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Review

An investigation of the global economic and financial crisis: A review

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Poor countries have been affected by the crisis in various ways and more than previously thought. This study, based on research by developing country researchers, sheds some light on what is really happening at the country level, and goes beyond vulnerability studies or global forecasts. We need to continue to monitor the effects of the crisis to stimulate the policy responses that are needed as a matter of urgency – policy responses that have not, to date, been forthcoming. Both developing and developed countries need to build their resilience to economic shocks and ask themselves whether growth and development strategies, economic policies and institutions need a complete rethink in these turbulent times. Why does affluence coexist with dire poverty not only across different continents but also within the same country or even the same city? Can traditional, low - productivity, subsistence societies be transformed into modern, high productivity, high - income nations? To what extent are the development aspirations of poor nations helped or hindered by the economic activities of rich nations? These and many other questions concerning international and national differences in standards of living, in areas including health, and nutrition, education, employment, and life expectancies, might be posed on the basis of even this very superficial look at life around the world. The series of the current global economic and financial crises especially in the USA and the European Stock Exchange Markets, in the international division of labour and the global distribution of economic and political power led by free markets economies; that clearly indicates the collapse of Adam Smith's ideology and the Thatcher-Reagan free - market model that dominated thinking for 30 years has been discredited. A practical solution of the current ills is possible.

Keywords: Global economic, financial crisis, World Bank, world economy.

INTRODUCTION

The world economy has just been through a severe recession marked by financial turmoil, large - scale destruction of wealth, and declines in industrial production and global trade. Workers are paying the heaviest cost for a crisis far beyond their control. The impact of the crisis will go further than job and income losses, causing the incidence of informal work and working poverty to rise. Young people, migrant and women workers are the most vulnerable to the current downturn and are all faced with considerable difficulties in integrating in today's labour market. This trend stands to be exacerbated by the global crisis and if viable solutions are not found, personal development and future employment prospects are threatened for millions of young people. Compared to adults, youth are almost three times as likely to be unemployed, and although they make up only 24.7% of the total working - age population, youth make up as much as 40.2% of the world's total unemployed. In fact, between 1997 and 2007, the number of unemployed youth rose from 63 million to 71 million, an increase of 13.6% according to the ILO. The global number of unemployed in 2008 is estimated at 190 million, out of which 109 million are men and 81 million are women and the global unemployment rate increased from 5.7% in 2007 to 6.0% in 2008.

Continued labour - market deterioration in 2009 may lead to an estimated increase in global unemployment of 39 million to 61 million workers relative to 2007, according

to the International Labour Organisation. The world wide ranks of the unemployed may range from 210 million to 241 million - the highest number on record. Meanwhile, global growth in real wages, which slowed dramatically in 2008, is expected to have even further in 2010, despite signs of a possible economic recovery. In a sample of 53 countries for which data are available, medium growth in real average wages had declined from 4.3pc in 2007 to 1.4pc in 2008. The World Bank warns that the current economic crisis could push 90 million people more into extreme poverty world wide by end of 2010, adding to the 1.4 billion people estimated in 2005 to be living below the international poverty line of 1.25 dollars a day. Close to two million children could die in the next five years if the crisis persists. Some of the poorest nations in the world (especially those in Sub-Saharan Africa) seem to have been left behind and marginalized by globalization, and they are poorer today (that is their average real per capita income is lower today) than they were two or three decades ago. Africa must push into Asian markets to support economic growth because the effects of financial crisis in the United States and Europe may drag on for next two years, Prof. Joseph Stiglitz, a Noble Laureate and Professor at Columbia University, said at the African Development Bank meeting in January 2010. The situation in the Asia-Pacific region and Sub-Saharan Africa is really so acute. The United Nations- Food and Agriculture Organization (FAO) have repeatedly warned of catastrophic food shortages. In a majority of African countries, the average per capita calorie in take has now fallen, below minimal nutritional standards. The FAO recently estimated that of Africa's 750 million people, more than 270 million suffer from some form of malnutrition associated with inadequate food supplies. Whereas the severe famine of 1973-1974 took the lives of hundreds of thousands and left many more with permanent damage from malnutrition, its geographic impact was limited to the Sahelian belt that stretches below the Sahara from Cap Verde, off the coast of Senegal in the west, across the continent to Ethiopia. By contrast, in 1982 - 84, and again in 1987 - 1988, 1991 - 1994, and in 2008 - 2009, the food crisis become much more widespread, with more than 30 countries threatened by severe famine, including, in addition to the Sahelian nations, Ethiopia, Zambia, Tanzania, Malawi, Uganda, Botswana, Mozambique, Zimbabwe, and Angola. The Ethiopian government has declared famine last week on 20th November, 2009. Food and Agriculture Organization (FAO) Chief Jyack Diyof says, 'more than 0ne billion (one - sixth) people are hungry today in the world.' In Africa, Congo, Burundi, Comoros and Zimbabwe, situation is really worst, where people are suffering a lot of problems. Of course, the cause of their poverty is also drought, famine, internal strife, war, AIDS but globalization is not spreading the benefits of increased efficiency and openness that come with globalization more evenly and equitably to all nations. In India, 210 million people (one - fourth) are hungry. Of course, after successful completion of 60 years of Indian Independence, I have no doubt, Indian economy is growing fast. But it is also fact that it's undemocratic development. It is a development of fewer corrupt political ruling gangs, mafias, contractors, elite class and bourgeoisie along with newly emerged landlord capitalists who involved in illegal economic activities. As a result, the poor become poorer and rich become richer which creates inequality and poverty among the people. From all accounts, ordinary Indian people are experiencing a deep agrarian crisis. The lack of employment opportunities and income have resulted in an unprecedented reduction in the per capita availability of food - grains for the rural poor, pushing, by some of the estimates, more than three quarters (87%) of the rural population below "the poverty line". According to Bandana Shiva from Nav Danya Trust; 'agriculture sector has been the neglect in the development priorities of the government, and the accompanying bias towards investment in the urban industrial economy can in turn be traced largely to the misplaced emphasis on rapid industrialization via import substitution, and since 1990s, it's export-oriented, highly advanced state and private owned farm systems, they occupied more than 8 million hectare land using for exports crops and 100 million hectare for bio - energy plantations.

In South Asian countries, their expenditures increased fast on defense in one hand, more than 100 million people (especially in Afghanistan, Nepal, Bangladesh, Pakistan and Sri Lanka) are hungry in other hand. There is a need at least 44 billion dollars food assistance to the developing nations as FAO Chief Jyack Diyof announced in the conference, held in Rome, Italy. Per 30 s 5 children have been dieing due to food crisis, and there is a need to spend 10 % of their total expenditure on agriculture sector development. More than 30 countries in the world receive food relief. The fact is that globalization did not benefit all nations. Korea was one of the poorest nations in the world a half century ago; today it is one of the most industrialized and rich among the developing nations, and not far behind many developed nations, but Korean economy estimated that it will grow at 4.2 % only in 2010, and the more recent experience of China clearly shows that globalization properly managed can be a very powerful force for growth and development. During the past year, the US trade deficit ballooned to over $800 billion dollars, more than 100 banking and other financial institutions collapsed, unemployment problems increased at 10.2% (Ministry of Labour of the USA reports, more than 70, 60,000 people lost their jobs in December, 2007; it has reached at 1, 50, 00,000 in September, 2009; only 2, 63,000 people have lost their jobs in September, 2009; and 85,000 people lost their jobs in December 2009).

However, the Obama government in trying to create more job opportunity, has announced 30 trillions dollars' govt. budget for 2010 which is almost 15.7 trillions dollar of budget deficit (with the removal of many previous social welfare schemes). All 16 European countries have declared that unemploy-ment rate has increased at 9.6% in September, 2009. Politicians, under pressure from angry voters, may be veering towards protectionism and migration controls. The Obama govt. used non - tariff anti dumping act (trade act of 1984 authorized the president of the USA to deny WTO privileges - this act also called for "graduation" or the removal of preferential access for the exports of the most advanced of the developing economies, such as China, Taiwan, Korea, Hong Kong, and Singapore, nearly a third of developing countries' exports to industrial coun-tries were restricted by quotas and other non-tariff trade barriers), and imposed 100% anti - dumping duties on Chinese products' iron and steel pipe to protect domestic industries, and to raise huge revenue (as $2.6 billion collects from Chinese products each year). It's a new protectionism. However, recent OECD and International Monetary Fund reports suggest that financial conditions in developed countries have improved: there has been a boost in business confidence, export orders are growing, the US housing market has bottomed out and industrial production in emerging markets has begun to increase, estimated at 1.6% in 2010. Bolstered by successful implementation of fiscal stimuli and collective action to support financial markets, there is a new belief in the role of the state to correct market failures. But just as the financial crisis engulfed the world, affecting those who played no part in the original causes, it is crucial that any recovery from the crisis has the same global reach. We all know that the crisis itself stems, mainly, from poorly regulated financial markets which allowed risky and complex financial products to develop, skewing financial flows and creating unsustainable global imbalances. The consequence was that world trade volumes plummeted and industrial production fell drastically.

WORLD ECONOMIC SCENARIO

It is the most important change in the last four West - dominated centuries which is shifting from the Atlantic to the Pacific. Asia was the most important continent in the world economy for many centuries. Until 1820, Asia's GDP accounted for 60 % of that of the world. However, after that, Asia experienced a rapid decline where most parts of Asia were colonized by British and other imperial forces. After the Second World War, things started to change. Japan invented the export-oriented development model and joined the G -7 club, was the first to rise in Asia with American huge capital investment. In the 1960s, the "so - called Four Tigers"- namely Hong-Kong, Taiwan, Singapore, and South Korea-joined the Japan, was following the same development model. By early 1970s, some ASEAN countries, such as Indonesia, Malaysia, Thailand and the Philippines, followed the same. In 1978, China started the policy of reform and opening up to the outside world, a policy that led to some stunning achievements. In the past 30 years, China's annual average GDP growth was 9.8%. And in 1991, India decided to implement economic reform. After China and India embarked on the path of reform, Asia's rise is bound to change the world landscape. Asia's GDP accounts for about 24% of the global GDP and many economists predict that by 2030 Asia's GDP will rise to more than 40% of the world GDP with 60 percent of the world's population. But Asia especially China's rise differ from Europe and America when Europe and America rose, they did it at the expense of others, there were many conflicts and wars, they brutally colonized mostly Asian and African countries, exploited their natural resources and cheap labour factors. Today advanced capitalist countries looking for China. According to latest 'World Economic Outlook' (Update in November 2009) and the latest IMF report (Update in April, 2009); suggested that the world economy will grow only 1% in 2009 with the advanced economies taken together, experiencing negative growth (-0.3%) during the year. (Table 1)

Table 1. Growth in the world economy in 2009.

Economy	Year (2009) in (%)
World economy	1
Advanced economy	-0.3
USA	0.7
European economy	0.5
Developing economy	4.5

The US GDP is projected to contract by 0.7%, Euro Area GDP by 0.5% and UK GDP by 1.3% in 2009. The major two causes behind it are:

- The world-wide fall in demand and,
- Financial institutions have deeply been bankrupted not only in the advanced economy but all over the world for the long time.

This will be the first annual contraction that is absolute fall in output, experienced in the advanced economies in the post-war period. All the major capitalist Centers - USA, Europe and Japan - are simultaneously in recession. Especially, 3, 50,000 people have lost their jobs in July 2009 in Japan where already one million people had lost their jobs last year in 2008. Around 15000000 people (15 million) have lost their jobs in EU zone, and unemployment

Table 2. Unemployment problems in the developed countries.

