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New world order politics

The term "**new world order**" has been used to refer to any new period of history evidencing a dramatic change in world political thought and the balance of power. Despite various interpretations of this term, it is primarily associated with the ideological notion of global governance only in the sense of new collective efforts to identify, understand, or address worldwide problems that go beyond the capacity of individual nation-states to solve.

One of the first and most well-known Western uses of the term was in Woodrow Wilson's Fourteen Points, and in a call for a League of Nations following the devastation of World War I. The phrase was used sparingly at the end of World War II when describing the plans for the United Nations and the Bretton Woods system, and partly because of its negative associations with the failed League of Nations. However, many commentators have applied the term retroactively to the order put in place by the World War II victors as a "new world order."

The most widely discussed application of the phrase of recent times came at the end of the Cold War. Presidents Mikhail Gorbachev and George H. W. Bush used the term to try to define the nature of the post Cold War era, and the spirit of great power cooperation that they hoped might materialize. Gorbachev's initial formulation was wide ranging and idealistic, but his ability to press for it was severely limited by the internal crisis of the Soviet system. Bush's vision was, in comparison, much more circumscribed and realistic, perhaps even instrumental at times, and closely linked to the Gulf War.

The phrase "new world order" was explicitly used in connection with Woodrow Wilson's global zeitgeist during the period just after World War I, during the formation of the League of Nations. "The war to end all wars" had been a powerful catalyst in international politics, and many felt the world could simply no longer operate as it once had. The First World War had been justified not only in terms of U.S. national interest but in moral terms—to "make the world safe for democracy." After the war, Wilson argued for a new world order which transcended traditional great power politics, instead emphasizing collective security, democracy, and self-determination. However, the United States Senate rejected membership of the League of Nations, which Wilson believed to be the key to a new world order. Senator Henry Cabot Lodge argued that American policy should be based on human nature "as it is, not as it ought to be."

Franklin D. Roosevelt and Winston Churchill during the meeting that would result in the Atlantic Charter, precursor to the Bretton Woods system.

The term fell from use when it became clear the League was not living up to the over-optimistic expectation, and as a consequence was used very little during the formation of the United Nations. Former UN Secretary General Kurt Waldheim felt that this new world order was a projection of the American dream into Europe, and that, in its naïveté, the idea of a new order had been used to further the parochial interests of Lloyd George and Clemenceau, thus ensuring the League's eventual failure. Although some have claimed the phrase was not used at all, Virginia

Gildersleeve, the sole female delegate to the San Francisco Conference in April 1945, did use it in an interview with the *New York Times*.

The phrase was used by some in retrospect when assessing the creation of the post–World War II set of international institutions: the United Nations; the U.S. security alliances such as NATO; the Bretton Woods system of the International Monetary Fund and the International Bank for Reconstruction and Development; and even the Truman Doctrine and Marshall Plan were seen as characterizing or comprising this new order.

H.G. Wells wrote a book published in 1940 entitled *The New World Order*. The book addressed the ideal of a world without war in which law and order emanated from a world governing body and examined various proposals and ideas.

Post–Cold War "new world order"

The phrase "new world order", as used to herald in the post–Cold War era, had no developed or substantive definition. There appear to have been three distinct periods in which it was progressively redefined, first by the Soviets, and later by the United States before the Malta Conference, and again after Bush's speech of September 11, 1990.

1. At first, the new world order dealt almost exclusively with nuclear disarmament and security arrangements. Gorbachev would then expand the phrase to include UN strengthening, and great power cooperation on a range of North-South, economic, and security problems. Implications for NATO, the Warsaw Pact, and European integration were subsequently included.
2. The Malta Conference collected these various expectations, and they were fleshed out in more detail by the press. German reunification, human rights, and the polarity of the international system were then included.
3. The Gulf War crisis refocused the term on superpower cooperation and regional crises. Economics, North-South problems, the integration of the Soviets into the international system, and the changes in economic and military polarity received greater attention.

Gorbachev's formulation

The first press reference to the phrase came from Russo-Indian talks, November 21, 1988. Prime Minister Rajiv Gandhi used the term in reference to the commitments made by the USSR through the Declaration of Delhi of two years previous. The new world order which he describes is characterized by "non-violence and the principles of peaceful coexistence." He also includes the possibility of a sustained peace, an alternative to the nuclear balance of terror, dismantling of nuclear weapons systems, significant cuts in strategic arms, and eventually a general and complete disarmament.

