



Geography IB Course

IB1 HL: Global interactions - Power, places and networks

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Measuring global interactions - Syllabus



Definitions:

- Globalization - the IMF definition
- Global village - the idea that the world (globe) has been transformed into a “village” by the almost instantaneous transmission of information, facilitated by improvements in ICT
- Globalization indices (KOF Index)

Key issues:

- How global power and influence varies spatially
- How wealthy and powerful places exist at varying scales, and how the global map is complex and subject to change

Required case studies:

- Detailed examples of at least two actual or potential global superpowers

Defining globalization - Syllabus



- **International Monetary Fund (IMF):**

The growing economic interdependence of countries world-wide through the increasing volume and variety of cross-border transaction in goods and services and of international capital flows, and also through more rapid and widespread diffusion of technology.



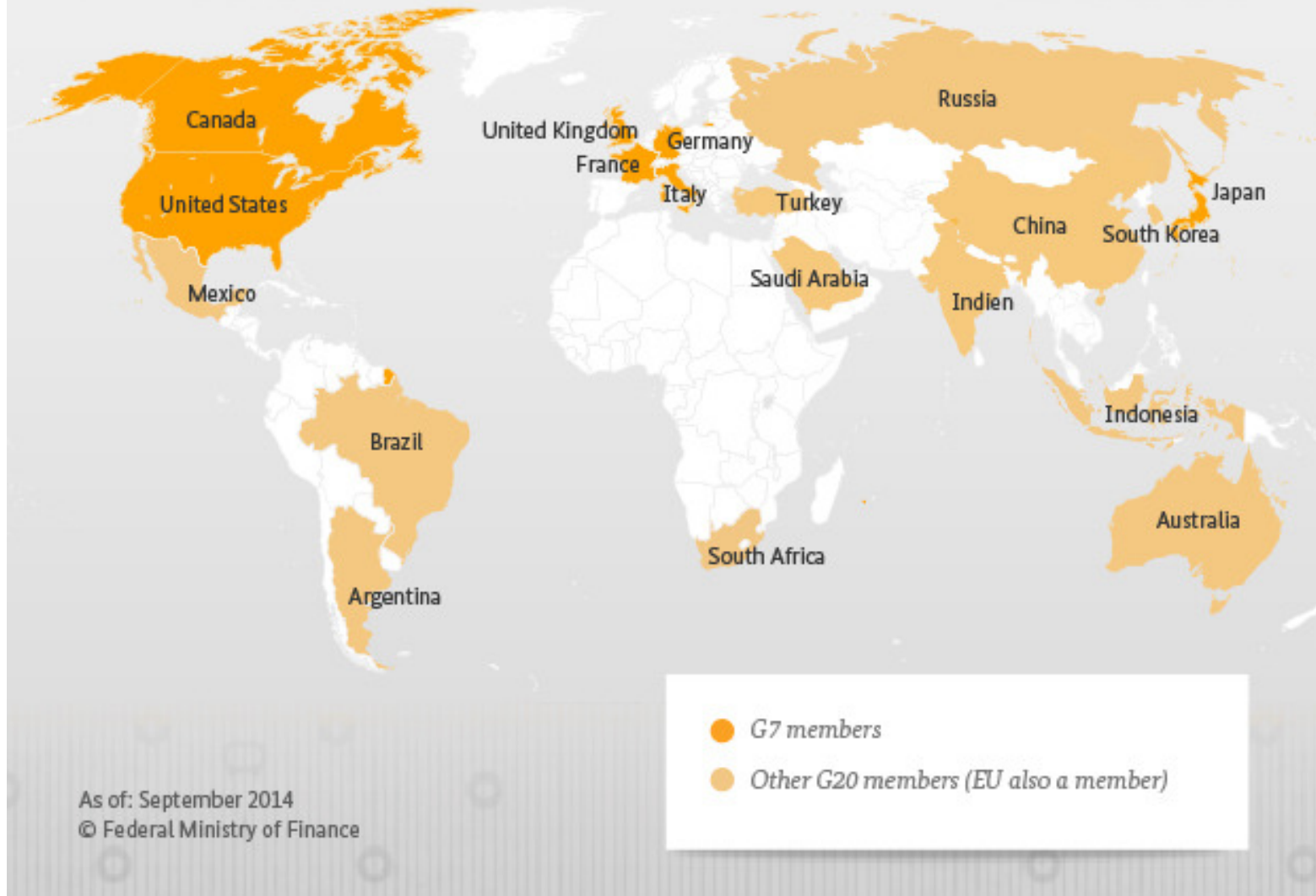
Key global organizations

You already know it
from SL lesson 😊

- **G7** - the group of seven major advanced economies: **Canada, France, Germany, Italy, Japan, UK, USA + EU**
 - the G7 represent the “old” powers of the Western world and Japan
- **G8 - G7+Russia** (then the group was known as G8); Russia was suspended after Crimea annexation and intervention in the east Ukraine
- **G20** - the group of 20 leading economies (19 countries + EU) representing 80% of GNP and world trade and cover two thirds of the world's population: **Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Republic of Korea, Russia, Saudi Arabia, South Africa, Turkey, UK, USA + EU**
 - before the outbreak of global financial crisis in 2008, G20 meetings of Finance Ministers and Central Bank Governors were held to discuss international financial and monetary policies, reform of international financial institutions and world economic development
 - the first G20 Leaders' Summit was held in 2008

G7 and G20

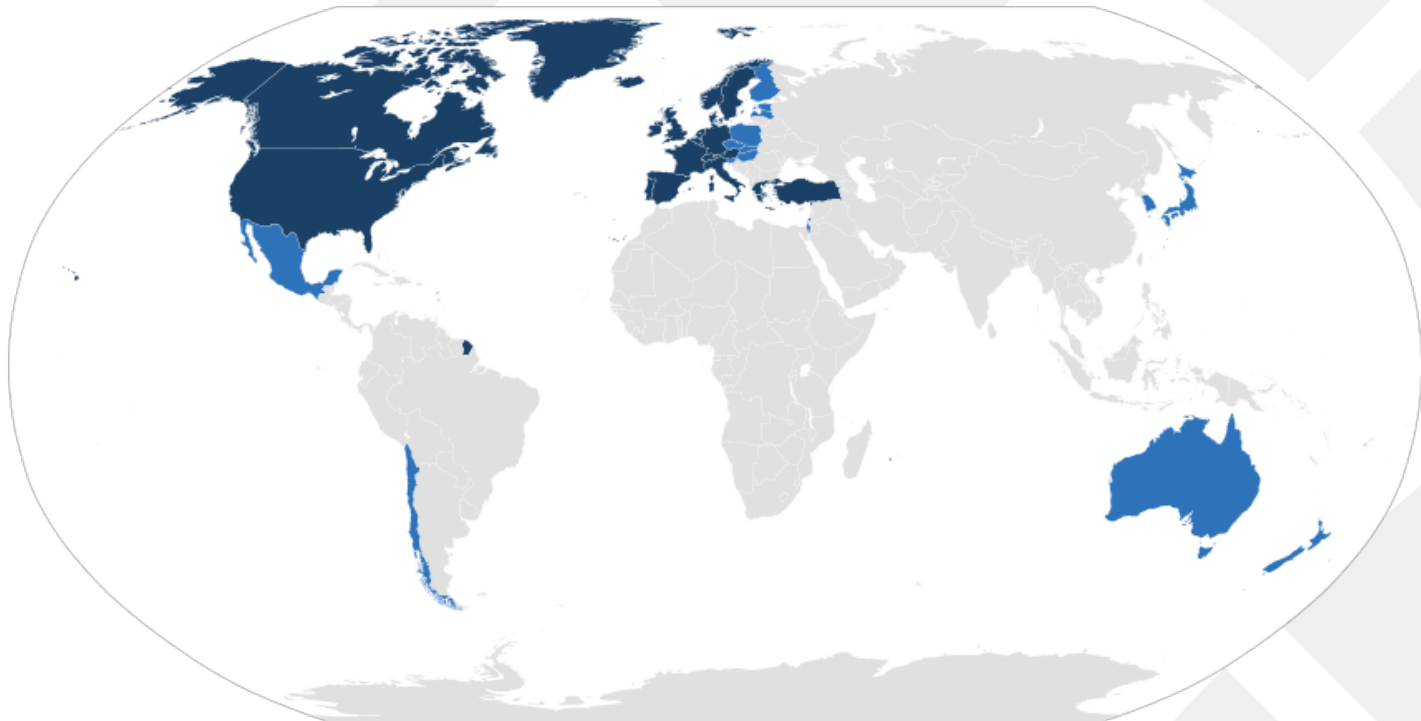
G20 members



Key global organizations



- **OECD (Organisation for Economic Co-operation and Development)**
 - intergovernmental economic organization with 35 member countries, founded in 1961 to stimulate economic progress and world trade
- OECD members are high-income economies with a very high Human Development Index (HDI) and are regarded as developed countries

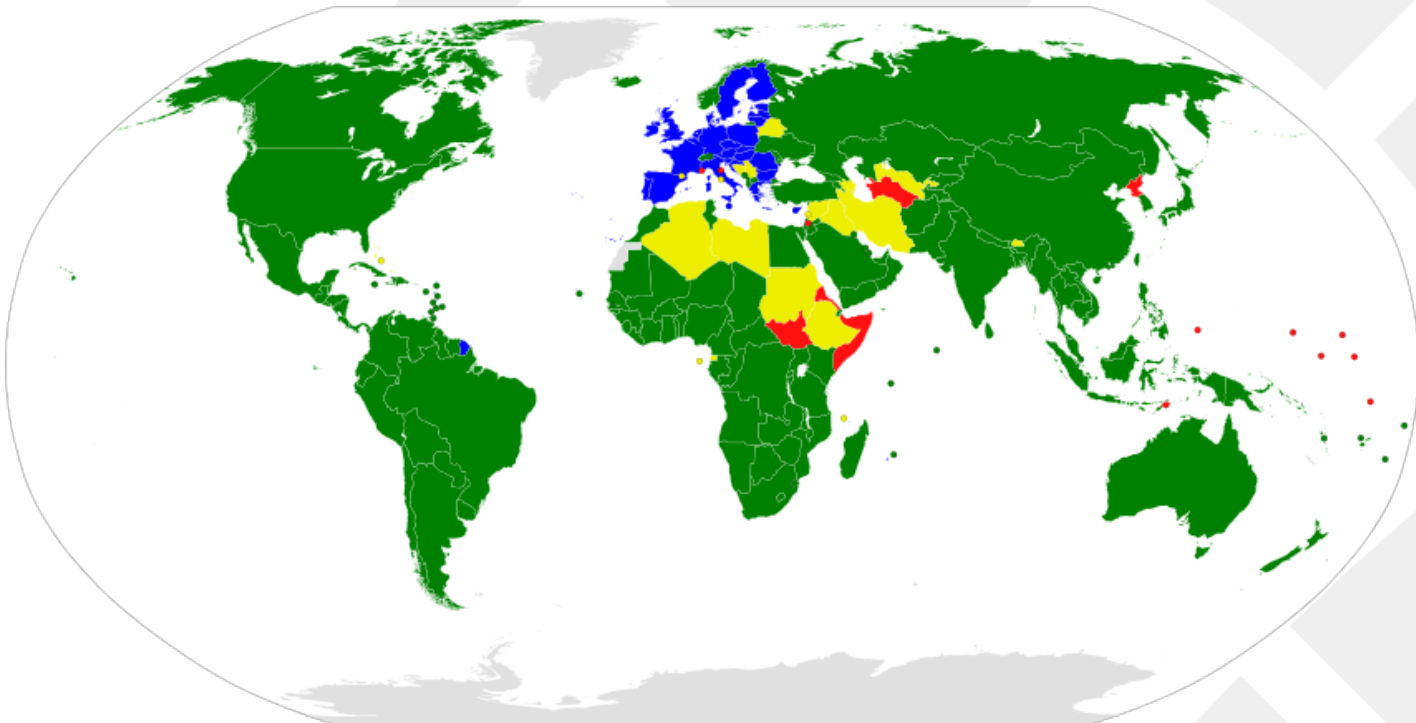


Key global organizations

WORLD TRADE
ORGANIZATION



- **WTO (World Trade Organization)** - intergovernmental organization which regulates international trade
- The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT)
- Now there are 164 member states



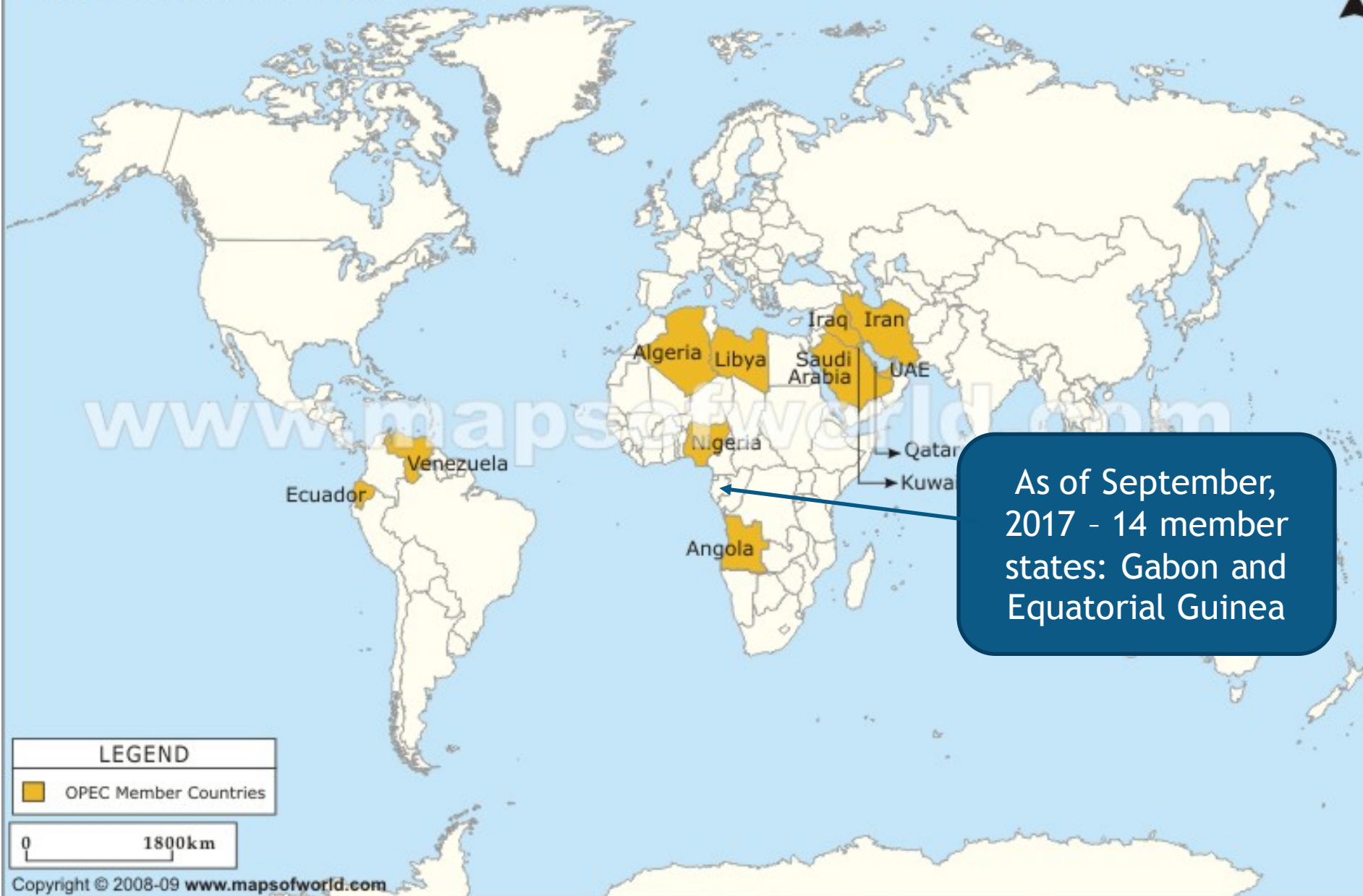
The Organization of the Petroleum Exporting Countries (OPEC)



Organization of the
Petroleum Exporting Countries

- The Organization of the Petroleum Exporting Countries (OPEC) was founded in Baghdad, Iraq, with the signing of an agreement in September 1960 by five countries namely Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela
- These countries were later joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975) Angola (2007) and Equatorial Guinea (2017)
- From December 1992 until October 2007, Ecuador suspended its membership. Gabon terminated its membership in 1995, however, it rejoined the Organization in July 2016. Indonesia suspended its membership in January 2009, but this was reactivated from January 1, 2016 and then suspended again.
- Currently, the Organization has a total of **14 member countries**

OPEC Member Countries



As of September, 2017 - 14 member states: Gabon and Equatorial Guinea

LEGEND



OPEC Member Countries

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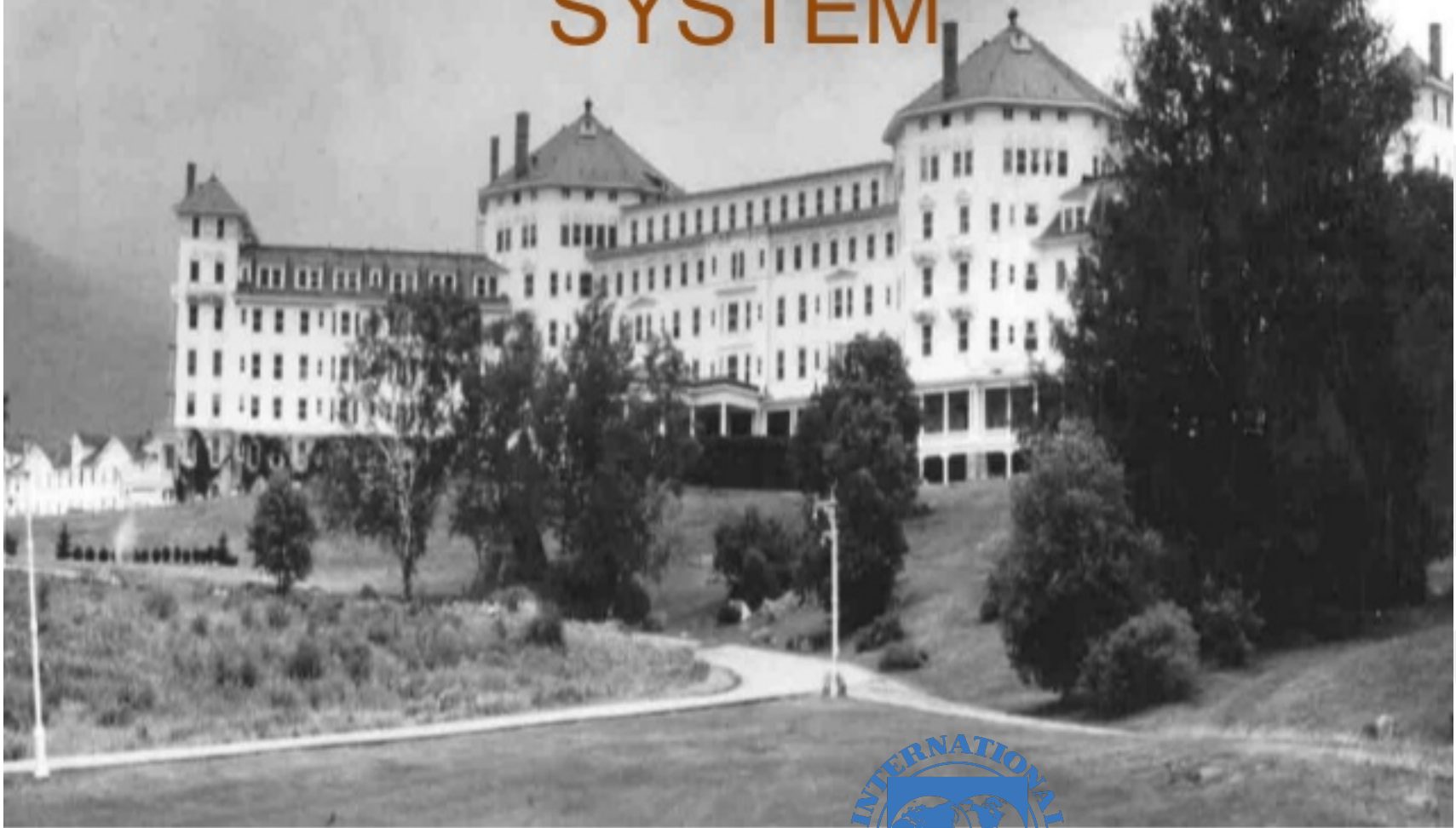
1800km

Identifying global interactions hubs & core



- Prepare a list of major objectives of each of the organizations:
G7, G20, OECD, WTO, OPEC
- Answer a question: which country should, in your opinion, become an OECD member state? Why?
- Chose a country that in your opinion is a rising global superpower

THE BRETTON WOODS SYSTEM



WORLD BANK GROUP



International / intergovernmental institutions

- **1944 Bretton Woods, New Hampshire, Conference** > Bretton Woods institutions: the World Bank and the International Monetary Fund
- **World Bank Group** (International Bank for Reconstruction and Development and the International Development Association) - these institutions provide low interest loans, interest-free credit, and grants to developing countries; the IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while IDA focuses exclusively on the LDCs
- **IMF** - the main goal is to ensure the stability of the international monetary and financial system; it helps resolve crises, and works with its member countries to promote growth and alleviate poverty

Related links:

- <http://www.telegraph.co.uk/finance/financialcrisis/9162901/How-the-World-Bank-differs-from-the-IMF.html>
- http://news.bbc.co.uk/2/hi/americas/country_profiles/3670465.stm



BRETTON WOODS MONETARY CONFERENCE

In 1944 the United States government chose the Mount Washington Hotel as the site for a gathering of representatives from 44 countries. This was to be the famed Bretton Woods Monetary Conference. The Conference established the World Bank, set the gold standard at \$35.00 an ounce, and chose the American dollar as the backbone of international exchange. The meeting provided the world with a badly needed post war currency stability.