Country	Unemployment rate (in (%) by October 2008	(%) in December. 2009
World	3 million	
USA	6.7	10.2
EU	8	10.0
France	8.2	-
Germany	7.1	-

Source: BBC (October 24, 2009).

zone, and unemployment rate increased by 20% in Spain. The unemployment rate in the US had already risen from 6.7% in November 2008 (more than 18700000 people lost their jobs) to 10.2% in November 2009 (only 85,000 people have lost their jobs in December, 2009, and more than 150, 00,000 people lost their jobs so far). The General Motors has already announced job cut for 23000 workers their jobs being lost by the end of April, 2009. The unemployment rates in France and Germany had risen to 8.2 and 7.1% respectively by October 2008 (ILO). With the recession deepening in 2009, unemployment in the advanced capitalist economies would rise further. (Table 2) At the same time more than 71,000 people in Canada, 1, 30,000 (including 4,500 UBS job cut) in UK, and 150,00,000 people in Euro Zone, have lost their jobs, and Car makers/Auto-producers (350,000 people have lost their jobs in July, 2009; total 10,00,000 unemployed force in Japan) and Germany have announced job cut by the end of 2009. There is always an excess supply of labour in the market, which has the effect of depressing wages and keeping surplus value and profits positive. The initial response of the Governments in the advanced capitalist countries to the financial crisis was to announce bailout packages for the financial companies, which had made enormous losses due to dark pool trading. According to Tony Lomas (Chief Officer who is handling Leeman Brothers' issue); it will take more than 10 years, to resolve the problems of…He assume that Leeman's property may be 10 to 30 trillions dollars; it means, India's more than GDP or whole economy of France/Britain. Recapitalization of private financial institutions with public funds took the shape of part nationalization of several banks and financial companies. This was accompanied by coordinated interest rate cuts by Central Banks across the world. These financial and monetary policy measures, however, have failed to prevent a deepening recession. The Governments of the advanced capitalist countries are now falling back upon fiscal interventions to salvage the situation. Even the bastion of neo - liberal orthodoxy, the IMF, has recently called for a "large fiscal stimulus totaling 2% of global GDP", to address the crisis. While the $700 billion bailout package announced in the US in October 2008 was primarily meant to compensate the losses made by the private financial institutions and other corporate. It means each American will intervene with USD 2.25 thousand for helping to bail out firms threatened by the fall - out of the sub - prime crisis. However, the White House, the Treasury and the Federal Reserve, who were saying that intervention was inevitable to avoid a financial meltdown, were making the case for a specific kind of intervention that favored Wall Street. Having made huge profits on speculation Big Finance wanted the State to pick up the losses when the bubble burst. The crisis is exposing the hazards of neo - liberal economic policies and the advanced capitalist countries are being compelled to resort to direct state intervention as the way out of the crisis. However, the extent of the crisis is such that these fiscal measures may turn out to be insufficient. There is also apprehension that the entire extent of financial losses by banks and other private companies are yet to be revealed. More financial shocks would only aggravate the crisis and worsen the prospects of economic recovery. All efforts would be made by the rich countries to shift the burden of the crisis on to the third world and for the ruling classes to shift the burden on to the working class and peasantry.

A REJECTION OF THE NEO - LIBERALISM

History shows that the 'Depression,' it always comes from American 'Wall Street.' A major promoter of globalization was the Washington consensus based the network of the 'Wall Street,' the US money lending agencies in the Euro-currency markets. The clear victory for Obama was a rejection of the neo-liberal policies of the Bush regime. The growing economic crisis which has badly affected the American people was a prime reason for the victory. Obama's fiscal stimulus plan has turned out to be a damp squib. Of the total amount he proposes to spend for reviving the economy, a part is for supporting the banks. The remainder, which is really meant for stimulating demand, comes to $400 billion. Now, the crisis which entails reduced income in the economy also entails reduced tax revenue for the state governments in the

United States. The reduction in tax revenue of the state governments is estimated to be $400 billion. Since state governments cannot run fiscal deficits, their expenditure too must go down by $400 billion. Obama's fiscal stimulus package therefore merely offsets the reduction in expenditure of the state governments, having zero net impact as a stimulus for the economy. It would prevent the aggravation of the crisis that would have occurred because of the reduction of state governments' expenditure, but it would do nothing to get the economy out of the crisis. And the timidity of Obama's fiscal package is due to the pressure of finance capital that is always opposed to State pro - activeness in demand management and employment generation (indeed to any State pro - activeness except that which serves its own interest). While international finance capital was investing around $400 trillion each year at a time when the value of all goods and services amounted to no more than $7 trillion. While financiers could allow humans to be unemployed, they could not allow capital to lie dormant, which is why international finance agencies demand unconditional freedom for capital to circulate, and as a result of deregulation, they demand state intervention. The main struggle within capitalist ruling class is to redistribute profit among themselves through financial investments. This explains the bubble. But this is accompanied by enormous increase of inequality everywhere in the world. Now, there is a crisis of accumulation of capital, as evident in the crisis of automobile, construction industry etc, at the very centre like the United States itself. This is more than a recession. It will lead to relative stagnation, perhaps even negative rates of growth, and enormous increase in unemployment. But beyond this, the main axis of the systematic crisis is the crucial issue of relative scarcity of natural resources like oil, water, wood etc. These resources are getting more scarce and costly. The US, Europe and Japan want to control exclusively this reserve of nature, and deprive the rest of the world from access to this reserve. There is this collective imperialism of this triad that is prevalent, who know that they cannot ensure their exclusive access but by using their military control over the planet, as evident in the US implementing their project for the New American Century.

CAUSES OF THE CURRENT GLOBAL ECONOMIC AND FINANCIAL CRISIS: THE DEBATE

John Maynard Keynes had rightly said, "Our analysis shows….that long - run development is not inherent in the capitalist economy. Thus, 'specific development factors' are required to sustain a long - run upward movement." What is the fact that mature capitalist economies tend towards stagnation. What happens is that the rate of return on investment begins to dwindle as overcapacity builds. That causes declining profits which lead to belt-tightening, rising unemployment and falling demand. As investment drops off further, growth slows correspondingly and the economy dips into a protracted slump. This corrosive stagnation is the challenge that all advanced capitalist economies face. The solution - as Keynes notes - lies in "specific development factors," which in today's terms means "financial innovations." Financial innovations, like derivations contracts and securitization have created vast new opportunities for investment and profit making. This complex nether world of highly leveraged debt instruments and off balance sheet operations constitutes a shadow - artificial unrealistic economy where the process of capitalist accumulation persists despite pervasive inertia in the underlying economy. This is why the Fed and the Treasury have been doing their best to stitch the system back together without changing its basic structure. As Marx believed that all societies, except classless societies, can be divided analytically into two parts: the forces of production and the relations of production. The forces of production are the technology used by the society in producing material goods; manifested in labour skills, scientific knowledge, tools, and capital goods, they are inherently dynamic. The relations of production are the rules of the game. There are relations between one person and another, or social relations, and relations between people and things, or property relations. Neo - liberal economist simply accepted markets and did not consider the nature of private property and the effect that the existence of markets had on people.

It was necessary to study the connection between private property, avarice and the separation of labour, capital, and landed property; between exchange and competition, value and the devaluation of men, monopoly and competition, etc., the connection between this whole estrangement and the money system. Neo-liberal economists did not consider how the forces of production would undermine the relations of production, once the market had created the forces of production that could meet people's material needs, the alienation inherent in property rights and markets would lead individuals to free themselves from the markets and create a society that would eliminate private property and the alienation associated with it. In my opinion, one of the main characteristics of capitalism was the separation of labour from the ownership of the means of production. Under capitalism, labour no longer owns its workshops, its tools, or the raw materials of the production process. Capitalism is therefore essentially a society of two classes, and one of the most important aspects of this society is the exchange, the wage bargain, that takes place between the capitalist and the proletariat. In classical analysis this theory had been essential to explain the existence of

profits. The classical economists maintained that capital accumulation leads to an increased demand for labour and a rise in the real wage of labour. If wages continued to rise with capital accumulation, the level of profits would fall. It is true that there is always an excess supply of labour in the market, which has the effect of depressing wages and keeping surplus value and profits positive. The reserve army of the unemployed as being recruited from several sources. Direct recruitment occurs when machines replace humans in production processes. The capitalists' search for profits leads them to introduce new machines, thereby increasing the capital intensity in the economy. The workers displaced by the new technology are not absorbed into other areas of the economy. One of the important contradictions between the forces and relations of production, would lead ultimately to the destruction of capitalism is the falling rate of profit. Competition in commodity and labour markets would lead to a fall in profits in the following way: There is a strong drive, for the capitalist to accumulate capital. Capital accumulation means that more capital will bid for labour, forcing up wages and reducing the size of the reserve army of the unemployed, and the rate of profit will fall. Competition in commodity markets will also result in a continuous decrease in the rate of profit because the capitalist will keep trying to reduce the costs of production in order to sell final output at lower prices. Prof. Joseph Stiglitz said that the current financial crisis, which began in the US and then spread to Europe, has now become global and requires a global response by an institution that is inclusive and that has political legitimacy. He indicated that any response should be based on social justice and solidarity that goes beyond national boundaries. He stressed the need to reflect on the role of financial markets in the economy, said they should be evaluated on how they serve citizens and added that they were not an end in themselves – they were a means to economic growth and prosperity for all, including homeowners, ordinary people and the poor. He explained that the underlying doctrine of the current system is flawed and said that this was the root cause of the problem. "What is good for Wall Street is not necessarily good for all", he said, and added that "trickle-down economy" had been consistently rejected as a means to provide prosperity for all. He also indicated that, in the past, the global financial system often worked to the disadvantage of developing countries. Banks in developed countries, for instance, were encouraged to lend short - term to developing countries - while this provided greater liquidity to the former, it led to greater instability in the latter. He noted that pro - cyclical monetary and fiscal policies were often foisted on developing countries, while developed countries followed countercyclical policies. That situation must change, he said. Creation of an external shock facility was a good idea, as was creating a multilateral reserve system with greater stability. There must also be more cooperation in setting macroeconomic policies, and the creation of a financial regulatory commission should be studied urgently. He stressed that the international community must commit itself to developing the institutions and instruments for increasing the stability and equity of the global financial system, and called for a reform in the governance of the international economic institutions and standard setting bodies. The reforms undertaken, for example, in IMF governance, so far have been inadequate. Unless far more fundamental reforms are taken, it will not be possible for these institutions to play the role they should – decision making must reside with international institutions with broad political legitimacy, and with adequate representation of both middle income countries and the least developed countries. He concluded by saying that the only institution that currently has broad legitimacy is the UN. (Prof. Joseph Stiglitz (a Noble Laureate and Professor at Columbia University), was a panelist at UN General Assembly on Causes and Solutions to the Global Financial Crisis, November 3, 2008).

According to Professor Prabaht Patnaik, the cause of the problem was located in the fundamental defect of the free market system regarding its capacity to distinguish between "enterprise" and "speculation" and hence, in its tendency to become dominated by speculators, interested not in the long-term yield assets but only in the short-term appreciation in asset values. He said John Maynard Keynes wanted this link to be severed through what he called a comprehensive "socialization" of investment, whereby the State, acting on behalf of society, always ensured a level of investment in the economy, and hence, a level of aggregate demand that was adequate for full employment. In the process of globalization, the role of nation-State has been undermined. As a result, fiscal intervention, as a means of sustaining growth, was replaced by globalized finance and de - regulation and an alternative paradigm was adopted whereby "bubbles lead to booms" instead of financial and economic stability ensured by sound long - term macroeconomic policies. He noted that the response measures had also been inadequate because injection of liquidity alone is not the answer; it has to be accompanied by injecting demand into the market through State investment in infrastructure and social services. The financial crisis will impact developing countries because of the ensuing recession which will contract demand for commodities, as well as sources of credit and financial flows. Even during the economic boom, the conditions of the poor worsened. Part of the response lies in supporting the livelihoods of peasants and small producers in developing countries through greater fiscal pro-activeness and expenditure for the revival of agricultural production (Patnaik, 2009, Professor at the Centre for Economic Studies and

Planning at India), was a panelist at UN General Assembly on Causes and Solutions to the Global Financial Crisis, November 3, 2008.). Noam Chomsky argues that Smith supported markets in the belief that they would lead to equality, and that Smith opposed wage labor and corporations. Unfortunately, the current new liberal globalisation of course, creates wealth but also inequality and poverty. Prof. Samir Amin said, the global financial crisis is a system crisis of capitalism. Capitalism has reached a certain level of centralization of capital that cannot be compared to the situation, even fifty years ago. At this stage, where a mere 5000 odd oligopolies control every production and organization of exchange in the world. This is a terrific level of centralization of capital, very different from the scenario prevalent in the early 20th century, dominated by monopolies. That these oligopolies have the capacity to control not merely the economic, but the political sphere is striking. This centralization is the basis on which unequal distribution of incomes has become possible. But it has led a shift in gravity from the productive sector to the redistribution of profit among the oligopolies through the means of financial investment. This is the secret behind the financialization of the global capitalism (Samir Amin Marxist Economist), 'System Crisis, South Centre, Geneva).