Three days later, a *Guardian* article quotes NATO Secretary General Manfred Wörner as saying that the Soviets have come close to accepting NATO’s doctrine of military stability based on a mix of nuclear as well as conventional arms. This, in his opinion, would spur the creation of "a new security framework" and a move towards "a new world order."

But the principal statement creating the new world order concept came from Mikhail Gorbachev’s December 7, 1988 speech to the United Nations General Assembly. His formulation included an extensive list of ideas in creating a new order. He advocated strengthening the central role of the United Nations, and the active involvement of all members—the Cold War had prevented the UN and its Security Council from performing their roles as initially envisioned. The de-ideologizing of relations among states was the mechanism through which this new level of cooperation could be achieved. Concurrently, Gorbachev recognized only one world economy—essentially an end to economic blocs. Furthermore, he advocated Soviet entry into several important international organizations, such as the CSCE and International Court of Justice. Reinvigoration of the UN peacekeeping role, and recognition that superpower cooperation can and will lead to the resolution of regional conflicts was especially key in his conception of cooperation. He argued that the use of force or the threat of the use of force was no longer legitimate, and that the strong must demonstrate restraint toward the weak. He foresaw, as the major powers of the world, the United States, the Soviet Union, Europe, India, China, Japan, and Brazil. He asked for cooperation on environmental protection, on debt relief for developing countries, on disarmament of nuclear weapons, on preservation of the ABM treaty, and on a convention for the elimination of chemical weapons. At the same time he promised the significant withdrawal of Soviet forces from Eastern Europe and Asia, as well as an end to the jamming of Radio Liberty.

Gorbachev described a phenomenon that could be described as a global political awakening:

> We are witnessing most profound social change. Whether in the East or the South, the West or the North, hundreds of millions of people, new nations and states, new public movements and ideologies have moved to the forefront of history. Broad-based and frequently turbulent popular movements have given expression, in a multidimensional and contradictory way, to a longing for independence, democracy and social justice. The idea of democratizing the entire world order has become a powerful socio-political force. At the same time, the scientific and technological revolution has turned many economic, food, energy, environmental, information and population problems, which only recently we treated as national or regional ones, into global problems. Thanks to the advances in mass media and means of transportation, the world seems to have become more visible and tangible. International communication has become easier than ever before.

In the press, Gorbachev was compared to Woodrow Wilson giving the Fourteen Points, to Franklin D. Roosevelt and Churchill promulgating the Atlantic Charter, and to Marshall and Truman building the Western Alliance. His speech, while visionary, was to be approached with caution. He was seen as attempting a fundamental redefinition of international relationships, on economic and environmental levels. His support "for independence, democracy and social justice" was highlighted. But the principle message taken from his speech was that of a new world order based on pluralism, tolerance, and cooperation.

> For a new type of progress throughout the world to become a reality, everyone must change. Tolerance is the alpha and omega of a new world order. – Gorbachev, June 1990

A month later, *Time Magazine* ran a longer analysis of the speech and its possible implications. The promises of a new world order based on the forswearing of military use of force was viewed partially as a threat, which might "lure the West toward complacency" and "woo Western Europe into neutered neutralism." The more overriding threat, however, was that the West did not yet have any imaginative response to Gorbachev—leaving the Soviets with the moral initiative, and solidifying Gorbachev's place as "the most popular world leader in much of Western Europe." The article noted as important his de-ideologized stance, willingness to give up use of force, commitment to troop cuts in Eastern Europe (accelerating political change there), and compliance with the ABM treaty. According to the article, the new world order seemed to imply: shifting of resources from military to domestic needs; a world community of states based on the rule of law; a dwindling of security alliances like NATO and the Warsaw Pact; and, an inevitable move toward European integration. The author of the *Time* article felt that Bush should counter Gorbachev's "common home" rhetoric toward the Europeans with the idea of "common ideals," turning an alliance of necessity into one of shared values. Gorbachev's repudiation of expansionism leaves America in a good position, no longer having to support anti-communist dictators, and able to pursue better goals: the environment, nonproliferation of nuclear, chemical, and biological weapons, reducing famine and poverty, and resolving regional conflicts. Similarly, in *A World Transformed*, Bush and Scowcroft's concern about losing leadership to Gorbachev is noted, and they worry that the Europeans might stop following the U.S. if it appears to drag its feet.