International / intergovernmental institutions

The criticism of the World Bank:

- Imposition of policies on developing countries (particularly the damaging SAPs*)
- Assumption that LEDCs cannot develop without outside help and knowledge
- The largest contributors (MEDCs) have too much power over policies
- The head of the World Bank always comes from the US
- It focuses too much on GDP growth rather than improvement in living standards
- Some development projects were environmentally damaging e.g. dams causing deforestation
- Some projects involved expensive technology which countries could not develop (or even fund) themselves and once imported created dependency

International / intergovernmental institutions

The criticism of the IMF:

- Supporting some undemocratic governments (regimes) that have been favourable to European and US TNCs
- SAPs imposed on borrowing countries were often damaging, forcing countries to sell state assets and to cut funding to education and health
- It has forced countries to impose strict austerity measures in order to receive money (increased taxes and reduced spending)
- The main funding nations (MEDCs) have too much influence over decisions
- The head of the IMF always comes from Europe
- It often has reactionary policies rather than preventative ones

International / intergovernmental institutions

The New Development Bank

- The NDB, formerly the BRICS Development Bank, established by Brazil, Russia, India, China and South Africa in 2014
- The NDB *intends to fulfill its mandate of mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development*
- Each of the founding members contributed 10 billion USD
- New members are welcomed to join, but the BRICS must always account for at least 55% of the shares





Brazil



Showing signs of recovery

Political Influence on Judicial System

Sticky Inflation

High levels of Corruption

Russia



Foreign debt is 35% of its GDP

Imposed Sanctions Due to Conflict with Ukraine

Low in Exports

Loss of Investor Confidence

Unstable Political Issues

India



10th Largest Economy

Largest no. of Poor people in the world

Persistent Inflation

Complex Mixed Economy

High levels of Corruption

China



2nd Largest Economy of the world

2nd Largest no. of poor people in the world.

High Inflation

Largest population but also aging.

Extraordinary Growth with 10% on average over three decades.

South Africa



Smallest of the BRICS.

Sluggish Growth

Very High Unemployment Rate

Infrastructure Backlogs

Ingrained Structural Weakness

www.deenazaidi.com

Related link:

- <http://www.ndb.int/projects/list-of-all-projects/>

Measuring global interactions - KOF Index

- KOF is a leading Swiss economic think tank
- KOF index defines globalization as “the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence”
- **KOF index takes into account (published since 2002):**
 - economic globalization - flows of goods, capital and services, and obstacles to free trade (36%)
 - political globalization - a diffusion of government policies (27%)
 - social globalization - the spread of ideas, information, images and people (37%)
- Related links:
 - <http://globalization.kof.ethz.ch/>
 - http://globalization.kof.ethz.ch/media/filer_public/2017/04/19/press_release_2017_en.pdf
 - http://globalization.kof.ethz.ch/media/filer_public/2017/04/19/variables_2017.pdf
 - http://globalization.kof.ethz.ch/media/filer_public/2017/04/19/rankings_2017.pdf

KOF Index Structure

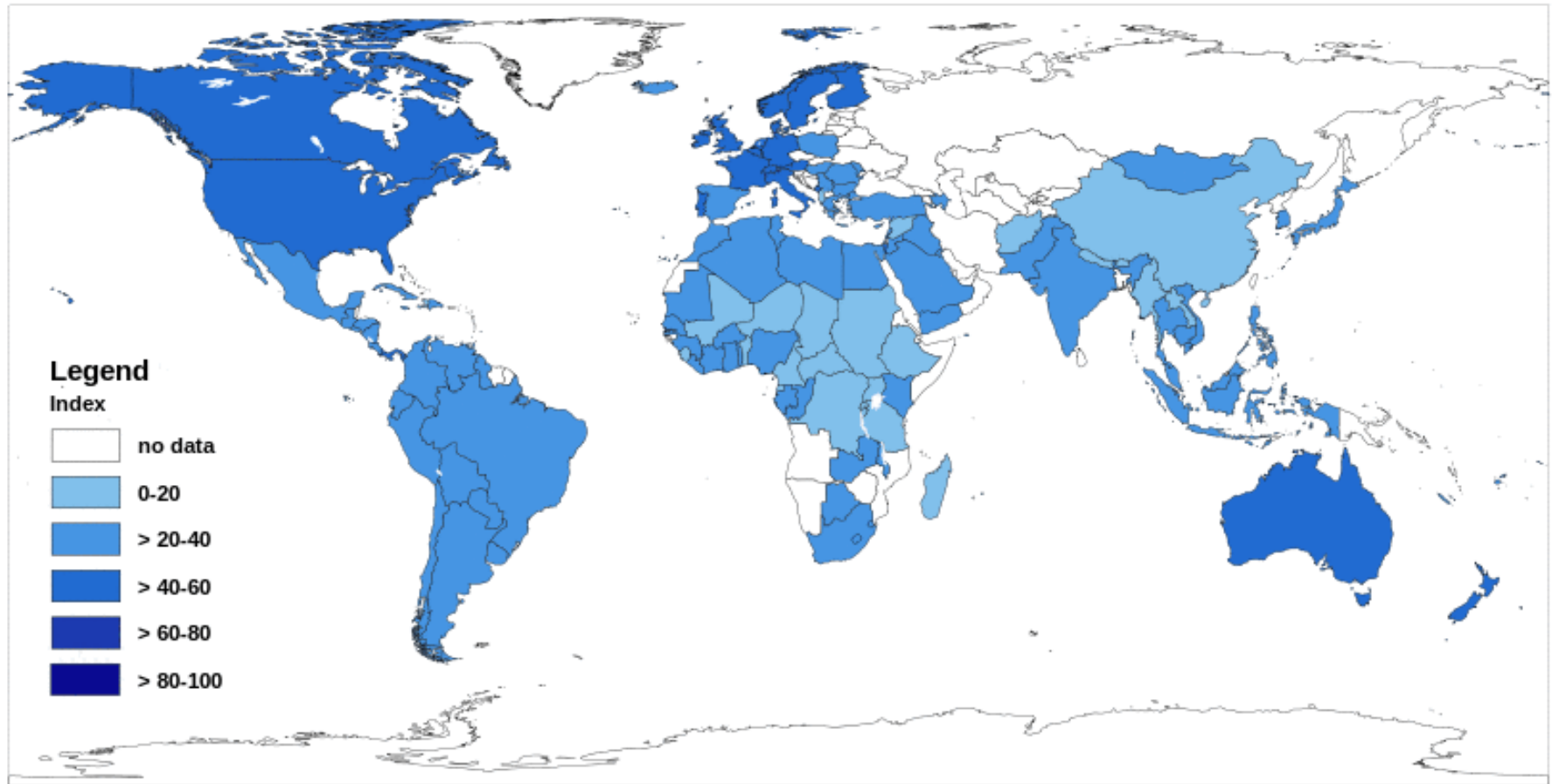
- **Economic globalization** has two dimensions: **actual flows** (international trade and FDI), **restrictions to trade and capital** (import barriers, mean tariff rates, taxes on international trade - a country with higher revenues from tariffs is less globalized)
- **Political globalization** - number of embassies, the number of international organizations to which the country is a member and the number of UN Security Council peace missions a country participated plus the number of treaties signed since 1945
- **Social globalization** has three dimensions: **personal contacts** (international telephone traffic + letters, financial transfers, foreign population); **information flows** (the number of internet users, the share of households with a television set, and international newspapers traded); **cultural proximity** (the number of imported and exported books, the number of McDonald's restaurants and Ikea stores located in a country)

KOF Index Method of Calculation

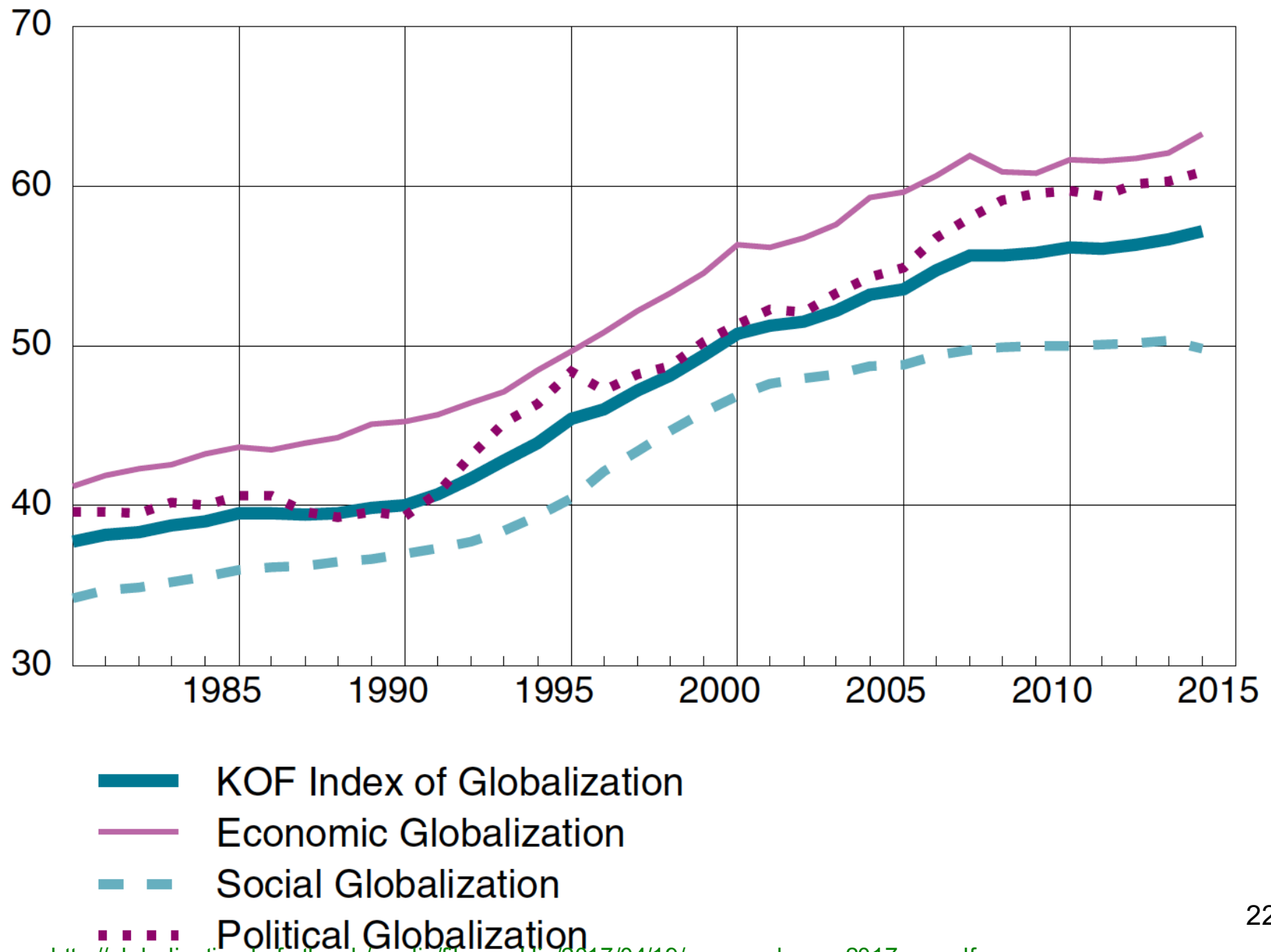
- In constructing the indices of globalization, each of the variables introduced above is transformed to an index on a scale of one to hundred, where hundred is the maximum value for a specific variable over the 1970-2014 period and one is the minimum value
- Higher values denote greater globalization

Measuring global interactions - KOF Index since 1970

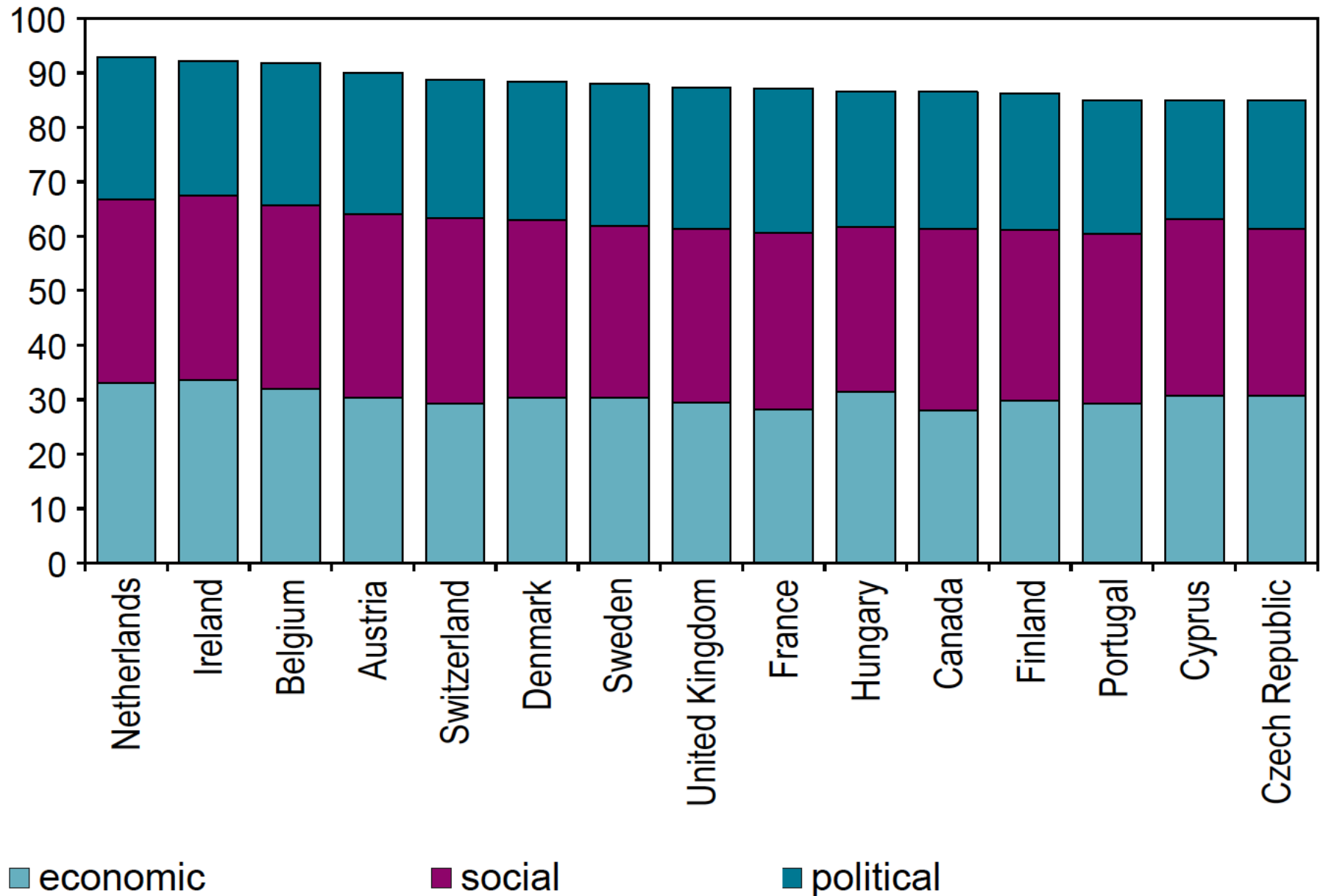
KOF Index of Globalization 1970



KOF Index of Globalization Worldwide



The World's 15 Most Globalized Countries



Source: http://globalization.kof.ethz.ch/media/filer_public/2017/04/19/press_release_2017_en.pdf

Measuring global interactions - KOF Index criticism

- Measures like international letters per capita are very dated. Most people now use e-communication
- Also trade in newspapers is slightly dated, more and more people now access news via the Internet
- Anything to do with trade can be hard to measure because many countries do not know the true size of their informal economy; also many black markets are actually involved in globalised trade e.g. human trafficking, smuggling of wild animals, drugs, and weapons
- Measuring foreign populations can be hard because of inaccurate record on illegal immigrants
- It is hard to calculate the true number of internet users; many people don't have a home computer but access the internet at their workplace or in internet cafes and using all kinds of devices
- Some countries are small and don't have many embassies and instead rely on embassies and consulates in neighboring countries
- Some countries choose to stay neutral and not join international organizations e.g. Switzerland
- Some countries have a large number of domestic tourists, but not many international; in large countries domestic tourists can actually be very ethnically and culturally diverse, but this is not recognized; on top of that:²⁴ real number of tourists is hard to grasp

The geography of the history (or the other way around)



- Important concept: **soft power** - the ability to change individuals, communities and nations without using force or coercion

Questions:

- How important was US soft power during the Cold War?
- Does the EU have a soft power?
- Do the new, potential superpowers have/use soft power?



The U.S. soft power



The U.S. soft power

American Dream phrase

- Historian and writer James Truslow Adams coined the phrase in 1931
- “The American Dream is that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.”

However, at the same time...





Estados Unidos

Descripcion Capitalista

China as the emerging
super power or
a super power that has
already emerged?

- Related link (about the U.S. becoming super power): <https://www.vox.com/2015/5/20/8615245/america-global-power-maps>

Source: The Economist, Oct. 14, 2017



Detailed case studies



- **Heavily Indebted Poor Countries (HIPC)s** initiative + reasons + example of one country (e.g. Bolivia, Mozambique, Tanzania, Uganda)
- **Official Development Assistance (ODA)** + trends + pros and cons + example (preferably Bangladesh)
- **Export Processing Zones and Free Trade Zones** + example (Incheon, South Korea)
- **Illegal economic migration to the USA** - reasons, consequences, numbers & trends, major origins (Mexico!)

What has happened throughout last 25-50 years?