THE CLASSICAL IDEOLOGY OF LAISSEZ FAIR IMPLEMENTED IN THREE PHASES

The development of neo - iberalism adds to the globalization package, deregulation (liberalization, privatization), mercerization (unleashing market forces), financialisation and securitization (conversion of assets into tradable financial instruments), and the ideology of lean government in three phases:

- An early phase of proto-neo-liberalism from the 1940 to the 1970s, in which the main ideas took shape.
- A phase of rollback neo-liberalism in the 1980s when it became government policy in United States and United Kingdom.
- Rollout neo - liberalism in the 1990s when it became hegemonic in multilateral institutions.

Like many accounts, this account focuses on economic ideas (of the Mont Pelerine Society, Friedrich von Hayek, and Milton Friedman) and the policies of Reagan and Thatcher. But by locating the origins of neo-liberalism in the realm of ideas and the theories of the Chicago School, it overlooks the actual economic policies that shaped "real neo-liberalism" already before the Reagan era. The low - taxes, low - services regime envisioned by free market advocates already existed in the American South. Real neo-liberalism in the United States in the 1970s and 80s meant the implementation of the low - wage, low - tax model of southern economies. The Chicago school provided an economic rationale and intellectual gloss to what was, and remains for the majority, a backward, conservative and impoverished economic condition. The American South provided the material template, and Chicago School economies provided the intellectual sheen. It was a revival of the ideology of the British 'free - trade' system of Adam Smith.

During the 1980s, developed countries, beset by slow growth and large unemployment, increased the trade protection they provided to some of their large industries (such as textiles, steel, shipbuilding, consumer electronic products, television sets, shoes, and many other products) against imports from developing countries. These were the very industries in which developing countries had gained or were gaining a comparative advantage. It should be noted that a great deal of the new protecttionism was directed especially against the manufactured exports of the high - performance Asian economies (HPAEs) or so - called 'ASIAN TIGERS,' then called newly industrialized economies (NIEs). These economies (Hong-Kong, Korea, Singapore, and Taiwan) were characterized by rapid growth in gross domestic products, in industrial product, and in manufacturing exports. Over the past three decades, the ratio of the industrial exports of the HPAEs, NIEs to the total imports of the developed countries rose from about 1 percent to 6 percent. However, it was the timing and the type of products exported by the NIEs that led to increased trade restrictions by the developed countries. The increased protectionism has occurred in spite of the general system of preferences (GSP), negotiated by Western European countries and Japan in 1971 - 72 and by the USA in 1976, which granted preferential access to exports of developing countries into developed countries markets. Exception after exception to the GSP was "voluntarily" negotiated by the USA and other developed countries in many products, such as textiles, which are of great importance to developing countries. Since 1990s this change in Western policy led to a radical deregula-tion of the financial system, elimination of protectionist measures, radical privatization, reduction of state investment in basic infrastructure, and a policy of 'globalization' of the financial markets, that is, introducing the so - called 'Washington consensus' in the South. Investment flows shifted away from the real productive sector, more and more towards purely artificial, speculative profits in real estate, stock markets, futures markets and an exaggerated growth of service employment. This process, accompanied by a monstrous ballooning of debt, has finally led to a situation, in which the present global floating exchange rate financial system is hopelessly bankrupt and which cannot be sustained in its present form. Simultaneously, we have had an accelerating de-

cline in the performance of the real physical economies of nearly all nations of the world not sure - needs substantiation, as measured against levels of physical investment required for net maintenance of basic infrastructure, productive capacities, real material living standards and the quality of labour forces.

According to Harris and Robinson, the emergence of new forms of global integration of production processes via direct investment, combined with the re-emergence of older forms via financial flows, has consolidated rather than undermined the fundamental difference in the material conditions of class formation that separates the North from the South. The implications for processes of class formation on a world scale of this remarkable geo-political stability of the global hierarchy of wealth are straight forward. In the new phase of globalization, the world-wide social linkage in an internal one springing from the globalization of production process itself and the supranational integration of national productive structure, is the most fundamental transformation from the past where the world was linked together via commodity and financial flows was an integrated international market. The other thing is the increasing class-consciousness of the TCC, as witnessed by the rise of a transnational state (TNS) apparatus. A transnational working class "is increasing a reality as a class in-itself." But it is not yet for itself. It has become conscious of its trans -nationality, and has been pursuing a class project of capitalist globalization, as reflecting by the rise of transnational state under its auspices.(Harris and Robinson stated in Capital and Class (2004).

ROLE OF FDI AND MNCS

Most important reason for direct foreign investment is to obtain control of a needed raw material and thus ensure an uninterrupted supply at the lowest possible cost. This is referred to as vertical integration and was the form of most direct foreign investments in developing countries and in some mineral rich developed countries. Thus, American and foreign corporations own mined in Canada, Jamaica, Venezuela, Australia, and other reasons for direct foreign investments are to avoid tariffs and other restrictions that nations impose on imports or to take advantage of various government subsidies to encourage FDI (that is the large - scale direct investment, made by US firms in the EU countries and some FDI in manu-facturing in developing countries. Other reasons for FDI are to enter a foreign oligopolistic market so as to share in the profits, to purchase a promising foreign firm to avoid its future competition and the possible loss of exports markets. The USA is the main supplier of FDI to Latin America, Bangladesh, Pakistan, the Philippines, and Saudi Arabia; FDI from EU flow mostly to Ghana and Morocco in Africa, Brazil in Latin America, India, Sri Lanka, and Vietnam in Asia, and to the former communist countries in Eastern Europe; and Japan in the main supplier of FDI to South Korea, Singapore, Taiwan, and Thailand. (Table 3)

Host countries have more serious complaints against MNCs. First and foremost is the allegation that MNCs dominate their economies. Foreign domination is felt in many different ways in host countries, including:

- The unwillingness of a local affiliate of MNCs to exports to a nation deemed unfriendly to the home nation or the requirement to comply with a home-nation low prohibiting such exports;
the borrowing of funds abroad to circumvent tight domestic credit conditions and the lending of funds abroad when interest rates are low at home, and
- The effect on national tastes of large-scale advertising for such products as coca, jeans and so on.
- Harmful effect of MNCs, on the host country is the siphoning off of R and D funds to the home nation.
- It keeps the host country technologically dependent.
- MNCs absorb local savings and entrepreneurial talent, thus preventing them from being used to establish domestic enterprises that might be more important for national growth and development.
- MNCs extract from host nations most of the benefits resulting from their investment, either through tax and tariff benefits or through tax avoidance.

In developing nations, FDI by MNCs in mineral and raw material production have often given rise to complaints of foreign exploitation in the form of low prices paid to host nations, the use of highly capital - intensive production techniques inappropriate for labour - abundant developing nations, lack of training of local labour, over exploitation of natural resources, and creative highly dualistic "enclave" economies.

STRUCTURAL INEQUALITY AMONG THE PEOPLE AND THE NATIONS

The global economic and financial crisis has become deeper in one hand, and poverty, unemployment and the wide - inequality gap between the countries and among the people has been increasing in other hand. As a result of imperialist globalization, the richest people become richer and the poorest become poorer. The situation has such extremes that per capita incomes have fallen in more than 70 countries over the past 20 years; some 3 billion people - half the world's population, live on under one dollars a day; 810 million (81,80,00,000) people are suffering from malnutrition. A Study of World Economic Development Research Institute of the United Nations

Table 3. The world's largest industrial multinational corporations.

S/No.	Company	Home nation	Industry	% of foreign sales
1	Exxon Mobil Corporation	USA	Petroleum	69.4
2	General Motors	USA	Motor Vehicles	26.1
3	Ford Motor Company	USA	Motor Vehicles	30.4
4	Daimler Chrysler	Germany/USA	Motor Vehicles	32.0
5	Royal Dutch/Shell Group	UK/Netherlands	Petroleum	54.4
6	British Petroleum	UK	Petroleum	71.3
7	General Electric	USA	Electronics	38.1
8	Toyota	Japan	Motor Vehicles	49.6
9	Chevron Texaco	USA	Petroleum	55.5
10	Total Fina ELF	France	Petroleum	78.0
11	IBM	USA	Computer	57.9
12	Volkswagen Group	Germany	Motor Vehicle	72.6
13	Hitachi	Japan	Electronics	29.3
14	Siemens	Germany	Electronics	43.8
15	Matsushita Electronics	Japan	Electronics	49.3
16	Sony	Japan	Electronics	67.2
17	Honda Motor	Japan	Motor Vehicle	72.9
18	Fiat	Italy	Motor Vehicle	66.9
19	Petroleos de Venezuela	Venezuela	Petroleum	93.5

Source: United Nations, World Investment Report 2002.

University suggests that only 2% people have the combined assets more than 50% of totaling wealth of the World's family. Over 50% of the total world's population currently own only 1 percent wealth. These richest people are mostly settled in North America, Europe, Japan and Australia. The combined assets of North America, Europe, Japan and Australia have become more than 90 percent of the World's resources. This study was based on family's wealth (including building, land, animal resources and other income) after deducting of the loan. The property of Asian billionaires is now increasing fast with the ratio of 10.5%. The combined assets of Asian billionaires have become more than USD 8.4 trillion, where each 5 billionaires into each 10 billionaires, living in Asia. Report suggests that 'a number of the richest people are increasing with 8.3%.' More than 95 hundred thousand richest people's property has been increased with the amount of USD 37.5 trillion since 2006 with the ratio of 20.5%, due to tax reduction and subsidies in the world. According to Meril Linch and Capjemini; less than 100,015 people have more than USD 1 million in India, and, almost the same number of the people in Brazil, Canada, China, Germany, Russia, Britain and the USA.[1] There are 160 developing countries in the world, of which 48 countries are very poor designated by the United Nations as Least Developed. Over the past half century, extreme poverty remains widespread in the developing world. More than 1.2 billion people live on less than $1 per day at purchasing power parity, and more than 2.8 billion almost the world's population - live on less than $2 a day. These impoverished people often suffer from under nutrition and poor health, have little or no literacy, live in environmentally degraded areas, have little political voice, and attempt to earn a meager living on small and marginal farms or in dilapidated urban slums.

At least, 148 developing countries are the member of WTO, of which 30 countries are the Least Developed. These developing countries accounted only 20 percent in world exports. However, the developed countries of WTO accounted 71% in world exports (technologically highly sophisticated and most advanced 500 economic and financial powerhouse out of 40000 MNCs, they constituted 70% of world trade, 80% of world FDI and 30% of world GDP). The developing countries faced adverse terms of trade due to their primary exports of agricultural goods. More than 75% of Least Developed countries' total exports constituted 112 products out of 5000 products traded in the world markets. For developed countries with only 5 - 10% of its people in agriculture, and received 300 – 500% agriculture subsidies on the name of Green Box, Yellow Box and Blue Box with only 4% exports duty in their markets when at the same time for the developing countries it's 40%. The high - income economies control 78.3% of world GDP with only 15% of world population, their share in world exports has reached at 76.2%. The developing countries constitute

85% of the world population, enjoying only 21.7% of world GDP, their share in world exports have been diminishing. The low - income economies constitute 59.6% of world population and control only 6.3% of world GDP, their share in world exports was only 6.2%, and a vast country like India, their share in world exports was only 0.6 %. The USA is the single largest economy of the world, accounting 28.5% of world GDP and 12.6% of world exports with only 4.6% of the world population.

Over 75% of the world population lives in under-development, and extreme poverty has already reached 1.2 billion people in the Third World. The 5% population currently earns 114 times as much as the poorest 5% in the world. The top 500 richest people currently own USD 1.54 trillion, which is more than the entire GDP of Africa. More than fifty thousands multinational corporations, the largest of these, General Motors and Exxon, each have assets totaling more than the gross national products of countries such as Australia, Denmark, Argentina, Norway, Hungry and Greece. The assets of the 200 richest people are more than the combined income of 41% of the world people. The assets of the 3 richest people are more than the combined GNP of all 48 least developed countries, which have a population of more than 600 million people. The top one percent of Americans has doubled their share of national wealth since the 1970s, and now they own more than 40% of the total wealth. The top one percent now has more wealth than the entire bottom 95%. The developed countries, with only one - fifth of global population, account for four - fifth of world output, more than four - fifth of world trade and almost all exports of capital and technology. Developing countries constitute 85% of the world population, enjoying only 21.7% of world GDP. Due to free trade and laissez fair global economic order based on international division of labour, international finance capital has come under pressure. However, the developed countries are still maintaining their economic status. On the basis of country's GDP, the rank of America is top with USD 12.46 trillion where India's rank is twelve with USD 785.47 billion GDP. The economic ranks of the top countries are presented in Table 4.

