# Quaker Educational Package
# on
# International Economic Issues

This education package contains a set of eight briefings that offer introductory information on a range of international economic institutions and issues. It was developed by the **Economic Issues Programme of Quaker Peace and Social Witness** (Britain YM), which **Canadian Friends Service Committee** received permission to adapt and distribute.

# Introductory education package on international economic issues.

May 2002

Dear Friend,

In 2001, ***Quaker Peace and Social Witness' Economic Issues Programme*** developed an educational briefing package of material on international economic issues. With their consent, CFSC has modified it for use within our community. We thank Suzanne Ismail of the Economic Issues Programme for her cooperation and support.

This education package is aimed primarily at those with little previous knowledge of these issues, but it is hoped that it can also be of use to those that are more familiar with them. The briefings are designed to be a starting point, and as well as basic information, they give further sources that you might find it useful to pursue.

In developing the package, QPSW's Economic Issues Programme chose to focus firstly on matters of the international economy, partly because of increasing awareness, both within the Society of Friends and elsewhere, of 'globalisation' and the increasing debate surrounding it. Globalisation may or may not be a new phenomenon, however it is clear that the degree of interdependence that exists between countries and individuals across the world today has had both positive and negative consequences.

The educational package does not attempt to go into all of these in depth; they do seek to explain something about the structure of that system and the interconnectedness of many of the actors and processes within it. There is a particular focus upon the impact that the system has on the world's poorest countries, which in many cases have become economically and politically marginalised by a system that has been built by, and is run to the agenda of the rich, industrialised nations (Britain and Canada both being in this camp).

We hope that the package is informative and useful to you, your Meeting and community. The Economic Issues Programme would welcome feedback on the package – if you return the feedback form to CFSC, we will ensure that it is passed on to Suzanne at QPSW. To become more engaged in Quaker work in Canada on Globalization, you may wish to join CFSC's Globalization e-list or visit the CFSC Forum. See the resource sheet for more information.

In Friendship,

Jane Orion Smith
Coordinator, Canadian Friends Service Committee

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# The International Monetary Fund

The International Monetary Fund (IMF) was established in 1945 at the Bretton Woods Conference in New Hampshire. Its original function was to promote monetary order. However this has evolved over the years and now the IMF has an important role in the provision of finance to developing and transition economies and in the management of financial crises. Currently the IMF has 183 member countries.

### *History*

The IMF was created in response to the depression of the 1920s and 1930s. Many analysts say the cause of this was lack of co-ordination in international economic affairs, which led to countries competitively devaluing their currencies in order to protect domestic industries. The IMF encouraged governments to keep each other informed of their activities to maintain the relative value of their currencies, which at that time were fixed by governments and backed by the 'gold standard'. The IMF also lent money to members who were having short-term balance of payments difficulties, i.e., where more money was going out of the country's account than being received.

As the world moved to floating exchange rates in the 1970s, monitoring and stabilising currency values became more complex with the IMF needing to examine many more domestic fiscal and monetary policies which would be likely to impact on currency values.

The real change in IMF role came in the early 1980s with the advent of the Latin American debt crisis. In the 1970s many European, North American and Japanese banks lent huge sums of money to developing countries, particularly those such as Mexico that had seemingly good economic prospects. When interest rates rose at the end of the decade, many countries were unable to cope with the increased repayments and threatened to default on their loans, threatening collapse in major financial centres. This resulted in the IMF being involved in the crisis management, debt workouts and structural adjustment programmes described below.

### *Governance*

IMF policies are set by the Board of Governors, which is composed of representatives (usually ministers of finance or heads of central banks) from each of the member countries. As the governors meet only at annual meetings, day-to-day business and implementation of policy is carried out in Washington, DC by a board of 24 Executive Directors (EDs). Currently, eight of these represent individual countries (China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom and the United States). The remaining 16 EDs represent groupings of the rest of the membership.

Decision-making occurs on the principle of 'one dollar one vote'. This means that the countries that are able to pay more into the fund have a greater say. Inevitably the G7 (the seven richest countries) are the most powerful, whilst the poorest, which are often those most affected by IMF policy, have the least say. Presently, the United States enjoys 17.49% of the vote on the IMF board, Canada has 2.95%, the UK has 5.06% and Germany 6.12%. In comparison Bangladesh has only 0.25%, Nigeria 0.83% and Madagascar 0.06%.

### *The IMF and financial crises*

When the debt crisis hit in 1982 the IMF made loans to those countries in danger of defaulting, and also encouraged creditors to continue providing credit in the short term. These measures were designed to ensure some degree of liquidity for debtors and to prevent the crisis from deepening in the banking world. Subsequent crises in Asia and Russia have resulted in similar action. Several analysts have questioned whether these financial crises and this new role for the IMF have been created by some of the policies espoused by the IMF itself. Central to IMF thinking is that development will only occur through the opening up of markets to foreign capital – both in terms of fairly stable and relatively long term Foreign Direct Investment by TNCs and the more volatile short term flows of currencies, bonds and stocks.

### *Structural adjustment*

In return for IMF loans countries are obliged to undertake 'structural adjustment' reforms aimed at restructuring their economies and making them more profitable – this theoretically would encourage greater development and ability to repay loans, making the country more creditworthy in future. In many cases conditions on these loans included devaluation of currencies (to make exports more competitive), restructuring of agricultural sector towards export crops, privatisation of state owned industries and a reduction of government spending. The latter has included public sector job cuts, reduction in food subsidies and the introduction of charges for health care and education. Originally these loans were limited to those countries caught up in the 1980s debt crisis, however, in 1986 the IMF became more involved in a similar way in the poorest countries, many of which were less creditworthy and were less affected by loans from commercial banks. Many of these loans are disbursed in 'tranches', with payments only continuing if conditions are deemed to have been implemented adequately.

Adjustment programmes may have enabled some countries to pay back their loans or to export more, or to reduce government deficits, but have done so with huge social costs and generally hit the poorest sectors of society hardest. Even the IMF has acknowledged that these costs were too high, and in response to severe criticism announced a new 'second generation' of reforms.

### *The IMF and poverty reduction*

Since 1999 the IMF, with the World Bank Group, has claimed that poverty reduction would be its overarching goal. To this end, Structural Adjustment Programmes have been replaced by Poverty Reduction Strategies. Although conditionality of reforms for loans continues, the IMF claims that the strategies will be more focused on provision of social safety nets. This strategy should thus help with immediate poverty reduction as well as addressing long-term problems within the host economy.
The process through which Poverty Reduction Strategy Papers (PRSPs) will be designed to be more inclusive of the government and civil society groups within the relevant country. It is anticipated that these will be more sensitive to different cultural and country-specific needs. At the moment the PRSP process is not well developed, and few countries fully have one in place. Critics of PRSPs state that they are likely to lead to very little substantive change in the 'adjustment process', although it is probably too early to consider their full impact.

### *The IMF and debt*

The IMF and the World Bank have been criticised heavily for their contribution to the debt burden borne by many of the poorest countries. Many critics state that in several cases loans which were supposed to enable the recipient countries to restructure their economies to facilitate repayment of debt have failed to do so and, in addition, have added to their debt burden – in some cases to the extent that debt is virtually impossible to pay back, even with the most austere of adjustment programmes in place.

Under immense criticism, and recognising that the current situation was unsustainable for the indebted countries and for the international financial system, in 1996 the IMF and World Bank launched the Heavily Indebted Poor Countries Initiative (HIPC) and subsequently the enhanced HIPC initiative to provide debt relief to those countries deemed to be having the most difficulties. Although this is a welcome move, the initiative has been criticised for not offering enough relief and for being very slow. Notably, some countries such as Bangladesh, who have managed to keep up with their debt repayments – but at an almost unimaginable cost in terms of human suffering do not qualify for HIPC.

## What you can do

**Find out more:**
The Bretton Woods Project is an independent organisation that monitors the activities of the IMF and World Bank Group. Contact: Bretton Woods Project, Hamlyn House, Macdonald Road, London N19 5PG, <www.brettonwoodsproject.org>

**Support Quaker Work:**
Quaker Peace & Social Witness, Quaker United Nations Office in Geneva and American Friends Service Committee are working to advocate the adoption of policies that positively impact on the poorest countries. CFSC financially supports the work of QUNO-Geneva.

### References:

IMF Factsheets <www.imf.org>

Devesh Kapur. “The IMF a Cure or a Curse?” In *Foreign Policy* Summer 1998, pp.115-129

*The Ecologist Report*, September 2000

Briefings and reports from <www.brettonwoodsproject.org>

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# The World Bank Group

The World Bank Group was formed at the end of the Second World War to provide loans for reconstruction in Western Europe. With recovery, focus switched to developing economies, where it states that it exists to 'advance economic growth and reduce poverty'.