The background:

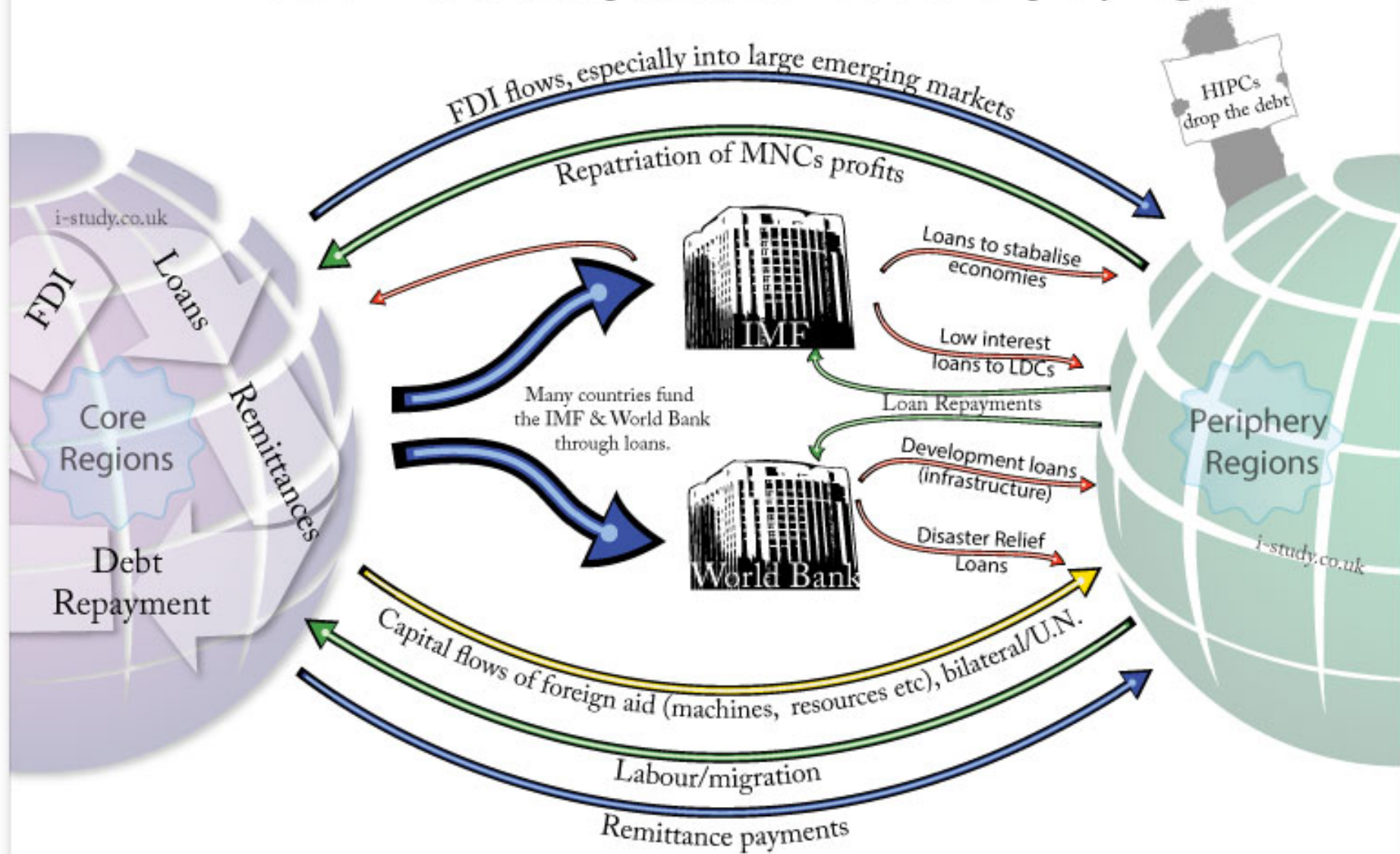
- The 1973 oil crisis and its aftermath: falling competitiveness of the industrialized North
- The rise of the NICs (Newly Industrialized Countries): the Four Asian Tigers: Hong Kong, Singapore, South Korea, Taiwan
- **The debt crisis of the 1980s followed by the SAPs and the coming of neoliberalism**
- The opening of the Chinese economy (the reforms taking place since 1978 by Deng Xiaoping)
- The collapse of the USSR, the Eastern Bloc and central-planned economy (starting with 1989 reforms in Poland)

Consequently, contemporary wave of globalization is characterized by:

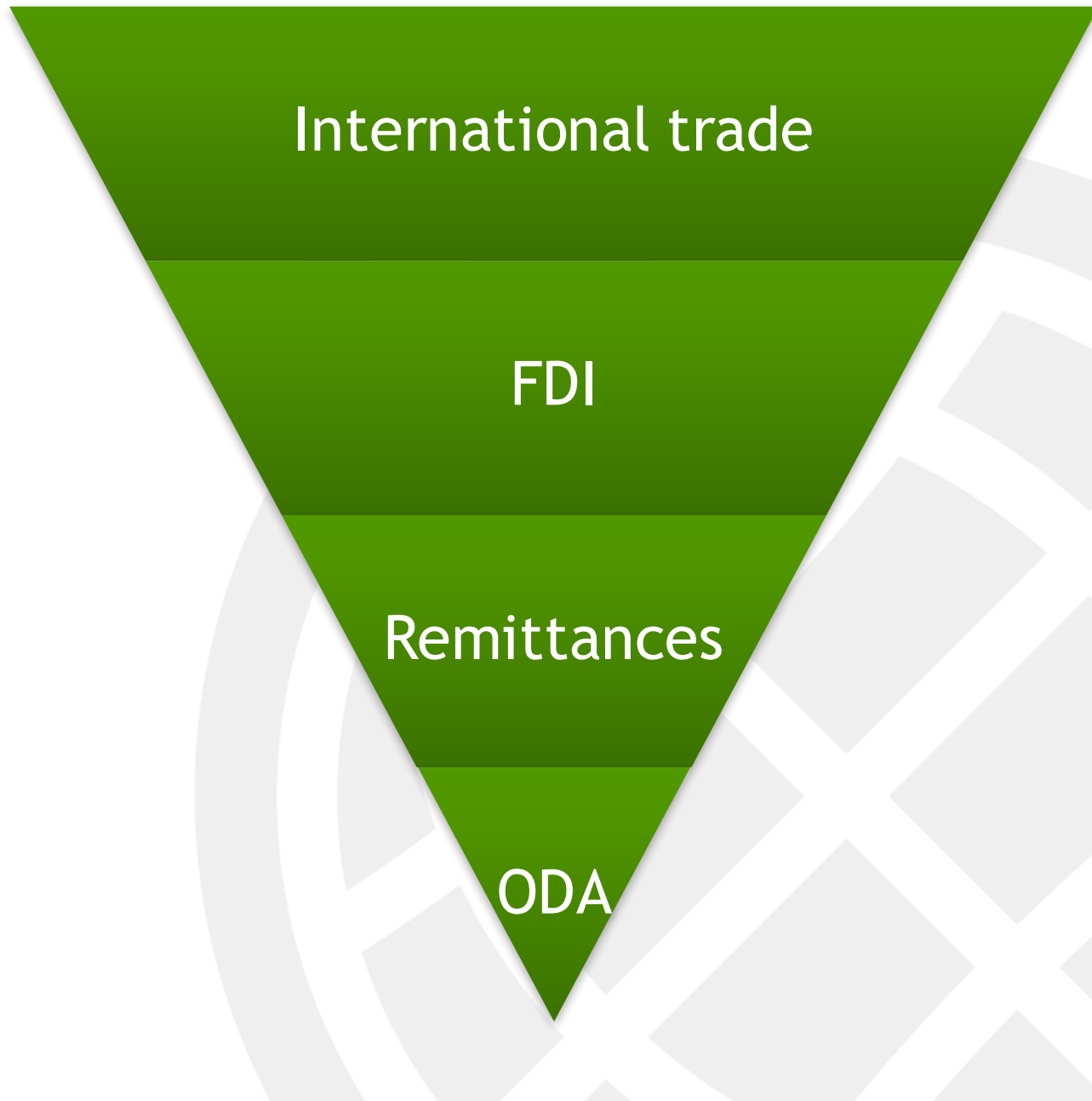
- Trade liberalization
- Capital/investment flows to the semi-periphery and periphery (MICs and LICs)
- Industrialization of the global South / LEDCs (especially E and S-E Asia)
- Growing international trade and flows of Foreign Direct Investments

“Traditional” capital flows (not so simple anymore)

Flows of Finance & Capital between Core & Periphery Regions



Types of financial flows in the world



Trade-related concepts

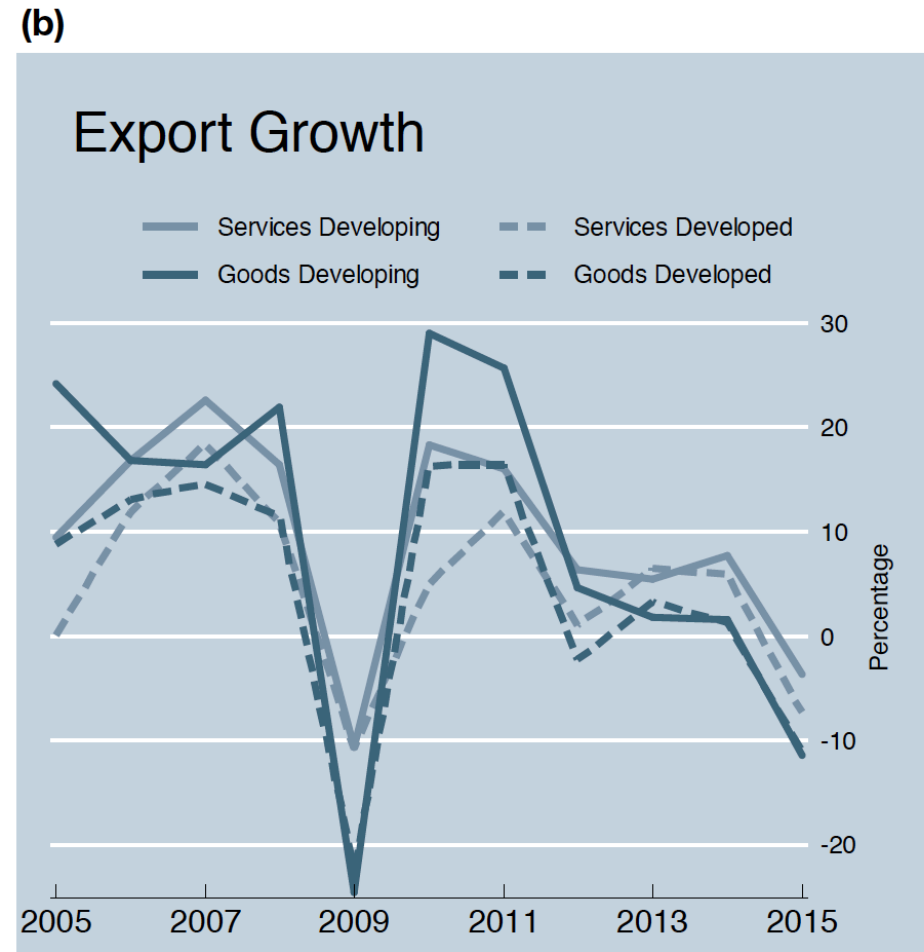
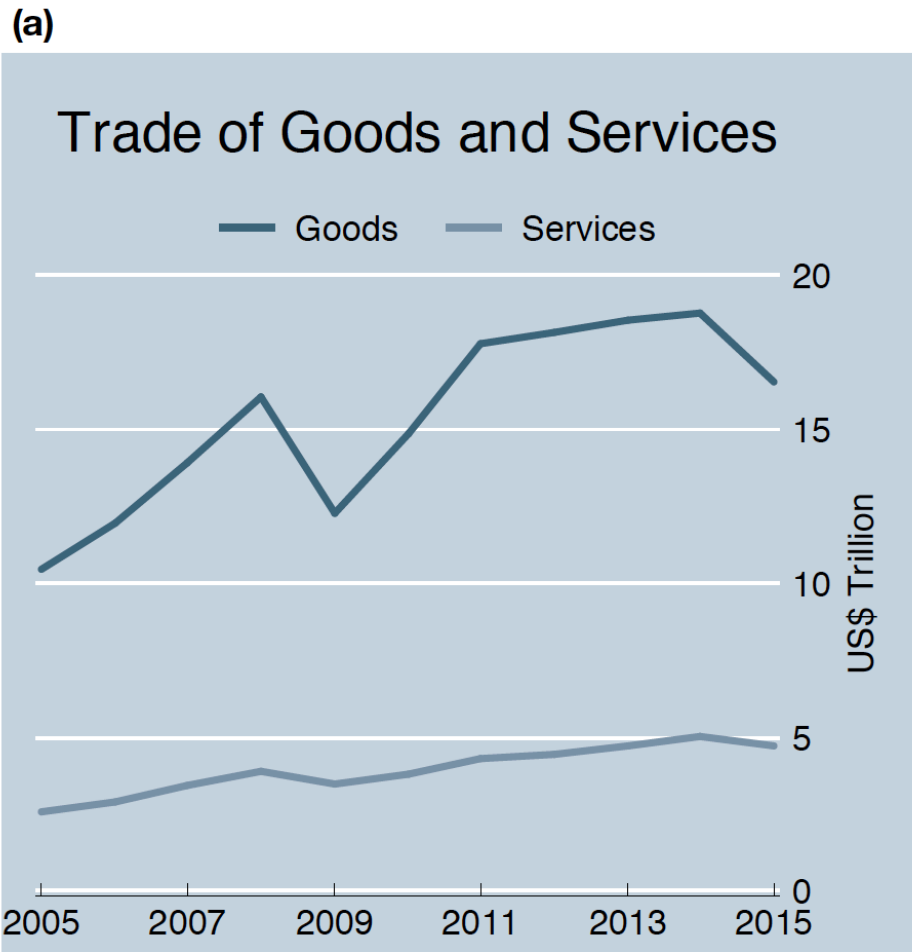
- **Trade** - the exchange of goods and services
- **Imports** - good and services being purchased from overseas and brought into a country
- **Exports** - goods and services leaving a country to be sold overseas
- **Balance of Trade** - the difference in the monetary value of exports and imports over a specified period (normally a year or a quarter)
- **Balance of Payments** - this accounts for the balance of all monetary transactions between countries. This includes goods like the balance of trade but also services and transfers of financial capital
- **Trade deficit** - when the value of your imports is greater than the value of your exports
- **Trade surplus** - when the value of your exports is greater than the value of your imports

Trade-related concepts

- **Terms of trade** - represents the value of the exports of a country, relative to the value of its imports; the TOT value is calculated by dividing the value of the exports by the imports, with the result then being multiplied by 100; when a country's TOT is less than 100%, more capital is going out than coming in; when the TOT is greater than 100%, the country is accumulating more money from exports than it is spending:
<http://www.investopedia.com/terms/t/terms-of-trade.asp>
- **Protectionism** - policies and methods used to protect domestic industries from foreign competition. This might be done with tariffs, quotas or subsidies
- **Currency devaluation** - reducing the value of a country's currency in relation to other currencies; this might be done by keeping interest rates low so people don't want to invest in it or flooding the market with the currency (increasing supply)

International / global trade

Figure 1
Values and growth rates of world trade in goods and services



Source: UNCTAD secretariat calculations based on COMTRADE data.

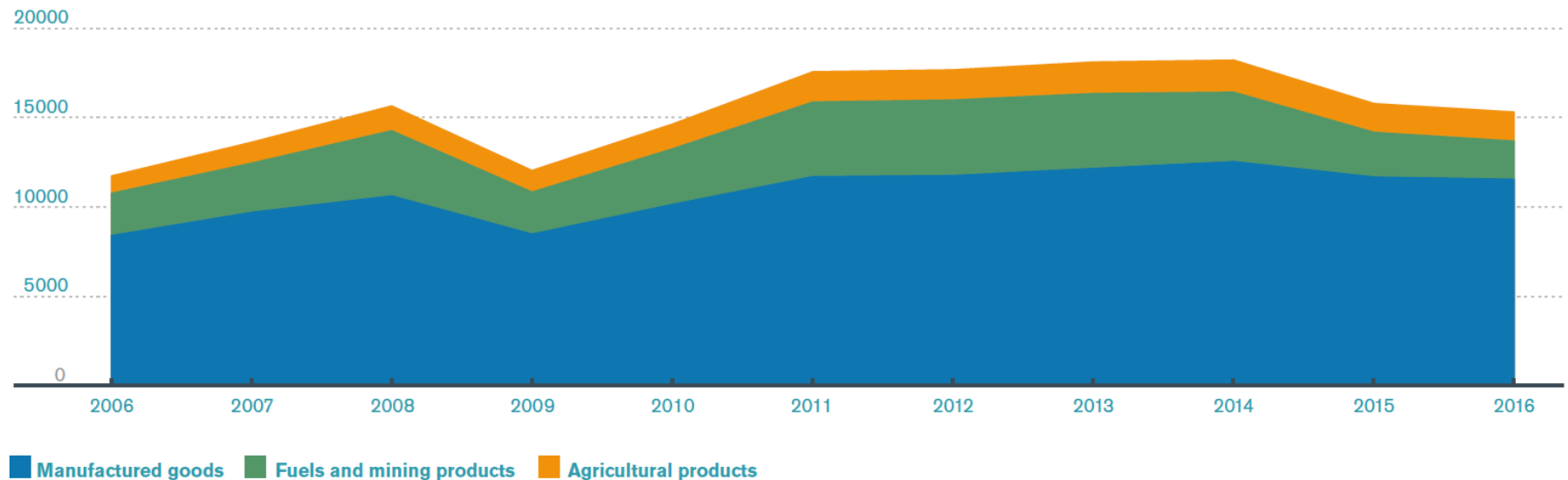
International / global trade

World exports of manufactured goods increased from US\$ 8 trillion in 2006 to US\$ 11 trillion in 2016.

World exports of agricultural products increased by an average of

5%
per year.

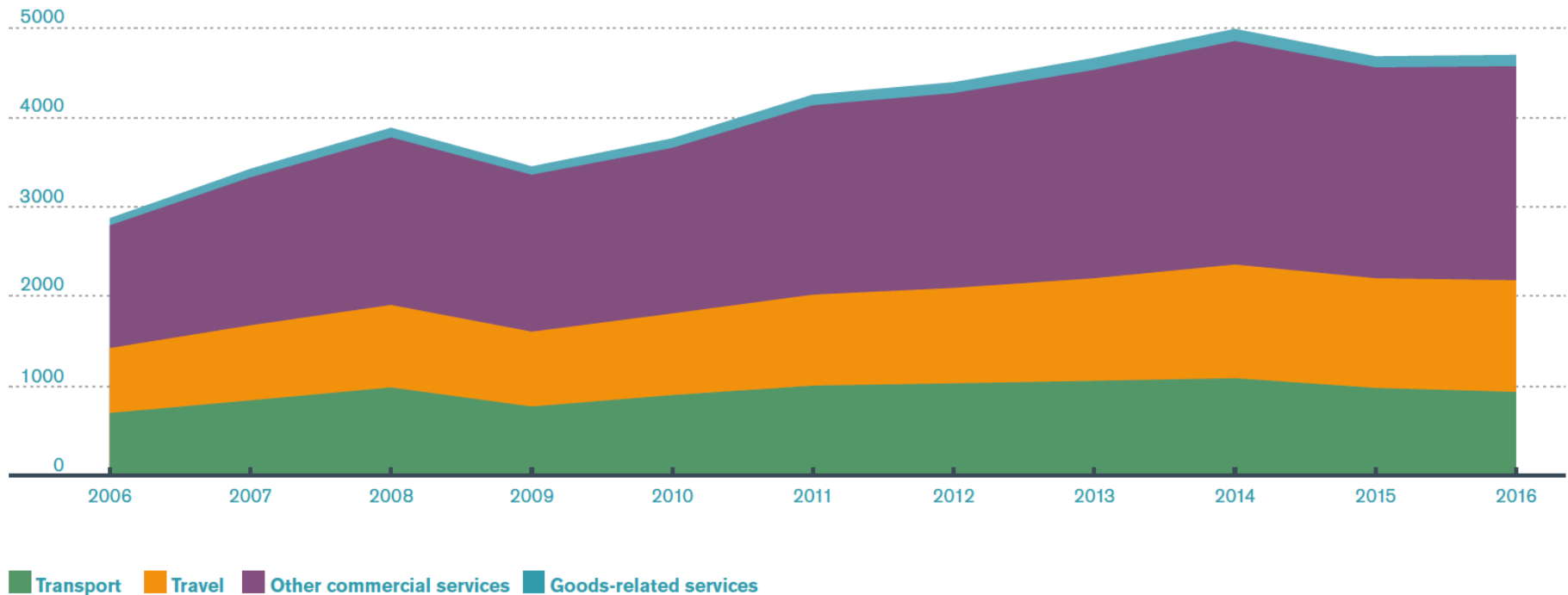
World merchandise trade by major product grouping, 2006-2016 (US\$ billion)



