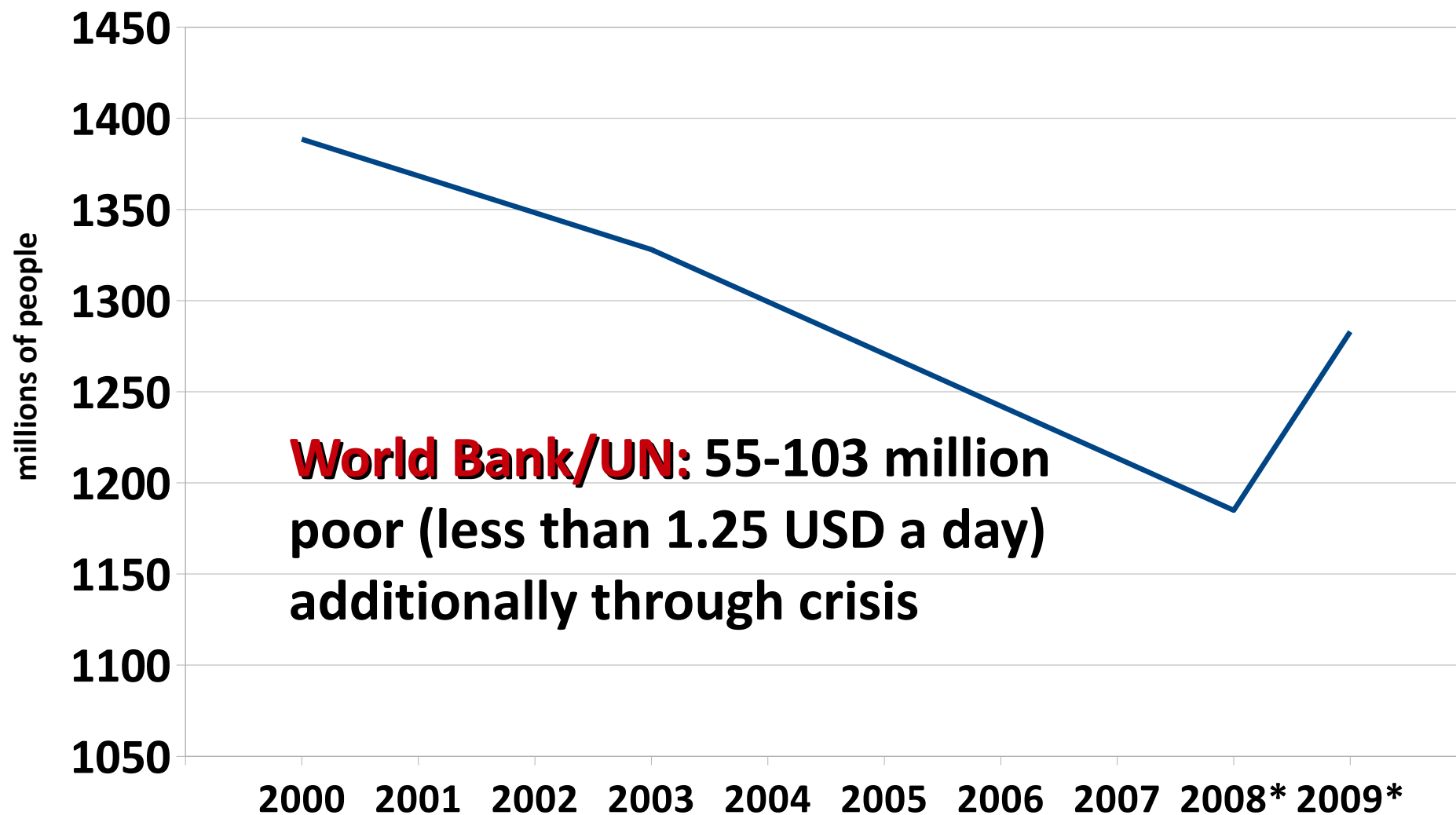
*Projection, Source: IMF, WEO Data, April 2010