The Group consists of four main institutions. These are owned and run by their members, many of who are also clients. Members' financial contributions are used by the institutions to borrow money to finance the majority of loans excluding IDA credits. Members are represented and have voting rights according to the value of these contributions.

### *International Bank for Reconstruction and Development (IBRD)*

The IBRD is the main source of the Group's lending. It lends to developing countries with relatively high income for projects such as improvement of infrastructure and for 'adjustment programmes' designed to increase economic efficiency. IBRD loans incur interest slightly below market rates and have a grace period of around five years and a repayment period of fifteen to twenty years.

### *International Development Association (IDA)*

The IDA funds government projects in countries that are too poor to borrow at IBRD rates. IDA loans are known as credits and are interest free, although do incur a small administrative charge. Grace and repayment periods are about five and forty years respectively. The IDA cannot borrow from the commercial sector because of the concessionary nature of its loans. Its capital is thus considerably more limited than the IBRD and its lending is significantly less.

### *International Finance Corporation (IFC)*

IFC provides financing at market rates, for private sector projects that would have difficulty in obtaining private sector credit. The role of the IFC has grown significantly as the Group has placed greater emphasis on growth driven by the private sector.

### *Multilateral Investment Guarantee Agency (MIGA)*

MIGA provides political risk insurance to companies investing in developing countries. This includes cover for eventualities such as expropriation by the host country government.

Although the major role of the bank group is the provision of loans, it also has an important information and advisory role.

Technical and policy assistance is generally provided to clients during the planning and approval stages of both project and programme lending. Through its research and monitoring it also provides data that is used extensively by members, academics and potential investors.

### *Structural adjustment lending*

Structural Adjustment Loans (SALs) and Sectoral Adjustment Loans (SECALs) are made to governments under the condition that economic reforms are implemented. The Bank generally works closely with the IMF in the formulation of adjustment programmes.

Adjustment loans are based on neo-liberal economic theory that says government intervention into markets creates inefficiencies. It should thus be removed if an economy is to grow and develop effectively in the long run.

Typical reforms include lowering import tariffs and currency devaluation to increase trade and reduction of budget deficits removal of subsidies, privatisation and civil service cuts.

### *Project lending*

Many of the projects that receive funding by the Group are aimed at helping the poorest sectors of society through the provision of basic health and education services, the improvement of drinking water and sanitation facilities. Others are much larger in scale and include the building of roads, ports and dams in order to build up the capacity of the country to support economic development.

It is these large-scale projects that have been most heavily criticised.

### *The Bank and poverty*

A major criticism of the Bank is that it focuses too much on economic growth and not enough on the quality of that growth, how it is achieved and how it is distributed. Often this benefits elites in society rather than the poor and vulnerable.

Many large-scale projects have been criticised for doing little to actually combat the everyday symptoms of poverty. In some cases these have even made things worse for some groups by causing displacement of people or environmental damage. Although poverty assessments were introduced in 1988 to identify ways projects could help combat poverty, the extent of their role in project design and implementation has been questioned.

There is considerable debate about whether long-term gains from structural adjustment will actually be realised. However, there is little doubt that, in the short run, it has had huge social costs. Cuts in health and food subsidies, introduction of school fees, and public sector job cuts have all had huge negative impacts on the poor, resulting in increased unemployment and infant mortality rates, falling school enrolment rates, etc.

The Bank has in part responded to these criticisms. Although it maintains that that structural adjustment is necessary, new measures are designed to be more socially friendly with as little as possible effect on basic services. These are still in the pilot phase and it is probably too early to be sure of their ultimate effects.

### *The Bank and the environment*

Although the Bank has committed itself to sustainable development, it has been criticised for promoting non-sustainable development paths through its lending or policy advice. The group frequently funds the likes of dams, oil pipelines and coal-fired power plants. Environmental assessments are made where a project is likely to have significant environmental impact however these are often limited to reducing environmental impacts of existing product design rather putting forward more sustainable alternatives.

### *The Bank and the private sector*

Many have questioned whether there should be a role at all for a development organisation such as the World Bank Group in private sector lending. Often this is seen to be little more than corporate welfare at the expense of the poor. Although IFC loans have in many instances gone to local entrepreneurs, in others they have gone to large multinational companies to fund the building of hotels or soft drink bottling plants with little immediate connection to poverty reduction.

## What you can do

**Find out more:**

Groups such as the Bank Information Centre and Bretton Woods Project have very good websites where you can download information on specific aspects of this briefing. Try <www.bicusa.org> or <www.brettonwoodsproject.org>

**Campaigns:**

More information on various campaigns to hold the world bank more accountable can be found at <www.OneWorld.net/campaigns/imf&wb>

### References:

*World Bank Information Briefs* – World Bank

*In Focus: World Bank's Private Sector Agenda* - Tom Barry and Martha Honey
http://www.foreignpolicy-infocus.org/briefs/vol3/v3n40bank.html

Anne C.M. Salda *World Bank* Clio Press

*The World Bank Annual Report 2000* - World Bank Group

Economic Issues Introductory Briefing

# The World Trade Organisation

The World Trade Organisation (WTO) aims primarily to enable the smooth flow of global trade. Through the organisation, its membership of over 135 countries negotiate trade rules. This has led to the gradual reduction of tariffs, quotas and other trade barriers.

The WTO was formed in 1995 to permanently institutionalise the General Agreement on Tariffs and Trade (GATT) and to expand its work. GATT was drawn up at the end of the Second World War, and expanded in several ‘rounds’ of negotiations to promote trade in goods, primarily through tariff reduction. The WTO now includes GATT in its structure and also incorporates further agreements on services and intellectual property through the General Agreement on Trade in Services (GATS) and the agreement on Trade Related aspects of Intellectual Property Rights (TRIPS). The WTO also has a permanent and binding dispute settlement system, which adjudicates on trade disputes between members.

***The case for fixed trading rules***

The case for a rules-based trading system is based both on classical economic theory and upon historical experience. The negotiators of the original GATT were particularly mindful of the depression of the twenties and thirties, where most countries raised trade barriers to protect their domestic industries. It is generally accepted that this actually made the depression worse and that this had some role to play in the outbreak of the Second World War. Binding nations more closely together through trade agreements such as GATT, the European Coal and Steel Community (later the European Union) and the North American Free Trade Agreement (NAFTA) would promote more peaceful international co-existence.

The destructiveness of war also meant that growth and development were of paramount importance. Classical economic theory suggests this is most likely to occur in an open trading system. A well-developed fixed rules system, which meets the needs of all members, means greater stability for governments, importers and exporters. One like GATT/WTO, which is negotiated and applied internationally, avoids the complications of countries negotiating many bilateral agreements and the complex trading arrangements that would ensue.

Many critics however would say that the reality of WTO is far removed from these ideals. The GATT and WTO regimes have been said to be instrumental in exacerbating inequalities both within and between countries and, in particular, not reflecting needs of developing countries. Some of the most common criticisms are outlined below.

### *Decision making*

In theory WTO decision-making is by inclusive negotiations and consensus building. However, it is generally accepted that the system does not work so equitably. Although developing countries represent the majority of the membership, their needs are not always well considered.

Many poor countries struggle to maintain delegations at the WTO in Geneva, where around forty meetings are held each week. Although some assistance is provided in the form of office space, etc., many countries still have insufficient resources to keep track of all issues being discussed – often on major agreements that may have a great impact on them. Furthermore, developing countries are often excluded from the real negotiation process, which often take place outside of the official meetings between the larger players. In particular agreement by the ‘Quad’ of the United States, European Union (which represents Britain in negotiations), Japan and Canada is crucial to the success of an agreement.

Other critics of the decision making process complain that deliberations are too secretive and lack public accountability. This is particularly the case with the dispute resolution panel, whose judgments can override national legislation and have been in some cases particularly controversial. It is argued that even the threat of taking a dispute before the panel has been sufficient for some developing countries to change national legislation. The poorest developing countries often do not have the resources available to bring a dispute to the panel themselves.

### *Levelling the playing field?*

The WTO system aims at creating greater competition. Critics argue that in some sectors this has forced developing countries to open up their economies too quickly, meaning that local firms cannot compete with large Northern corporations. Although WTO agreements do give developing countries special treatment, this usually means only occasional exemptions or delayed deadlines for meeting obligations. Many argue this is insufficient, and that their governments need to be allowed to employ measures to build up their economies before fully exposing them to the forces of world trade.

Both GATT and WTO negotiations have tended to promote liberalisation in sectors that are most beneficial to the developed rather than the developing world. Agriculture and textiles, which can be of vital importance to the development of poor countries, are still among the most highly protected sectors. The European Union and the United States in particular have heavily subsidised such industries and placed restrictions on imports. Although the WTO is working to end the special treatment given to these industries, movements are slow and have been resisted.