International / global trade

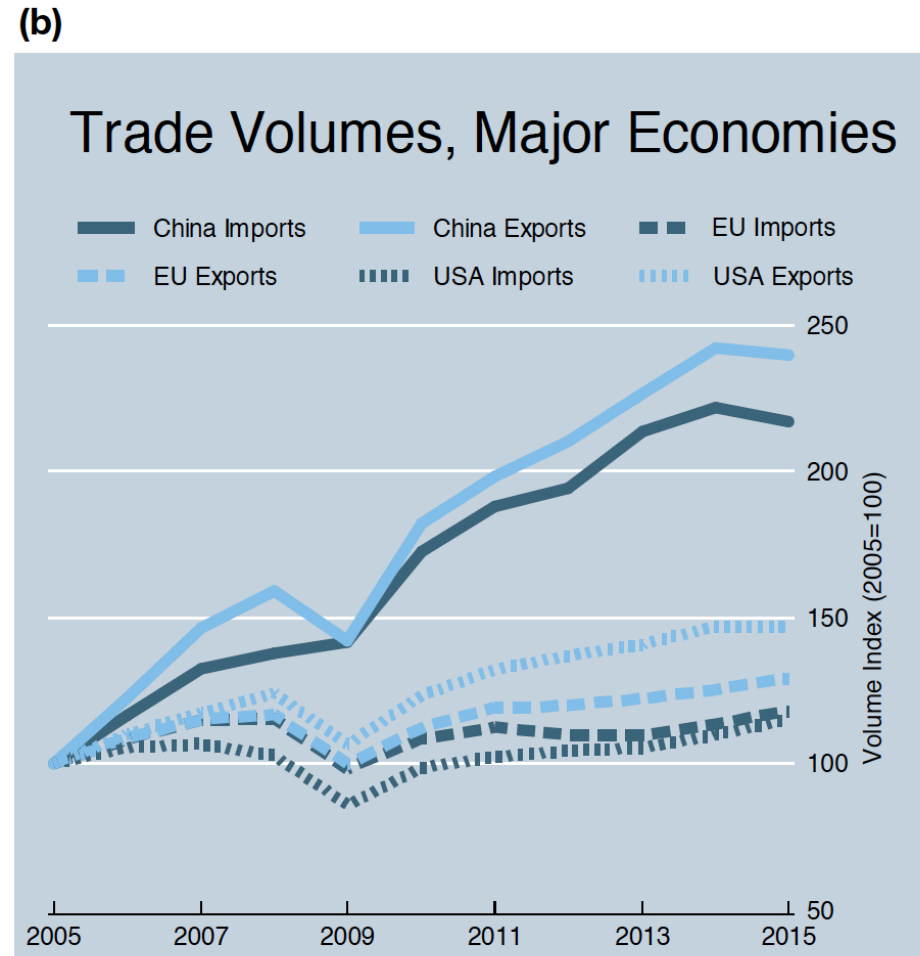
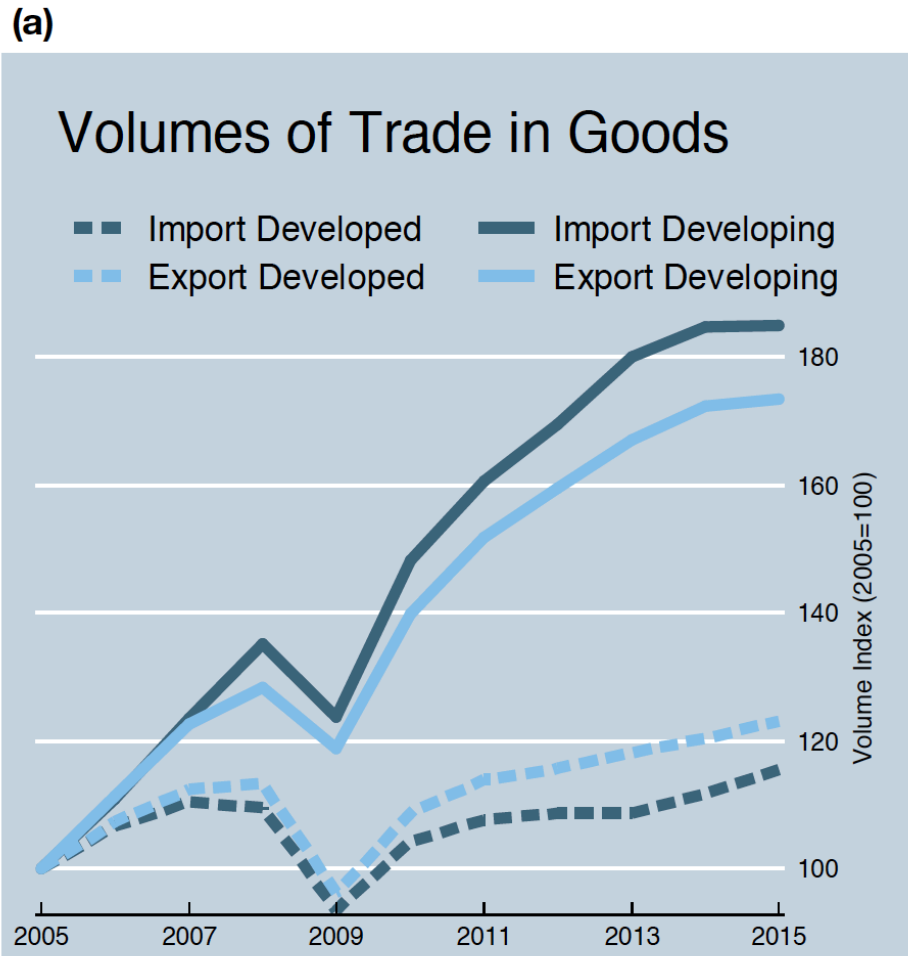
World exports of commercial services totalled US\$ 4.8 trillion in 2016, up from US\$ 2.9 trillion in 2006.

World trade in commercial services by category, 2006-2016 (US\$ billion)



International / global trade

Figure 2
Volumes of international trade in goods



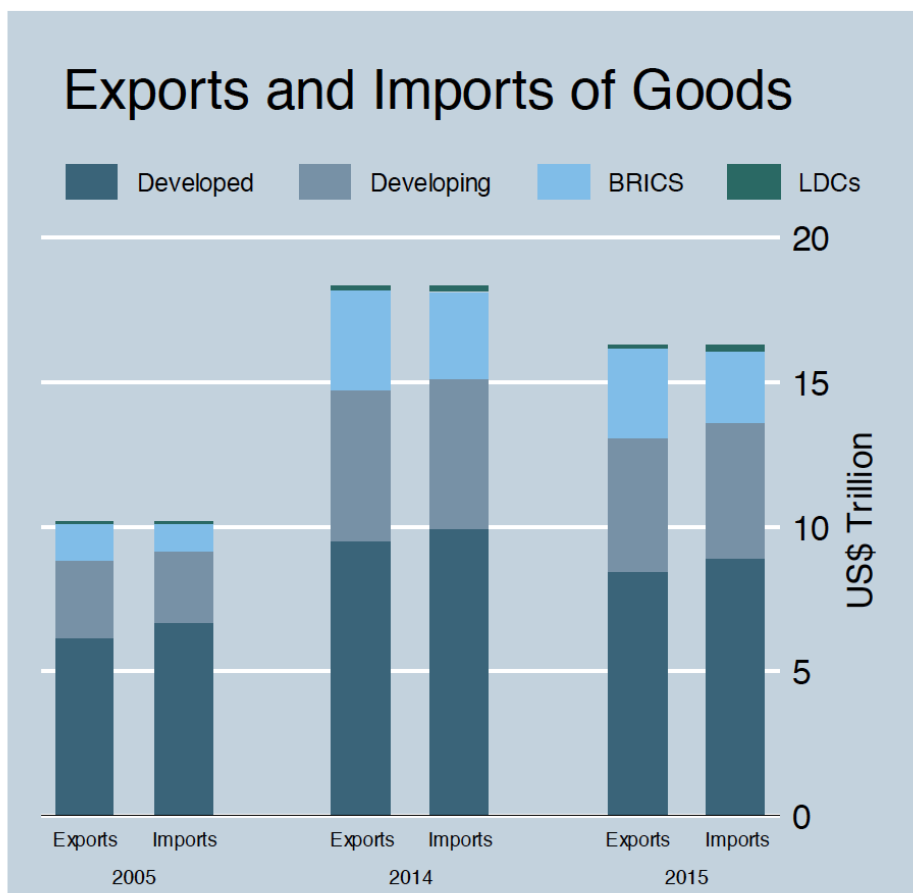
Source: UNCTAD secretariat calculations based on UNCTADStat data.

Source: UNCTAD, http://unctad.org/en/PublicationsLibrary/ditctab2016d3_en.pdf

International / global trade

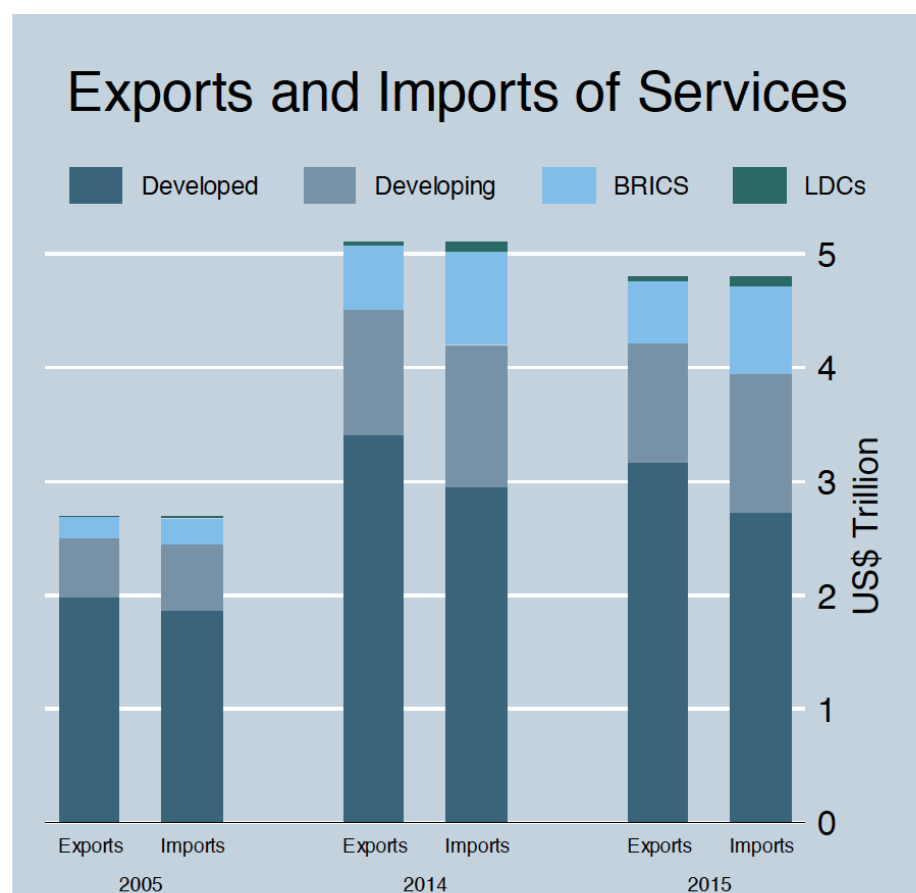
Figure 3
Values of trade in goods and services by region

(a)



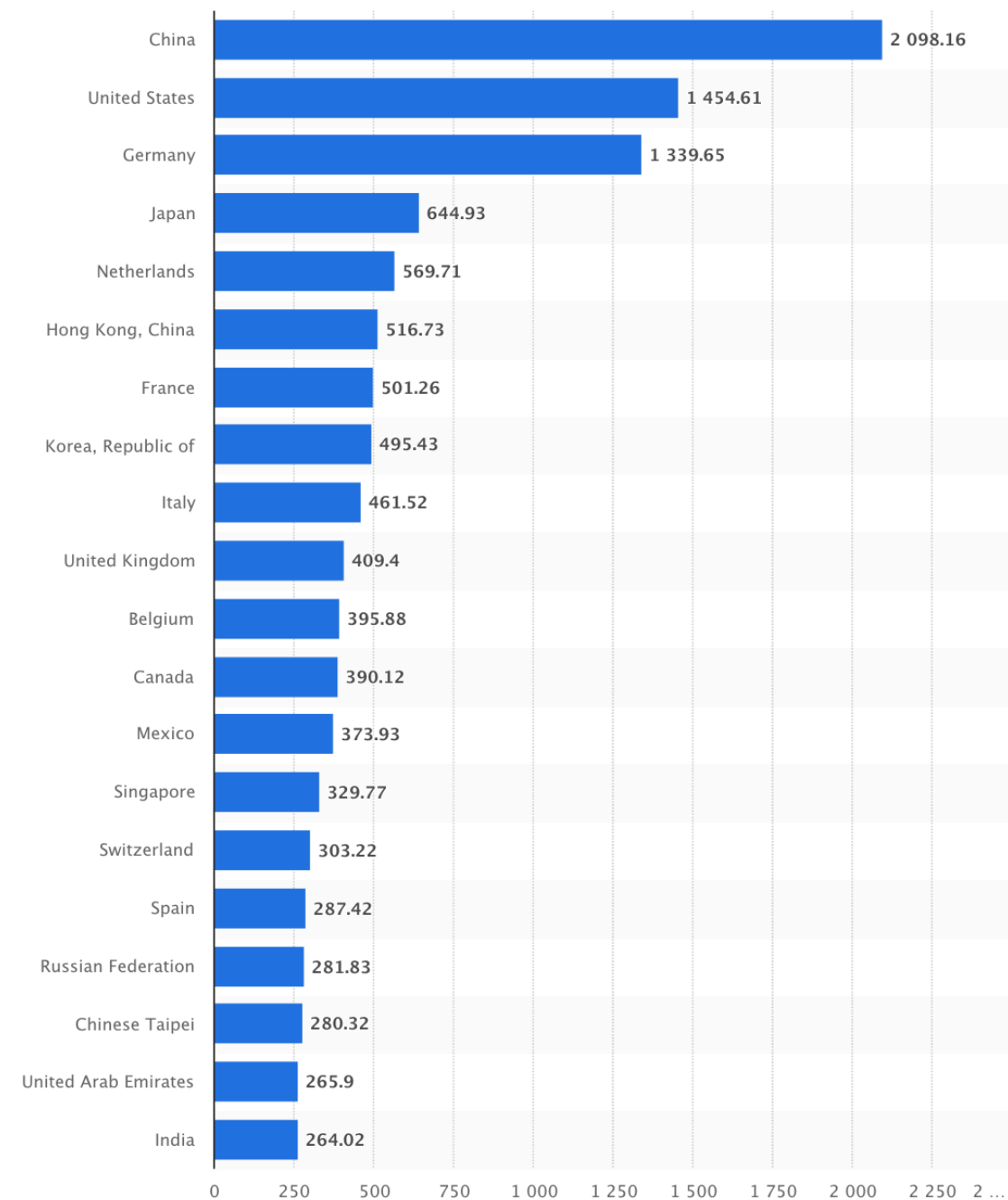
Source: UNCTAD secretariat calculations based on UNCTADStat data.

(b)



Source: UNCTAD secretariat calculations based on UNST data.

Top 20 export countries worldwide in 2016 (in billion U.S. dollars)







ABOUT THIS STATISTIC

This is a ranking of the top 20 export countries worldwide in 2016. China ranked first in exports with an export value of about 2.1 trillion US dollars. The [leading import country in 2016](#) were the United States with an import value of about 2.25 trillion U.S. dollars




[Show more](#) ▼

SPECIAL FUNCTIONS

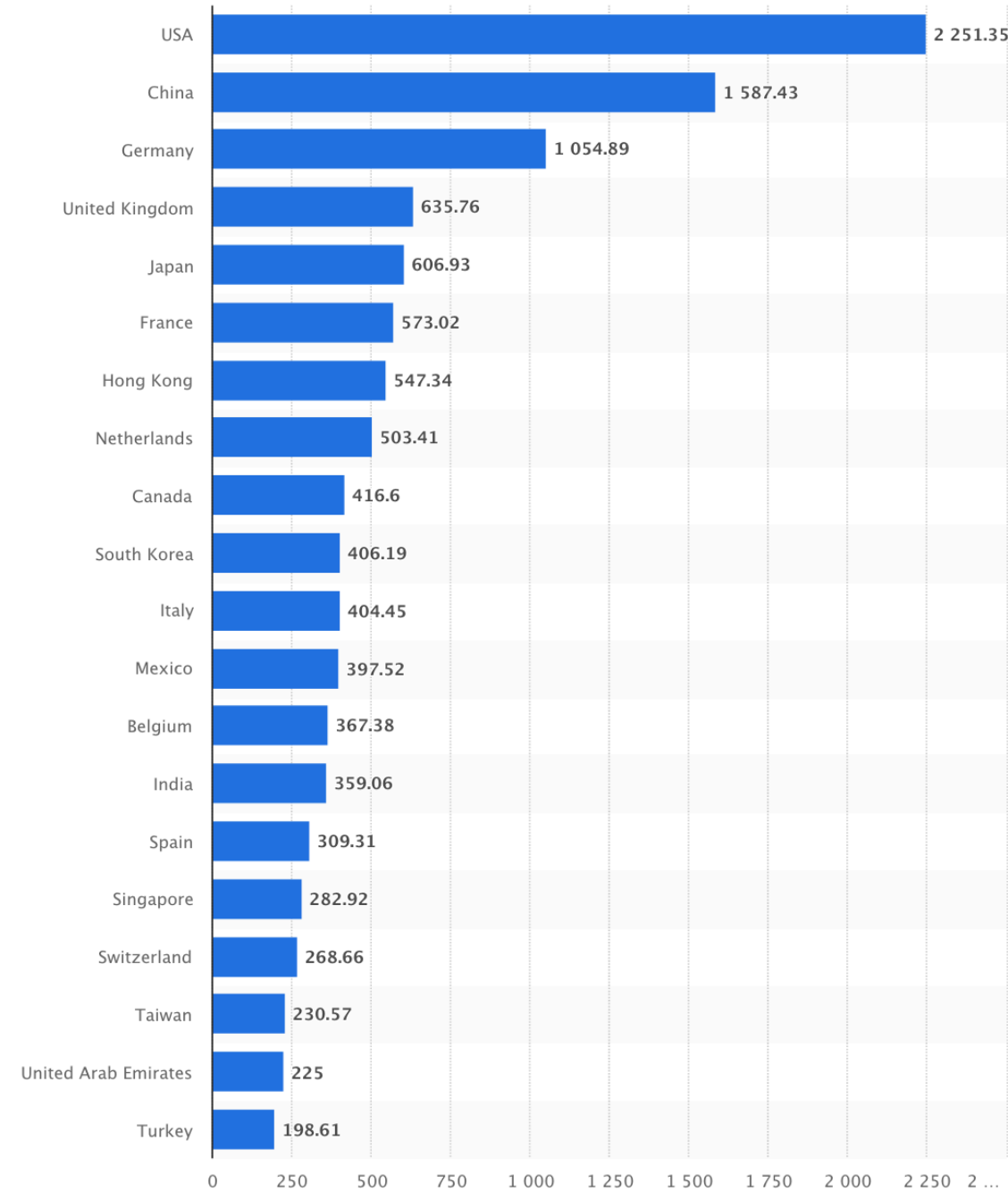
Download as ...

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-  Excel (XLS) +
-  PowerPoint (PPT) +
-  PDF +

Options

-  Settings +
-  Print +
-  Research Alerts +

Leading import countries worldwide in 2016 (in billion U.S. dollars)



ABOUT THIS STATISTIC

The statistic shows a ranking of the top 20 import countries worldwide in 2016. In 2016, the U.S. were the leading import country in the world with an import value of about 2.3 trillion US dollars.

[Show more](#) ▾

SPECIAL FUNCTIONS

Download as ...