As Europe passed into the new year, the implications of the new world order for the European Community surfaced. The EC was seen as the vehicle for integrating East and West in such a manner that they could "pool their resources and defend their specific interests in dealings with those superpowers on something more like equal terms." It would be less exclusively tied to the U.S., and stretch "from Brest to Brest-Litovsk, or at least from Dublin to Lublin." By July 1989, newspapers were still criticizing Bush for his lack of response to Gorbachev's proposals. Bush visited Europe but "left undefined for those on both sides of the Iron Curtain his vision for the new world order", leading commentators to view the U.S. as over-cautious and reactive, rather than pursuing long-range strategic goals.

The Malta Conference

In *A World Transformed*, Bush and Scowcroft detail their crafting of a strategy aimed at flooding Gorbachev with proposals at the Malta Conference to catch him off guard, preventing the U.S. from coming out of the summit on the defensive.

The Malta Conference on December 2–3, 1989 reinvigorated discussion of the new world order. Various new concepts arose in the press as elements on the new order. Commentators expected the replacement of containment with superpower cooperation. This cooperation might then tackle problems such as reducing armaments and troop deployments, settling regional disputes, stimulating economic growth, lessening East-West trade restrictions, the inclusion of the Soviets in international economic institutions, and protecting the environment. Pursuant to superpower cooperation, a new role for NATO was forecast, with the organization perhaps changing into a forum for negotiation and treaty verification, or even a wholesale dissolution of NATO and the Warsaw Pact following the resurrection of the four-power framework from World War II (i.e. the U.S., United Kingdom, France, and

Russia). However, continued U.S. military presence in Europe was expected to help contain "historic antagonisms", thus making possible a new European order.
In Europe, German reunification was seen as part of the new order. However, Strobe Talbott saw it as more of a brake on the new era, and believed Malta to be a holding action on part of the superpowers designed to forestall the "new world order" because of the German question.[12] Political change in Eastern Europe also arose on the agenda. The Eastern Europeans believed that the new world order didn’t signify superpower leadership, but that superpower dominance was coming to an end.
In general, the new security structure arising from superpower cooperation seemed to indicate to observers that the new world order would be based on the principles of political liberty, self-determination, and non-intervention. This would mean an end to the sponsoring of military conflicts in third countries, restrictions on global arms sales, and greater engagement in the Middle East (especially regarding Syria, Palestine, and Israel). The U.S. might use this opportunity to more emphatically promote human rights in China and South Africa.[11]
Economically, debt relief was expected to be a significant issue, as East-West competition would give way to North-South cooperation. Economic tripolarity would arise with the U.S., Germany, and Japan as the three motors of world growth. Meanwhile, the Soviet social and economic crisis was manifestly going to limit its ability to project power abroad, thus necessitating continued U.S. leadership.
Commentators assessing the results of the Conference, and how the pronouncements measured up to expectations, were underwhelmed. Bush was criticized for taking refuge behind notions of "status quo-plus" rather than a full commitment to new world order. Others noted that Bush thus far failed to satisfy the out-of-control "soaring expectations" that Gorbachev’s speech unleashed.

The Gulf War and Bush's formulation

Bush greeting troops on the eve of the First Gulf War.
Bush started to take the initiative from Gorbachev during the run-up to the Persian Gulf War, when he began to define the elements of the new world order as he saw it, and link the new order’s success to the international community’s response in Kuwait.
Initial agreement by the Soviets to allow action against Saddam highlighted this linkage in the press. The *Washington Post* declared that this superpower cooperation demonstrates that the Soviet Union has joined the international community, and that in the new world order Saddam faces not just the U.S. but the international community itself. A *New York Times* editorial was the first to assert that at stake in the collective response to Saddam was "nothing less than the new world order which Bush and other leaders struggle to shape."
In *A World Transformed*, Scowcroft notes that Bush even offered to have Soviet troops amongst the coalition forces liberating Kuwait. Bush places the fate of the new world order on the ability of the U.S. and the Soviet Union to respond to Hussein’s aggression. The idea that the Persian Gulf War would usher in the new world order began to take shape. Bush notes that the "premise [was] that the United States henceforth would be obligated to lead the world community to an

unprecedented degree, as demonstrated by the Iraqi crisis, and that we should attempt to pursue our national interests, wherever possible, within a framework of concert with our friends and the international community."