Another feature of the WTO/GATT system that makes it difficult for poor countries to serve developed markets is tariff escalation. Here, raw materials have low tariff rates, which increase with the degree of processing undergone. As such, developing countries are discouraged from setting up their own processing and manufacturing industries whose products generally attract higher profits.

### *Benefiting corporations?*

The WTO is frequently accused of benefiting corporations against the wider public interest. This has been particularly so when looking at the dispute resolution mechanism and the agreements on TRIPS and GATS. Several cases that have been brought before the dispute resolution panel are thought to have been brought forth as the result of corporate persuasion. For example, it is generally recognised that the decision by the US to test claims that the EU's preferential treatment of Caribbean banana producers was WTO illegal was influenced heavily by US banana distribution firm Chiquita. Decisions from the dispute resolution panel, or the threat of them in some cases, have resulted in the relaxation of national health, safety and environmental regulations in several countries.

The agreements on services and intellectual property rights (GATS and TRIPS) have been particularly criticised for enabling primarily Northern corporations greater freedoms and protections that may be detrimental to public well-being. GATS aim to open up trade in services has led to fears that large Northern transnationals which dominate service industries such as water will abuse developing country markets. TRIPS, which extends Western style patent laws globally, could potentially see large companies gain by giving them increased intellectual property rights through western style patenting of drugs and seed varieties.

Several organisations have called upon some of the measures in these agreements to be reversed or, at least, for their impacts to be examined and better safeguards put in place (particularly for developing countries) before another round of trade negotiations.

## What you can do

**Find out more:**
See the resources list.

**Support Quaker work:**
The Quaker International Affairs Programme of CFSC is working with Quaker United Nations Office-Geneva to promote greater justice in the international trading system. It is carrying out education and research looking at the impact of TRIPS. While QUNO is building capacity within developing country delegations to the WTO about technical aspects of WTO agreements, the Canada-based work will dialogue with groups and people affected by TRIPS within developed countries, with the Canadian government and the Secretariat of the Convention on Bio-Diversity (based in Montreal).

For information, contact: QIAP, 97 Powell Avenue, Ottawa, ON, K1S 2A2. Tel.: 613-231-7311. Email: <qiap@quaker.ca> Web site: <www.cfsc.quaker.ca>

### References:
*Trading into the Future: The World Trade Organisation* WTO (1999). See <www.wto.org>

Bhagirath Lal Das *The World Trade Organisation* Third World Network (1999)

Lori Wallach *The WTO* Seven Stories (1999)

*The Ecologist Report* September 2000

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# International Aid

Aid is a primary way in which wealth can be redistributed internationally and is a key strategy by which the international community can work to achieve the International Development Targets for the reduction of poverty. For many, the provision of aid is a moral imperative and an action that should be welcomed. However, there is considerable debate over the extent to which existing aid programmes are effective, the motives for the giving of aid and whether rich countries are giving enough.

### *What is international aid?*

A broad definition of international aid is the 'concessional transfer of resources from one country to another'. Aid can be given by the official sector, through governments or multilateral institutions; it can also be provided by the non-official sector such as non-governmental organisations. It may consist of a range of things, from outright grants of cash to be used for a general programme or to fund a specific project, to 'soft' loans repayable with interest. Equally, aid might consist of direct provision of resources, such as food. Another common form of aid is 'technical assistance' or advice by donors. Although financing from the unofficial sector is by no means insignificant, this briefing focuses on aid from official sources.

### *Who gives and receives aid?*

Unsurprisingly international aid tends to originate in rich industrialised countries, although several middle-income and OPEC countries are also aid donors. Most donors give aid through multilateral channels as well as their own bilateral programmes. Many donors are members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). The DAC acts as a forum for donors to discuss and negotiate aid issues. It also collates aid statistics and is an important source of information. The DAC terms official aid for the poorest countries Official Development Assistance (ODA) and for those developing countries that are slightly better off, Official Assistance (OA).

The DAC has a narrower definition of aid than that given above in that the main objective of a flow of resources must be the promotion of economic development (although this is sometimes questioned – see below). In addition the flow must have a grant element of at least 25%. This figure has been criticised by groups who feel that 'aid' should have a higher grant element.

Aggregate figures given by the DAC for the period 1998-99 show that just over 40% of bilateral aid from DAC members went to the poorest countries, although this figure varies considerably from donor to donor. The USA, for example, allocated almost 24% of its aid budget to this group, whilst it accounted for 53% for the UK and over 65% for Ireland. The UK government has recently committed itself to increasing the proportion of aid given to the poorest countries.

Multilaterally, official aid is given through agencies such as the United Nations Development Programme, the UN Food and Agriculture Association and the European Union European Development Fund. Depending on the definition of aid used, the World Bank Group and regional development banks might also be considered sources, however only loans from the International Development Association arm of the World Bank Group might be considered to provide ODA with a large grant element as defined by the OECD.

### *Is enough aid given?*

In 1970 the United Nations General Assembly set a target that the rich countries should provide 0.7% of GNP as ODA. Although this figure is a recommendation, it is generally accepted by the international community and has been regularly reiterated since. Unfortunately, very few countries even come close to attaining this. In 2000 out of the 22 DAC members only five – Denmark, Luxembourg, the Netherlands, Norway and Sweden – surpassed the 0.7% target. The Liberal government has re-committed Canada to this target since coming to power. The Canadian government committed in its December 2001 federal budget to increase international assistance by $1 billion over the next three years (including $500 million into an Africa Trust Fund). This was generally welcomed by the international development community, although the new funds do not substantially increase the Base International Assistance Envelope (IAE), from which most aid flows. Commitments are to new programs, such as the Africa Trust or Afghan aid (or pre-payment of UN dues). Still, Canadian aid remains far from the 0.7% target set in 1970, hitting 0.3% in 2001-02 with declining projections of 0.26% in 2002-03 and 0.27% in 2003-04. This is comparable to the UK which, though significantly increasing its aid budget, for the year 2000, still only represented 0.31% of GNP or £2940m. In both cases, no time frame has been given for reaching 0.7%.

Some analysts suggest that as developing countries become more open to private (non-aid) flows of capital from the international money markets, private financing will become more important for development and therefore maintaining and increasing levels of official aid will become less important. However, although private financial flows have risen to some developing countries, it is not realistic to assume that they can replace official assistance, given that they have tended to be concentrated in a few countries with seemingly better prospects. Private financial flows are also less likely to be stable than official flows, and recent financial crashes show the dangers they can bring.

### *He who pays the piper calls the tune?*

Evidence of how official aid flows are distributed seems to bear out the theory that the motivations for the provision of aid are a mixture of altruism, guilt and self-interest. Aid programmes have been used both now and in the past for political purposes and can equally confer economic gains. For example during the Cold War, aid was used by both the United States and the Soviet Union in order to prevent the spread of either communism or capitalism. Even a quick glance at the top ten recipient countries of most DAC members seems to show aid patterns reflecting past or present political-economic relationships.

Frequently bilateral aid is ‘tied’ to other contracts that are economically beneficial to the donor. For example, aid might be given on the condition that it is used to purchase goods or engage a contractor from the donor country. Japan, France and Denmark in particular have large tied aid programmes. The OECD estimates that on average, tying aid reduces its efficacy by around 25% as recipients are unable to shop around to find the cheapest source of goods. In addition, tying aid to donor goods or services may inhibit the growth of local capacity and ability of the recipient to become less dependent on assistance in future.

Despite this, and the fact that untying of aid has been on the DAC agenda for several years, progress has been slow – although recent developments perhaps give cause for optimism. In previous negotiations several DAC members claimed that their industries would suffer and that it would be difficult to maintain domestic support for aid budgets if they untied aid. Provisional recommendations have since been made which, if endorsed, would see the untying of a good proportion of ODA. Although this recommendation does not extend to all types of aid or to the better off developing countries, the move should be welcomed. Some governments, including Canada and the UK, have however made unilateral steps towards untying and have been instrumental in bringing about slow change at the multilateral level.

***Making aid more effective***

There is considerable debate about the extent to which aid is effective. Just as there are many anecdotal success stories, there are also failures. Most accounts however state that programmes are generally effective, if for nothing else than because if they had not existed poverty levels would be even worse than they are today. Many analysts, donors included, state that existing aid programmes could be made more effective, through greater emphasis on recipient rather than donor needs, and by developing programmes that have a greater impact on poverty. In addition there have been calls for better integration of aid programmes by donors. One such way in which this is supposed to be done is through the development of Poverty Reduction Strategy Papers, required by the IMF and World Bank, which should form the basis of donor activities. This process is relatively new, and its outcomes unclear. The provision of international aid and its efficacy in reaching the international development targets is also likely to be a key component of the United Nations Conference on Financing for Development to be held in 2002.