Graphic (PNG) +

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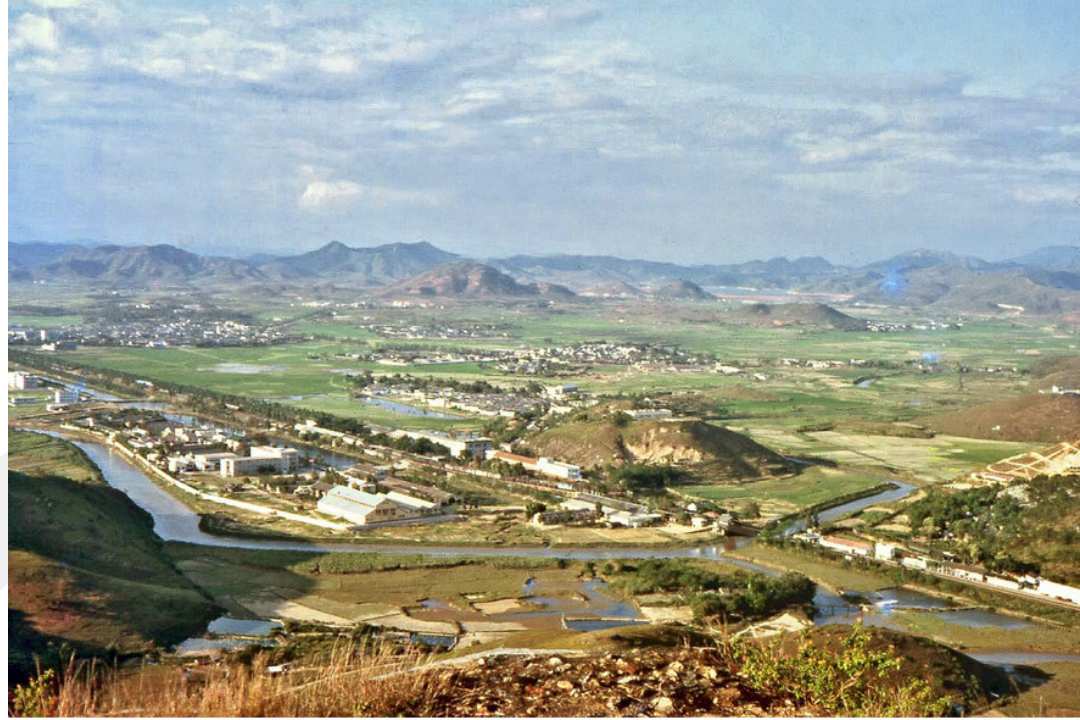
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Research Alerts +

Special areas and policies dedicated to industrialization and export-related production

- FTZ - Free Trade Zones
- EPZ - Export Processing Zones
- FEZ - Free Economic Zones
- FTZ/EPZ/FEZ Case study (Incheon, South Korea)
- Another example: Shenzhen in China (shown on pictures)

<https://www.flickr.com/photos/lwdemery/sets/72157611154071370/>

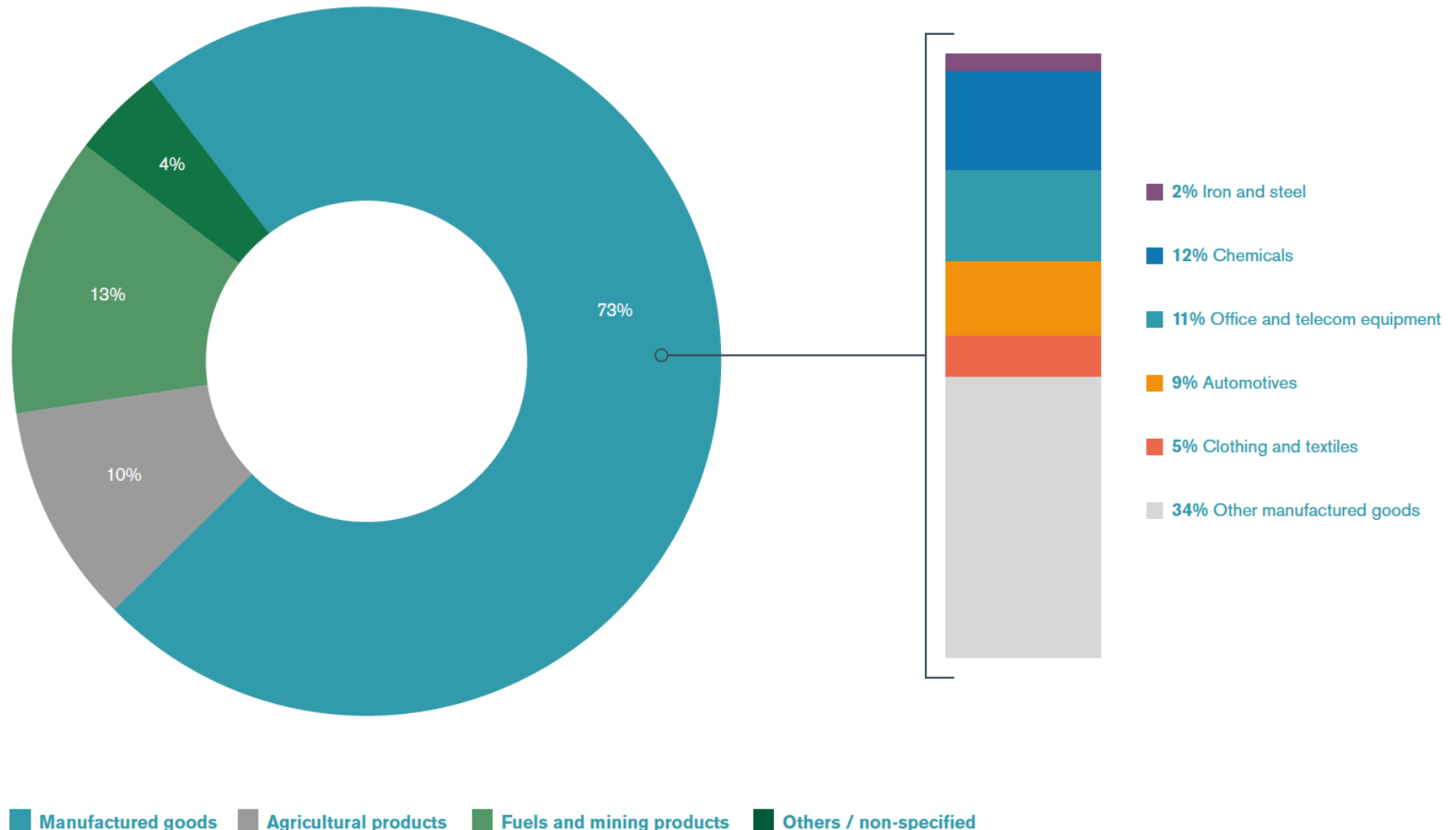


International / global trade

Chart 4.1:

World merchandise exports by major product groups, 2016

(Share, %)



Source: WTO Secretariat.

Foreign Direct Investments (FDI)

- **Foreign Direct Investment (FDI)** - capital invested by a foreign company in a given country (*inflow* vs. *outflow*)
- **Except for flows related to international trade FDI are key capital flows of the globalized world**
- FDI might be: the building of a new manufacturing/services facility (*green field*) or purchasing an existing one (*brown field*; *takeover*; *mergers and acquisition*)
- FDI occurs when a foreign company controls at least 10% of a company's share
- Related link:
http://www.economicsonline.co.uk/Global_economics/Foreign_Direct_Investment.html
- **The significant, symptomatic, and distinctive characteristic of the globalized world is the competition not only between companies, but also between places (countries, regions, cities) in order to attract FDI**

Foreign Direct Investments (FDI)

Enterprises that have invested in LEDCs may generate profit because of:

- Cheap labour and relaxed labour regulations
- New markets
- Low taxation
- Cheap land, resources and energy
- Relaxed planning and environmental regulations
- However, despite attractions, it is still MEDCs that receive the most FDI
- **these shares change dynamically though (especially after 2008)**

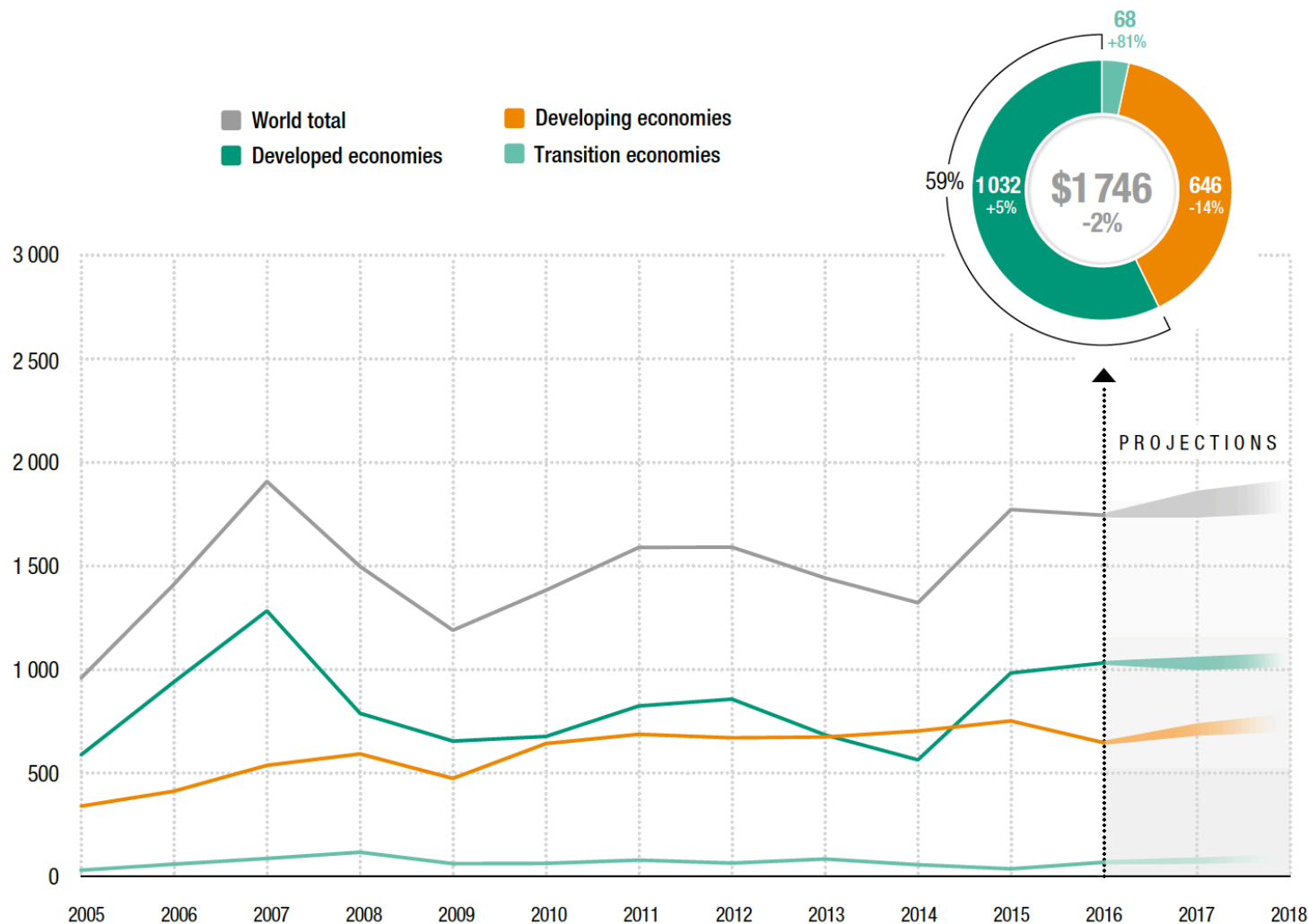
Some LEDCs can miss out on FDI because of:

- Unstable or corrupt government
- Poor transport and communication links
- Poverty reducing potential market
- Complicated regulations
- Unstable currencies or economies

Foreign Direct Investments

Figure I.1.

FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018
(Billions of dollars and per cent)



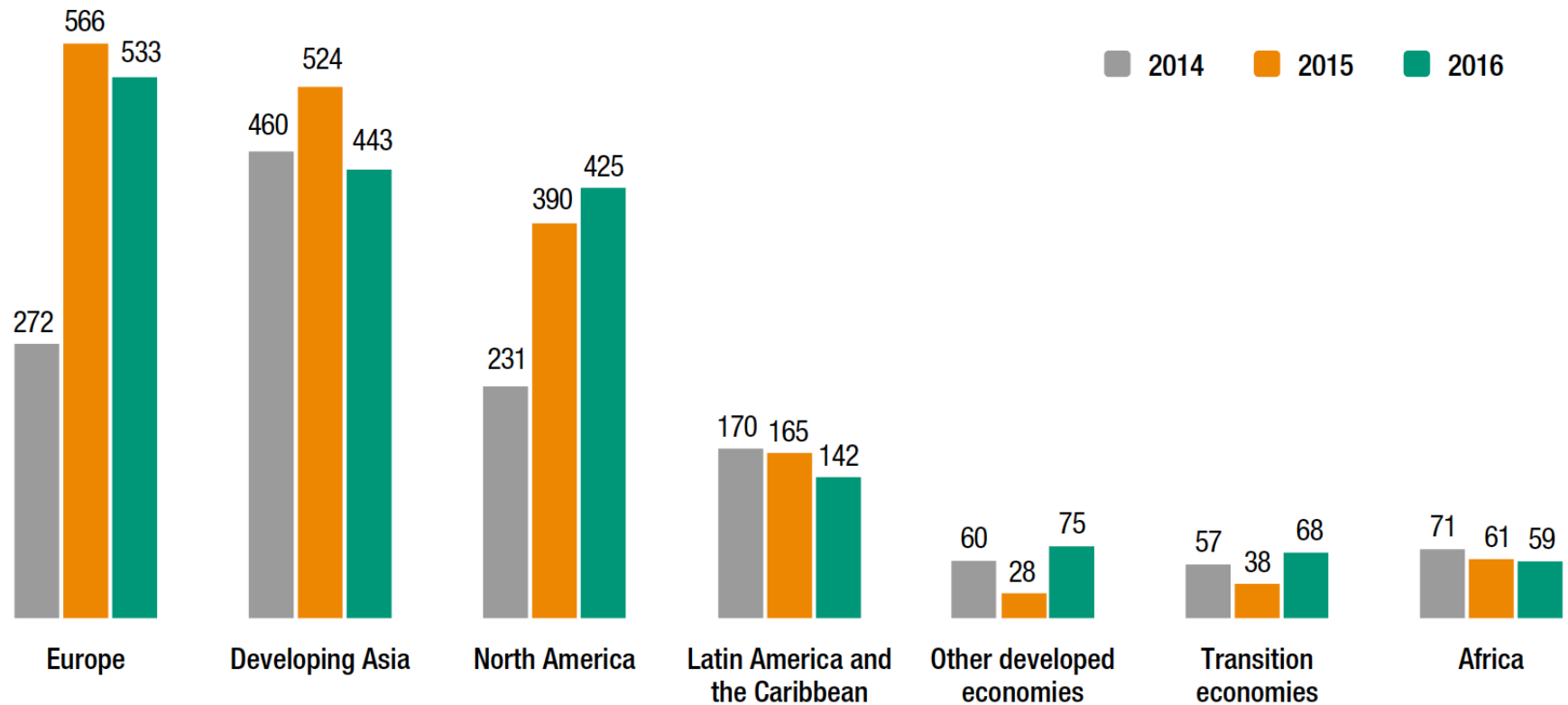
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

FDI key facts - taken from UNCTAD WIR 2017

- After a strong rise in 2015, global FDI flows lost growth momentum in 2016, showing that the road to recovery remains bumpy. FDI inflows decreased by 2% to **\$1.75 trillion**
- Over the medium term, global FDI flows are projected to resume growth and to surpass \$1.8 trillion in 2018
- Flows to developing economies were especially hard hit, with a decline of 14% and reaching \$646 billion
- **FDI remains the largest and most constant external source of finance for developing economies**
- **Inward FDI flows to developed economies accounted for 59%**
- **Developing Asia**, with FDI inflows ~half a trillion USD remains major LED (middle income / low income) region of FDI inflow
- Led by industries such as finance, business activities, trade and telecommunication, **services continue to make up the lion's share of foreign investment, accounting for two thirds of global FDI stock**

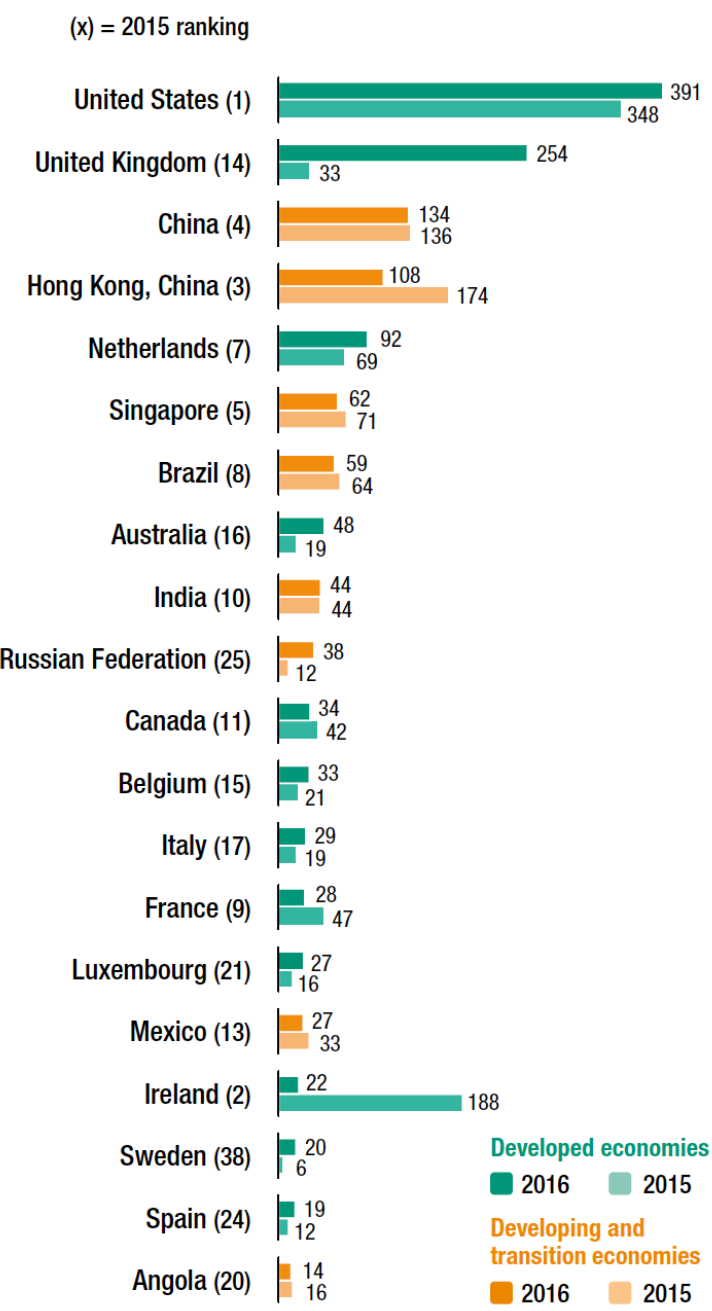
FDI inflows

Figure I.9. FDI inflows by region, 2014–2016 (Billions of dollars)



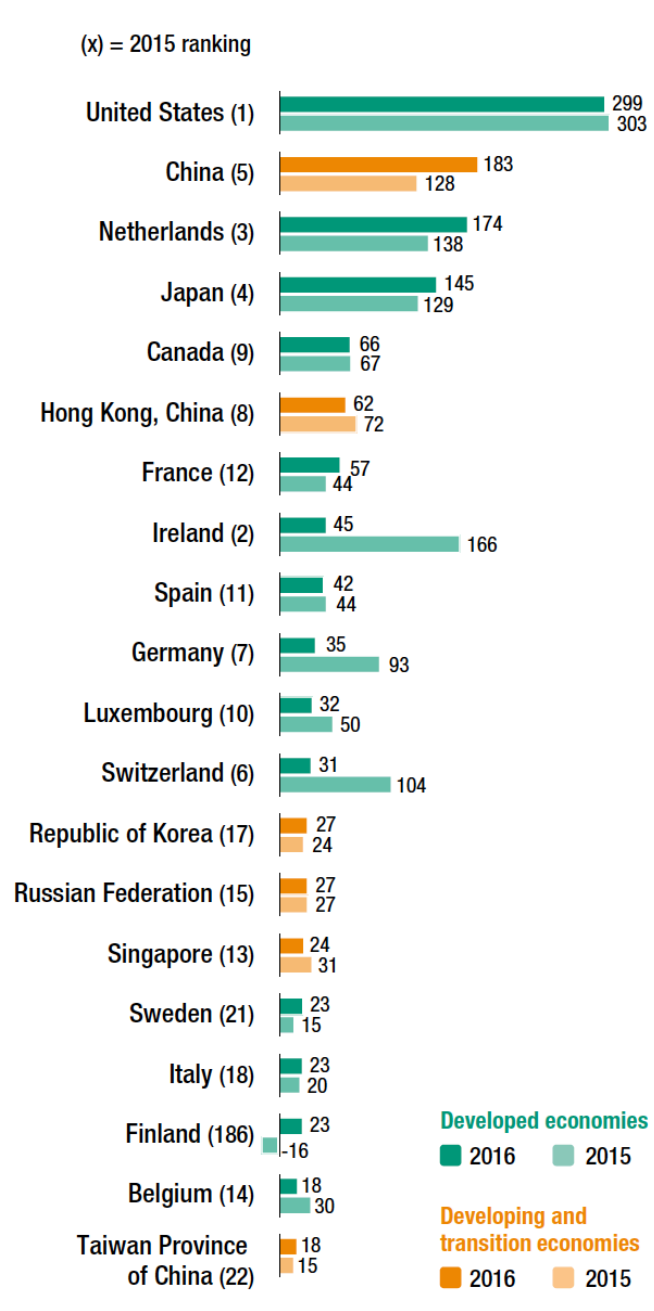
Source: ©UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.11. FDI inflows, top 20 host economies, 2015 and 2016 (Billions of dollars)



FDI inflows and outflows

Figure I.14. FDI outflows, top 20 home economies, 2015 and 2016 (Billions of dollars)



TNCs

- **Transnational corporation (TNC) or multinational enterprise (MNE)** is an organization with operations in number of countries
- Generally, decision-making (headquarters), strategy, research & development (R&D) and design & marketing are concentrated in the core areas of developed countries, while assembly and production are based in developing countries and depressed, peripheral regions.
- Separate economic and spatial phenomena is the process of outsourcing including business/knowledge/IT process outsourcing (BPO/KPO/IPO) that occurs within the core, semi-periphery and periphery.

