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“Financing Sustainable Economic Development in Asia”

The Global Financial Architecture

The function of our global financial architecture is primarily to ensure that the global capital is employed to the best opportunity, transferring it from people/institutions who have it to people /institutions who need it. However has this architecture succeeded in generating and moving wealth in an equitable manner to promote sustained economic development? The answer to this poser remains mixed. Terms like the, ‘crash of the Asian economy’, ‘the theory of the economic bubble’, ‘the concept of risk markets’, ‘the risk of cycles’ all portray this mixed response.

Various kinds of underlying causes are associated with these terms – These could include a shift from a meritocratic process to political cronism, legalized corruption and opaque practices, a blind wave of ill advised people moving into dot com equities, but the biggest driver of the financial and capital markets is essentially policy. The term commonly used here is ‘regulation’ of the financial markets. It is this regulation that keeps the integrity of the process unless the regulators themselves become ‘pawns’ of the financial powers that be. This risk however is inherent in the existing financial architecture. It lies embedded in the reality that accountability of the financial powers that be rests with their shareholders rather than with the common man or common woman of Asia. Thus negotiation in the financial markets are pinned on a need to maximize financial gains rather than any philanthropy. It is here that a close complimentarily between the state and the financial market emerges. Whereas the utilisation of capital for maximum wealth creation is the function of the financial market the equitable distribution of this mass of resource remains a state function. More than \$1.5 trillion is now exchanged in the world’s currency markets each day and nearly a fifth of the goods and services produced each year are traded.

What do the new financial markets look like?

Foreign exchange and capital markets are linked globally, operating 24 hours a day with new tools that include internet links and media networks. These markets have new actors like the World Trade Organisation (WTO) which has authority over national governments. Another set of actors in these markets are the multinational corporations who have more economic power than many states. A third set of actors are global networks of the civil society that are watching these financial markets. These networks of NGOs can now transcend national boundaries because of access to new technologies. The financial markets also have new rules. These include multilateral agreements on trade, services, intellectual property, backed by strong enforcement mechanisms that are reducing the scope of national governments and national policies.

The financial markets are also very competitive. This competition may have guaranteed efficiency but not necessarily equity. The assets of the top three billionaires are more than the combined GNP of all the least developed countries and their 600 million people. In 1998 the top 10 companies in telecommunications controlled 86% of the \$262 billion market.¹

Another aspect of the financial architecture is the financial volatility and economic insecurities. Far from being isolated incidents, financial crises have become increasingly common with the spread and growth of global capital flows. These crises normally result from rapid build-ups and reversals of short-term capital flows and are likely to recur. Speculative capital related to “hedge funds” or “hot money” provide a case in point. This becomes more likely when national institutions regulating financial markets are not well developed. The financial turmoil in East Asia in 1997-99 demonstrates the risks of global financial markets. Net capital flows to Indonesia, Korea, Malaysia, the Philippines and Thailand rocketed in the 1990s reaching \$93 billion in 1996. As turmoil hit market after market these flows reversed overnight with an outflow of \$12 billion in 1997.

What does this mean for sustainable economic development? The human impact of such vagaries of the market are severe and likely to persist long after economic recovery.

What is this human impact?

The impact on the lives of men and women relates to loss of jobs, fall in real wages, reduced access to health and education facilities, increased violence and crime, all culminating in a depletion of social capital.

- **Loss of jobs.** During the east Asian crisis more than 13 million people lost work. A total of 435 Malaysian firms were declared bankrupt in the nine months from July 1997 to March 1998. Such bankruptcies are a loss of livelihood for owners and employees of small firms, which unlike large businesses and banks did not receive rescue packages. Unemployment that was virtually unknown for many years rose in all countries – by 0.3 million in Malaysia, 0.5 million in Thailand, 1 million in Indonesia and 1.5 million in Korea. Job losses hit women, the youth and unskilled workers hardest in Korea. The number of unemployed among those aged 15-29 doubled in 1997-98, from 300,000 to 600,000 and it tripled for the unskilled, rising from 1.7% to 5.4%. Employment declined by 7.1% among women between April 1997 and April 1998 compared with 3.8% for men. Migrant workers were also hit hard. Lacking valid papers, many were sent back to their home countries. The impact was felt even in Latin America where people with now less secure contracts make up 30% of the total in Chile, 39% in Columbia. Price of essentials rose sharply as real wages fell. In Indonesia real wages fell by as low as 40-60%.²
- **Education and health budgets came under pressure.** In Thailand with the collapse of the financial markets the budget of the Ministry of public health was reduced by 10% and the community and social services budget by 7.6%. In the Philippines the health expenditure declined by 10% as well. In Thailand one study estimates that nearly 100,000 students were not pursuing either primary or secondary education because of

¹ Source – UNDP Human Development Report 1999

² Source – UNDP Human Development Report 1999

the crisis. In Korea enrolment registered small declines at primary and middle school levels. But drop-outs at the higher level increased by 36% in 1998.