## What you can do

**Find out more:**

Explore the web site of the Canadian Council for International Cooperation, a member-based organisation of Canadian agencies (including CFSC) engaged in international development. CCIC does policy, research and advocacy on behalf of its members. Many resources are posted on its site <www.ccic.ca>

The Canadian International Development Agency is the federal body that disburses most foreign aid and develops policy. Their web site is < http://www.acdi-cida.gc.ca>

**Support Quaker work:**

CFSC's International Committee supports the work of the Quaker UN Office-New York on Financing for Development and is engaged in many international development projects.

### References:

Increasing Canadian International Assistance: The approach of the December 2001 Federal Budget. *Canadian Council for International Cooperation* 2001 <www.ccic.ca>

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# International Debt

Countries borrow for much the same reasons as individuals and have done so for hundreds of years. Where debt is at a moderate level this process can be useful for economic development; however where debt is unsustainable, this is almost impossible. Throughout history countries have been unable to repay their loans. Where attempts are made to pay such high levels of debt, it is often the poorest members of society that suffer most, leading to increased social, political, economic and environmental tensions. Today according to the Jubilee 2000 campaign group, there are over fifty countries, most of them in Africa, which have unsustainable levels of debt and are facing such crises.

### *History of the current debt crisis*

Most indebted countries have a mixture of commercial and official debts. The causes and composition vary, however there are some important systematic factors.

Commercial debt rose considerably for middle-income countries following the 1973 rise in oil prices. Oil producers deposited their extra income with European, Japanese and North American banks, which were keen to lend the funds more profitably. Low but variable interest loans, usually of dollars, were quickly made to governments and government-backed corporations in countries such as Mexico and Brazil, which at the time had good economic prospects. Many analysts argue that not enough care was taken in the lending process. Although debtors were encouraged to increase exports to service their debts, often loans were used unproductively on prestige schemes or military spending, or even found their way into private bank accounts. As interest rates rose, the debt burden became more severe and in 1982 Mexico announced that it would be unable to keep up repayments. A crisis of confidence followed within the international banking system. Collapse was only avoided by bailout packages undertaken by the IMF in conjunction with creditors.

Many of the poorest countries, being seen as "uncreditworthy", could not obtain commercial loans and are heavily affected by official debt. Multilaterally, the World Bank Group has provided loans, mainly for long-term structural projects to developing countries almost since its formation in 1946. IMF loans for development have however increased since the 1982 crisis. Regional development banks are also an important source of loans.

Bilateral debt originates both from straightforward loans from one government to another and also from the provision of export credit guarantees (ECGs). These are guarantees provided by an exporting country government to exporters that are providing goods or services to another government (to further encourage exports). If the purchasing government fails to live up to its contractual obligations, the guaranteeing government will make good the contract, but the value of that payment is added to the national debt of the purchaser. The British export credit guarantee department has been heavily criticised for backing controversial projects such as the Turkish Ilisu Dam and for giving export credits to arms manufacturers.

### *'Debt-led growth' and exports*

One of the reasons given for past and continued provision of debt is that loans can enable faster economic growth and allow increased exports. These should provide money to pay back the debt whilst at the same allowing people to become better off. All too often however this has not reflected reality. It is frequently argued that increased commodity exports from developing countries have resulted in falling prices and deterioration in their terms of trade. Furthermore, trade barriers of developed countries often make it difficult for debtors to gain substantially from trade. Given these important linkages, it is arguable that the international trading system needs to offer more to the poorest countries.

Some analysts would go further, questioning the whole idea of debt-led growth, arguing that a different basis to the international monetary and economic system is required. Other models of development argue that poverty be better reduced through provision of effective health care, education and training or other micro-initiatives, rather than rely on large projects supported by borrowed foreign capital.

### *The difficulty of debt servicing*

For some countries, repaying debts is impossible, even with the most stringent of 'adjustment' programmes. The human cost of attempting to do so has often been devastating. In many Latin American and African countries as governments have cut back spending on social spending to keep up some form of repayments; real incomes and living standards are lower today than they were in the 1970s. In many cases more money flows out of the country in debt repayments than is received in aid. Despite this keeping up repayments, especially to IMF and World Bank, is seen as an imperative. The influence of these institutions is crucial, and their continued provision of credit is effectively a vote of confidence in the economic management of a country. Without this, countries would find it almost impossible to attract private sector investment and export credits.

### *Debt relief*

The case for debt relief is strong, especially for those earmarked as Heavily Indebted Poor Countries (HIPC), whose debt levels are so high relative to their capacity to generate income that it is virtually impossible to repay them. In many cases these countries have paid off more than the original sum of their loans, yet due to spiralling interest charges they continue to pay. Debt campaigners argue that this is morally wrong and also highlight the apparent double standard that richer countries, such as members of the Group of Seven or G7 (includes Canada), have in the past gained from generous debt relief.

Since the crisis of 1982 various schemes have been presented to provide the most indebted countries with relief. Within the commercial sector the IMF and World Bank have provided money to help banks write off some debts. The 1989 Brady Plan, for example, encouraged the rescheduling of loans by converting them into bonds that could be sold on the secondary market and would give the debtors more time to pay.

Significant progress has been made on bilateral debt. This has been partly through Paris Club meetings (an informal grouping of the Export Credit Departments of the main creditor countries) where consideration is given to debt reduction - but only after countries have been vetted by the IMF. The G7 governments have committed to cancelling almost 100% of the debt owed to them by HIPC countries. The Canadian and UK governments have been among the most progressive in pressing for debt relief.

As the levels of commercial debt have fallen, multilateral debt has in many cases risen. This has attracted much criticism. In response, and with the realisation that much of the debt could never be repaid, the Bretton Woods Institutions launched the HIPC and subsequently the enhanced HIPC initiatives, designed to reduce the debts of the poorest countries. Whilst this has been welcomed, campaigners have been frustrated with the speed and depth of debt relief. In particular they have criticised the 'sustainability thresholds' used to determine the extent to which countries are eligible for debt relief. These are said to be too strict and not based on the development needs of the debtor. Debtors only qualify for relief under the enhanced HIPC initiative if their debt to export ratio is greater than 150%. This contrasts with the generous relief enjoyed by richer countries in the past and arguably does little to take account of the structural insolvency of many of the poorest countries.

It is estimated by Drop the Debt that once relief through HIPC and from the G7 takes effect the World Bank and IMF will account for one-third and other multilateral institutions about one-quarter of debt repayments.

## What you can do

**Find Out More:**
Obtain educational and campaign materials from KAIROS: Canadian Ecumenical Justice Initiatives, the ecumenical justice organisation of the churches together (including Quakers). They have produced many excellent materials on global economic justice.
Telephone: 1-877-403-8933. Web site: <www.kairoscanada.org>

Jubilee Plus of the UK provides statistics in-depth analysis of debt levels and related issues. Contact: Jubilee Plus c/o New Economics Foundation, Cinamon House, 6-8 Cole St, London SE1 4YH. Web site: <www.jubileeplus.org>

**Campaigns:**
The Canadian Ecumenical Jubilee Initiative (the Canadian equivalent of Jubilee 2000) was laid down in 2001 and this work is now undertaken by KAIROS (see above). Debt campaigning did not stop with the end of the Jubilee Initiative. Contact KAIROS for information on materials and local and regional KAIROS groups.

**References:**
*Debt and achieving the international development targets* UK Department for International Development briefing

*The Debt Cutter's Handbook* Jubilee 2000 (1996)

*Debt and Sustainable Development* United Nations Development Programme technical advisory paper no. 4 May 1999

Various briefings and articles from <www.kairoscanada.org> and <www.jubileeplus.org>

Economic Issues Introductory Briefing

# International Finance

The international capital (money) markets are often seen as being the central component of the international economic system. Almost all international economic transactions work through the international capital markets and the markets themselves have enormous influence over the 'real' economy (production, employment, wages, etc.) and also over the relationships between countries. Since the 1960s capital markets have expanded in size and relative importance. At the same time they have become seemingly more and more unstable. Financial crises in Mexico, Russia and Asia over the last decade have indeed led many to question the costs and benefits that arise from them.

There are many different type of international financial flows which result from both official (governments or multilateral organisations) and the private sectors (corporations, commercial banks, investment banks and other non-bank institutions such as insurance companies, pension funds, etc.) Among the assets traded are currencies, debt in the form of corporate/ government bonds, bank loans or deposits and equities (stocks and shares). In addition trade in derivatives, which are often sophisticated financial instruments, deriving their value from the performance of another asset such as foreign exchange are becoming more important sources of financial flows. Institutions or individuals trade derivatives in an attempt to offset risks encountered in doing business in other markets. Government aid (ODA) is also an important financial flow originating from the public sector although it is not considered here in depth.

### *Growth of international finance*

Technological and regulatory change has resulted in growth of the international financial system. Between the two world wars international financial flows were relatively insignificant with strict restrictions on private dealings in debt and equities. Additionally, exchange rates were fixed – often with regulations on the quantity of and purposes for which foreign exchange could be purchased. Gradually industrialised and then developing countries started to lift these restrictions – in the latter case often at the behest of the IMF. As such the private sector has become a more important source of financial flows for economic growth. This is particularly so for middle-income countries such as Brazil and Mexico. The least developed countries tend still to be very much dependent on ODA for external financing.