TNC key facts

- ~1/3 of world trade is from internal transfers by TNCs
- TNCs own assets in various countries
- Over 50m people are directly employed by TNCs, plus millions more indirectly
- TNCs control the marketing and production of goods, thus have power over nation states by choosing where to locate in a global marketplace

The power of TNCs vs. states (and not only states)

TNCs exert power through:

- Creating pressure on territorial systems (states, regions, cities) and forcing them to be “competitive” (a.k.a. being able to attract investments)
- Threatening to withdraw from a country/region/city, in order to receive tax breaks or other financial and non-financial support
- Insisting on infrastructure development, paid for by public money
- Creating conditions in which local (national/regional/municipal) regulation is dwarfed by the need for international standardization
- Pushing out of the market local enterprises
- Controlling the supply chain (local businesses, resources and human capital), which may stretch across several countries
- Contributing significant amounts to political campaigns and lobbying governments (also bribing)
- E.g.: Polish government subsidizes Mercedes (Daimler) with 18,7 million EUR in cash (~50k EUR for each job position created) in a newly constructed site in Jawor in Lower Silesia; Daimler will also not have to pay income tax (CIT)⁵³ until 2026

The power of TNCs

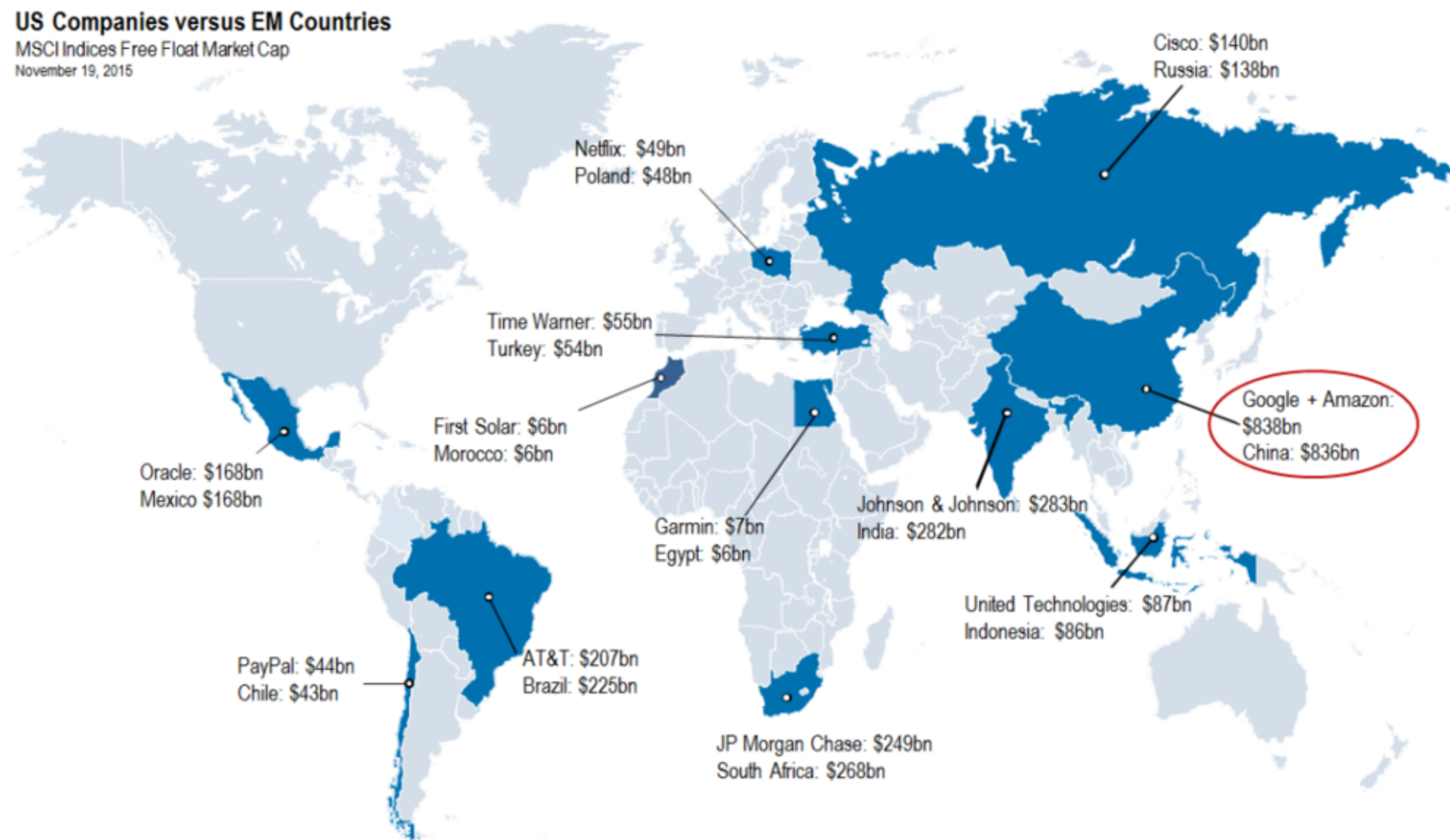




The power of TNCs

- “Cruise control” - the consolidation of the global car industry
- Checkout the World’s Most Valuable Brands according to Forbes: <http://www.forbes.com/powerful-brands/list/>
- The question is: do we, as consumers, have real choice?

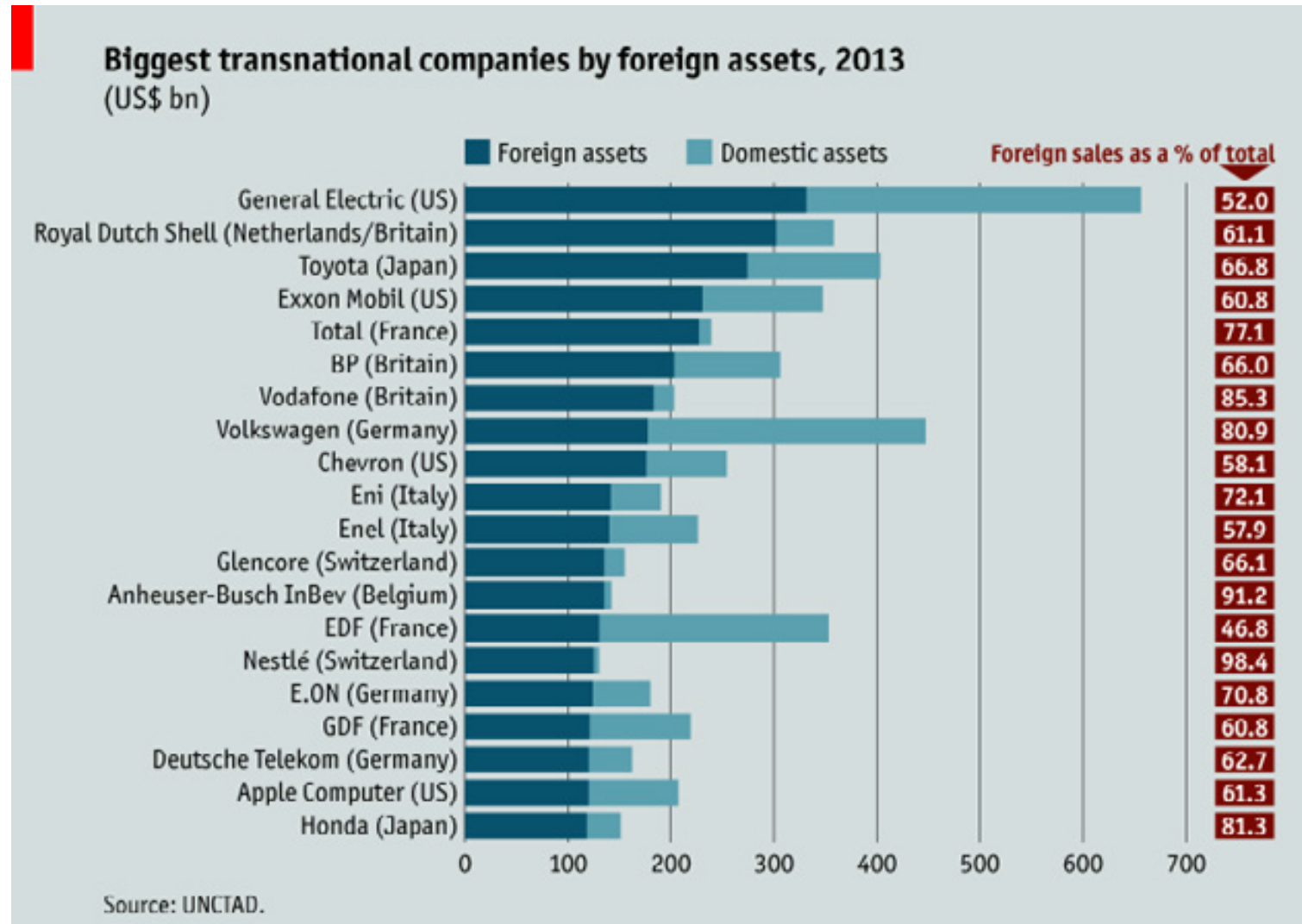
The power of TNCs: the value of selected companies and the value of stock markets in selected countries



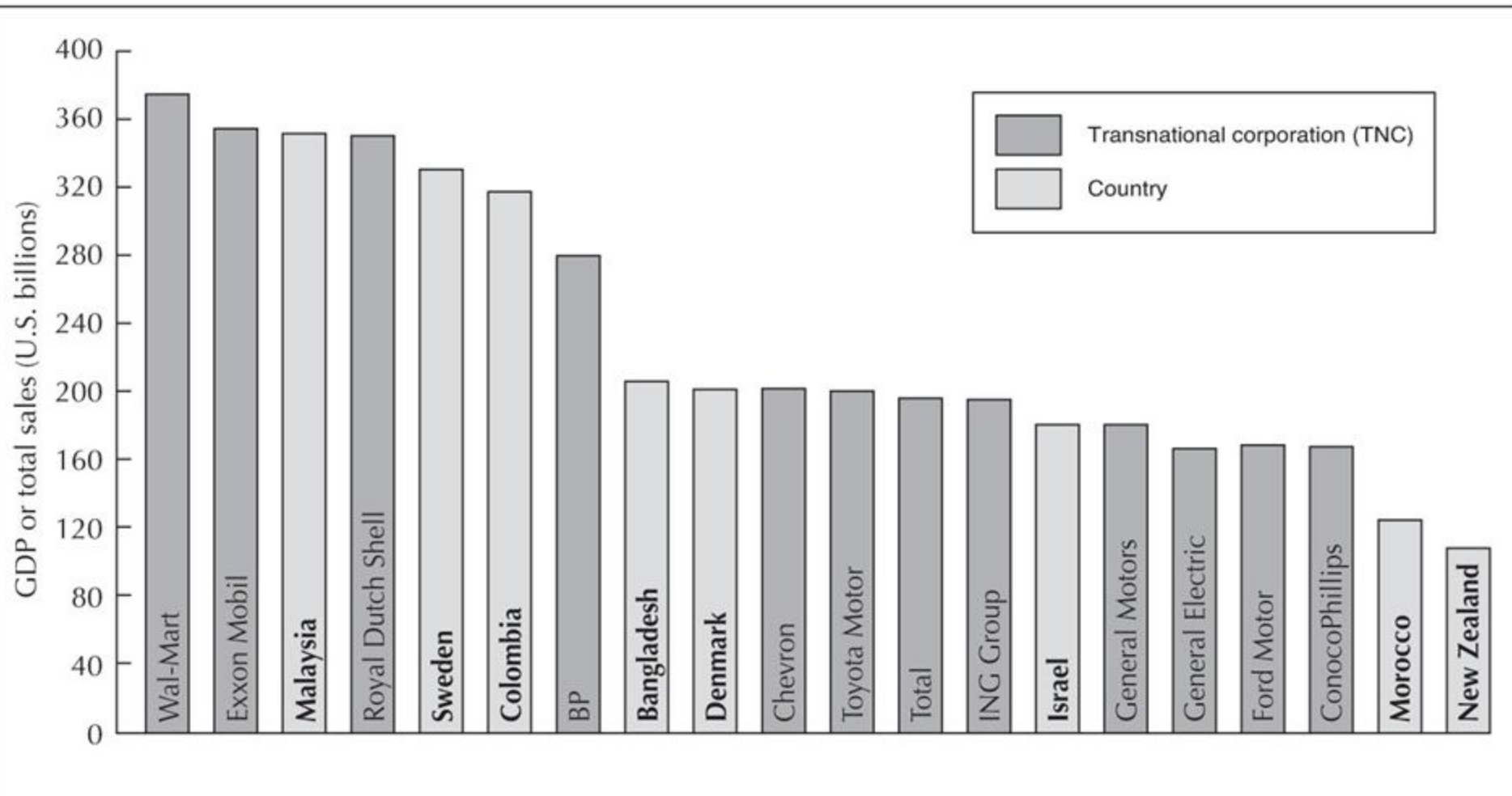
Source: BofA Merrill Lynch Global Investment Strategy, MSCI Datastream, Bloomberg

Source: <http://www.businessinsider.com/map-us-companies-worth-more-other-stock-markets-2015-11>

The power of TNCs



TNC Sales and Selected Country GDP



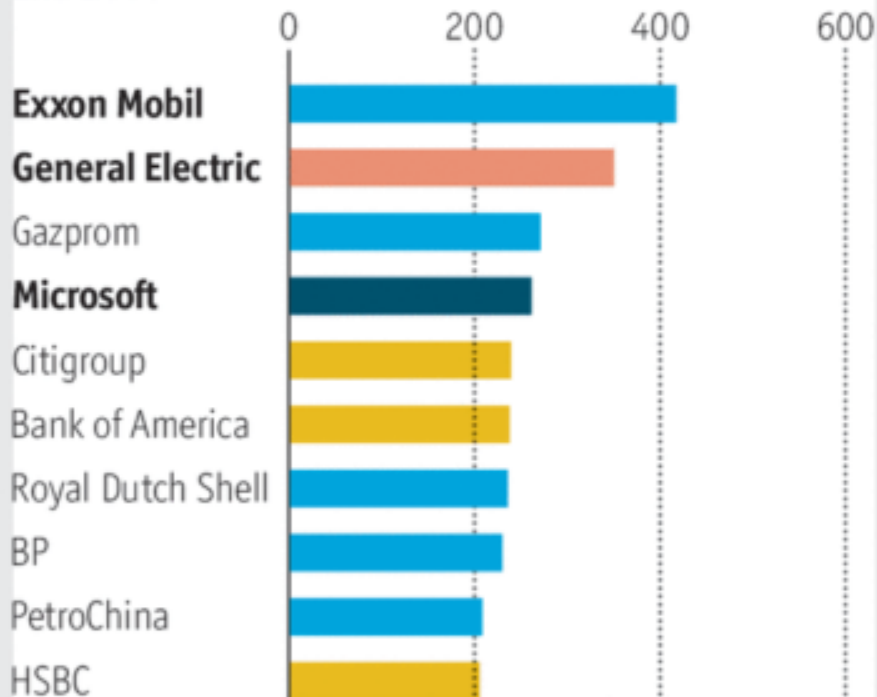
The power of TNCs

A virtually new world

World, largest listed companies by market capitalisation, \$bn

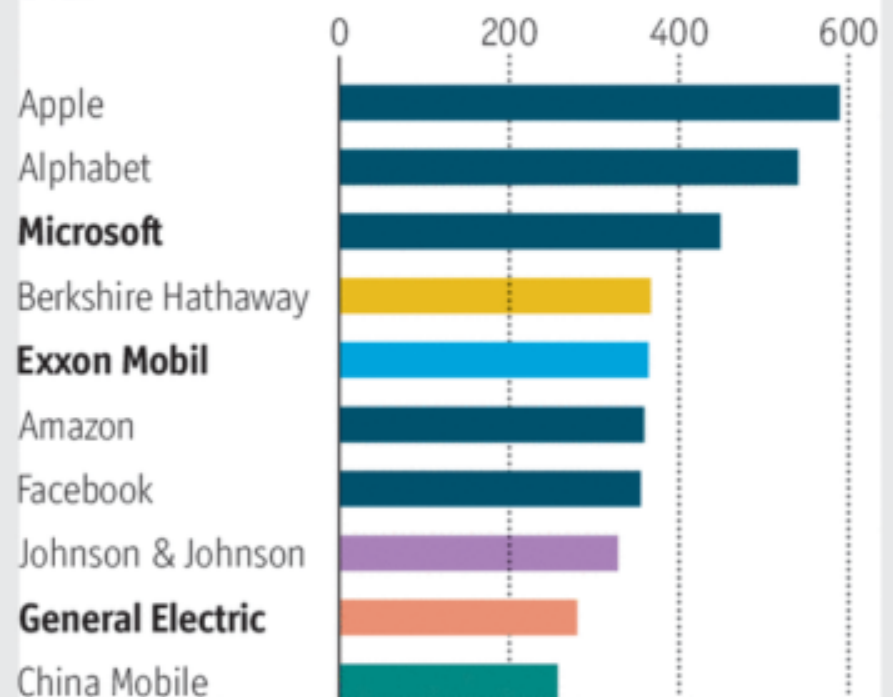
Sector: Energy Financials Health care Industrials IT Telecoms

End 2006



Source: Bloomberg

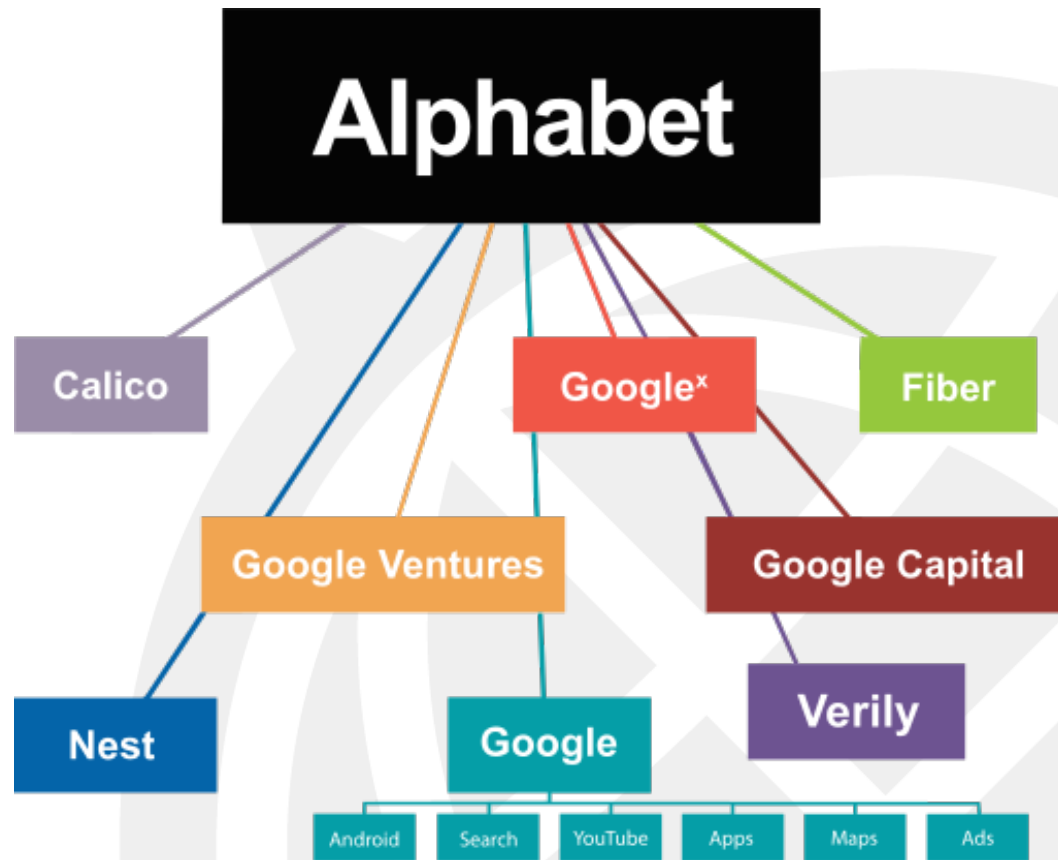
2016*



*At August 24th 2016

- Remember: value of assets of a given TNC is not the same as its market capitalization/value

The power of TNCs - Alphabet: G is for Google 😊



Related link:

- <https://abc.xyz/>

TNCs

Related links:

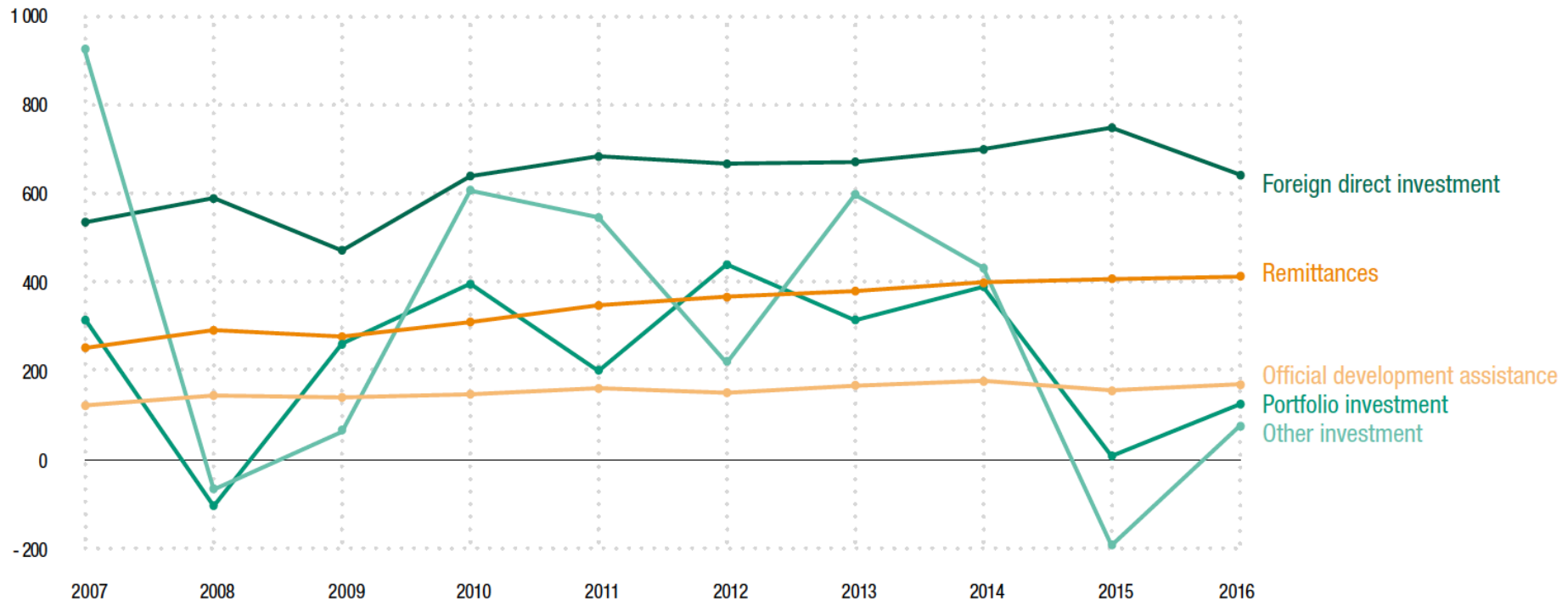
- <http://www.economist.com/blogs/graphicdetail/2012/07/focus-1>
- <http://topforeignstocks.com/2017/03/17/the-worlds-top-100-non-financial-tncs-ranked-by-foreign-assets-2015/>
- <http://topforeignstocks.com/2014/09/09/the-top-100-non-financial-tncs-from-developing-and-transition-economies-ranked-by-foreign-assets/>
- <http://www.businessinsider.com/25-corporations-bigger-tan-countries-2011-6?op=1>



- Except for Alphabet, various FMCG (Fast Moving Consumer Goods) TNCs or car industry TNCs be familiar with one TNC coming from LEDC, namely **Tata from India**
- Read the textbook on Tata (pages 547- 549)
- And check on-line the assets of Tata:
 - What are the other companies owned by Tata?
 - What do they produce?
 - WHERE are the located?
- Prepare a chart/drawing/infographics representing Tata's scale and scope and geographic range
- Read also the textbook on Apple supply chain (page 550)

Financing LEDCs

Figure I.12. External sources of finance for developing economies, 2007–2016 (Billions of dollars)



Source: ©UNCTAD, based on data from IMF (for portfolio and other investment), from the UNCTAD FDI/MNE database (for FDI inflows), from the Organization for Economic Cooperation and Development (for ODA) and from the World Bank (for remittances).