Remittances from migrants to developing countries



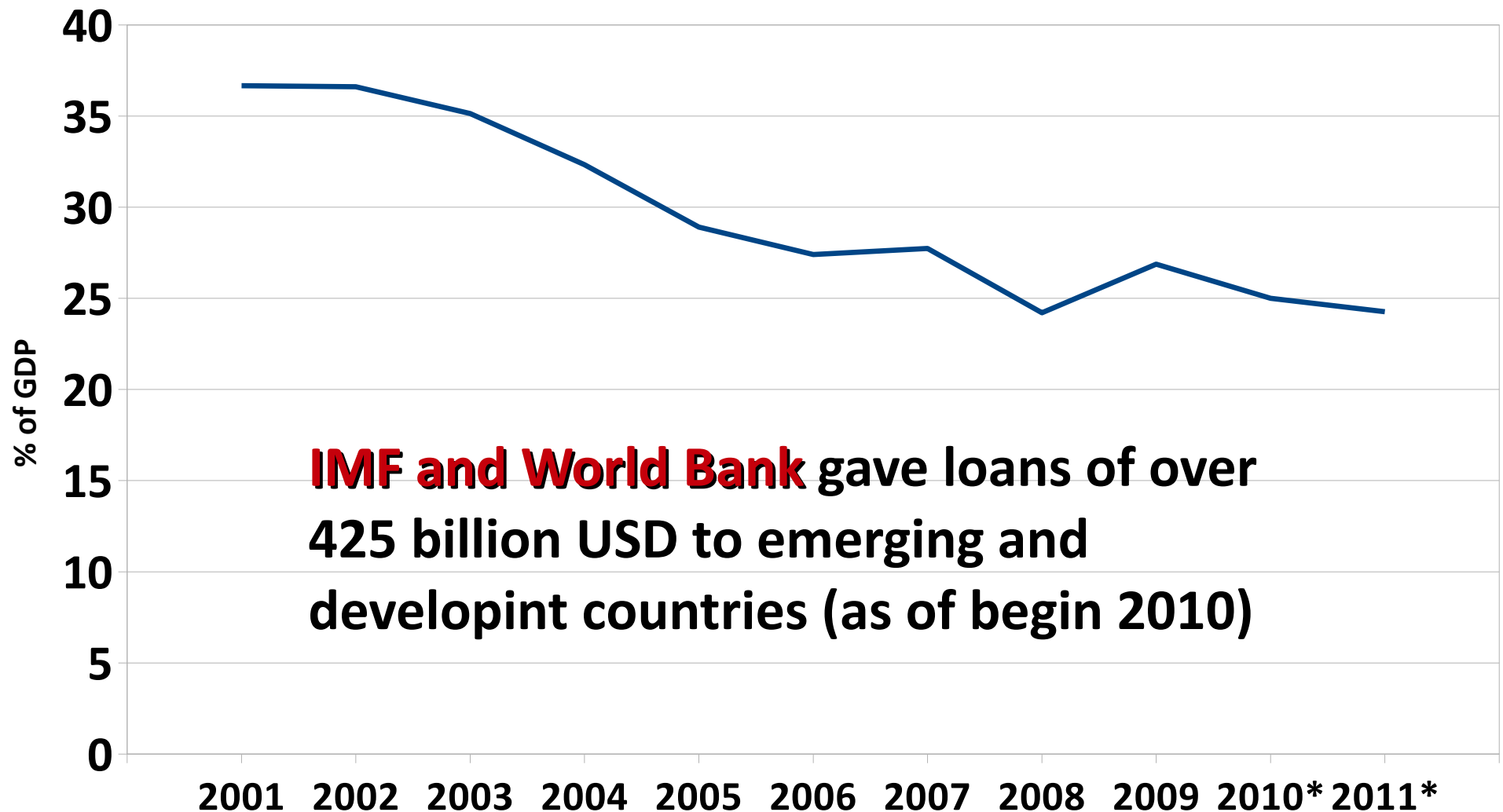
* Estimated, Source: World Bank

Poverty (income less than 2 USD a day)



*Estimated, Source: ILO 2010

Foreign debts of emerging and developing countries



*Projection, Source: IMF, WEO Data, April 2010

Foreign banks: questionable advantages

Recent IMF Working Papers:

- “Foreign-bank lending funded by domestic deposits and denominated in local currency is likely to be more resistant to external financial shocks and indeed, in Latin America, acted as a firewall against the transmission of global financial shocks.”
- “Foreign banks are not necessarily more efficient than their domestic counterparts” (on Central America)

Tax havens

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- Minimum compliance requirements

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- Privacy
- Asset protection
- Minimum administrative requirements

= 2. INTRANSPARENCY

- Flexible company legislation
- Many opportunities for international business
- Investment opportunities

= 3. NO/LITTLE REGULATION

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3. Switzerland
4. Cayman Islands
5. City of London

Tax havens: what's the problem?