### *The pros and cons of free flowing capital*

Open capital accounts mean that capital is able to move freely to its most productive use, anywhere in the world. Restrictions hinder this, perhaps to the extent that capital can only be used within the country of its origin, which might be lacking in productive or profitable opportunities. On the other hand many developing countries face capital shortages, but may have many opportunities for productive investment. An open capital account overcomes this problem and can enable economic activity to take place where otherwise it could not have done. At the same time the owner of the capital makes a higher profit.

However, an open capital account also opens the door to speculators, who constantly move their funds around to areas of highest gain. This is a cause of great instability. So-called hedge funds, which are subscribed to by wealthy individuals and aim to make very high profits by high-risk speculation, can be a particularly destabilising influence. Because of the sheer scale of the financial markets and the complex linkages between different sectors and different actors, volatility tends to be magnified. So whilst an open capital account can bring benefits it can also bring risks.

Some capital account transactions are more volatile than others. Long-term flows such as official ODA and foreign direct investment are fairly stable and tend not to be easily reversible. On the other hand short-term bank deposits are highly fluid. Without capital controls, just as capital can flow into an economy it can also flow out – sometimes very quickly indeed, as occurred in the Asian crisis.

Liberal economic thought, however, sees capital account liberalisation as irreversible and very desirable. Some countries, notably Malaysia, have implemented capital controls with relative success in calming flows. However, they are an exception rather than the rule.

### *Human costs of financial crashes*

The Asian crash of 1997 illustrates the devastation that can be caused by financial instability. Until that time the region was generally considered, even by the IMF who months later spent billions bailing it out, as having undergone a miraculous economic transformation, displaying high levels of relatively equitable economic growth. The crisis saw currencies devalue drastically and investors rushing to pull their money out of the region. As a result banks and businesses failed, millions were left unemployed and entire communities slid back into abject poverty through no fault of their own.

### *Managing financial crises*

Financial crises are generally managed by the IMF, often working with private institutions on an *ad hoc* basis. In the above case large 'bailout loans' were given to the countries experiencing problems, to ensure that the banking and business sectors could continue operating in the short term. These loans however came with as many as 80 different conditions designed to restructure the economy – which often meant cut backs on welfare provision. Although this did halt the spread of the crisis to Western Europe and the United States, it did so at huge costs to the poor. Many critics would also say that this action also prompted a built-in expectation that the IMF would continue to bail out banks that made loans unwisely. The technical term for this situation is 'moral hazard'. It results when borrowers or investors are not made to pay fully for the consequences of their actions, and thus have little incentive to act more prudently in the future.

### *Reform of the international financial architecture?*

At the time of these crises there was much debate about the need to reform the international financial architecture. Possibly due to the short lasting effects on the West, it is unlikely that there will be any dramatic reform. However there are several initiatives set up in attempts to avoid crises and to mitigate their effects if and when they occur.

The crises of the last decade have seen the IMF shift its position slightly from an initial one of calling for restrictions on the movement of capital to be lifted swiftly and immediately. Although capital account liberalisation is still promoted, far more attention is spent on the best process to do this – the so-called 'sequencing' debate. The IMF is also keen to 'bail in' the private sector rather than be seen to constantly bail it out. This is likely to involve ensuring that investors continue to provide loans to overcome short run liquidity problems and the promotion of types of bonds that allow easier restructuring of debt.

Another initiative is the Financial Stability Forum, an organisation set up by the G7 that seeks to promote similar issues. Amongst other things it is working on ways to increase transparency within financial institutions and improve corporate governance. There is however a lack of developing country participation in the Financial Stability Forum. The United Nations is also playing a part in the debate, hosting a conference on 'Financing for Development' in 2002 to discuss many of these issues where particular attention will be paid to the problems faced by the least developed countries.

Other suggestions for reform have included the setting up of an international bankruptcy procedure and global stabilisation funds. One proposal is the Tobin Tax – a very small tax levied on all currency transactions to discourage destabilising speculative flows. Although advocated strongly by campaigning groups such as War on Want, doubts have been raised within financial and political circles as to how effective such a small tax would be, given the gains that are possible from large currency devaluations as was seen in the Asian crash. There also seems to be a lack of political will to implement this type of measure.

## What you can do

### Find out more:

Visit the Quaker United Nations Office web site <www.quno.org> and click on "QUNO-Geneva". There are many documents and issues explored on this site.

**Support Quaker Work:**

CFSC is working with the Quaker United Nations Office in Geneva on Intellectual Property Rights issues at the World Trade Organisation. We are also financially support QUNO-G's activities, which include work with governmental and intergovernmental organisations to promote more just structures within the international financial system.

### References:

Susan Strange *Mad Money* Manchester University Press (1998)

Michael Brett *Reading the Financial Pages* Random House (2000)

Duncan Green *Capital Punishment: Making international finance work for the world's poor* CAFOD (1999)

*Finance and Development* IMF September 2000

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# International Trade

International trade has been the subject of considerable debate for centuries. Historically, control of international trade routes was of immense political importance as it affected the relationships between nations and because taxation/tariffs levied on traded goods formed a significant proportion of government revenues. Although less important for the latter today, trade patterns still often reflect political power or motivations and can affect relative national incomes and living standards, patterns of production and use of natural resources.

### *Trade patterns*

Restrictions on trading have loosened in the era since the Second World War (see briefing on WTO). As such the volume of international trade has increased many-fold. By 1998, the total value of world trade in goods and services amounted to $6,600bn. The goods trade is dominated by that of manufactured items (over 75%) such as transport, machinery and electronic equipment, whilst primary commodities, the products of agriculture and mining account for only 22%.

Most trade takes place between industrialised economies and is dominated by transnational corporations (TNCs). About 40% of total world trade occurs within and between TNCs.

International trade is thus currently dominated by the industrialised nations, which generally produce higher value goods and services. The developing world, which is generally dependent on the production of primary commodities and of lower value and low technology items such as textiles, has a much more marginal role.

Most mainstream economic and political thought is in favour of freer trade. ‘Export led growth’ has been heralded by many as a way to faster development. However, throughout history many governments have pursued more protectionist policies. Powerful economies have built up strategic industries away from international competitive markets, either through the application of tariffs, through the direct application of subsidies, or less directly through government ‘industrial policies’ such as financing or carrying out research and development. Although direct protection is used less frequently these days, for many economies industrial policy is still a very important means of retaining investments and developing strategic sectors. The current trading system is governed by the World Trade Organisation (WTO) and also by regional trading organisations.

### *Comparative advantage*

Most arguments in favour of free trade are based on liberal economic theories of comparative advantage. Although there are many sophisticated versions, the basic notion of these advocates that economies should specialise in the production of the goods that they produce best and trade with other economies for the other goods and services that they require. This specialisation supposedly results in increased efficiency, greater world income and possibilities for consumption. Every country will have a comparative advantage in producing something, even if it produces it less efficiently than its trading partners, thus it is in everyone’s interest that trade is maximised. However this theory does not take into account all features of the current international trading system nor does it consider equity. As such the international trading system is one in which some groups will gain comparatively more than others.

Firstly, comparative advantage is primarily about efficiency maximisation rather than equality. Although it is possible that all actors will gain, it is very unlikely that they will do so to the same extent. Secondly, the theory does not consider it to be of importance exactly what is traded. However for many countries this clearly is of importance, both economically and politically. For example, many countries that are dependent on the production and export of primary commodities have found themselves in recent years with deteriorating terms of trade. That is to say that the price of their exports has declined relative to the price of the goods that they import. In some cases the absolute price of their exports may have fallen also. This means that in order to import the same quantity of goods that they did before, they must produce more and more of their exported goods. In some cases this may not be possible or, if it is, will have unwanted side effects, for example using more intensive farming methods, greater crop specialisation and use of pesticides.

The theory of comparative advantage also tends not to take into account the large transnational corporations that dominate international trade. Their huge bargaining power can drive down prices – which may be good for the consumer, but may have adverse effects on workers or conditions – especially in poorer countries. It is likely that the presence of these huge companies, which can benefit greatly from superior access to financing, economies of scale from production, etc., may prevent local entrepreneurship and the development of local industries. Where such industries do exist in fragile states, TNCs may hinder their development or even drive them out of business.

### *Environmental costs of trade*

It is also frequently argued that the environmental costs of free trade are seldom taken fully into account, and that if they were, much of today's trade could not be justified socially, politically or economically. It is estimated that increased transportation of goods and people has resulted in a significant increase in pollution: particularly concerning is the increase in $CO_2$ levels which has been linked to climate change. If the 'Polluter Pays Principle' was fully implemented, meaning that transporters faced higher cost – which would be passed on to consumers, it is more likely that there would be a greater tendency to produce goods nearer to the point of consumption.