NORTH - SOUTH GAP IN LIVING STANDARDS OF THE PEOPLE: A HOUSE - HOLDS SURVEY

As people throughout the world are living under very different circumstances. Some live in comfortable homes with many rooms. They have more than enough to eat, are well clothed and healthy, and have a reasonable degree of financial security. Others, and these constitute more than three - fourths of the earth's 6 billion people, are much less fortunate. They may have little or no shelter and an inadequate food supply. Their health is poor, they often cannot read or write, they are often unemployed, and their prospects for a better life are uncertain at best. An examination of these global differences in living standards is revealing. An average family in North America, we would probably find a "nuclear" family of four with an annual income of approximately $48,000. They live in a comfortable suburban house with a small garden and two cars. They have many comfortable features, including a separate bedroom for each of the two children with numerous consumer goods and electrical appliances, many of which were manufactured outside North America. Example might include computer hard disks made in Malaysia, DVD players manufactured in Thailand, garment assembled in Guatemala, and mountain bikes in China. There would always be three meals a day and plenty of processed snack foods, and many of the food products would also be imported from overseas: coffee from Brazil, Kenya, or Colombia or Ethiopia; Canned fish and fruit from Peru and Australia; and bananas and other tropical fruits from Central America. Children would be healthy and attending school. They could expect to complete their secondary education and probably go to a university, choose from a variety of careers to which they are attracted, and live to an average age of 77 years. On the surface, this family, which is typical of families in many rich nations, appears to have a reasonably good life. The parents have the opportunity and the necessary education or training to secure regular employment; to shelter, clothe, feed, and educate their children; and to save some money for later life. But against these "economic" benefits, there are always "non - economic" costs. The competitive pressures to "succeed" financially are very strong, and during inflationary or recessionary times, the mental strain and physical pressure of trying to provide for a family at levels that the community regards as desirable can take its toll on the health of both pa-rents. Their ability to relax, to enjoy the simple pleasures of a country stroll, to breathe clean air and drink pure water, and to see a crimson sunset is constantly at risk with the onslaught of economic progress and environmental decay. But on the whole, theirs is an economic status and lifestyle toward which many millions of less fortunate people throughout the world seem to be aspiring. The Asian and African households (for example; India and Ethiopia) is likely to comprise 10 or more people, including parents, five to seven children, two grandparents, and some aunts and uncles. They have a combined per capita annual income, in money and in kind (e.g., they consume a share of the food they grow), of $250 to $350. Together they live in a large agricultural estate owned by an absentee landlord who lives in the nearby city. The father, mother, uncle, and older children must work all day on the land. None of the adults can read or write; of the five school - age children, only two

Table 4. Top ranked countries.

1	USA	2	Japan	3	Germany	4	China	5	England
6	France	7	Italy	8	Spain	9	Canada	10	Brazil
11	South Korea	12	India	13	Mexico	14	Russia	15	Australia

attend school regularly, and they cannot expect to proceed beyond a basic primary education. All too often, the teacher is absent. There is often only one meal a day; it rarely changes, and it is rarely sufficient to alleviate the children's persistent hunger pains. The house has no electricity, sanitation, or fresh water supply. There is much sickness, but qualified doctors and medical practitioners are far away in the cities, attending to the needs of wealthier families. The life is continually being snuffed out. In this part of the world, the only relief from the daily struggle for physical survival lies in the spiritual traditions of the people. The poor family is living in the dirt - floored shack. There are a few scraps of stale bread. Most of the four children spend their time out on the streets begging for money, shining shoes, or occasionally even trying to steal purses from unsuspecting people who stroll along the boulevard. The father migrated to the city from the rural hinterland a few years ago, and the rest of the family recently followed. He has had part -time jobs over the years, but nothing permanent. The family income is less than $800 per year. The children have been in and out of school many times, as they have to help out financially in any way they can. Occasionally the eldest teenage daughter, who lives with friends across town, seems to have some extra money -but no one ever asks where it comes from or how it is obtained.

Especially, in the eastern part of Africa, where many small clusters of tiny huts dot a dry and barren land. Each cluster contains a group of extended families, all participating in and sharing the work. There is no money income here because all food, clothing, shelter, and worldly goods are made and consumed by the people themselves there is a subsistence economy. There are no roads, schools, hospitals, electric wires, or water supplies, and life here seems to be much as it must have been thousands of years ago. In many respects it is as stark and difficult an existence as that of the people in Latin America, Asia and other parts of Africa.

EFFECTS OF GLOBAL ECONOMIC AND FINANCIAL CRISES ON THE SOUTH

There was a general slowdown in economic growth throughout 2008 in countries with quarterly statistics. The study find out; it would be continued to even worse effects in 2009 and this is consistent with forecasts from the International Monetary Fund (IMF) of declining GDP per capita for several countries in 2010. Growth forecasts have been revised downwards in all countries, contrasting with excellent growth records for developing countries in the years leading up to 2007 and even into 2008. In general, economic growth in developing - countries had been expected to reach 6.4% in 2009, but has been marked down to 4.5% by IMF and World Bank. Developing countries are facing fiscal pressures both on the expenditure side (growing demands for social protection, recapitalization, etc) and the revenue side (as exports and economic activity slow). The appropriate response to falling domestic demand may, in some cases, be a measured fiscal stimulus. However, the credit crunch and flight from risk is already reducing the ability of formerly market - access countries to meet their gross financing needs (rolling over amortized debt and financing their net borrowing requirements). Some developing countries are being hit much harder than the average - experiencing growth which is negative in per capita or even absolute terms. Coming on the heels of the food and fuel price shock, the global financial crisis could significantly set back the fight against poverty. Sharply tighter credit conditions and weaker growth are likely to cut into government revenues and governments' ability to invest to meet education, health and gender goals. Current estimates suggest that a one percent decline in developing country growth rates traps an additional 20 million people into poverty. Already 100 million people have been driven into poverty as a result of high food and fuel prices. Already, sharp cuts in capital flows to developing countries are expected. Even if the waves of panic that have inundated credit and equity markets across the world are soon brought under control, deliberating in financial markets and an extended period of banking-sector consolidation is expected to cut sharply into capital flows into developing countries. Private flows into developing countries are projected to decline from $1 trillion in 2007 to around $530 billion in 2009 (or from 7.7 to 3.0% of developing country GDP).

Declining private financial flows, trade and remittances

The economic crisis affected developing countries through declining private financial flows, trade, and

remittances. By the end of 2009, developing countries have lost incomes of at least $750 billion - more than $50 billion in sub - Saharan Africa. The human consequences include rising unemployment, poverty and hunger, and an additional 50 million people trapped in absolute poverty, with the number expected to rise to 90 million by December 2010 (African Development Bank, 2009b). According to ODI led case studies in ten developing countries in early 2009 - Bangladesh, Benin, Bolivia, Cambodia, Ghana, Indonesia, Kenya, Nigeria, Uganda and Zambia, Sudan, Ethiopia, Democratic Republic of Congo, Mozambique and Tanzania, the research suggests that poor countries have been hit harder than was originally predicted, and 2009 is likely to be worse than 2008 (Aitken and Harrison, 1999).

Some countries are seeing strong economic growth transformed into negative growth in 2009, others significant slowdowns of 3 - 7% points, though some have hardly been affected. Our study found a slowdown throughout 2008, with sure signs that 2009 will be worse, in general, for low-income countries. Growth forecasts have been revised downward in all ten countries, in stark contrast to the excellent economic growth in developing countries overall in recent years. Growth in Cambodia, for example, is set to slide from more than 10% in 2007 to close to zero in 2009. Kenya may achieve only 3 - 4% growth in 2009, down from 7% in 2007. Key sectors are suffering: tourism in Kenya and Cambodia; manufacturing in Asian countries in general; and commodities in Bolivia, DRC, Sudan and Zambia.

Trade values declined rapidly, in part due to rapid rises in stock building, but also because trade prices fell sharply. The value of garment exports from Cambodia has been slashed, from $250 million per month in 2008 to $100 million in January 2009, although Bangladeshi garment exports did not suffer the same fate. Coffee exports, which have a strong correlation with poverty in Uganda, fell by a third in the year to March 2009, though fortunately an increase in Uganda's regional trade of maize and beans cushioned the impact somewhat. Prices of commodities, including copper and oil, fell, affecting countries such as Nigeria, Zambia and Bolivia, but have rebounded in recent months, adding to an already volatile situation. Declining oil exports have lowered government revenues threatening fiscal transfers to Southern Sudan. Mining exports collapsed in DRC where reserves had reportedly dwindled to only a few days worth of exports until the IMF intervened.

Net financial flows to all developing countries could fall by as much as $300 billion over 2007 - 2009, equivalent to a 25% drop (Alfaro et al., 2003). Portfolio investment fell in most of the countries studied in 2008, with many seeing large net outflows, and no recent signs of reversals. Stock markets plunged, with tighter credit conditions for bank lending in Cambodia, Ghana and Zambia. Bond issuances were put on hold in Ghana, Kenya and Uganda. Foreign Direct Investment (FDI) is one of the most stable external resources for developing countries, reaching a record $500 billion in 2007. Of the total inward stock of FDI of all developing countries, about 62 percent was in Asia (especially in Hong Kong and China having by far the largest share) and 32 percent in Latin America. The inward stock of FDI of Africa and Central and Eastern Europe was very small. Even so, the impact on FDI varies across countries, and worsened in 2008. FDI in garments halved in Cambodia in 2008, raising fears that investors, mainly Chinese, will not return when the recovery kicks in. FDI plans in mining exploration in Tanzania were halted with potential long - term consequences.

The effects on remittance

Around 52 billion dollars in 2008 (that is 75 %) remittance came to India out of the total remittance to South Asia. According to World Bank; it was only 39.3 billion dollars in NRI accounts by June 2009. A joint study of BBC World Service and Migration Policy Institute say that around 80% of remittances to developing countries come from high-income countries, making this often vital source of household income vulnerable to economic crises. Such remittances reached a record $251 billion in 2007, but have fallen in many of the countries studied. The most effected nations are India, China, Mexico, Philippines, Poland, Nigeria, Egypt, Romania, Bangladesh and Vietnam. However, by 23% and 16% slightly increased in both in Pakistan and Bangladesh respectively. Remittances to Kenya, largely from the US, fell by 12% in the first six months of 2009 compared to the same period in 2008. Overall, remittances to developing countries are set to fall by between $25 and $66 billion in 2009 (Balasubramanyam et al., 1996). Small and economically open states are particularly vulnerable to the crisis. They are experiencing falling remittances, exports and FDI, especially in sectors that fuelled their earlier economic growth: tourism, financial services and real estate (Baltagi, 2008). According to Migration Policy Institute and World Bank; 7% remittance, 10% exports, and 57% FDI have fallen in the developing countries during the recession. In St Lucia, where many people depend on tourism, hotels were 80% empty during the peak tourist period in late 2008 and early 2009. Remittances to Tonga fell by 15% between June 2008 and June 2009 (Bekaert and Harvey, 1998). Jamaica experienced a drop of 14% in the first two months of 2009 (Bekaert and Harvey, 2000). More households will fall into poverty than would otherwise have been the case – as many as 300,000 in Bangladesh; 233,000 in Uganda; and 230,000 in Ghana (1% of the entire population) (Blomstrom, 1986).

The number of those employed as a result of FDI in Ghana, for example, dropped by around one third between the last quarter of 2007 and the last quarter of 2008. In Kenya, the labour-intensive horticultural industry has suffered a 35% drop in exports of flowers, with inevitable knock - on effects on its workers, and in Zambia, nearly one in four of the workers in the mining sector lost their jobs in 2008 (ibid.). In Cambodia, more than 63,000 garments jobs were lost by March 2009 (a fifth of the total). Further increases in unemployment are anticipated. It is the poorest who had least responsibility for the global financial crisis that are paying the highest price. However, the poorest could be part of the solution.