On March 6, 1991, President Bush addressed Congress in a speech often cited as the Bush administration's principal policy statement on the new world order in the Middle East, following the expulsion of Iraqi forces from Kuwait. Michael Oren summarizes the speech, saying; "The president proceeded to outline his plan for maintaining a permanent U.S. naval presence in the Persian Gulf, for providing funds for Middle East development, and for instituting safeguards against the spread of unconventional weapons. The centerpiece of his program, however, was the achievement of an Arab-Israeli treaty based on the territory-for-peace principle and the fulfillment of Palestinian rights." As a first step Bush announced his intention to reconvene the international peace conference in Madrid.

A pivotal point came with Bush's September 11, 1990 "Toward a New World Order" speech (full text) to a joint session of Congress. This time it was Bush, not Gorbachev, whose idealism was compared to Woodrow Wilson, and to Franklin D. Roosevelt at the creation of the UN. Key points picked up in the press were:

- Commitment to U.S. strength, such that it can lead the world toward rule of law, rather than use of force. The Gulf crisis was seen as a reminder that the U.S. must continue to lead, and that military strength does matter, but that the resulting new world order should make military force less important in the future.
- Soviet–American partnership in cooperation toward making the world safe for democracy, making possible the goals of the UN for the first time since its inception. Some countered that this was unlikely, and that ideological tensions would remain, such that the two superpowers could be partners of convenience for specific and limited goals only. The inability of the USSR to project force abroad was another factor in skepticism toward such a partnership.
- Another caveat raised was that the new world order was based not on U.S.-Soviet cooperation, but really on Bush-Gorbachev cooperation, and that the personal diplomacy made the entire concept exceedingly fragile.
- Future cleavages were to be economic, not ideological, with the First and Second world cooperating to contain regional instability in the Third World. Russia could become an ally against economic assaults from Asia, Islamic terrorism, and drugs from Latin America.
- Soviet integration into world economic institutions, such as the G7, and establishment of ties with the European Community.
- Restoration of German sovereignty and Cambodia's acceptance of the UN Security Council's peace plan on the day previous to the speech were seen as signs of what to expect in the new world order
- The reemergence of Germany and Japan as members of the great powers, and concomitant reform of the UN Security Council was seen as necessary for great power cooperation and reinvigorated UN leadership
- Europe was seen as taking the lead on building their own world order, while the U.S. was relegated to the sidelines. The rationale for U.S. presence on the

continent was vanishing, and the Persian Gulf crisis was seen as incapable of rallying Europe. Instead Europe was discussing the European Community, the CSCE, and relations with the USSR. Gorbachev even proposed an all-European security council to replace the CSCE, in effect superseding the increasingly irrelevant NATO.

- A very few postulated a bi-polar new order of U.S. power and UN moral authority, the first as global policeman, the second as global judge and jury. The order would be collectivist, in which decisions and responsibility would be shared.

These were the common themes that emerged from reporting about Bush's speech and its implications. Critics held that Bush and Baker remained too vague about what exactly the order entailed.

> Does it mean a strengthened U.N.? And new regional security arrangements in the gulf and elsewhere? Will the U.S. be willing to put its own military under international leadership? In the Persian Gulf, Mr. Bush has rejected a UN command outright. Sometimes, when Administration officials describe their goals, they say the U.S. must reduce its military burden and commitment. Other times, they appear determined to seek new arrangements to preserve U.S. military supremacy and to justify new expenditures.

The *New York Times* observed that the American left was calling the new world order a "rationalization for imperial ambitions" in the Middle East, while the right rejected new security arrangements altogether and fulminated about any possibility of UN revival. Pat Buchanan predicted that the Persian Gulf War would in fact be the demise of the new world order, the concept of UN peacekeeping, and the U.S.'s role as global policeman.

Unipolarity

The *LA Times* reported that the speech signified more than just the rhetoric about superpower cooperation. In fact, the deeper reality of the new world order was the United States' emergence "as the single greatest power in a multipolar world." Moscow was crippled by internal problems, and thus unable to project power abroad. The United States, while hampered by economic malaise, was militarily unconstrained for the first time since the end of World War II. Militarily, it was now a unipolar world, as illustrated by the Persian Gulf crisis. While diplomatic rhetoric stressed a U.S.-Soviet partnership, the U.S. was deploying troops to Saudi Arabia, a mere 700 miles from the Soviet frontier, and was preparing for war against a former Soviet client state. Further, U.S. authority over the Soviets was displayed in 1) the unification of Germany, withdrawal of Soviet forces, and almost open appeal to Washington for aid in managing the Soviet transition to democracy, 2) withdrawal of Soviet support for Third World clients, and 3) Soviets seeking economic aid through membership in Western international economic and trade communities.[23]

Presaging the Iraq War of 2003

James Baker, Secretary of State under George H. W. Bush.