### *Making the trading system more equitable*

Several initiatives have been set up with this in mind. The Ethical Trading Initiative (ETI) is a tripartite initiative (set up by the UK government, nongovernmental organisations and several UK retail companies) which works together to promote fair prices for goods and decent conditions for workers. Established in 1997, it has resulted in better communication between British companies, their suppliers, workers and unions. Britain Yearly Meeting is a member of the ETI.

The fair trade movement seeks to offer fair prices and establish good working practices. It tends to work with the poorest countries, often in the most disadvantageous sectors. Fairly traded items as diverse as food, clothing, jewellery and furniture are readily available on the UK market.

## What you can do

**Find out More:**

Contact CFSC's International Committee in Ottawa, which is beginning to explore fair trade opportunities. Telephone: 613-798-8182. Email: <ic@quaker.ca> The Quaker International Affairs Programme is working on issues related to the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). Telephone: 613-231-7311. Email: <qiap@quaker.ca>

**Support Quaker Work:**
CFSC's Quaker International Affairs Programme in Ottawa is working with the Quaker United Nations Office, Geneva to facilitate a greater understanding and just implementation of the TRIPS agreement, especially as it affects developing countries, farmers, and Indigenous peoples.

**Campaigns:**
Internationally, organisations publicly campaigning for a fairer trading system include:
Quaker Peace and Social Witness, Economic Issues Programme <www.quaker.org.uk>

Christian Aid and Friends of the Earth. Contacts: Trade For Life (Christian Aid) PO Box 100, London SE1 7RT, <www.christian-aid.org.uk>

Friends of the Earth (Trade, Environment and Sustainability Programme), 26-28 Underwood St, London, N1 7JQ, <www.foe.co.uk>

## References:
*World Investment Report 2000* United Nations Conference on Trade and Development

*The World Trade System. How it works and what's wrong with it* Friends of the Earth (available from www.foe.co.uk)

Paul Krugman, Maurice Obstfelt *International Economics* Harper Collins (1994)

*Making Globalisation Work For The Poor* Department for International Development HMSO (2000)

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# Transnational Corporations

Transnational Corporations (TNCs) such as Coca-Cola, McDonalds, and Exxon are recognised in almost every country and the activities of such companies dominate international production and trade. Together, the 100 largest TNCs employ over 6 million people.

**Foreign Direct Investment (FDI)** is the term given to investment in a country by an overseas company (a TNC) when that investment gives the company direct control over the assets such as factories, stores, and mines. Examples of FDI in Canada are Wal-Mart or The Gap clothing stores, General Motors factories and Weyerhauser pulpmills. Rich and poor country governments alike generally welcome FDI. Proponents see FDI as a mechanism by which new jobs can be created, best practice can be imported and new technologies and skills can be introduced, which will increase the capacity of individuals and the economy as a whole. In poor countries TNCs bring with them expectations of faster development, the reduction of poverty and of being a vehicle through which standards of living enjoyed in rich industrialised nations can be attained. Their presence, it is said, is likely to be more stable and constructive than short-term capital flows into stocks or bank deposits.

Critics maintain that this view is, at best, overly optimistic. TNCs have potential to do all the above and more. Empirical evidence, however, does not give us a clear picture of whether FDI's overall effect is negative or positive. The negative consequences attributed to FDI include: it may redirect internal investment away from productive long-term development to serve to the needs of TNCs; it may result in net capital outflows (i.e., profits leaving the country may exceed the value of the initial investment); non-renewable resources may be permanently depleted in return for meagre resource "rents"; long-term ecosystem carrying capacity may be degraded (fisheries, forests, species diversity, etc.); and in some sectors it has been associated with development in a small enclave and with perpetuating economic inequalities and tensions between social groups, and even in extreme cases, human rights abuses.

### *The problem of global corporations without global governance*

Many of the problems associated with TNCs stem from their unregulated power. As national governments embrace neo-liberal international trade and investment regimes, they become less able to regulate corporate conduct within their own borders. As there is no binding global governance mechanism on issues such as environmental regulation, workers rights, competition policy and taxation, and because national laws (and enforcement of them) differ widely, TNCs sometimes take advantage of these differentials and shift their activities to areas of lower regulation or lower labour costs.

### *'The race to the bottom'*

Many governments are so keen to attract economic activity that they actively compete to offer TNCs the lowest cost environment. In some instances this means cutting bureaucratic procedures and creating 'one stop shops' to simplify licensing and the granting of permits, etc. In others it may entail offering tax cuts, subsidies, suppression of union activities or 'turning a blind eye' to labour conditions in order to attract investment.

Corporate power is not just limited to poorer countries whose governments have created 'Export Processing Zones' where many normal labour regulations, environmental laws and tax regimes are suspended. In Canada, when facing criticism for their oil operations in Sudan, lobbyists for Talisman Energy suggested that if its ability to invest freely in Sudan was impaired by the Canadian government, they might move their head office out of Canada. The government backed off, even as a governmentsolicited investigation (The Harker Report) presented damning information on the link between oil development and human rights abuses.

### *Corporate power, culture and democracy*

The financial power of many TNCs can translate into political power. Industrial associations or individual companies often form powerful lobby groups to try and influence government decision-making. An example is 'Arctic Power', a coalition of oil companies campaigning to open up the US Arctic National Wildlife Refuge for oil exploration. Company representatives frequently offer advice to bodies such as the World Trade Organisation, which has been accused of reducing the scope for national governments to regulate the activities of TNCs.

Critics say that the power and influence of TNCs is a threat to democracy and cultural variety, particularly through "global branding" where brand names and products monopolise markets in countries around the world. Some observers lament the erosion of differences between national cultures and imposition of Western values. True or not, the global reach and huge market of TNCs means that they can exert enormous power over their supply chain. This is particularly evident in markets such as those for tea, cocoa or coffee where the five or so largest firms dominate the market. These firms can control price levels, often to the detriment of growers and labourers. Land that once enabled local people to be self-sufficient is now being used for export 'cash' crops – often required as part of IMF 'structural adjustment'. As a result basic foodstuffs must be imported at a higher cost.

### *Moves toward greater corporate responsibility*

Whilst the above is certainly true, there are some growing movements designed to check some of the powers of TNCs.

### *Legal action*

There are indications that UK, US, and Australian courts may take more of an active role in regulating TNCs that are based in their own countries for incidents occurring abroad. The creation of the International Criminal Court may present opportunities for holding executives and those serving on the boards of corporations accountable for the actions of their companies should they violate international law. This issue was raised by Rights and Democracy, a Canadian NGO focusing on human rights and democratic development, at the 2002 Annual General Meeting of Talisman Energy (see <www.ichrdd.org> for press release). In the US, court cases can be brought against corporations that operate in environments where their presence and activities in foreign countries allegedly has a negative impact on human rights, etc. via the Alien Torts Claims Act. Cases seeking compensation for victims of corporate wrongdoing are rare, partly due to the expense and technical skills required to pursue them.

### *Guidelines and voluntary codes of conduct*

As an alternative to laws and regulations, governments and TNCs often advocate the use of voluntary measures as a way of encouraging responsible behaviour. One of the most well known of these is the *Guidelines for Multinational Enterprises* developed by the Organisation for Economic Co-operation and Development (OECD). Many other codes and voluntary initiatives of this type have been developed, which have in some cases prompted TNCs to adopt their own ethical policy statements and guidelines. Proponents of voluntary measures consider them to be more flexible than regulations as they allow each TNCs find its own way to meet goals set in codes or guidelines. Critics point to their often vague and aspirational language and their lack of measurable or enforceable commitments. Voluntary measures often work well when compliance helps boost profits, but fail when compliance increases costs without delivering increased profitability. In all cases, codes should include provision for monitoring and accountability.

### *Active investors*
Most TNCs are owned by a large number of widely disbursed shareholders. Increasingly, institutional investors (pension funds, foundations, religious institutions, mutual funds) are considering the social, environmental and ethical consequences of their investment decisions and are actively raising corporate responsibility issues with the companies in which they invest. In Canada, the socially responsible investment movement is growing among institutional and individual investors. The recently released report of Commission on Canadian Democracy and Corporate Accountability recommends that benchmarks of corporate responsibility be established, that laws and regulations governing the powers of trustees to invest in socially responsible ways be clarified, and that the degree to which institutional investors take social and environmental consideration into account in investment decision-making be made more transparent. CFSC works ecumenically on issues of investor responsibility through KAIROS.

### *Socially Responsible Investment*
The growing Socially Responsible Investment industry is another way in which some of the largest companies are being influenced. Many investors will not exclude companies whose actions they feel are less than perfect from their portfolio, but will instead try to use their influence to modify corporate behaviour.This movement is still relatively small, however it is growing and may become an important tool in the future. In Canada, CFSC has supported projects to build the capacity of shareholders to take up their responsibilities as company owners and worked ecumenically, through KAIROS, on shareholder actions.