Note: Other investment includes loans among non-affiliated enterprises.

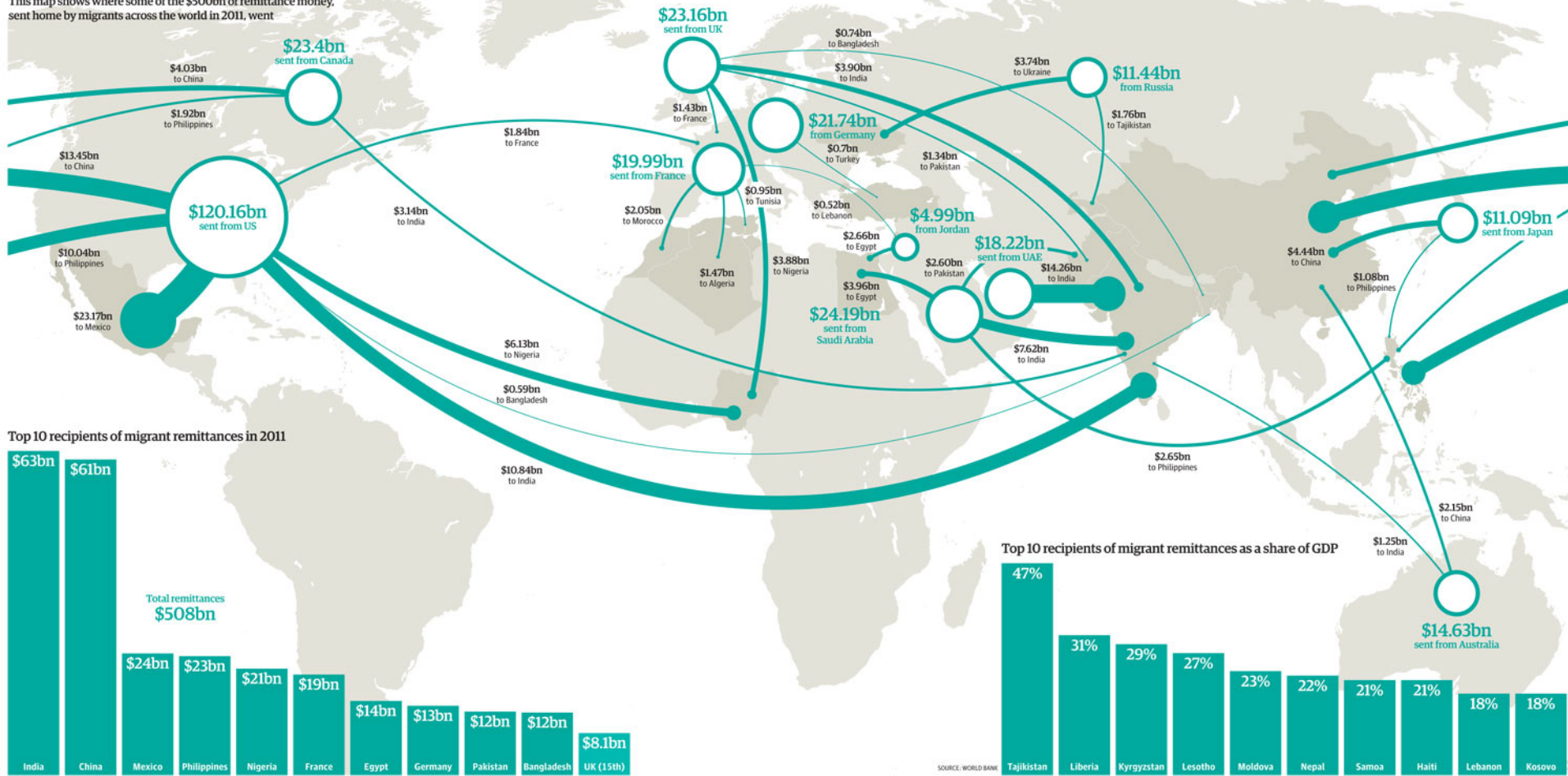
Remittances

- **Remittance** - a transfer of money from a foreign worker to an individual in her/his home country (usually family, relatives, close friends)

Where the money goes

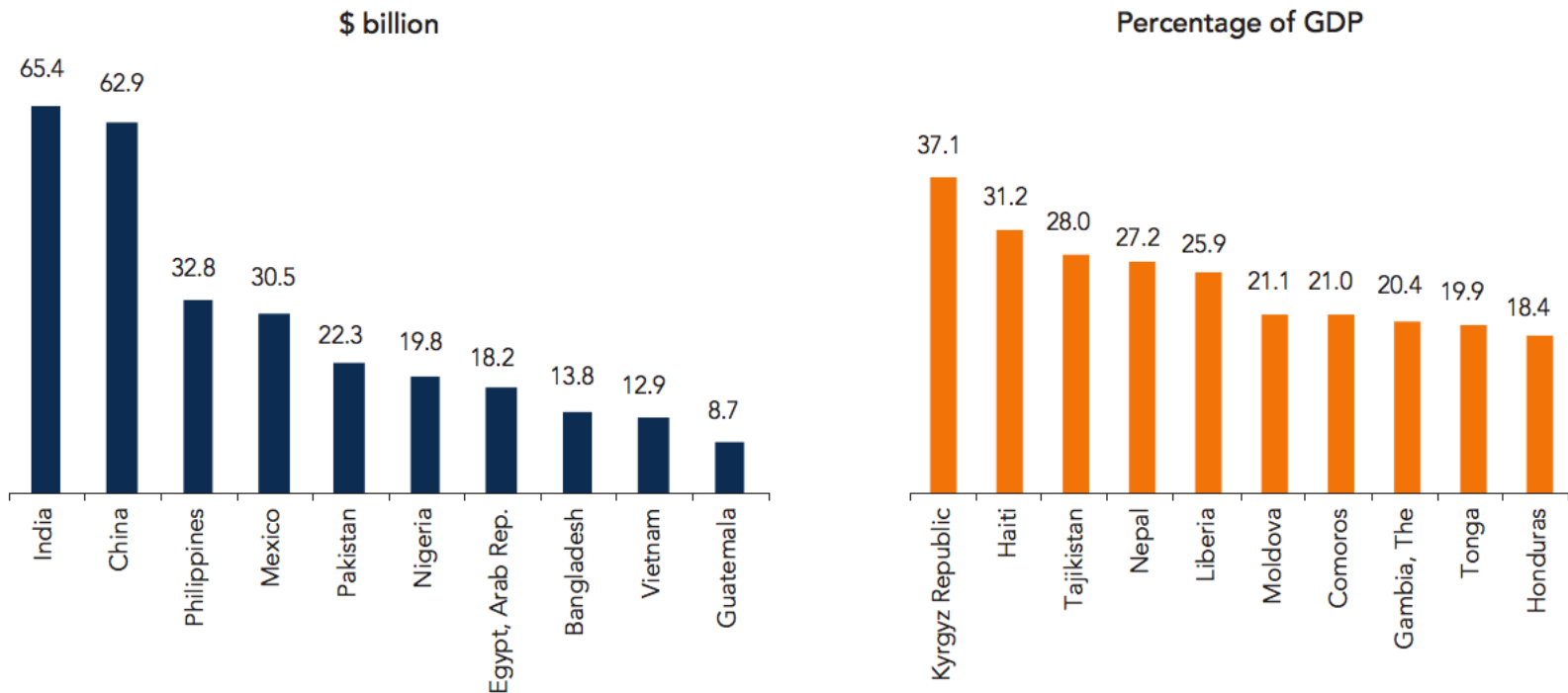
theguardian

This map shows where some of the \$500bn of remittance money, sent home by migrants across the world in 2011, went



Remittances

FIGURE 1.3. Top Remittance Receivers in 2017



Sources: International Monetary Fund; World Bank's World Development Indicators; staff estimates.

Note: GDP = gross domestic product.

Remittances

CELEBRATING THE 1st International Day of Family Remittances

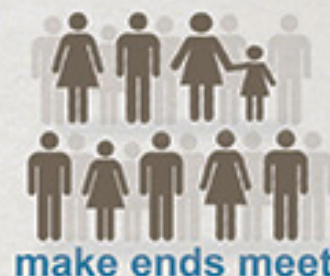


250
MILLION
migrants

Send money home



Helping
700+
MILLION
families



make ends meet

In **2014**

International remittances totaled:

\$583
BILLION

\$436
BILLION
of that amount
went to
DEVELOPING
countries

The cost of sending
remittances fell to 7.68%:

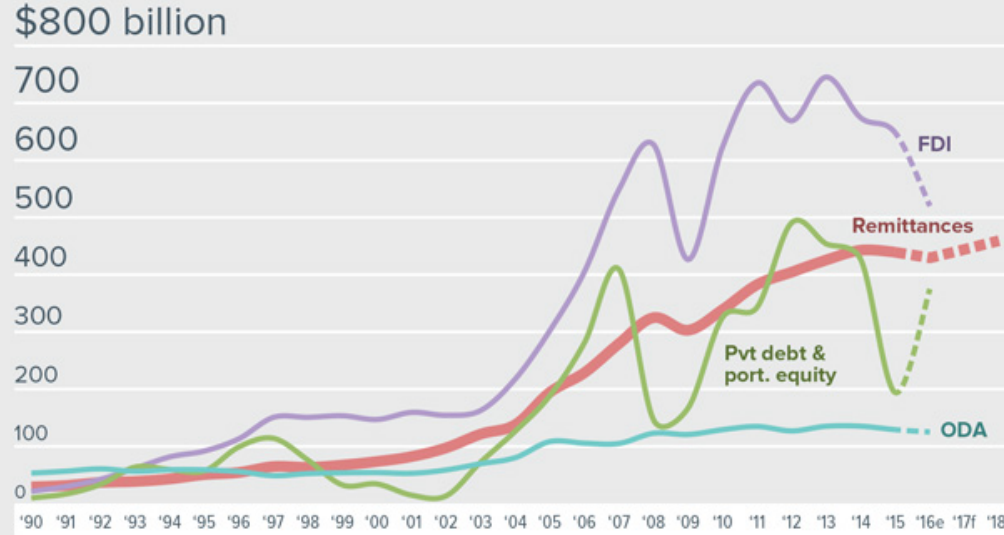


Putting
\$60+ BILLION
in migrants' pockets



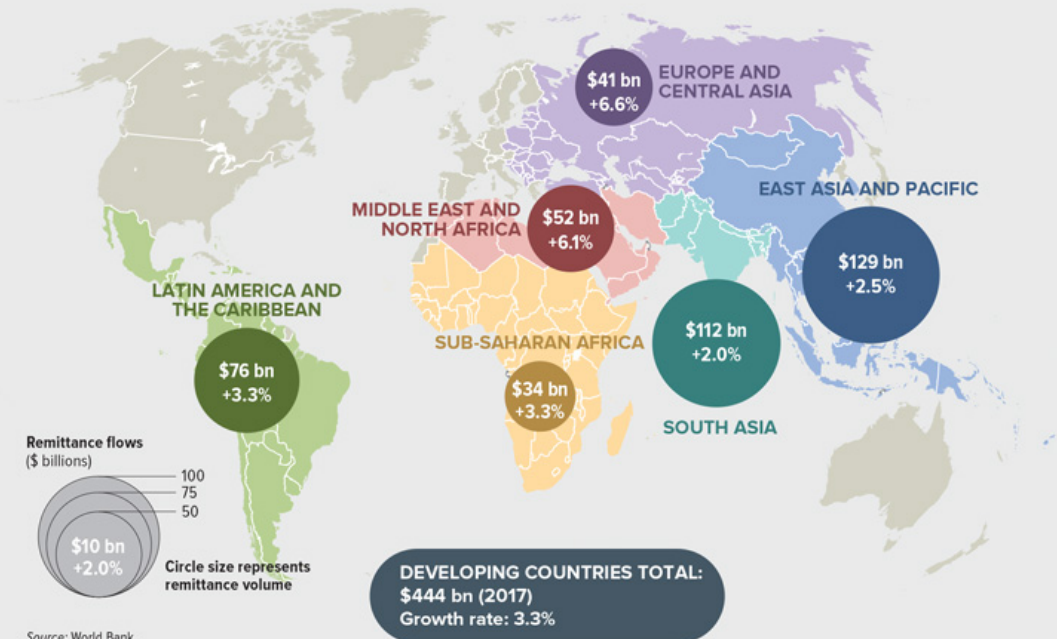
Sources: Remittance Prices Worldwide, June 2015.
Migration and Development Brief, April 2015.

Remittance flows to developing countries **decreased by 2.4 percent to \$429 billion** in 2016 but are **larger than Official Development Assistance (ODA)** and **more stable than private capital flows**



Remittances

REMITTANCE FLOWS TO DEVELOPING COUNTRIES, PROJECTED-2017



Related link:

- https://www.ted.com/talks/dilip_ratha_the_hidden_force_in_global_economics_sending_money_home

Illegal migration to the USA

- There are est. 11-12 million illegal migrants in the US, around 50% of them are Mexicans, 20% from Central America and the Caribbean, more than 10% from Asia, more than 5% from South America, and 5% Canada and Europe

Different background of illegal migration:

- Visa overstay (around 30-40%)
- Fraudulent marriage
- Land border crossing (majority)
- Entry by sea ports
- Slavery and prostitution (human trafficking)
- In 2005, the US House of Representatives voted for building a separation barrier; there were number of further votes to extend the barrier
- **Economic migration to the USA Case study**







Loans and debt

- **Loan** - transfer of money that requires repayment over a set of time
- **Debt** - the money owed to creditors
- **Public debt** - the total financial obligations incurred by all governmental bodies of a nation (central + regional + local governments + public agencies)
- **External debt** - the part of a country's total debt (both: public and private) that is owed to creditors (both: institutional and private) outside the country. The creditors can include governments, international organizations (e.g. WB, IMF), private banks and companies, also individuals
- **Internal debt** - the debt owed internally
- **The annual “government deficit”** - the difference between government receipts and spending in a single year

Loans and debt

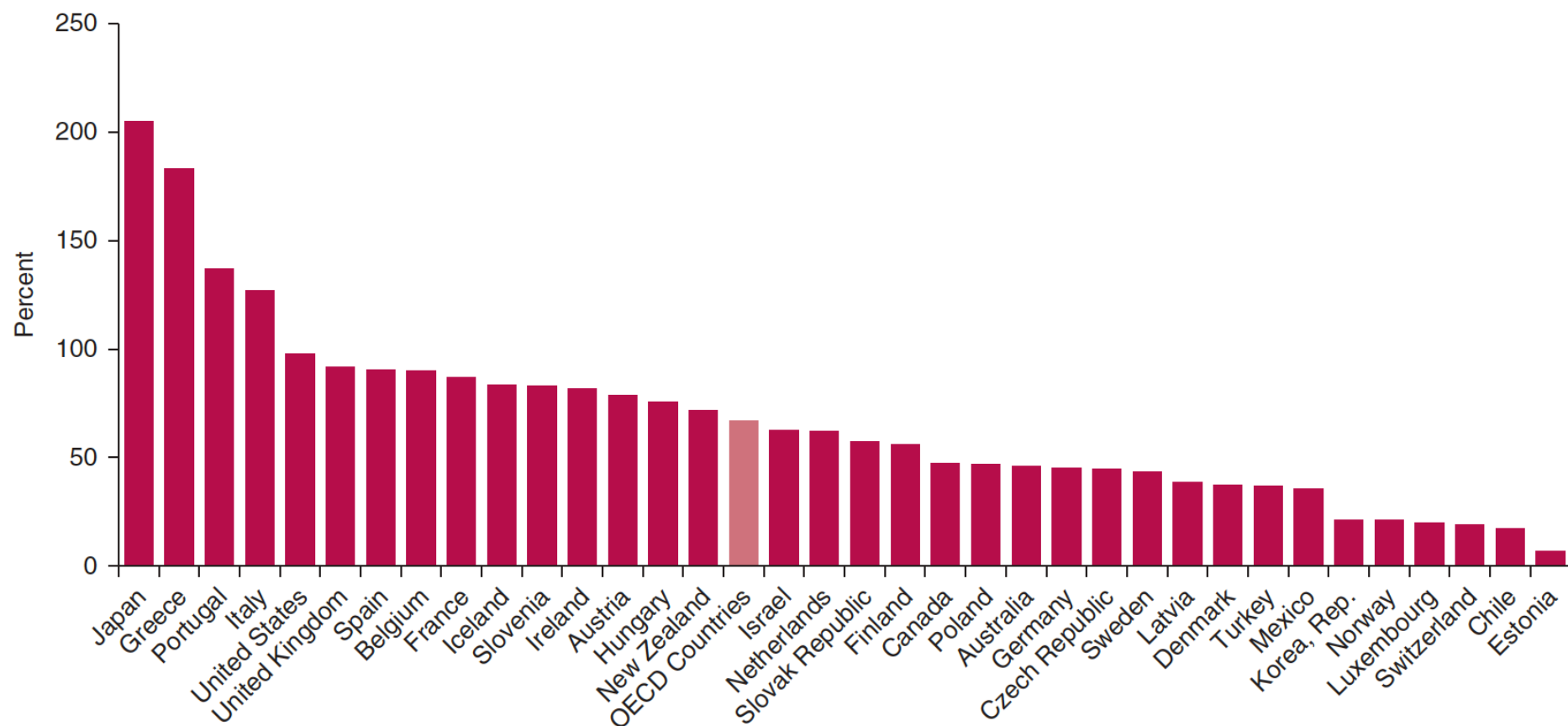
- Countries with the highest public debt in 2016 in relation to GDP:
<https://www.statista.com/statistics/268177/countries-with-the-highest-public-debt/>
- Countries with the most external debt:
<https://www.gfmag.com/global-data/economic-data/xtegh9-external-debt-in-countries-around-the-world?page=12>
- Related link:
<https://www.thebalance.com/what-is-the-public-debt-3306294>

Public debt in OECD countries

Public Sector Debt Statistics – Trends in 2015

Government debt in OECD countries remained high but broadly unchanged in 2015.