- **Revenue losses:** states cannot tax beneficiaries, tax competition
- **Illicit flows** (source: Raymond Baker / Tax Justice Network):
 - 1-1.6 trillion US\$ per year
 - growth since 1990s approximately 9% annually
 - 350-500 billion US\$ per year from developing countries
- **Wrong incentives:** investments lead by tax advantages
- **Inequality:** big companies and rich individuals favoured
- **Lack of control / secrecy:** risk-taking

Structural reforms for sustainable globalization

- **Sustainable (finance) business: less risky, less speculative**
- **Take into account development interest**
- **Careful and limited liberalization**
- **Close down tax havens**
- **Tackle volatility in markets**
- **Tackle global imbalances**
- **Redistribute globally and nationally**

Do international institutions matter, and why?

Why international institutions:

- Interest: national? global?
- Responsibility: countries? global/common?

What problems with international institutions?

- National interest, and the prisoner's dilemma
- One global solution (e.g. for development) or local/regional ones?

What type of institutions:

- Type of integration (negative / positive)
- Degree of integration (decision power, enforcement)

International trade and financial institutions

- **World Trade Organization**
 - **World Bank**
 - **International Monetary Fund**
 - **G8/G20**
 - **United Nations (UNCTAD, UNDP)**
 - **other**
- 1944: Bretton Woods
(WTO: ITO/GATT)
-

World Trade Organisation (WTO)

Founded 1995, before: only General Agreement on Tariffs and Trade (GATT) from 1947

Set of Treaties (apart from GATT):

- General Agreement on Trade in Services (GATS)
- Agreement on Agriculture (AoA)
- Trade-Related Aspects of Intellectual Property Rights (TRIPS)
- others (SPS, TBT, DSU)

One country, one vote

Main goal: trade promotion through liberalization; **WTO:** „need for positive efforts designed to ensure that developing countries ... secure a share in the growth in international trade“



The WTO and developing countries



WTO OUT OF AGRICULTURE
BHARTIYA KISAN UNION (INDIA)

Interest politics by advanced economies, upholding own trade barriers

Doha negotiation round: „development round“; since 2001

So far, not accomplished: conflict between developing and advanced countries, e.g. on agricultural subsidies

World Bank



World Bank Headquarters Washington D.C.

World Bank

- International Bank for Reconstruction and Development
- International Development Association (from 1960 on)

186 members

Main shareholders: USA (app. 15%), Japan, Germany, France, UK

President (U.S.): Robert Zoellick

Main goals: lending (2008: 38,2 billion \$), subsidies, analysis, and advise; **World Bank:** „We provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture and environmental and natural resource management.“