## What you can do

**Find out more:**
For more information contact CFSC in Toronto. Visit the web sites of our partners, the Shareholder Association for Research and Education (SHARE) and KAIROS: Canadian Ecumenical Justice Initiatives:

<www.share.ca>
<www.kairoscanada.org>.

Visit the sites of the Social Investment Organization (SIO) and the Canadian Democracy and Corporate Accountability Commission (CDCAC) for Canadian perspectives on corporate and shareholder accountability. The SIO site has good information on policy and advocacy as well as financial advisors who can assist you in socially responsible investing. The CDCAC site has information related to the Commission's cross-Canada consultation, including their final report:

<www.socialinvestment.ca>
<www.corporate-accountability.ca>

Internationally, organisations such as the UK's Corporate Watch monitor the activities of several companies. They produce a magazine and have an interesting web site. Corporate Watch, 16b Cherwell St. Oxford, OX4 1BG. <www.corporatewatch.org>

Magazines such as *Ethical Consumer* (UK) provide good practical advice on companies and on making use of local suppliers etc.

**Campaigns:**
Organisations such as World Development Movement are campaigning for better regulation of TNCs. WDM, 25 Beehive Place, London, SW9 7QR. Web site: <www.wdm.org.uk>

# GLOSSARY

**Adjustment programme**
Also called ‘structural adjustment programme’ or, by critics, ‘austerity programme’. A programme of reforms designed by the IMF and/or World Bank Group which must be carried out as a prerequisite for receiving loans from the institutions. Adjustment programmes are designed to transform the underlying deficiencies in an economy, with the expectation that the economy will become more efficient and able to generate greater wealth. Underlying deficiencies are often seen to take the form of excessive and inappropriate government intervention within the economy and as such adjustment programmes often include removal of subsidies, cutting back of health care and education budgets and privatisation of government owned industry. Adjustment programmes often have a detrimental effect on the poor, which is acknowledged by the international financial institutions. As such the process is undergoing a period of reform, which should be geared towards greater poverty reduction.

**Agreement on Textiles and Clothing (ATC)**
See Multifibre Agreement

**Balance of payments**
The measure of the total amount of transactions that a country makes with the rest of the world. It is derived by aggregating the current account and the capital account.

**Bonds**
Financial instruments used by governments and corporations to raise money. A bond can be likened to an ‘IOU’ for a given amount of money. Bonds issued by companies or governments are bought by investors and are designed to be held for a fixed length of time. In return for holding the bond, the issuer agrees to pay the investor a fixed rate of interest every year. At the end of the holding period, the face value of the bond is repaid. If the investor does not want to hold the bond until it matures it can be sold on the secondary market.

**Brady Plan**
Proposal forwarded in 1989 by US Treasury Secretary James Brady to provide some degree of commercial debt relief to developing countries. Many commercial banks knew that they would not receive full payments for the debts they held and had in effect written much of them off. The plan proposed that this situation should be formalised. Some debt was formally written off with some of the remainder rescheduled by being converted into bonds (Brady Bonds). Brady Bonds could then be sold on the secondary market. Although the Brady Plan resulted in theoretical reductions of debt servicing levels, in practice, many debtors were not paying full amounts anyway. As such, debt service levels often remained unchanged.

**Bretton Woods institutions**
The IMF and the World Bank. These are the institutions that were set up as a result of the 1944 Bretton Woods Conference, which aimed to provide international economic order once the Second World War had ended.

**Canadian International Development Agency (CIDA)**
The Canadian government department that is responsible for international development assistance policy. CIDA co-ordinates and manages the Canadian international aid budget. Also works in liaison with the Department of Foreign Affairs, especially on peace building.

**Capital account**
The part of the balance of payments that measures capital flows. These relate to the international sale of assets to foreign countries and the domestic purchase of assets located abroad. Assets are any form in which wealth can be held, including currencies, shares, debt, etc.

**Capital account liberalisation**
The process of dismantling capital controls (barriers to the free movement of capital in and out of an economy). Capital account liberalisation policies are generally advocated by the Bretton Woods institutions and have been followed by many developed and developing economies. Capital account liberalisation theoretically brings with it efficiency gains. However, it arguably also makes an economy more vulnerable to the effects of speculation and to economic shocks happening elsewhere in the world.

**Common Agricultural Policy (CAP)**
System offering support to European farmers through a complex system of subsidies, trade controls and other mechanisms. Although the CAP does give greater financial security to farmers, it tends to benefit those with large farms to the greatest extent. The CAP has been heavily criticised for being costly and inefficient, resulting in overproduction and high prices for consumers. It also makes it difficult for developing countries to export agricultural products to Europe.

**Comparative advantage**
A classical economic concept first proposed by David Ricardo in the early nineteenth century to explain the potential efficiency gains possible through international trade. Many complex elaborations of this theory exist and continue to be developed. In its most simple form the theory states that if countries specialise in the production of goods in which they have a comparative advantage (which they produce most efficiently) and trade with other countries for other goods that they need, each country will be able to produce and consume more goods than it would have been able to if it produced all goods and was self-sufficient.

**Current account**
Part of the total balance of payments that measures the difference in value of imports and exports of goods and services. A negative current account means more goods are being imported than exported.

**Department for International Development (DfID) (UK)**
The UK government department responsible for policy on developing countries. DfID co-ordinates the British aid budget.

**Derivatives**
Financial instruments which derive their value from other financial products.

**Development Assistance Committee (DAC)**
Part of the Organisation for Economic Cooperation and Development (OECD), which is comprised of major aid donors. DAC is a forum in which issues concerning international aid are discussed. DAC collects and publishes statistics on bilateral aid.

**European Coal and Steel Community (ECSC)**
Institution which evolved into the European Union. The ECSC was established in 1952, partly with the thought that binding nations together through trade would make another war less likely. The ECSC established a common market in coal and steel products and set the scene for other political and economic co-operation between the initial six members: Belgium, Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

**Export Processing Zones (EPZs)**
Areas within a country set up to attract investment and to set up factories assembling goods for exports. Often governments will give favourable tax structure to goods produced to EPZs and permit lower labour standards than elsewhere in the country.

**Financial Stability Forum**
An initiative of the G7 (now G8), which seeks to promote methods of ensuring greater financial stability within the international capital markets.

**Fixed exchange rates**
System where governments set and fix the value of their currency relative to other currencies. A government maintains the value of its currency through manipulation of currency reserves. If, for example, market transactions result in the value of a currency rising above the fixed point, government will sell reserves of its own currency thus increasing supplies on the international market and lowering the value to the predetermined level. If the relative value of currency is falling, the home government (perhaps in conjunction with others) will buy its own currency and add them to reserves.

**Floating exchange rates**
System where the relative values of currencies are determined solely by the relative market supply and demand for them. In a floating exchange rate system, governments do not intervene in currency markets to maintain currency values.

**Foreign Direct Investment (FDI)**
Investment undertaken, generally by transnational corporations, in countries other than their home base country. FDI includes entirely new 'greenfield' investments and joint ventures with local companies. It also includes takeovers of existing companies or the purchase of a significant share in them, so long as this is enough to exercise a degree of control over operations. (The degree of control is crucial to this definition: investment that doesn't give control is known as portfolio investment. Portfolio investment includes investments in financial instruments like bonds or derivatives.)

**G7 (Group of Seven)**
The group of the seven richest countries. Current membership of the G7 is Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. The finance ministers of the G7 meet periodically to discuss issues of international economic importance. This group is extremely powerful and its members in effect control the multilateral Bretton Woods Institutions.

**G8 (Group of Eight)**
The G7 with the addition of Russia.

**General Agreement on Tariffs and Trade (GATT)**
Strictly speaking, GATT is simply an agreement, originally drawn up in 1947. GATT promotes the liberalisation of trade in goods by committing signatories to lowering tariffs. In addition, GATT was also an institution that was created later on an *ad hoc* basis. GATT the institution provided secretarial support to the negotiations and discussions that took place around the agreement. GATT the agreement was incorporated into the structure of the World Trade Organisation in 1994 where it forms one of the three main WTO agreements. As such, GATT the organisation no longer exists.

**General Agreement on Trade in Services (GATS)**
One of the three main WTO agreements. GATS deals with the liberalisation of trade in services.

**GDP/ GNP**
Different measures of national income. GDP or Gross Domestic Product measures the total value of production occurring within a country, regardless of the nationality of the agents undertaking production and whether or not income derived from it remains within the economy. GNP or Gross National Product takes account of the fact that money flows into an economy from assets owned by domestic residents but which are situated abroad, and also that money will flow out of the domestic economy by assets owned by foreign nationals.