The Economist published an article explaining the drive toward the Persian Gulf War in terms presaging the run-up to the Iraq War of 2003. The author notes directly that despite the coalition, in the minds of most governments this is America's war, and Bush that "chose to stake his political life on defeating Mr Hussein." An attack on Iraq would certainly shatter Bush’s alliance, they assert, predicting calls from Security Council members saying that diplomacy should have been given more time, and that they will not wish to allow a course of action "that leaves America sitting too prettily as sole remaining superpower." When the unanimity of the Security Council ends, "all that lovely talk about the new world order" will too. And when casualties mount, "Bush will be called a warmonger, an imperialist and a bully." The article goes on to say that Bush and James Baker’s speechifying cannot save the new world order once they launch a controversial war. It closes noting that a wide consensus is not necessary for U.S. action—only a hard core of supporters: Saudi Arabia, Arab states of the Persian Gulf, Egypt, and Britain. The rest need only not interfere.

In a passage with similar echoes of the future, Bush and Scowcroft explain in *A World Transformed* the role of the UN Secretary General in attempting to avert the Persian Gulf War. UN Secretary General Javier Pérez de Cuéllar arrived at Camp David to ask what he could do to head off the war. Bush told him that it was important that we get full implementation on every UN resolution. "If we compromise, we weaken the UN and our own credibility in building this new world order," I said. "I think Saddam Hussein doesn’t believe force will be used—or if it is, he can produce a stalemate." Additional meetings between Baker or Pérez and the Iraqis are rejected for fear that they will simply come back empty-handed once again. Bush fears that Javier will be cover for Hussein’s manipulations. Pérez suggests another Security Council meeting, but Bush sees no reason for one.

Following the Persian Gulf War

Following the Persian Gulf War – which was seen as the crucible in which great power cooperation and collective security would emerge the new norms of the era—several academic assessments of the "new world order" idea were published.

John Lewis Gaddis, a Cold War historian, wrote in *Foreign Affairs* about what he saw as the key characteristics of the potential new order: unchallenged American primacy, increasing integration, resurgent nationalism and religiosity, a diffusion of security threats, and collective security. He casts the fundamental challenge as one of integration versus fragmentation, and the concomitant benefits and dangers associated with each. Changes in communications, the international economic system, the nature of security threats, and the rapid spread of new ideas would prevent nations from retreating into isolation. In light of this, Gaddis sees a chance for the democratic peace predicted by liberal international relations theorists to come closer to reality. However, he illustrates that not only is the fragmentary pressure of nationalism manifest in the former Communist bloc countries and the Third World, but is also a considerable factor in the West. Further, a revitalized Islam could play both integrating and fragmenting roles—emphasizing common identity, but also contributing to new conflicts that could resemble the Lebanese Civil War. The integration coming from the new order could also aggravate ecological, demographic, and epidemic threats. National self-determination, leading to the breakup and reunification of states (such as Yugoslavia on one hand, and Germany on the other) could signal abrupt shifts in the balance of power, with a destabilizing effect. Integrated markets, especially energy markets, are now a security liability for the world economic system, as events affecting energy security in one part of the globe could threaten countries far removed from potential conflicts. Finally, diffusion of security threats requires a new security paradigm involving low-intensity but more frequent deployment of peacekeeping troops—a type of mission that is hard to sustain under budgetary or public opinion pressure. Gaddis calls for aid to Eastern European countries, updated security and economic regimes for Europe, UN-based regional conflict resolution, a slower pace of international economic integration, and paying off the U.S. debt.