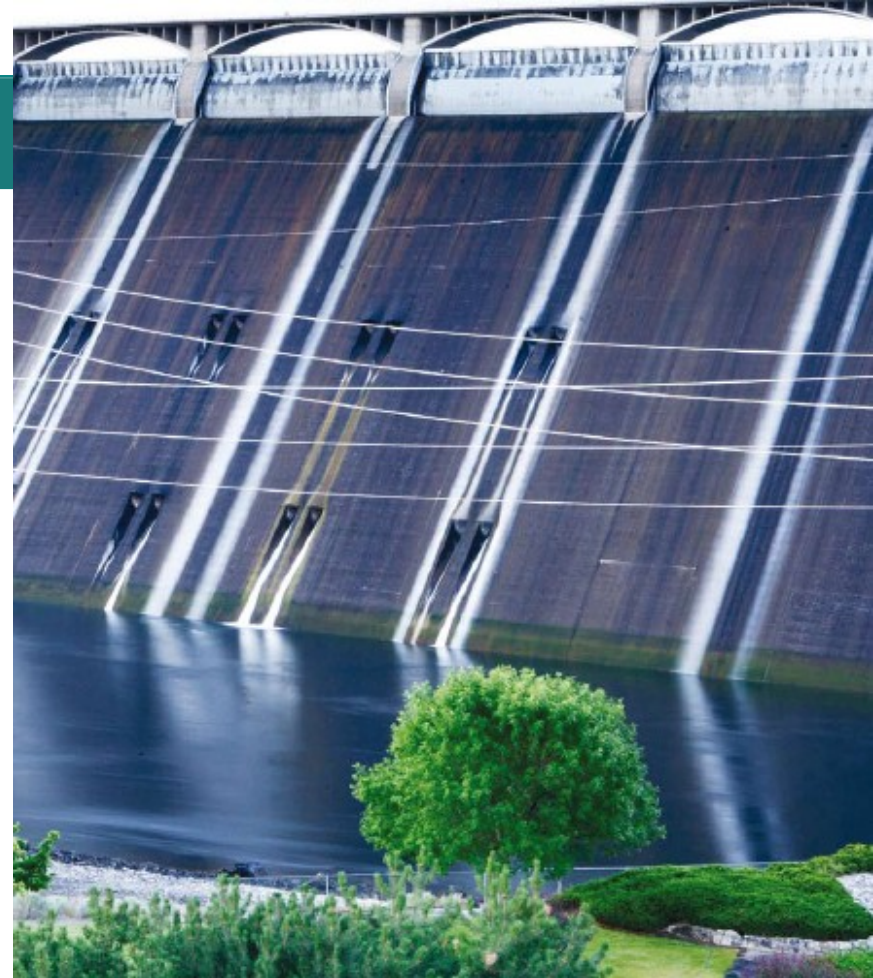
World Bank: lending policy

1950ies/60ies: little, Europe

1970ies: growth, develop. countries

1980ies/90ies: neoliberal approach and conditionality („Washington Consensus“); inappropriate and unsustainable lending (technocratic approach, megaprojects, hard currency loans)

Today: revised strategy on paper: e.g. role of the state, dams, lending standards; new roles (e.g. climate change adaption)



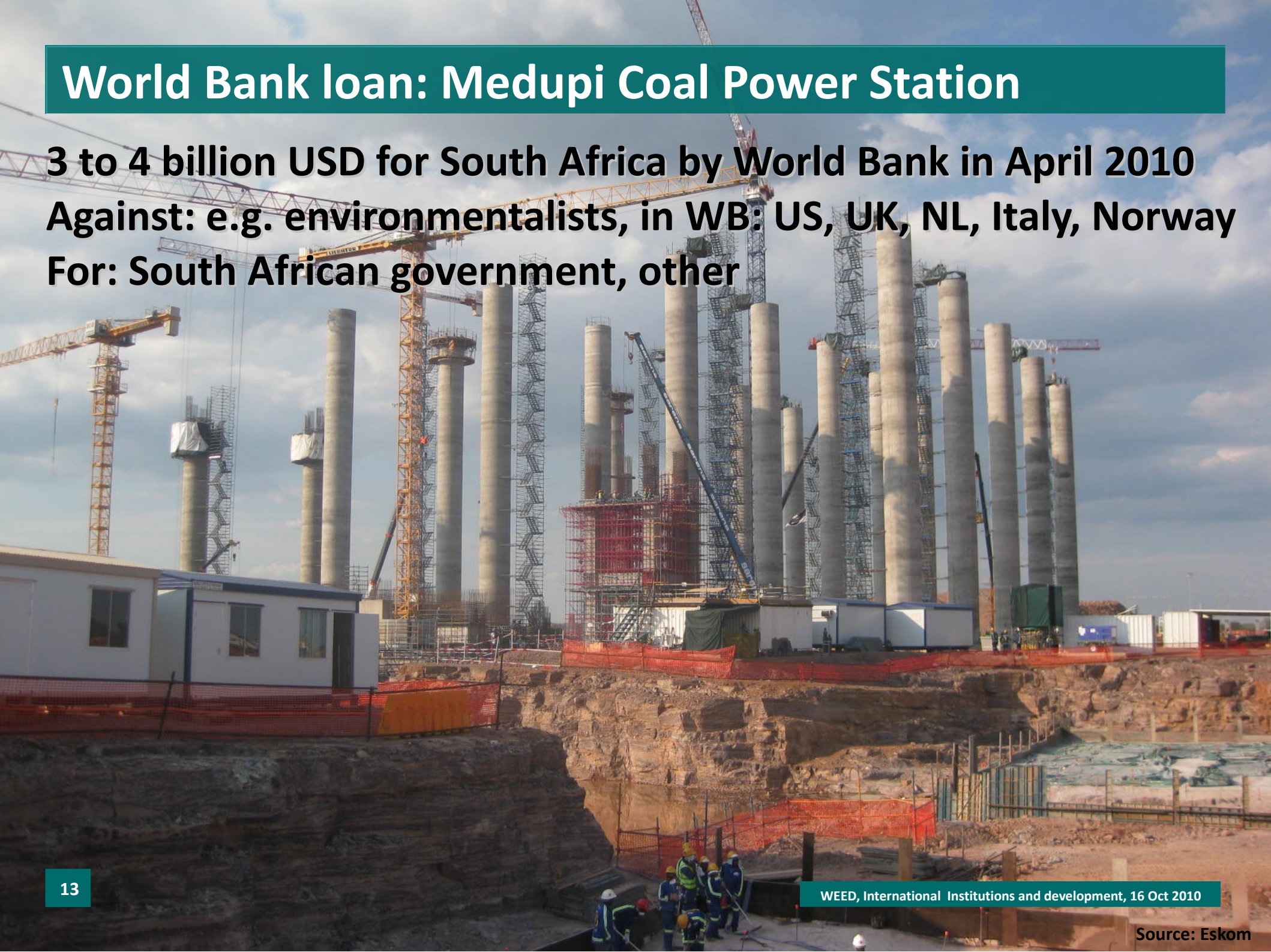
World Bank: lending standards since 2006