Figure O.31 OECD Countries, Government Debt-to-GDP Ratio, 2015



Source: World Bank, Public Sector Debt Statistics Database.

Reasons behind debt accumulation

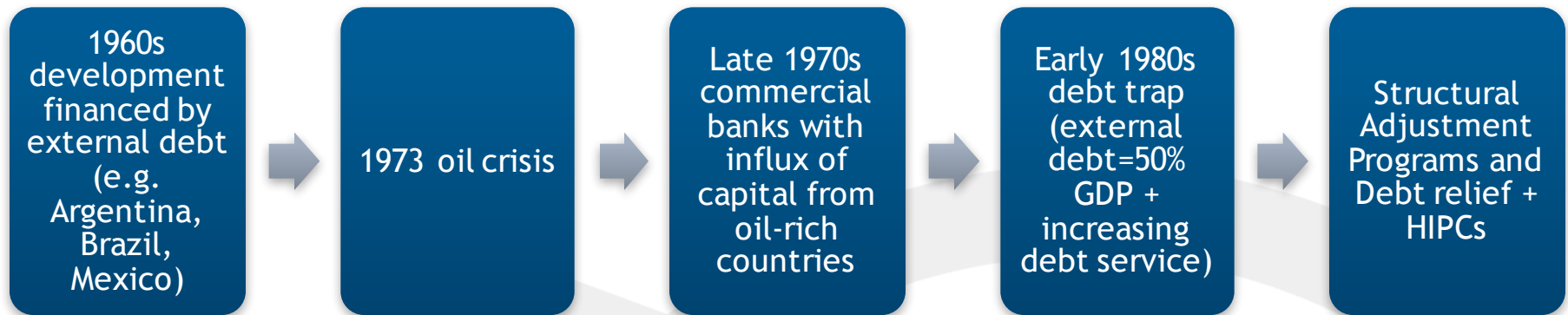
The developing world / LEDCs

- The legacy of colonialism - the transfer of debts to the newly independent countries (e.g.: Haiti in 1804 from France; Indonesia in 1949 from the Netherlands)
- Inappropriate lending and spending in the 1960s and 1970s - the decades of attempts of forced industrialization (import substitution) and large-scale infrastructure projects (e.g. HEP projects)
- The oils crisis of 1973 which caused the poor countries to borrow heavily in order to buy oil
- Decrease in commodity prices
- Excessive interest charges imposed by the creditors
- Political corruption and kleptocratic governments

The developed world / MEDCs

- Not sufficient economic growth and tax revenue as compared with the public spending
- The ongoing financial and economic crisis of 2008 - firstly in the U.S., and later (since 2009) in the EU (especially in the Euro Zone)

Towards neoliberalism and economic globalization



- **SAP (Structural Adjustment Programme)** - sets of reforms/policies imposed by the IMF on countries in order for them to receive loans (and pay back the accumulated debt)
- The policies were very strict and may have involved:
 - Currency devaluation
 - Abolishing tariffs and trade liberalisation
 - Privatisation of state industries and resources
 - Removal of price controls and subsidies
 - Reduced government spending (incl. social policies/expenditures)
 - Acceptance of foreign ownership
 - Reducing corruption
- Many of these programmes (symbolizing **neoliberalism**) were later criticized for favoring MEDC TNCs, for governments selling off assets cheaply and underfunding vital institutions like healthcare and education

Neoliberalism & SAPs have been heavily criticized...

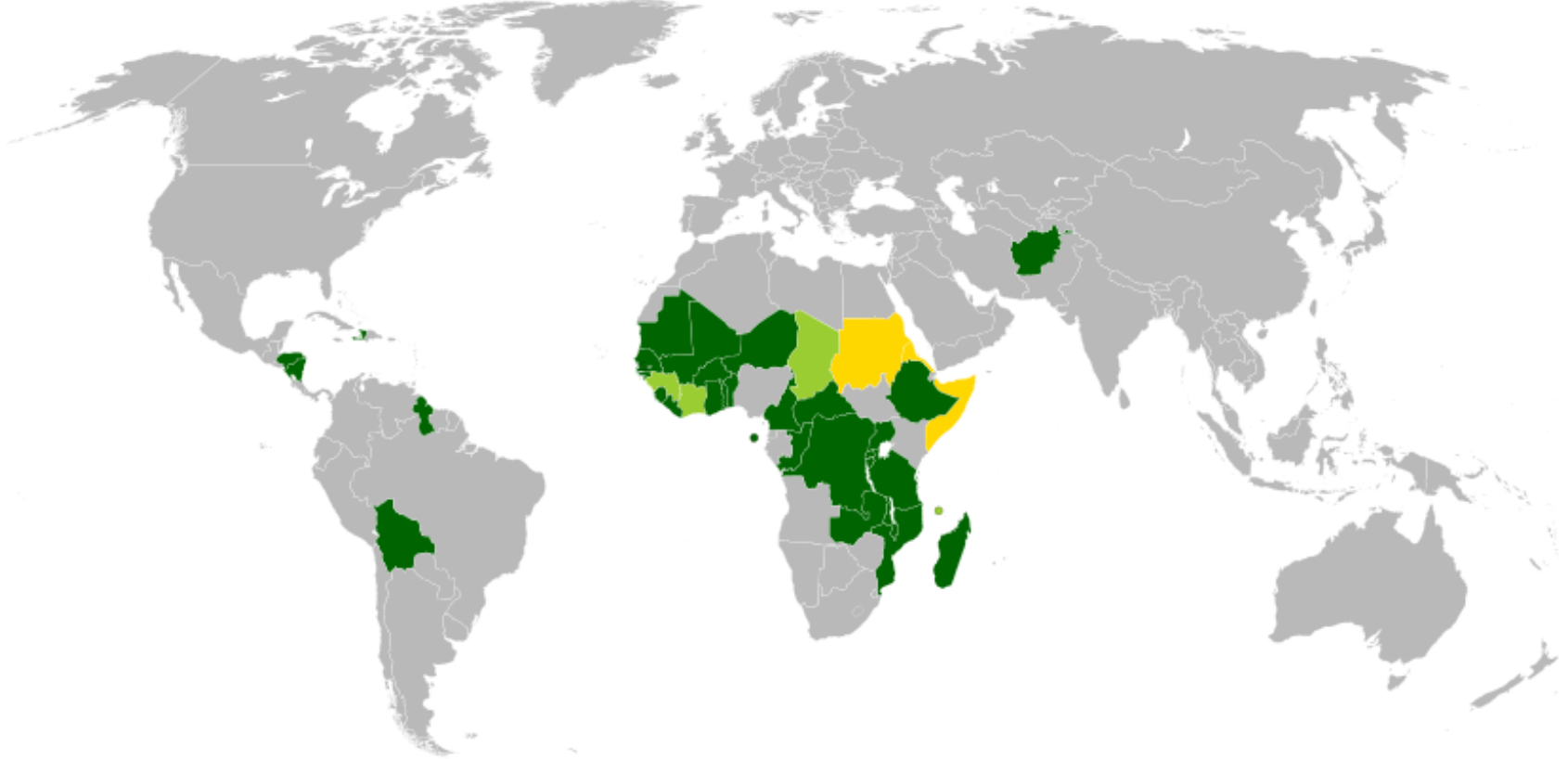
THE STRUCTURALLY ADJUSTED LAST SUPPER



'LAST SUPPER'

- The neoliberal agenda symbolized by SAPs served as a basis for the contemporary wave of globalization

Heavily indebted poor countries (HIPC)



- The heavily indebted poor countries (HIPC) are a group of 39 (36+3) developing countries with high levels of poverty and debt overhang which are eligible for special assistance from the International Monetary Fund (IMF) and the World Bank > **HIPC Case study** and: <http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/11/Debt-Relief-Under-the-Heavily-Indebted-Poor-Countries-Initiative>

Official Development Assistance

- **Development assistance** (used to be called development aid), **development cooperation** is support/assistance given by governments and other public agencies to support the economic, environmental, social and political development of developing countries
- It is distinguished from **humanitarian aid** by focusing on alleviating poverty and supporting socio-economic development in the long term, rather than a short term response usually connected with an emergency/disaster

Development assistance



Humanitarian aid

- Currently dominant is the notion of “development assistance”, not “development aid” - it is supposed to underline mutual and partner relations between the donors and recipients

Official Development Assistance



EUROPEAid



USAID
FROM THE AMERICAN PEOPLE



polska pomoc

Official Development Assistance - UN & DAC OECD

- According to the UN the developed countries should donate **0.7% of their GNI** for development assistance



- **Development Assistance Committee (DAC) OECD** - the committee of the OECD which deals with development co-operation matters; currently there are 30 members of the DAC
- DAC members: <http://www.oecd.org/dac/dacmembers.htm>
- DAC list of recipients - countries and territories eligible to receive official development assistance (ODA); LDCs according to the UN + all low and middle income as defined by the World Bank, with the exception of G8 members, EU members, and countries with a firm date for entry into the EU:

<http://www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf>

Official Development Assistance - DAC OECD

- **Official Development Assistance (ODA)** - grants or loans to countries and territories on the **DAC OECD List of Recipients** (developing countries) and to multilateral agencies which are:
 - undertaken by the official sector (not by private institutions)
 - with promotion of economic development and welfare as the main objective
 - at concessional financial terms (if a loan, having a grant element of at least 25%)
- In addition to financial flows, technical co-operation (e.g. trainings, advising, etc.) and education is included in the ODA
- Grants, loans and credits for military purposes are excluded
- Transfer payments to individuals (e.g. pensions, reparations or insurance payouts) are not counted
- **ODA & Bangladesh Case study**
- Read also about “Aid for trade”:
<http://www.oecd.org/trade/aft/>

Official Development Assistance - DAC OECD

UN target

- ODA = 0.7% GNI

EU member states targets

- UE15: ODA = 0.7% GNI
- UE13: ODA = 0.33% GNI

ODA actual amounts

- CZ = 0.14% GNI
- HU = 0,13% GNI
- SK = 0.12% GNI
- SL = 0.15% GNI
- PL = 0.13% GNI



- The ODA is based on bilateral and/or multilateral agreements and institutions (governments, the UN, the World Bank, the European Commission: EuropeAid)
- EU combined is the largest donor

Important related links:

- <http://www2.compareyourcountry.org/aid-statistics?cr=625&cr1=oeecd&lg=en&page=0>
- <http://www2.compareyourcountry.org/oda?cr=20001&lg=en&page=0#>

Official Development Assistance - what kind of development?

Top-down development	Bottom-up development
Usually large in scale	Small in scale
Carried out by governments, international organizations and “experts”	Labour intensive: common projects include building earthen dams, creating cottage industries
Done by people from outside the area	Involves local communities and local areas
Imposed upon the area or people by outside organizations	Run by locals for locals
Often well funded and quickly responsive to disasters	Limited funding available
Does not involve local people in the decision-making process	Involves local people in the decision-making process

Table 2.4 Types of development

Related link: https://www.youtube.com/watch?v=DgSb4_Dmkg0

Official Development Assistance - aid effectiveness

When aid is effective	When aid is ineffective
It provides humanitarian relief.	It might allow countries to postpone improving economic management and mobilization of domestic resources.
It provides external resources for investment and finances projects that could not be undertaken with commercial capital.	It replaces domestic saving, direct foreign investment and commercial capital as the main sources of investment and technology development.
Project assistance helps expand much-needed infrastructure.	The provision of aid might promote dependency rather than self-reliance.
It contributes to personnel training and builds technical expertise.	Some countries have allowed food aid to depress agricultural prices, resulting in greater poverty in rural areas and a dependency on food imports. It has also increased the risk of famine in the future.
It can support better economic and social policies.	Aid is sometimes turned on and off in response to the political and strategic agenda of the donor country, making funds unpredictable, which can result in interruptions in development programmes.
	The provision of aid might result in the transfer of inappropriate technologies or the funding of environmentally unsound projects.
	Emergency aid does not solve the long-term economic development problems of a country.
	Too much aid is tied to the purchase of goods and services from the donor country, which might not be the best or the most economical.
	A lot of aid does not reach those who need it, that is, the poorest people in the poorest countries.

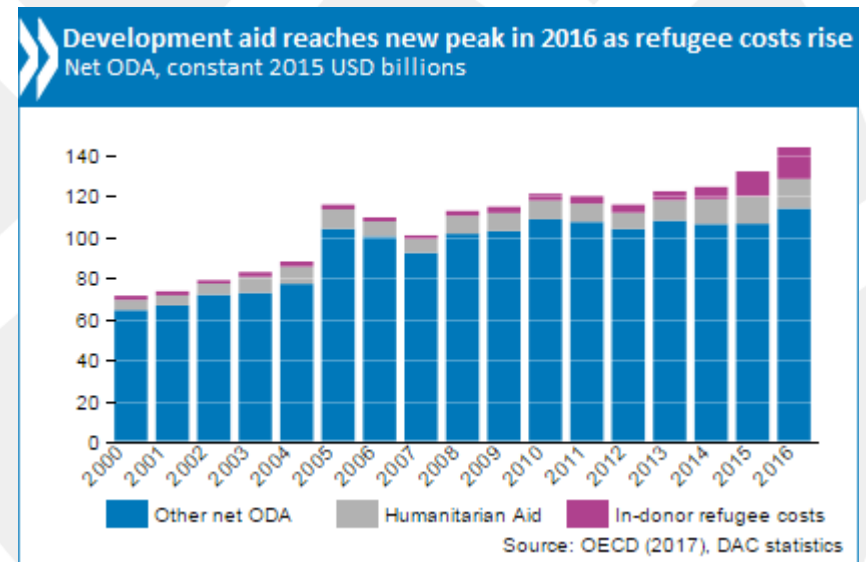
Table 2.5 The effectiveness of different types of aid provision

Related link:

https://www.theguardian.com/global-development-professionals-network/2017/jan/14/aid-in-reverse-how-poor-countries-develop-rich-countries?CMP=fb_gu

Official Development Assistance - summary

- In 2016 the ODA amounted to over 140 billion USD
- Even though humanitarian aid is not development assistance it's value is reported by countries as an ODA component
- Also in-door refugee costs are being accounted as ODA (important for European states)
- **Top recipients of ODA include:** Afghanistan, Ethiopia, Kenya, India, Pakistan, South Sudan, Syria

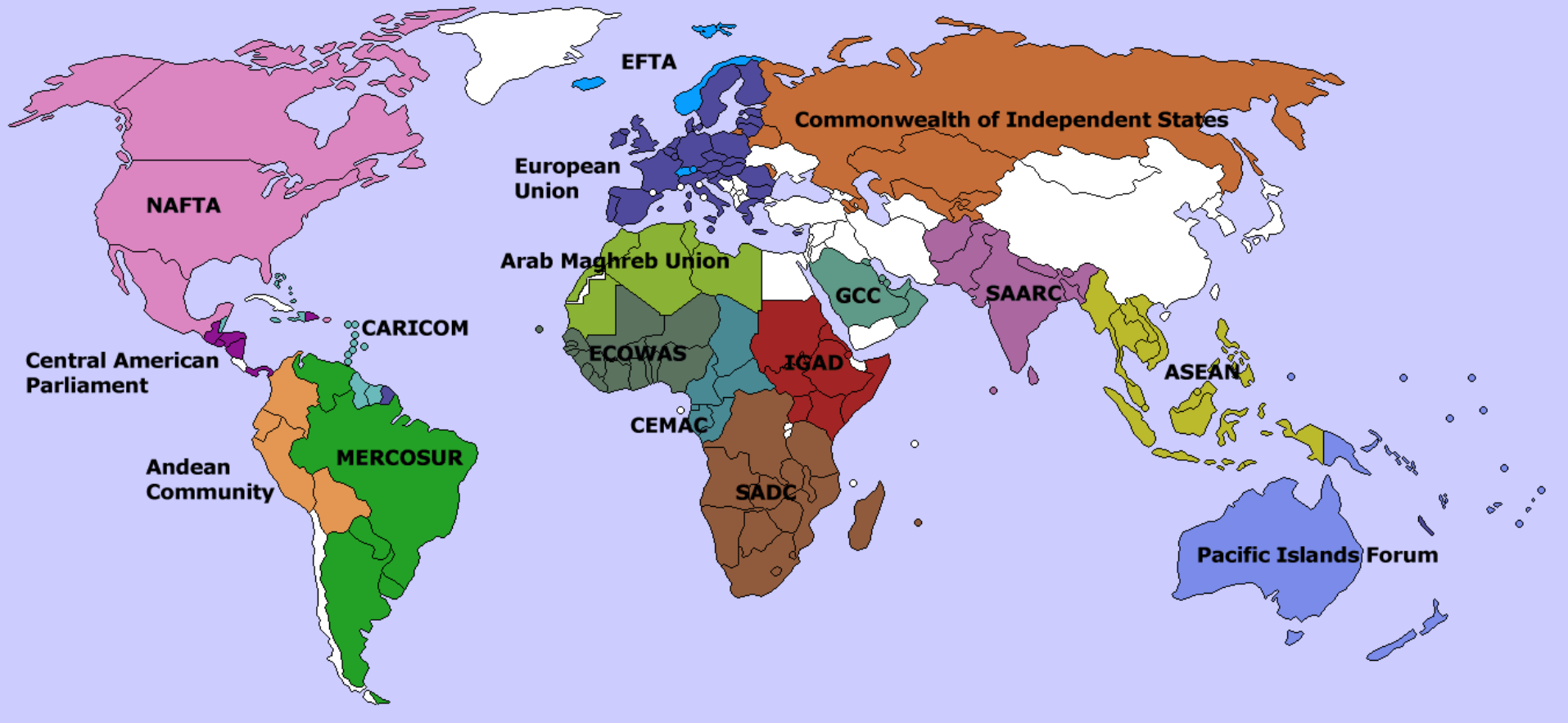


MGOs, regional integration and the coming of trading blocs

- **MGOs** - Multi-government organizations are those that operate across a number of different states
- Political cooperation / coordination platform, e.g. African Union
- Multilateral **Free Trade Area** - no internal tariffs on trade, separate trade/customs policies to third-party countries (CEFTA, NAFTA)
- **Customs union** - as above + common external trade/customs policy (MERCOSUR, CARICOM, CAN)
- **Common market** - as above + freedom of movement of the factors of production (EAC, EEA)
- **Economic and Monetary Union** - as above + common currency (EU/€, Switzerland-Liechtenstein/CHF)
- **Economic and Political Union**, e.g. EU?



Trading blocs




- **EFTA** - European Free Trade Association (Norway, Switzerland, Iceland, Lichtenstein)
- **EEA** - European Economic Area (EU + EFTA - Switzerland)
- **CEFTA** - Central European Free Trade Agreement (Albania, Bosnia and Herzegovina, FYROM: Macedonia, Moldova, Montenegro, Serbia, UNMIK: Kosovo)
- **CIS** - Commonwealth of Independent States (*Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan* + associate states: Turkmenistan + Ukraine) [*Eurasian Economic Union - EAEU/EEU*]
- **NAFTA** - North American Free Trade Agreement (USA, Canada, Mexico)
- **ASEAN** - Association of South East Asian Nations (Indonesia, Malaysia, Philippines, Singapore, Thailand + Brunei, Cambodia, Laos, Myanmar (Burma), Vietnam)
- **SAARC** - South Asian Association for Regional Cooperation (Afghanistan, Pakistan, India, Nepal, Bhutan, Bangladesh)
- **MERCOSUR** - Mercado Comum do Sol / Mercado Común del Sur / Southern Common Market (Argentina, Brazil, Paraguay, Uruguay, (Venezuela) + associate states: Bolivia, Chile, Peru, Colombia, Ecuador, Suriname + observer states: New Zealand, Mexico)
- **CAN** - Comunidad Andina / The Andean Community (Bolivia, Colombia, Ecuador, Peru)
- **CARICOM** - Caribbean Community and Common Market (15 Caribbean countries)
- **GCC** - Gulf Cooperation Council (UAE, Qatar, Bahrain, Oman, Kuwait, Saudi Arabia)
- **ECOWAS** - Economic Community of West African States (Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo)
- **CEMAC** - Central African Economic and Monetary Community
- **EAC** - East African Community (Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda)
- **SADC** - Southern African Development Community (Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, RSA, Swaziland, Tanzania, Zambia, Zimbabwe)

Illegal flows

- **Global illegal flows** - they do exist, they do influence culture and the way we perceive the world, they also do influence societies and politics...
- **...but they are NOT majority of the flows, they actually constitute a fraction of the total flows**

Types of illegal flows:

- Trafficked people
- Counterfeit goods (less than 1% of global trade) including fraudulent medicines, counterfeit food and drink, consumer electronics, textiles, tobacco, etc.
- Flows of drugs (~1% of global trade)



Thank you for your attention
Robert Łuczak
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