GDP and GNP per head are often taken as measurements of the state of economic development. This, however, can be misleading as these measurements can not take into account qualitative factors and non-monetary transactions, for example work undertaken through a Local Economic Trading System (LETS) program or childcare provided on a non-payment basis. Other measurements may be more suitable for assessing levels of economic development in certain situations (ex., by looking at the proportion of children enrolled in schools, the number of doctors per so many head of population).

**Gold standard**
A system of fixed exchange rates where prices of currencies are fixed in terms of gold. Gold standard systems existed between 1870 and 1914 and for a brief period in the inter-war years, underpinned by Britain, the dominant economic power. A gold type standard also operated between the late 1940s and early 1970s, underpinned by the USA which guaranteed the convertibility of the dollar to gold at $35 per ounce. This system broke down in 1971 as the US government over-printed dollars (partly to fund the Vietnam War) and realised that gold reserves would be insufficient to ensure gold convertibility.

**Hedge funds**
Hedge funds are international investment funds that make high-risk speculative investments, often with borrowed money. Although hedge funds can achieve very high returns on investments they can also be have a huge destabilising impact on financial markets. Bought by wealthy investors.

International Development Targets
Development targets formulated by the international community at a series of United Nations conferences in the 1990s. Amongst the aims are: the reduction of the number of people in poverty by one half, universal primary education in all countries, a reduction of two-thirds in the infant mortality rate by 2015 and the elimination of gender disparities in primary and secondary education by 2005. There was also a target set for the international aid budgets of wealthy countries – 0.7% of GDP. Canada has repeatedly committed itself to this target; its performance, however, remains at less than half of the target (0.30% in 2001-02).

**International financial architecture**
The name given to the system of institutions and agreements governing the system of surveillance and regulation of international capital flows.

**Neo-liberal paradigm of economic thought**
Also called ‘neo-classical’. The prevailing school of economic thought employed by the major industrial powers and international financial institutions. Neo-liberalism focuses on the primacy of individual ‘rational’ economic decision making, leading to an optimal overall situation. Neo-liberal *laissez faire* policies advocate the rolling back of the state sector within the economy.

**Liberalisation**
The implementation of policies which aim to reduce government, or other regulatory interference with the price mechanism and economic markets.

**Liquidity**
Having enough resources that can be converted to cash to be able to satisfy present demands.

**London Club**
Informal grouping of commercial holders of developing and middle-income country sovereign debt. The Club meets periodically to consider debt restructuring.

**Moral hazard**
The situation where investors are protected, for example by government, to the extent that they no longer feel that it is necessary to fully consider the possible risks of their investment when making investment decisions.

**Most Favoured Nation (MFN)**
One of the underlying principles under which GATT, and subsequently WTO agreements, were drawn up. MFN rather confusingly states that countries should not discriminate between their WTO/GATT trading partners. If for example, a tariff reduction of 50% is offered to one trading partner on good X then all other countries that export good X must be allowed to benefit from the same tariff reduction.

**Multifibre Agreement (MFA)**
A framework negotiated under GATT. In conflict with GATT's normal ethos, the MFA allowed the imposition of quotas for textile imports by countries whose domestic industries were facing damage because of foreign competition. Clearly of benefit to those working in declining textile industries in mainly industrialised countries, the MFA was harmful to many developing countries who found it difficult to fully develop their textile industries for exports. Since the formation of the WTO, the MFA has been replaced by the Agreement on Textile and Clothing (ATC) under which exceptional treatment of the textile industry is due to end by 2005.

**National treatment**
One of the underlying principles under which GATT, and subsequently WTO agreements, were drawn up. National treatment requires that the only time when a foreign good can be subjected to different rules and regulations to domestically produced ones is at the point of entry into the importing country, i.e., through the application of tariffs.

**Organisation for Economic Co-operation and Development (OECD)**
Organisation whose membership consists of the most industrialised countries (including Canada). Also known as 'the rich countries club'.

**Organisation of Oil Producing and Exporting Countries (OPEC)**
International cartel, consisting of major oil producing countries (although not the US or Canada). Saudi Arabia is a particularly important member. OPEC can control oil prices through fixing production levels. The group was particularly powerful in the 1970s when it was responsible for multiple increases in the price of oil in 1973 and 1979. This action had huge economic implications for the rest of the world.

**Paris Club**
Informal grouping of representatives of the export credit guarantee departments of official (government) holders of developing and middle-income country sovereign debt. The Paris Club meets occasionally to consider multilateral debt relief for countries that have been approved by the IMF.

**Poverty Reduction Strategy Paper (PRSP)**
A document developed by the poorest countries in conjunction with the IMF and World Bank Group which lays down a national strategy for the reduction of poverty. The PRSP forms the basis for IMF and World Bank lending and also is a precondition for receiving debt relief under the HIPC initiative. The PRSP process was formulated as a response to criticisms of the IMF and World Bank Group's previous non-consultative approach to country analysis. The PRSP process is designed to have greater ownership by the country concerned, being developed in a way that involves government and civil society to a greater extent.

**Primary market**
Market in which companies and governments create and sell new securities (bonds and shares) to investors for the first time.

**Secondary market**
Market in which investors can buy or sell existing bonds or shares amongst themselves. These would have originally been traded on the primary market.

**Soft loans**
Loans given on more favourable terms than would normally be available on the international money markets. Soft loans are available through the IMF, World Bank and regional development banks. Often used as part of bilateral aid programmes.

**Terms of trade**
Term given to the relative price of the goods and services that a country exports relative to those it imports. If terms of trade are decreasing it means that the relative prices of exports are falling. If this is the case, then in order to be able to continue importing a fixed quantity of goods and services, a country must export more and more. Many developing countries are facing deteriorating terms of trade due to falling prices of commodities on the international markets. This compounded with a fairly stable demand for these products means that many of the least developed countries (LDCs) are unable to maintain export earnings.

**Tobin Tax**
A policy proposal originally forwarded by Nobel Prize winning economist James Tobin. The Tobin Tax aims to stabilise the international financial markets by imposing a small tax on all foreign exchange transactions. The idea is that by making it more expensive to buy and sell foreign currencies, destabilising speculative flows will be discouraged. Although this proposal is favoured very much by some campaigning groups, there is much debate within financial circles about the extent to which it would be effective. Currency devaluations seen in the Asian crash were so huge that even if a small tax were imposed on currency transaction huge profits would still been there to have been made by speculators. Imposition of such a tax would require considerable international co-operation and political will.

**(Agreement on) Trade Related Aspects of Intellectual Property (TRIPs)**
One of the three main World Trade Organisation agreements. It seeks to internationally protect intellectual property rights by extending Western style patenting to a range of things including copyrights, trademarks, circuit designs, trade secrets and pharmaceutical products.

Many say that providing greater intellectual property protection will provide greater incentives for research and invention. Others are concerned about patenting of life forms and processses, traditional knowledge, and the impact on food security. While patents are valid, higher prices can be charged for the use of the product of the research. In such cases it is likely that access to these products will be restricted.

**Transnational Corporation (TNC)**
A company that owns and controls assets in more than one country.

**Washington consensus**
The prevalent neo-classical school of economic thought and analysis developed and used particularly by the World Bank Group and IMF. This generally advocates the implementation of free-market policies (reduction of governmental role within an economy).

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# ACRONYMS

| | |
|---|---|
| ATC | Agreement on Textiles and Clothing |
| CAP | Common Agricultural Policy |
| CIDA | Canadian International Development Agency |
| DAC | Development Assistance Committee |
| DFAIT | Department of Foreign Affairs and International Trade |
| DfID | Department for International Development (UK) |
| ECG | Export Credit Guarantee |
| ECSC | European Coal and Steel Community |
| ED | Executive Director |
| EPZ | Export Processing Zone |
| ETI | Ethical Trading Initiative |
| EU | European Union |
| FDI | Foreign Direct Investment |
| G7 | Group of Seven |
| G8 | Group of Eight |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| GNP | Gross National Product |
| HIPC | Heavily Indebted Poor Country |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Assistance |
| IFC | International Finance Corporation |
| IMF | International Monetary Fund |
| IFI | International Financial Institutions |
| LDC | Least Developed Country |
| MIGA | Multilateral Investment Guarantee Agency |
| MFA | Multifibre Agreement |
| OA | Official Assistance |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OPEC | Organisation of Oil Producing and Exporting Countries |
| PRSP | Poverty Reduction Strategy Paper |
| SAL | Structural Adjustment Loan |
| SAP | Structural Adjustment Programme |
| SECAL | Sectoral Adjustment Loan |
| SHARE | Shareholder Association for Research and Education |
| SIO | Social Investment Organisation |
| TNC | Transnational Corporation |
| TRIPS | (Agreement on) Trade Related Intellectual Property Rights |
| UK | United Kingdom (Britain) |
| UN | United Nations |
| US | United States |
| WTO | World Trade Organisation |