1. Social and Environmental Assessment and Management
2. Labor and Working Conditions
3. Pollution Prevention and Abatement
4. Community Health, Safety and Security
5. Land Acquisition and Involuntary Resettlement
6. Biodiversity Conservation and Sustainable Natural Resource
7. Management
8. Indigenous Peoples
9. Cultural Heritage

However, practice still dubious: conditionality, education, gender, sustainability, power

World Bank loan: Medupi Coal Power Station

3 to 4 billion USD for South Africa by World Bank in April 2010
Against: e.g. environmentalists, in WB: US, UK, NL, Italy, Norway
For: South African government, other



International Monetary Fund (IMF)

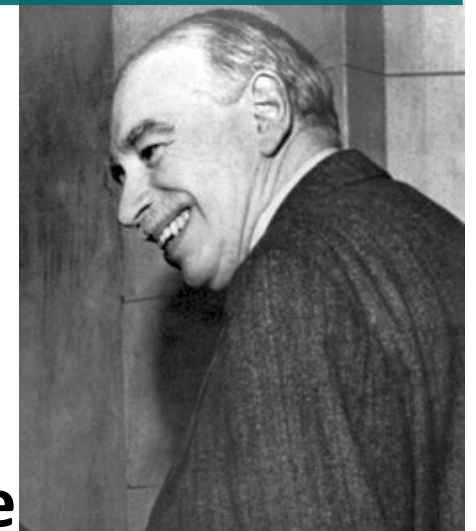


IMF Headquarters, Washington D.C.

International Monetary Fund (IMF)

History:

- 50ies/60ies: financial and currency stability
- 70ies: collapse of fixed exchange rate system
- 80ies/90ies: neoliberal lending facility
- 1996: highly Indebted Pour Countries Initiative
- Decade till 2008: vanishing importance
- Post-crisis revival



John Maynard Keynes

Today

- 187 member countries
- Total quotas: 328 billion USD
- Pledged or committed: 600 billion USD

European President (Dominique Strauß-Kahn)

International Monetary Fund (IMF)

Article I of the Articles of Agreement sets out the IMF's main goals:

- promoting international monetary cooperation;
- facilitating the expansion and balanced growth of international trade;
- promoting exchange stability;
- assisting in the establishment of a multilateral system of payments;
- making resources available to members experiencing balance of payments difficulties

IMF Financial Activities

	2008	2009	2010 (7 Oct)
<i>GRA Credit (SDR billions)</i>	17.5	37.2	52.5
<i>PRG Trust Credit (SDR billions)</i>	4	5.1	19.8
<i>Highly Indebted Poor Countries</i>	35	35	36
<i>Multilateral Debt Relief Countries</i>	25	27	29
<i>HIPC Umbrella (SDR millions)</i>	399.0	418.0	670.0
<i>Usable resources (SDR billions)</i>	152.4	290.2	303.8

IMF: Lending policy

- **Conditionality: fiscal austerity, liberalization, privatization; focus on inflation, currency, investor protection,**
- **Example: the „IMF crisis“ in Asia 1997/98**
- **New policy since the current crisis?**
 - **formally yes (inflation, deficits, capital controls),**
 - **but reality?**
 - **wishable or not?**



IMF Voting power in % of total fund

United States	16,74
Japan	6,01
Germany	5,87
France	4,85
United Kingdom	4,85
China	3,66
Italy	3,19
Saudi Arabia	3,16
Canada	2,88
Russia	2,69
Netherlands	2,34
Belgium	2,08

Source: www.imf.org, October 2010

IMF: Power and Interest

Martin Wolf (chief economist, Financial Times, 2004):

„The ... charge against the IMF is that it is a tool of the G7, particularly of the US and, more particularly still, of Wall Street. The answer to this charge is obvious: guilty. The institution responds to the realities of power and the self-defined interest of its dominant players.“

Quota reform 2010: developing and emerging countries shall get more influence, but details are heavily debated

No formal mandate, but politically very influential

G7/G8 criticised for not taking into account developing countries' interest

New setting with G20: split of developing countries:
China, India, Brazil, South Africa – and the rest

Summary

- **International institutions can support development**
- **International are driven by certain ideological forces; they should, however, reflect the best economic reasoning**
- **International institutions are prone to be vehicles of national interest**
- **International institutions have to reflect the interest of developing countries and give them influence**

**Thank you
for your attention!**



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