The food and fuel price shocks

The food and fuel price shocks have already imposed large fiscal costs on developing countries, undermining their ability to respond to fall-out from the financial crisis. Policymakers responding to high food and fuel prices made extensive use of tax reductions to offset higher prices and increased spending on subsidies and income support. Data from a recent IMF survey covering 161 countries show that nearly 57% of countries reduced taxes on food while 27% reduced taxes on fuels. Almost one in five countries increased food subsidies while 22% increased fuel subsidies. Although most of the hike in commodity prices that occurred in 2007 and the first half of 2008 has dissipated, commodity prices remain above their 2004/05 levels, and currency depreciation is raising the local cost for many food and fuel importing countries. For the very poor, reducing consumption from already very low levels, even for a short period, can have important long-term consequences. The poorest households may have had to reduce the quantity and/or quality of the food, schooling, and basic services they consumed, leading to irreparable damage to the health and education of millions of children. Poor households forced to switch from more expensive to cheaper and less nutritional foodstuffs, or cut back on total caloric intake altogether, face weight loss and severe malnutrition. In 2008 - 09, higher food prices may have increased the number of children suffering permanent cognitive and physical injury due to malnutrition by 44 million. Many of the countries most exposed to rising global food and fuel prices are those with high pre-existing levels of malnutrition. Financial institutions in developing countries are beginning to suffer from a lack of short term liquidity, as retail deposits exit and non - deposit funding dries up. As the effects of the global recession spreads, the impact will be felt on financial sector asset quality, leading to the need for recapitalization of financial institutions. Lack of liquidity will also reveal underlying weaknesses in regulatory framework and in the management of financial institutions, requiring regulatory reforms and capacity building. Tight credit markets in developing countries are rapidly affecting the real sector, especially sectors reliant on trade finance and working capital.

CRISIS IMPACT AND DEVELOPMENT CHALLENGES: A CASE STUDY OF AFRICA

The poorest countries of Africa have significantly been affected by this crisis. The earlier predictions on the impact of the financial crisis on African economies have been wrong for one basic reason: They focused on the financial sector only while ignoring the real sectors. Indeed the finding of this study shows clearly that integration into the world economy is not only through the mechanism of the financial sector but also through other sectors. This gross oversight, by IMF and World Bank, gave wrong signal, in terms of policy advice, to governments of African countries and hence weakened their preparedness for the crisis. The global financial crisis hit on African countries through slower export growth, reduced remittances, and lower commodity prices (which will reduce incomes in commodity exporters). The crisis may also lead to a reduction in private investment flows, making weak economies even less able to cope with internal vulnerabilities and development needs. Private financial flows have been affected, but there is a need for disaggregation. Portfolio investment flows fell dramatically in 2008 in most countries, and there were even shifts from inflows to large net outflows, as well as a significant drop in equity markets in 2008 and into 2009. There are signs of the tightening of credit conditions for bank lending in Ethiopia, Ghana and Zambia. Foreign Direct Investment (FDI) has been affected less, but this varies across countries, deteriorated during 2008. The issuing of bonds has been put on hold in Ethiopia, Ghana, Kenya and Uganda. Remittances are down in nearly all African countries. In Kenya, for example, remittances were down by 27% in January 2009 compared to January 2008, following a volatile year. There is little evidence of an aid pull out so far. While there were falls in aid to Ethiopia, Eritrea Uganda in 2008, it may be too soon to blame this on the crisis. Some African countries are facing serious macro-economic imbalances quite independently of the financial crisis, mostly brought on by the fuel and food crises - such as Ethiopia having 100% inflation and so on. Burundi, Madagascar, Niger, Timor Leste, Ethiopia, Somalia and Yemen are among the ten most affected countries for both stunting and wasting indicators. All of these countries experienced double - digit food inflation in 2007-08. But prices of copper and oil declined dramatically, affecting Nigeria and Zambia.

The Financial crisis will hit poor countries most: Core areas that will be affected are:

Aid related western NGO supported programmes in malaria, HIV/Aids, water sanitation, anti-poverty campaigns, small arms elimination programmes, conflict in the great lakes region have been affected. But at the same time there has to be great caution in pointing out that without also helping to sort out core questions of why the crisis is there in the first place. Global transfer of funds of Africa has been allowed to join the rich nations club where they can contribute funds and control its flow internationally. Major reason is that Africa is still strewn in debt. African civil societies had been fighting to have a bigger say on how WTO runs trade, goods transfer from the rich to the poorer countries and vice versa. This is a preserve of the EU and other western countries to determine. So far only South Africa is part of that 'privileged club.' Soon we shall see demonstrations and massive job loses there. The crisis affects countries that have a common currency. This implies that if a country A has interest rate problems it can lower or raise to balance its recurrent budget. In the case of EU countries they have been hit most. Africa does not have a common currency yet.

The crisis is about stock exchange: Out of 50 countries in Africa only 17 have stock exchanges but only locally placed. Not mega London New York type of stock exchanges where one can lose billions in a day or gain trillions in an hour. So the crisis may not affect Africa. However, the Francophone countries with their central bank run from Paris, could affect them should France face bad economic crisis and increase poverty levels in those African Francophone countries. Kofi Annan while addressing the IMF African Finance Ministerial conference 916/3/09) in Dar Es Salaam in response to the current crisis. Trillions of dollars have been committed in the last few months for bailout and stimulus packages. This compares with a total of US$100 billion a year in development aid, yet more than that has been spent on rescuing one US Company. Any debates on the financial crisis should also look critically at the way the developed world always takes advantage of poor countries. If WTO can be streamlined to allow African farmers to sell their produce in the EU competitively there might be greater show of hope for African economies. Kenyan growth may reach only 3 -4% in 2009, down from 7% in 2007, after a sluggish 2008 dominated by political turmoil. Some other countries such as Zambia have seen their growth prospects affected less, despite the impact of the global financial crisis on the mining industry. Growth in countries is affected differently because of sector composition: tourism is affected in Kenya. FDI - generated employment in Ghana dropped from 15,526 people at the end of 2007 to 10,022 at the end of 2008. In Kenya, the labour – intensive horticultural industry, which employs an estimated three million people, had to cut around 1,200 jobs this year and suffered a 35% drop in exports of flowers. In Zambia, 8,100 of the 30,000 workers in the mining sector lost their jobs in 2008. Simple back - of - the-envelope calculations suggest that the number of households in poverty may rise far more as a result of the crisis than would otherwise have been the case. Estimates suggest that the number of poor households may rise by: 233,000 in Uganda (0.8% of the population); 230,000 in Ghana (1% of the population); Elsewhere, we are seeing very small monetary policy steps and not much else (e.g. Kenya). The impact on national balance books varies, from those with lower tax receipts such as Uganda, the evaporation of the hoped - for increases in tax receipts from Zambian mining.

TRENDS OF PRIVATE CAPITAL FLOWS AND ECONOMIC GROWTH: A BRIEF REVIEW

The spread of the global financial crisis, which originated in the developed world in August 2007, has led to a slow down of private capital inflows to SSA, thus putting at risk the beneficial growth effects of the recent surge in FDI and cross-border bank lending. In several SSA countries, such as DRC, Liberia and Tanzania, among others, investment plans have been scaled back, postponed or abandoned. Moreover, there are already a few signs of a drop in banks' foreign claims on SSA countries such as Ghana and Zambia. According to Durham (2003); the impact on growth of bond foreign portfolio investment (BFPI) as well as total foreign portfolio investment (FPI) and other foreign investment (OFI), which includes cross-border bank lending, using a sample of 88 countries from 1977 through 2000, suggest that FPI, BFPI and OFI have no effect on economic growth. However, there is some evidence that OFI may have a negative impact on economic growth depending on the level of financial and legal development of the recipient country. More recently, de Vita and Kyaw (2009), using a dynamic panel model on a large sample of 126 developing countries for the period 1985-2002, examine the impact of FDI and portfolio investment flows on the economic growth of low, lower middle and upper middle income countries. They find that only developing countries that have reached a minimum level of economic development and absorptive capacity are able to capture the growth - enhancing effects of both forms of investment inflows.

Thus, FDI provides additional resources that can be used to build additional physical capital and create more employment; it increases the size of capital stock and encourages more efficient use of existing resources, thus enhancing recipient country's output and productivity; and it improves the local skills and promotes technological

know - how, thereby enhancing overall economic growth and development. Therefore, the importance is underscored of an adequate set of policies capable of influencing the way in which FDI affects growth, productivity, employment and, above all, poverty within developing countries, and in particular in SSA. The potential benefits of financial integration, such as increased opportunities for risk sharing and diversification and better allocation of capital among investment opportunities, are widely recognized. Indeed, cross-border activities allow banks to better realize their optimal size, exploit economies of scale and scope, and diversify activities and spread risk and revenues. This enables them to improve resource allocation and risk management and increase profitability. As a final effect, the development and integration of the banking sector has a positive impact on economic growth. On the other hand, cross-border banking could also make the banking system more vulnerable to crises by opening up additional transmission channels of systemic risk across borders. In the context of SSA, this risk may have been mitigated over the past years, thanks to a continued effort in reinforcing the regulatory and supervisory framework. As a consequence, the beneficial growth effects of cross - border bank lending may have unfolded. In contrast with the positive growth impact of FDI and cross - border bank lending, the effects of portfolio equity flows are negative and not significant. In other words, they do not produce any significant positive impact on SSA growth. While it cannot be ruled out that this result owes to the scarcity of portfolio equity flows data in our sample, the non-significance of EQUITY may be explained by the fact that the bulk of recently increased portfolio equity inflows have been concentrated in very few SSA countries, mainly in South Africa. This is because among all SSA countries, only 22 have established stock markets; of these, only nine markets have more than 20 listings.

Equity markets, the lack of depth and liquidity where there are such markets and the absence of a coherent policy approach towards capital account liberalization still represent significant constraints on portfolio equity flows at the regional level. Moreover, the presence of a negative sign in front of the portfolio equity flows variable may be explained by the fact that, in our analysis, we are looking at the long-term effect of private capital inflows on economic growth and, from the theory and previous empirical evidence, we know that the most illiquid stock markets are the most exposed to the flight-to-quality effect in the presence of financial crises. So, even if in the short term the increase in portfolio equity inflows may have contributed to enhance economic growth in SSA countries with quite well-developed stock markets, in the long term they may expose the overall illiquid region to the risk of capital flight in the case of a financial crisis, thus negatively affecting SSA economic growth.

Historical experience shows that bonds flows are found to have no significant impact on growth. Moreover, traditional growth variables such as trade openness and government consumption are confirmed to be significant, exerting respectively a positive and negative impact on economic growth. A drop by 10% in FDI inflows may lead to a 0.5% decrease of SSA's income per capita, whereas a 10% decrease in cross - border bank lending may have a detrimental effect on growth by up to 0.7%. Therefore, in the context of the current global financial crisis, a drop of FDI and cross-border bank lending may represent an additional channel through which the crisis is likely to negatively affect SSA economic growth. Over the period 2000 - 2007, SSA enjoyed robust growth and, in a context of abundant global liquidity, attracted an increasing number of investors in search of high yields. As a consequence, private capital inflows, including FDI, portfolio equity flows and debt flows (i.e. portfolio bond flows and bank lending) experienced remarkable increases. The link between capital inflows and economic growth is still controversial, and the existing empirical literature has devoted little attention to the growth impact of different forms of private capital flows. By using a panel co- integration analysis, we examined the long-run relationship between economic growth and cross-border bank lending, FDI, bonds flows and portfolio equity flows on a sample of selected SSA countries over the period 1980-2007. In light of these facts, I can say that the global financial crisis is likely to have an important effect on SSA's growth through the private capital inflows channel (half a percent of growth is worth around $5 billion in lost output). Net foreign direct investment (FDI) inflows grew from $13 billion in 2004 to Private equity and debt flows reached a record high of $53 billion in 2007(IMF 2008a). Portfolio equity flows took off, reaching a value of $15 billion in 2006; bonds flows rapidly increased, by $7.13 billion from 2006 to 2007; and international banking activity all expanded significantly. However, the financial turmoil originating in the developed world in August 2007 has since spread to developing countries, and SSA has not been immune to the secondary effects of the global financial crisis. SSA's growth dropped from 6.9% in 2007 to 5.5% in 2008; in January 2009, the International Monetary Fund (IMF) once more cut its forecast for growth for this year by 1.6 percentage points to 3.5%. In April 2009, the IMF revised again its forecast leading to a new projection for SSA growth in 2009, equal to 1.7%. Private capital inflows to SSA were relatively robust up to the first half of 2008, but dropped sharply from the third quarter of 2008, owing to a reduced capability and propensity to invest on the part of foreign investors. Many bond issuance plans were put on hold in countries such as Ghana, Kenya, Tanzania and Uganda. FDI inflows continued to grow, but at a lower rate. Portfolio equity flows slowed down and sometimes reversed, consistent

with sharp falls in stock markets in South Africa, Nigeria, Kenya, Mauritius and Côte d'Ivoire. The first signs of contraction of international bank lending began to emerge: banks' total foreign claims on Zambia declined from $2908 million in June 2008 to $2607 million in September 2008, and Ghana experienced a similar drop over the same period.