- **Social unrest, crime and violence followed.** Argentina and Indonesia are recent examples. In Korea the hotline for women received escalating numbers of calls from women suffering domestic violence – seven times as many as in the previous year.
- **The depletion of human and social capital.** The above deplete social capital which needs to be generated with care and support. Fiscal pressures on the state however put a resource squeeze on public spending on care services. Furthermore the marketisation of care has meant that cost minimizing standards are having a negative impact on the quality of care. Above all people who need care the most cannot afford to pay for it as it is getting transformed from being an “entitlement” to a service that can be purchased. With the onslaught of the HIV/AIDS epidemic this state of affairs is depleting the human and social capital in communities worst affected.

As far as recovery goes while output growth, payment balance, interest rates and inflation do pick up after 3-4 years, the employment growth does not regain pre-crises level for several years. Exclusion is further reinforced by the following-

- ◆ The need for education to avail of the benefits of the financial markets through new technology.
- ◆ The need for capital to even purchase a computer that is critical for participation and inclusion in financial markets³.
- ◆ The need to know English-English prevails in most of the websites. 80% of all websites are in English yet less than one in 10 people world-wide speak it.

The bottom line therefore is that to participate in financial markets and reap the benefits of the global economy access to purchasing power is absolutely critical. Only then can we define research agendas, control patents on life saving drugs, grow high yielding varieties of food in a manner that is inclusive of men and women, rich and poor, old and young. This in fact is sustainable development. Sustainable development is development that is people centred, the promotes a sense of well-being and inclusion and that is anchored on indicators that enlarge people’s choices.

More progress has been made on norms, standards, policies and institutions for open global markets than for people and their rights. The challenge of globalisation in this new century is therefore not to stop the expansion of these financial markets but to find rules and institutions for stronger governance to ensure that globalisation works for people not just for profits.

What would governance look like if we continue to generate wealth without accountability?⁴

Take a multinational corporation. Tired of the frustrations of taxation and regulation with host governments, that buys a small island, writes a constitution and announces a new country – Corporation Nation. A citizen automatically receives a highly paid job. Sounds good, but some restrictions apply. Individuals must have advanced educational credentials, be physically and emotionally healthy, have no children and be under the age of 60. They do not have to emigrate

³ – To purchase a computer that would cost an average Bangladeshi more than 8 years’ income

⁴ UNDP Human Development Report 1999

but can work from their country over the internet. And they immediately lose their new citizenship if they require retraining, become seriously ill, acquire children or reach the age of 60.

This scenario needs to be changed. The suggestions outlined below seek to generate funds through venture philanthropy and debt relief to finance a portfolio of income generating and care activities; to support and strengthen the informal sector and organizations working on women's empowerment; and to conduct social audits on multinational corporations so that a pro growth strategy with a commitment to poverty eradication can be promulgated in and among nation states.

Financing Development Through Venture Philanthropy

The US spends 0.1% of its \$10.2 trillion dollar economy on foreign aid – the lowest proportion that any industrialized country in the world spends. But the good news is that the number of private foundations in the US has risen from 22,000 in 1980 to 55,000 today. They now take out \$ 23.3 billion a year - 700% increase since 1980.⁵ The private donors in the US now give away 2.1% of the GNP every year.⁶ In the Silicon Valley, the new fashion is called “venture philanthropy” According to one survey 89% of the valley households give to charity as against 69%, nation wide. But they prefer to invest not give. And to attract investors, these fund raisers promise hands-on management of the non-profits they support. They demand seats on the board, they set performance, goals and plan the exit strategy in case expectations are not met. Traditionally foundations were not that invasive.

Financing Development Through Debt Relief

External debt continues to be a heavy burden for developing countries. In 1997 the total debt of developing countries reached almost \$2.2 trillion.⁷ This debt drains public budgets and absorbs resources needed for human development and inhibits economic growth. An acceleration of debt programmes under the HIPC (Highly Indebted Poor Countries) initiative is necessary. But even this initiative envisages a period of 6 years of good performance before eligibility for debt relief. The UNDP Human Development Report 1999 suggests that this period should be reduced to 3 years and debt payments should be deemed unbearable the moment they exceed 10% of the country's GDP.