PRIVATE CAPITAL INFLOWS: CHALLENGES AND OPPORTUNITIES

The region has enjoyed robust economic growth since the mid -1990s, supported by exports and private consumption, reaching in 2007 one of its highest growth rates 6.9%. Mostly sub - Saharan African countries reformed their economies, leading to fiscal consolidation and reduced deficits. Second, the vast natural resources endowment of some countries attracted the rapidly growing emerging markets, especially China. In turn, external factors like debt relief and the recent commodities boom added to the attractiveness of SSA. Private capital flows include FDI, portfolio equity flows and debt flows (that is portfolio bond flows and bank lending). The rise of private capital inflows to SSA in the period 2000 - 2007 owed mostly to a rapid surge in private portfolio flows and debt flows, whereas FDI remained rather stable, experiencing a progressive rise over time. International banking activity in SSA expanded significantly from 2004: total foreign claims on SSA economies held by banks reporting to the Bank for International Settlements (BIS) almost tripled from that point, reaching a value of about $205 billion by the end of 2007. Furthermore, bond flows to SSA increased by $7.13 billion from 2006 to 2007. Portfolio equity flows took off: in 2006 they more than doubled, reaching a value of $15 billion, Most of these flows went to South Africa (88%), but other countries with established and relatively more developed stock markets, like Botswana, Côte d'Ivoire, Ghana, Mauritius and Kenya, also experienced increases in portfolio flows.

Distribution of the inflows within the region was not homogeneous, since resource - intensive countries attracted most of the flows. Indeed, in 2007 Nigeria and South Africa accounted together for 55% of total FDI inflows to SSA. Nevertheless, other countries, like Equatorial Guinea, Madagascar and Zambia, contributed towards boosting overall FDI to SSA. Increased private capital flows into SSA may carry important opportunities to the region. For example, they may allow recipient countries to finance more investment than can be supported by domestic saving. They may also increase the efficiency of sub-Saharan African countries by facilitating the transfer of technology and managerial expertise, improving resource allocation, reducing the cost of rising capital and intensifying domestic competition. However, the spread of the financial turmoil that originated in the developed world in August 2007 may put at risk the potential beneficial effects of the recent surge in private capital inflows. Indeed, sub-Saharan African countries are currently exposed to the risk of a slowdown or even a reversal of private capital inflows owing to the global financial crisis.

PRIVATE CAPITAL INFLOWS AND THE GLOBAL FINANCIAL CRISIS: THE EVIDENCE SO FAR

The direct impact of the financial turmoil on sub - Saharan Africa has so far been less severe than in advanced economies, since SSA countries are less integrated in the global financial system and their financial institutions are relatively inactive in the derivatives market, relying mainly on domestic market resource mobilization rather than on foreign borrowings to finance operations. Nevertheless, SSA is not immune to the global financial crisis and it is already feeling the secondary effects, like the drying up of financial inflows. Private capital inflows to SSA were relatively robust up to the first half of 2008, but dropped sharply from the third quarter of that year. Two main factors were responsible for the fall in direct and portfolio investment: first, a reduced capability to invest; second, a reduced propensity to invest. Credit conditions became tighter, making it more difficult and expensive to invest in foreign operations. At the same time, the gloomy growth prospects worldwide and the increased risk aversion reduced investors' appetite for risk. The slump of economic growth to 5.5% in 2008 and its forecasted further reduction to 1.7% in 2009, as well as the end of the commodities boom, made SSA bond and equity markets less attractive to foreign investors, who preferred to flee into more liquid and safer assets, such as US Treasury bonds. Many bond issuance plans were put on hold. For example, Ghana has cancelled plans for a $300 million debt issue owing to poor global market conditions. Kenya has delayed a planned debut $500 million Eurobond. Tanzania has postponed plans to issue a debut Eurobond totaling at least $500 million until market conditions improve. Uganda will not issue a debut Eurobond to fund infrastructure projects. According to the IMF (2008b), not a single sub-Saharan African foreign currency denominated bond (Eurobond) came to market in 2008, compared with a value of $6.5 billion in 2007. More recently, the Trade Association for the Emerging Markets (EMTA, 2009) highlighted that South African bond volumes fell from $492 billion in 2007 to $337 billion in 2008. Looking at the long term, as suggested by the World Bank (2009), the crowding - out effects might also affect developing countries' bond markets negatively. In other words, it is

likely that in the coming years developed countries may need to significantly increase the issuance of sovereign bonds – think about the US, which will need to finance a fiscal deficit expected to exceed $1000 billion in 2009 - thus potentially crowding out developing countries' private and public debt issuers.

FDI inflows are believed to be remaining more stable than other private capital flows in the face of the global financial crisis. According to the UN Conference on Trade and Development (UNCTAD, 2009), FDI inflows to Africa are expected to continue to grow in 2008 but at a lower rate (16.8%). Nevertheless, in SSA, the impact of the crisis on FDI is becoming an increasingly significant concern, since a few planned investments have already been postponed or cancelled. For example, the proposed takeover of a South African mining conglomerate by Strata was abandoned. In the Democratic Republic of Congo (DRC), most of the foreign mining companies have scaled back, postponed or abandoned their investment plans (AfDB, 2009a). The world's number one steel company (ArcelorMittal) has deferred indefinitely an iron - one project in Liberia. Moreover, Malawi is about to lose a big uranium project. In Ethiopia, the Ethiopian Electric Power Corporation is afraid that its investment plans will be severely affected as a result of the crisis (Borensztein et al., 1998). In March 2009, the President of Tanzania reported that a $3.5 billion investment in aluminum smelting had been postponed and a $165 million nickel mining and extraction project had been rescheduled. The slowdown and sometimes the reversal in portfolio equity flows in SSA countries were consistent with the sharp fall of their stock markets. South Africa, Nigeria, Kenya, Mauritius and Côte d'Ivoire were among the most hit countries over 2008. The situation did not improve much at the beginning of 2009. Indeed, in Kenya the Nairobi Stock Exchange (NSE) All-Share Index fell by 21.36% from 30 January to 27 February and stock market capitalization dropped by 21.35% over the same period. In turn, the Nigeria Stock Exchange All Share Index fell by 30.64% in January and increased by just 7.2% points in February. In Côte d'Ivoire, the BRVM Composite Index has continued to fall to date.

While SSA countries are not highly dependent on credit from foreign banks, some countries had already seen the signs of a drop in foreign claims from the third quarter of 2008. The countries most exposed to a fall in international bank lending are likely to be those with a high share of foreign-owned banks (e.g. Ghana, Tanzania, Zambia, Uganda and Swaziland). The IMF (2009b) reckons that, as the crisis continues, there might be an increasing risk of contagion from distressed foreign parent banks to local subsidiaries in sub - Saharan Africa. There are different mechanisms through which this could happen. Parent banks could call in loans or withdraw capital from their sub - Saharan African subsidiaries. They could stop investing local profits in local subsidiaries or require the closure of their subsidiaries (IMF, 2009c). However, the existence of tight prudential capital controls in many SSA banking systems has so far helped to minimize this contagion effect. In Tanzania, for example, profit repatriation has been regulated and local subsidiaries are not allowed to transfer funds automatically to compensate for losses in parent banks (AfDB, 2009b).

CRISIS IMPACT AND DEVELOPMENT CHALLENGES: A CASE STUDY OF ASIA

Cambodian growth, for example, is set to fall from more than 10% in 2007 to close to zero in 2009. Growth in countries is affected differently because of sector composition: tourism is affected in Cambodia; manufacturing in Asian countries; and commodities in Bolivia. Manufacturing has been hit hard, especially in Asian countries that specialize in exports such as garments (Cambodia) and electronics (Indonesia). Countries that depend on exports have suffered disproportionately, such as Cambodia. Growth in Indonesia, however, has been driven by overall consumption and services, so reductions in its exports have not had such an impact. We are already seeing some significant impact on employment: The garment industry, which employed around 350,000 people, has been hardest hit, with approximately 51,000 people - many of them women - laid off between September 2008 and March 2009. In Indonesia, 37,905 workers had been laid off by February 2009 as a result of the crisis. Simple back - of – the -envelope calculations suggest that the number of households in poverty may rise far more as a result of the crisis than would otherwise have been the case. Estimates suggest that the number of poor households may rise by:

- 300,000 in Bangladesh (0.2% of the population);
- 110,000 in Cambodia (0.8% of the population);
- 650,000 in Indonesia (0.3% of the population).

Economic policy responses to address the fallout of the global financial crisis range from 'business as usual' to more proactive approaches. Some countries, such as Cambodia, are considering, implementing or accelerating growth policies, or implementing fiscal stimuli as in Indonesia. The impact on national balance books varies, from those with lower tax receipts such as to lower government fuel import bills in Bangladesh. The study has found that some countries (e.g. Bangladesh) have established crisis task forces to help them respond to the global financial crisis. The value of trade is declining. Indonesian exports of electronic products, for example, which account for 15% of total exports, experienced a fall of 25% (in value terms) in January 2009 compared to

January 2008. The value of garment exports in Cambodia dropped from a monthly average of $250 million in 2008 to $100 million in January 2009. In Bangladesh emigration fell by 38.8% between February 2008 and February 2009, jeopardizing future remittances. While some countries in South Asia had relatively less exposure to the crisis through adverse effects on capital flows, they remain vulnerable to global economic slowdown through export earnings, remittances, and external financing of infrastructure. Growth in South Asia decelerated in 2008, falling from 8.6% in 2007 to below 7% based on estimate as of last December 2008. It is projected to decline further to around 6% or below in 2009, before recovering to around 7% in 2010. Even at these reduced growth rates, South Asia stands out compared to the recession in the developed economies. Nevertheless, with 900 million people in developing Asia surviving on $1.25 a day - more than half of those in South Asia - any tempering of growth is a serious case of concern. I believe, there are four inter - related impacts of the global economic downturn on Asia.

- First, the economic slowdown would result in reduction of exports with the attendant effects, not only in export-oriented, value-added industries themselves, but in industries across the entire value chain. This impact could manifest itself in the form of unemployment and a reduction in GDP.

- Second, the impact is being felt through the financial system. By this, I mean the outflow of foreign direct investment from Asia's financial and capital markets resulting in depressed domestic equity markets and contributing to conservative lending strategies.

- The third impact relates to liquidity in domestic financial markets. If credit availability remains constrained, it is likely to be even more constrained for the lower end of the market, i.e., credit for labor-intensive small and medium enterprises and micro enterprises with its serious impacts.

- The fourth impact, though not fully evident yet, could be on informal social safety nets by virtue of reduced remittances received from overseas migrant workers as the host country economy slows down and capital expenditures are reduced.

CRISIS IMPACT AND DEVELOPMENT CHALLENGES: A CASE STUDY OF INDIA

India has already entered into recession. India’s exports had been expected to reach USD 200 billion in 2008, but unfortunately has been marked down to USD 180 billion in December, 2008 (when it was growing 30.9% during the last six months, but it is reported to be 12% in December, 2008) (Bekaert and Harvey, 1998). According to Mr. Shaktiwel, President of Federation of Indian Exports Organization (FIEO); “India’s export share (which is 20% of the GDP) is going down, and it is expected to be 10 million job losses in March, 2009. Indian exporters have mainly been depending on the North American and European markets, and both markets have entered into recession. Indian Government has announced an extra rescue package (around $4 billion) for the producers and exporters to revive the economy. The Indian financial system has remained relatively immune from the devastating crisis afflicting the advanced capitalist countries, mainly due to the extant regulations and public sector domination of the financial sector. The stock markets have witnessed a meltdown though, with the FIIs being net sellers worth $13.1 billion in the year 2008, which has also led to a decline in India’s foreign exchange reserves. The real impact of the global recession on the Indian economy, however, is mainly being felt in terms of a slowdown in exports and industrial growth. Dollar value of exports in November 2008 ($11.5 billion) was almost 10% lower than that in November 2007 ($12.7 billion). The Index of Industrial Production recorded a 0.4% fall in October 2008 compared to October 2007, with the manufacturing index registering a 1.2% fall. The prices of cash crops have also declined adversely affecting the farmers. Job losses have escalated. At least 1, 00, 000 gem trade workers have been rendered jobless in Gujarat. It is estimated that around a million jobs have been lost. The economic managers of the Government, who till not so long ago were boasting about attaining 10% GDP growth, have now downgraded their GDP growth forecast to 7% for 2008 - 09. Economic growth is likely to slow down sharply in 2009. More than 77% people have been driven into poverty where more than 310 million unorganized sectors’ workers out of the total 450 million, getting Rs. 20 per day (84%, Muslim, SC and ST; Literacy rate: 51% of Male and 76% of Female). Agriculture sector’s contribution to the GDP was 18% where 68% rural people dependent on agriculture sector. Farmers getting the same price for their products whatever they got the last twenty years. Indian farmers have been committed to suicide (especially in Maharashtra, Andhra Pradesh, and Orisa). More than 260 million people living under a dollar when India is emerging as powerful economic country would become the 1st ranked in terms of population, the 4th ranked in military power, and 12th ranked in economic status with Rs.15 bn FDI and Rs. 70 bn domestic investment (Bekaert and Harvey, 2000). However, the UPA Government has neither learnt the proper lessons from the financial crisis nor is it willing to shed its neo - liberal dogma and adopt effective steps to deal with the

slowdown.

FIGHT AGAINST THE RECESSION AND GLOBAL WARMING

A meeting of G20 Finance Ministers at St. Andrews in Scotland Sunday failed to reach an agreement on funding climate change as developed countries continued to dither over the amount of money they were willing to offer to developing countries to help them adopt environmental - friendly schemes. The failure was seen as a blow to the prospects of reaching a global legally binding deal on carbon emissions at next month's crucial climate change summit in Copenhagen. Green activists expressed their disappointment, saying it meant the Copenhagen summit was doomed. The Copenhagen Climate Conference has ended without meeting its goal of a legally binding agreement for the second commitment period of the Kyoto Protocol. Without a treaty committing the rich and industrialized countries to deep emission cuts, the lives and well - being of hundreds of millions of people, especially in the developing world, have been put at risk. This will most adversely affect people in South Asia, large parts of Africa, least developed countries and island nations that could be entirely submerged under rising sea-levels. People all over the world had been hoping that the conference would chart out a clear course to save humanity and the planet from runaway global warming and climate change. This has not been happened. The political leaders who gathered in Copenhagen have failed their people by not delivering an effective and equitable climate change agreement. Such an agreement in Copenhagen was made impossible by the positions and tactics of the US and other developed countries. From the first day to the last at Copenhagen, the US and its allies tried their utmost to kill the Kyoto Protocol itself, negate the cornerstone principle of differentiation between the industrialized and developing countries, and pressurize the developing countries to take on the major burden of reducing global emissions. Their inability to achieve these aims was due to the stiff and united resistance put up by the developing countries, a resistance which was one of the few positives in Copenhagen. Major developing countries such as the BASIC bloc of China, India, Brazil and South Africa, as well as Mexico and Indonesia, voluntarily announced reductions in emissions growth rates in the interests of humanity, going far beyond their obligations under the Kyoto Protocol. However, the US, EU and other developed countries did not budge an inch from the low emission cuts they had declared before Copenhagen. A leaked draft UN Report has revealed that pledges made by large developing countries will contribute more to emission reductions than the low commitments of the US and other developed nations.

A complete failure in Copenhagen has been averted with the face - saving text of a “Copenhagen Accord” with the promise of a legally binding agreement in 2010. The Accord was crafted in the closing hours of the Conference by the US, the BASIC countries and 22 other developed and developing countries from different continents and groupings. Though the Accord has no legal status and would not bind countries, it at least provides some way of keeping future negotiations going along the current twin tracks. Without this, the failure of the Conference could have meant the collapse of the Climate Treaty and the Kyoto framework. However, this accord is extremely weak in terms of the deep and immediate emission cuts by developed countries that are required to tackle climate change. It is deeply ambiguous with several loopholes and the possibility of different interpretations, particularly with regard to emission cuts by developing countries, and fund and technology transfers. Developing countries should therefore ensure that in future negotiations, the red lines committed to press for deep and immediate emission cuts by the US and other developed countries and to ensure sustainable development and equitable terms in any final Treaty. A group of 27 members of the European countries' leaders have already discussed in Brussels. After much debate between Britain and Germany, the EU has also adopted a nearly $ 280 billion fiscal package including tax cuts and public spending plans. Global warming and fight against recession, these are actually opposite/contradictory exercise. These people are not ready to learn: the connection between ‘private property (capital and landed property), and the separation of labour (who felt alienation from productive activities), between exchange and competition, value and the devaluation of men, monopoly and competition, etc., the connection between this whole estrangement and the money system,’ these opposite elements are (combined) responsible for the recession. The free market economy followers did not consider how the forces of production would undermine the relations of production, once the market had created the forces of production that could meet people's material needs, the alienation inherent in property rights and markets would lead individuals to free themselves from the market and create a society that would eliminate private property and the alienation associated with it. Under the capitalist system of production, a stage is reached when the capital is concentrated in fewer hands, and a stage will come when the “have - nots” will dominate the “haves.”

The meeting, attended by a high-level Indian delegation led by Finance Minister Pranab Mukherjee, also failed to agree on a common strategy for withdrawing the massive public funding that had gone into stimulating the global economy in the past year. As recession starts to wane in many of parts of the world, there is a view that the time

has come to withdraw the stimulus, but some countries, including Britain, are opposed to an abrupt withdrawal, arguing that growth has not picked up sufficiently to withstand a sudden loss of “life support.” A row erupted over British Prime Minister Gordon Brown’s proposal for a tax on financial transactions by banks, with the U.S., Canada and the International Monetary Fund (IMF), among others, rejecting the idea. Mr. Brown had suggested that the proposed tax could be used to build a global fund to bail out failed banks in future. U.S. Treasury Secretary Timothy Geithner rejected the proposal outright saying: “That’s not something that we’re prepared to support.”

A PRACTICAL SOLUTION OF THE CURRENT ILLS IS POSSIBLE

Some so - called economists say that the crisis is ending. These are the same economists who, before the outbreak of the current mayhem, claimed it would never happen and they are the same ones who spent years encouraging the de-regularization of the economy and privatization of public services - part of the causes of the current crisis. In contrast, there are some progressive economists who have always challenged neo-liberal orthodoxy and who pointed out the dangers of the growing instability of the world economy. Various statistic responses have emerged that criticize the neo - liberal framework in the fields of economics, development studies, and political economy (e.g. Robert Wade, Peter Evans, Joseph Stiglitz, Ha - Joon Chang, Linda Weiss, Alice Amsden, and Atul Kholi). They prescribe direct or indirect state control of selected means of production and allocation of resources for late - developers. The particular Latin American expression of this international trend has found its principal outlet in the neo - structuralism of the Economic Commission for Latin America and the Caribbean (ECLAC) and closely related intellectual milieus since the mid - 1990s. While statism signifies an advance away from neo - liberal dogmatism, it nonetheless obfuscates key components of class relations under capitalism, pursues “success” within rather than against capitalism, and is wholly inadequate when seen from the encompassing Marxist objective of working class emancipation from exploitation by capital.

The crisis, grim though it is, could be an opportunity to re-shape the global economic institutions and rethink growth strategies. A ‘new compact on crisis-resilient growth’ between rich and poor countries is needed to ensure that the system works for both, that global growth is more resilient to crises and that it does not fail the poorest. The G-20 leaders and poor country governments have a joint responsibility to ensure that the recovery is sustainable, that volatility is dampened and that poor countries have a growing role in the recovery as it comes.

But the crisis itself may have created a rare opportunity to reshape the financial and macro-economic systems that have failed poor countries, and to rethink growth strategies so that they are more resilient to future crises. Development must be redefined as an attack on the chief evils of the world today: malnutrition, disease, illiteracy, slums, unemployment and inequality. Measured in terms of aggregate growth rates, development has been a great success. But measured in terms of jobs, justice and elimination of poverty, it has been a failure or only a partial success. (Breitung, 2000). More than three - fourths of the world’s people live in developing countries, but they enjoy only 16% of the world’s income- while the richest 20% have 85% of global income. Our primary goal in development must be to reduce the disparities across and within countries…The key develop-ment challenge of our time is the challenge of inclusion. Production is guided by demand and not by need of the societies and hence it is governed and measured by income, which is very low as compared to need. Again, the level of production is not maintained according to the existing resources. It was carefully directed by the capitalist proprietors who according to their own wishes, controls its volume and size motivated chiefly by the ideal of maximization of profits. Consequently, the distribution of wealth was unjust and there was exploitation of the masses by the few. The diminishing purchasing power of the working classes, the total consumption fails to keep pace with the total production leading to unemployment, further diminishing of purchasing power and ultimately to an intensification of the crisis. This leads to in the volume of production of those commodities which the labourers are unable to purchase. Consequently, prices go on falling, the size of production is reduced, factories are closed and unemployment is created leading to further crisis. It is therefore necessary that production should be guides not by market forces e.g., demand and supply but the need of the society. Any financial and monetary measures of the USA and EU will bring more inflation, more devaluation of the national currencies, more unemployment, more painful losses of the markets. Because of lower prices of the export commodities of the developing and poor countries, it will also bring more unequal exchange. The state is back in business and the survival of an open world economy.

CHINESE EXPERIENCES

I could not understand why Indian Prime Minister Dr. Manmohan Singh worried about the Chinese growth miracle? Thirty years ago, China had a tiny footprint in the global economy and little influence outside its boarders, save for a few countries with which it had close

political and military relationships. Today the country is a remarkable economic power, the world's manufacturing workshop, a leading investor across the globe from Africa to Latin America, and become the largest creditor of the USA, and increasingly, a major source of research and development. There is not a single business anywhere in the World that has not felt China's impact, either as a low - cost supplier, or more threateningly, as a formidable competitor. Although average incomes have risen very rapidly in recent decades, they still stand at between one-seventh and one-eight the levels in the United States. The British scholar and journalist Martin Jacques argues, 'Not only is China the next economic superpower, but the world order that it will construct will look very different from what we have had under American leadership. Americans and Europeans blithely assume that China will become more like them as its economy develops and its population gets richer. This is mirage. The Chinese and their government are wedded to a different conception of society and polity - community based rather than individualist based, state -centric rather than liberal.

China is the seventh largest importer of goods and the number one exporter in the world. China becomes the second largest economy who purchased foreign currencies in the world (in terms of their purchasing power parity). China's foreign reserves, already the world's biggest, surged 24% last year to $2.4 trillion despite the global financial crisis. China's reserves are closely watched in the United States, which is looking to Beijing to help finance its stimulus spending by continuing to recycle its trade surpluses into buying Treasury Security and other govt. debt. The reserve grew by $453 billion in 2009, an even faster growth rate than previous year. China's reserve growth is driven by its currency controls, which requires Beijing to buy dollars and other foreign currencies that flows into the country in order to control the state-set exchange rate of China's Yuan, China which overtook Germany a $196 billion trade surplus for 2009.