Financing Care for Sustainable Development

⁵ The biggest Foundations - Assets Base in Billions

Bill & Melinda Gate \$ 24.2	J.Paul Getly Trust - \$8
Lily Endowment Inc \$ 12.5	Packard Foundation \$ 6.2
Ford Foundation \$ 10.8	Kellog Foundation \$ 5.4
Robert & Wiad Johnson \$ 8.7	Starr Foundation \$5

Foundation
Source – Newsweek 4 February 2002

⁶ “Charities that hate to Just Give By Adam Piore.” Newsweek 4 February 2002

⁷ Source – UNDP Human Development Report 1999

A clear policy path is to support incentives and rewards for caring work, both paid and unpaid, to increase its supply and quality. This does not mean sending women back to the traditional role of housewife and mother, closing off other opportunities. It means sharing unpaid care services between men and women, reducing men's paid work time and increasing their time on family care. And it means increasing the supply of state-supported care services. Nordic countries have a long tradition of such approaches, which give public recognition and payment for care, rewarding family commitment but without reinforcing traditional gender roles.⁸ This does not need additional resources – it just needs a revisioning of work plans and time tables.

Financing the Development of a Portfolio of Income Earning Activities

Keeping the volatile nature of global wealth generation in view, it is becoming imperative to finance and support women and men to develop a portfolio of income earning activities including petty trade, services and artisan production to meet the increasing vulnerabilities. Educating people and moving their skills up the ladder are essential for attracting foreign direct investment. Development programmes that are aimed at enabling women to participate in financial markets have mainly concentrated on practicalities of skills needed for production and marketing rather than touching on the core of cultural patriarchal values that need to be revised in order for women to gain economic independence.⁹

Making Visible and Financing the Informal Sector

It is also important to increase the productivity of the informal sector – Through tax holidays, duty exemption, lower interest rates and access to credit. Other initiatives to manage the social costs include unemployment insurance, targeting poor people for public works programmes and food subsidies, private job placement services to ensure job and income security for people, low cost food supply to poor people.

Financing Public Investment in Women's Organisations

Caroline Moser observed almost 10 years ago that because the work which genuinely seeks to empower the powerless is potentially challenging to those in power, women's organisations which aim to empower women remain largely unsupported both by national governments and bilateral aid agencies. Thus one of the critical factors that maintains the gulf between women's agendas and political power structures is inadequate public investment in women's organisations. Therefore public investment in women's organisation needs to be monitored at a local, national and international level as well as within donor agencies and national governments.

⁸ In Norway fathers must use 4 weeks of paternity leave. Employees are further allowed 10-15 days each year to care for a sick child and for single parents this period is 20-30 days.

⁹ "What is a woman doing at the market at this time of the day?"

"She want to make money like a prostitute"

"If she travels alone she will not be able to protect herself."

These need to be changed and financing for such components needs to be acknowledged as we proceed.

Financing the social auditing of multinational corporations

Multinational corporations are already a dominant part of the global economy-yet many of their actions go unrecorded and unaccounted. They must, however, go far beyond reporting just to their shareholders. They need to be brought within the frame of global governance, not just the patchwork of national laws, rules and regulations.

The demand for social auditing-a thorough check as to whether multinationals are living up to their social responsibilities- is on the rise. In addition to emerging social auditors, accounting firms such as Deloitte & Touche, Pricewaterhouse Coopers and Ernst &Young are also carrying out social auditing.

It Works!

Some countries like Korea and India have managed managed trade and growth to improve its human development. In Korea since 1960 life expectancy has risen from 54 yrs to 74, Infant mortality has come down from 85 per 1000 live births to 6. More than 96% of its people are expected to survive beyond age 40 and 98% of its adults are literate. The elements of success were :-

- A pro growth strategy with a commitment to poverty reduction.
- Sound Macro eco reforms with a focus on price reform
- Institutions oriented to the market with a restructuring of banking and financial institution.
- Emphasis on rural areas and agriculture with widespread land reform.
- Extensive public provision of social services.
- Redistributive income policies, creating more labour intensive employment and instituting measures for social protection.

India's approach for sustainable economic growth was to attract foreign direct investment which was long term, not speculative and short term. Foreign direct investment in India was insignificant in 1980 but rose to 1.2 billion in 1988 & 2.5 billion in 1994. Also India has been providing incentives for research and development and working with foreign multinationals in high tech areas besides educating people and moving their skills up the ladder for attracting foreign direct investment.

Conclusion

At the World Economic Forum that concluded in New York earlier this month, the UN Secretary General, Mr. Kofi Annan declared, "the world risks a devastating boomerang effect if the world's elite fail to increase spending to battle poverty and disease in developing countries and act quickly to open up markets in rich countries. More than a billion people across the globe live in poverty. The only way to counter the ill effects of globalization is to double aid to the poor countries from \$ 50 billion to \$100 billion by making corporate contributions aimed at alleviating the effects of AIDS and other diseases." In the words of Mr. Koehler, managing director of the IMF, "Today I would never advise a country to open its capital market without first having established internal regulatory institutions such as banking supervision so they can cope with huge capital flows."

There is a rethinking going on in the minds of those that can make a difference and herein lies hope for all who are envisioning that development be redefined from the perspective of those who have so far been left behind in this process – a process that has therefore rendered itself unsustainable.