China started the policy of reform and opening up to the outside world, a policy that led to some stunning achievements. In the past 30 years, China's annual average GDP growth was 10%. China's rise differs from that of Europe and America. When Europe and America rose, they did it at the expense of others; there were many conflicts, contradictions and wars. But today, China is rising with the rest of the world rather then against it. China succeeded by sharing its growth with others. All countries and continents which have cooperation with China benefit at least to some reasonable extent from China's growth. We know that the mankind has never been bound together so closely by common interests and common challenges. The most recent experience of China clearly shows that 'on the basis of people's involvement at mass levels in economic activities through using labour - intensive techniques with low-value added commodities, production and equal distribution can be accelerate at high levels. In China, more than 42 million SMEs, which makes 99pc of the total number of enterprises in the country, according to China Briefing. The total value of goods and services produced by Chinese SMEs account for 60pc of the Gross Domestic Products (GDP) of the third largest economy of the world next to the United States and Japan. Among the major reasons that Chinese SMEs have developed such a large market capitalization are due to policy direction, favourable financial support, strong inter-industrial linkage, clear regulatory framework and a strong political commitment. In countries like China, where the SMEs revolution has altered the wave of economic development, inter – industrial linkage is very strong, and well established. For every large industry producing a goods or services, say shoes, there are many SMEs in the supply chain providing an outsole, foot bet, heel or shoelaces. This applies to all industries ranging from electronics manufactures to garment factories and fast food chains. The inter -industrial linkage strategy has made Chinese SMEs strong players in China's export market. China has also succeeded in supporting start-up SMEs to climb up the ladder of business development by availing cheap credit and subsidies. With that, it has created a handful of prominent domestic brands with millions of loyal customers in its base. Not to say the least, the Chinese government has also used its leverage to negotiate with big multinationals to feed Chinese SMEs into their supply chains. Now China is ready to compete abroad. Chinese economy is growing fast with the rate of 10.7 percent in the last quarterly by 2009. In October, 2009, it was 8.9% economic growth rate when we compare with the rate of 7.9% in the first quarterly by 2009. According to the National Statistical Beauro; the total retail sale was 15.1% during the same year. More than 9.66 million cars have been sold (which is around 34% of the world's highest rate) in the last 9 months. How China is growing on the basis of domestic economic demand led by low - value added goods/commodities.

China announced a fiscal package in November 2008 amounting to $586 billion which is nearly 14% of China's GDP to be spent over the next two years, aimed at increasing state expenditure in areas like housing projects for low-income urban residents, farmers' livelihood and rural infrastructure, the construction of railway, road and airports, education and public health care, ecological construction, technological innovations and disaster relief. As a result of that China's GDP increased at 88 percent with low prices of commodities in the world. China's foreign reserves topped $1 trillion (De Vita and Kyaw 2009).

However, Jobs in multinational companies are highly prized in China, especially white-collar jobs. For a start

the pay is often better than as a public servant or the employee of a state owned enterprise. The jobs tend to be concentrated at the moment in the larger cities, like Beijing or Shanghai, or in the areas where there are many factories making goods for export. Two years ago the multinationals were competing to hire the brightest talent from China's universities but since the financial crisis jobs in multinational firms whose parent companies have run into trouble overseas, like Citi Group or Motorola, no longer look so secure. This year there was a record number of applications for the civil service, more than three quarters of a million people applied for 13,500 places. The surveys of the multinationals reported in the state media suggest that those applicants were wise to seek safer alternatives. Almost 7 out of 10 of the firms polled made clear they planned to recruit fewer staff in the year ahead. That will make life even harder for this year's graduates. There are fewer jobs available than before and they'll be competing with other unemployed graduates from previous years and with newly laid off workers who already have experience. The graduate employment market has always been tough in China but this year it is looking like it will be tougher than ever.

Role of China: The best example of south - south co - operation

Thanks to China, China has begun a new round of engagement with West Asia and Africa. Chinese Prime Minister Wen Jiabao embarking on a visit to Egypt where he has participated in a key meeting of the China - Africa cooperation forum. In his address at the Arab League headquarters on Saturday, November 14, 2009; Mr. Wen stressed intensifying a dialogue among civilizations based on mutual respect and vigorous interaction. “There exist diverse civilizations in the world, just like the existence of diverse species in the nature. During talks with his Egyptian counterpart, Ahmed Nazef, Mr. Wen spoke about enhancing Chinese investments in what is called the China - Egypt Suez economic and trade co-operation zone project. Energy tie ups and infrastructure development were also identified as priority areas. Mr. Wen will travel to the Egyptian resort of Sharm El-Sheikh for a meeting on Sunday of the Forum on China - Africa Co-operation, which has linked China with 48 African countries. China on Sunday reinforced its credentials as a pro -third world economic powerhouse by offering billions of dollars of concessional loans to Africa and pledging to contribute significantly to the continent’s skilled human resources base. Addressing delegates from 50 countries, participating in the two - day forum on China - Africa Co - operation at the Egyptian Red Sea resort of Sharm el-Sheikh, Chinese Prime Minister Wen Jiabao promised $10 billion of preferential loans to Africa over the next three years. China, he said, would also launch a partnership with Africa on science and technology, which would allow 100 African postdoctoral fellows to carry out scientific research in China. By 2012, Chinese government scholarships to Africa would rise to 5,500, and around 20,000 African professionals would be trained over the next three years. China’s ambitious plans also include building 50 schools and training 1,500 school principals and teachers for Africa. Agriculture would be another focal area of the evolving China - Africa relation-ship. China would increase the number of its agricultural technology demonstration centers in Africa to 20.

It would send 50 agricultural technology teams to Africa and train 2,000 agricultural technology personnel, to help boost the continent’s food security. In the field of health - care, China would provide medical equipment and anti - malaria materials worth $73.2 million to 30 hospitals and 30 malaria prevention and treatment centers built by China. Around 3,000 doctors and nurses would also be trained under this initiative. Mr. Wen said China would further open up its market to African products, with provisions of duty free access to 95% of the products produced by the least developed African countries. China has done so by increasing the number of items it intends to import from Africa duty - free and quota free to 47, 00 items from a meager 482 items.

Competition should be replaced by co - operation

Production was essentially determined by demand which represented the total wealth which communities could command but owing to unrestricted competition. This unrestricted competition was the root cause of poverty and unemployment. Competition is at the root of all economic ills of the society including poverty and depression. The terms of trade seem always to be working against the developing countries. International free trade theory suggest; if rich and poor nations concentrate on the production in which they enjoyed comparative advantage e.g., ‘colonies’ in raw materials and ‘metro-poles’ in manufactures and adequately supplied each other’s demand through vigorous external trade, both would grow simultaneously. However, what happened was that trading under these arrangements resulted in terms of trade invariably moving against the developing countries, for the prices of manufactured products that they imported rose faster than prices of primary commodities that they exported. As a conse-quence the motor force of growth engine, under such trade practices, was shifted to the metro - poles, and the development of the colonies was rendered utterly depen-dent of the mother countries. This relationship continued uninterrupted even after the Second World War, when most of the colonies had emerged as an Independent

Nations. The same relationship existed within the nations where the development model followed by the Independent Government under the leadership of domestic bourgeoisies. In the mercantilist environment of the eighteenth and nineteenth centuries the prevailing free trade notion was that what was good for Britain was good for the world. Free trade established inequality between nations and competition was agreeable only after Britain had established its pre - eminence as the most advanced industrial nation. The artificial division of labour was broken when other countries adopted protectionism policies to counter the effects of Britain's pre - eminence.

However, by the first half of the twentieth century protectionism was the norm in the developed world. This prevented specialized exporters from using their export income to diversify into the various types of processing and manufacturing industries since these were protected by the developed world. However, after the Second World War, developed countries began once again to discuss the need for trade liberalization, and as the beginning of the twenty - first century draws nearer the rhetoric are towards free trade within trade blocs and regional groupings. Since Imperialist finance capital was investing around $400 trillion each year at a time when the value of all goods and services amounted to no more than $7 trillion. Competition should be replaced by cooperation. There is need to promote regional cooperation in the design of common institutional standards for financial market development and work to lift barriers to cross-border asset trade within regions.

CONCLUSION

Good policy is based on good information. We need a Global Poverty Alert System to monitor the economic and social impact of the crisis. A United Nations that works 'above' the smaller groupings of the G - 20 and G - 8 is ideally placed to pioneer the systematic monitoring of the crisis, and to host the global debate on the response. The Commonwealth Secretariat could take a lead in monitoring the particular challenges facing small states. Secondly, a global recovery assumes current fiscal stimuli are not withdrawn. Poor countries hit by fewer trade revenues will see their deficits increase, and some may have scope for additional stimuli. Indeed, a sizeable share of the (inadequate) $50 billion in additional lending pledged at the G - 20 in London in April, plus new grant aid, should be channeled to a 'rainbow' stimulus in poorer countries, bringing together the best of the blue of conservatism and market forces to increase growth; the red of state interventionism directed at liquidity constrained consumers and the increasing unemployed; and the green of environmental sustainability ahead of the Copenhagen summit later this year. This would help to address the medium -term impact, and foster a rainbow recovery. The poor and poor countries are most liquidity constrained, so additional funding to these groups may have the largest marginal effect and can therefore be part of the solution to the crisis. Thirdly, developing countries need national crisis taskforces, and their own 'rainbow' policies to grow themselves out of the crisis. Too many poor countries have been in a state of denial about the crisis – a year on, this is no longer acceptable. Our current monitoring suggests that countries that are not competitive or have not responded are not well positioned to gain from any global recovery. Thus, much of the responsibility lies within developing countries themselves.

Fourthly, a new kind of trade package is needed which should concentrate on preventing 'beggar - thy - neighbor' protectionism in labour, trade and financial markets, which has hardened recently as evidenced by new restrictions on temporary workers and new import duties. Funding for Aid for Trade should be brought forward, especially for infrastructure, to bring long - term prosperity to African countries and their suppliers.

Reducing global volatility by solving market and co - ordination failures

Better financial regulation and new financial rules are needed in developed countries to increase the transparency of capital flows, curb illegal transfers, and reduce the pro-cyclicality of financial flows to developing countries, for example, by adjusting capital adequacy ratios over the business cycle, or promoting capital flows to developing countries using innovative financing mechanisms. The vexed question of bonuses could be resolved by rewarding efforts to pursue sustainable global growth and responsible investment abroad, drawing on lessons from the use of incentives in development finance. Bonuses should reward economic not just financial rates of return. Global imbalances need to be curbed. Many rich and emerging countries - including oil exporters - have surplus capital. Rather than investing such surpluses in risky financial products in other rich countries, better returns could be gained from greater investment in low-income countries, benefiting investors and helping to kick - start a global recovery. The International Financial Institutions could, for example, leverage sovereign wealth and other funds as a useful second-best policy to address the crisis along side appropriate financial regulation. A global compact for crisis - resilient growth could help developing countries cushion the impact of crises. The international community needs to provide the global public goods to foster growth that is more resilient to crises. This means effective reform of the global governance systems with a new voice for

emerging and developing countries. The UN needs to establish its role in leading global debate on issues of worldwide concern. The crisis has undermined the reputation of pre - crisis development models, as well as any belief that the West knows best. (Durham, 2003)

In global terms, the UN is the ‘last man standing’, but it must be stronger in coordinating debate and action on country - development models. The IMF needs sufficient resources for low - income countries - beyond the $50 billion pledged at the London summit which pales in comparison to the total of $1.1 trillion of increased liquidity destined mainly for middle-income countries. It had sufficient resources to triple lending to low-income countries this year, but what about the next crisis when countries are still repaying the debts of this one? Additional and flexible grants funding is also needed through the IMF and World Bank (e.g. through an enhanced IDA crisis facility) and other institutions. ODI (2009) calculated the effects for a $50 billion grant increase and showed that increased support for poor countries makes us all better off. The World Bank needs new approaches to risk and crisis, based on better analysis and partnerships, allowing it to be faster, stronger and more flexible. And it needs to work more closely with regional development banks, and more effectively with the private sector, to support climate change initiatives, entrepreneurship and job creation in the poorest countries (Evans, 2009). An IDA crisis facility could replace the myriad of approaches so far and reduce specific conditions and buttress growth when the next crisis hits.

A new deal on climate financing in Copenhagen can:

- Help to promote growth in developing countries which is more resilient to climate change.
- Ensure that developing countries gain from, and are not compromised by, a drive to a low - carbon world. Aid is normally provided for development objectives, so climate finance should be additional to ensure the provision of environmental global public goods. Developing finance institutions could leverage non-aid sources. The private sector will have an interest in promoting energy efficiency as well. Climate finance provides insurance against climate risks.

Developing countries could be encouraged to diversify their economic base, spreading their reliance on more than a few export sources. For example, it makes sense for small and landlocked countries to stimulate knowledge - intensive sectors, which have fared better during the current crisis, away from reliance on manufacturing and concentrated commodity exports which face stiffer competition, extreme volatility and large transport cost challenges. Taken together, these measures would provide a new global compact for crisis - resilient growth, providing a better response to today’s global economic meltdown and putting developing countries in a stronger position to address unknown challenges in the future. The current global crisis has created an opportunity to change the current global economic and political order. Need to address global imbalances by creating a new global currency, should be widely accepted at international level.

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