However, statesman Strobe Talbott wrote of the new world order that it was only in the aftermath of the Persian Gulf War that the United Nations took a step toward redefining its role to take account of both interstate relations and intrastate events. Furthermore, he asserted that it was only as an unintended postscript to Desert Storm that Bush gave meaning to the "new world order" slogan. But, by the end of the year Bush stopped talking about a new world order. His advisers explained that he had dropped the phrase because he felt it suggested more enthusiasm for the changes sweeping the planet than he actually felt. He wanted, as an antidote to the uncertainties of the world, to stress the old verities of territorial integrity, national sovereignty and international stability. David Gergen suggested at the time that it was the recession of 1991–92 which finally killed the new world order idea within the White House. The economic downturn took a deeper psychological toll than expected while domestic politics were increasingly frustrated by paralysis, with the result that the United States toward the end of 1991 turned increasingly pessimistic, inward and nationalistic. In 1992, Hans Köchler published a critical assessment of the notion of the "new world order," describing it as an ideological tool of legitimation of the global exercise of power by the US in a unipolar environment.[29] In Joseph S. Nye, Jr.'s analysis (1992), the collapse of the Soviet Union did not issue in a new world order per se, but rather simply allowed for the reappearance of the liberal institutional order that was supposed to have come into effect in 1945. This success of this order was not a fait accomplis, however. Three years later, G. John Ikenberry would reaffirm Nye's idea of a reclamation of the ideal post-World War II order, but would dispute the nay-sayers who had predicted post–Cold War chaos. By 1997, Anne-Marie Slaughter produced an analysis calling the restoration of the post-World War II order a "chimera... infeasible at best and dangerous at worst." In her view, the new order was not a liberal institutionalist one, but one in which state authority disaggregated and decentralized in the face of globalization.

> The expectation of harmony was widely shared. Political and intellectual leaders elaborated similar views. The Berlin wall had come down, communist regimes had collapsed, the United Nations was to assume a new importance, the former Cold War rivals would engage in "partnership" and a "grand bargain," peacekeeping and peacemaking would be the order of the day. The President of the world's leading country proclaimed the "new world order"...
>
> The moment of euphoria at the end of the Cold War generated an illusion of harmony, which was soon revealed to be exactly that. The world became different in the early 1990s, but not necessarily more peaceful. Change was inevitable; progress was not... The illusion of harmony at the end of that Cold War was soon dissipated by the multiplication of ethnic conflicts and "ethnic cleansing," the breakdown of law and order, the emergence of new patterns of alliance and conflict among states, the resurgence of neo-communist and neo-

fascist movements, intensification of religious fundamentalism, the end of the "diplomacy of smiles" and "policy of yes" in Russia's relations with the West, the inability of the United Nations and the United States to suppress bloody local conflicts, and the increasing assertiveness of a rising China. In the five years after the Berlin wall came down, the word "genocide" was heard far more often than in any five years of the Cold War.

The one harmonious world paradigm is clearly far too divorced from reality to be a useful guide to the post–Cold War world. Two Worlds: Us and Them. While one-world expectations appear at the end of major conflicts, the tendency to think in terms of two worlds recurs throughout human history. People are always tempted to divide people into us and them, the in-group and the other, our civilization and those barbarians.

Despite the criticisms of the new world order concept, ranging from its practical unworkability to its theoretical incoherence, Bill Clinton not only signed on to the idea of the "new world order," but dramatically expanded the concept beyond Bush's formulation. The essence of Clinton's election year critique was that Bush had done too little, not too much.

American intellectual Noam Chomsky, author of the 1994 book *World Orders Old and New*, often describes the New World Order as a post-Cold-War era in which "the New World gives the orders". Commenting on the 1999 US-NATO bombing of Serbia, he writes:

The aim of these assaults is to establish the role of the major imperialist powers—above all, the United States—as the unchallengeable arbiters of world affairs. The "New World Order" is precisely this: an international regime of unrelenting pressure and intimidation by the most powerful capitalist states against the weakest.

Following the rise of Boris Yeltsin, eclipsing Mikhail Gorbachev, and the election victory of Clinton over George H.W. Bush, the term "new world order" fell from common usage. It was replaced by competing, similar concepts about how the post–Cold War order would develop. Prominent among these were the ideas of the "era of globalization," the "unipolar moment," the "end of history," and the "Clash of Civilizations."

Viewed in retrospect

A 2001 paper in *Presidential Studies Quarterly* examined the idea of the "new world order" as it was presented by the Bush administration (mostly ignoring previous uses by Gorbachev). Their conclusion was that Bush really only ever had three firm aspects to the new world order:

1. Checking the offensive use of force;
2. Promoting collective security; and,
3. Using great power cooperation.

These were not developed into a policy architecture, but came about incrementally as a function of domestic, personal, and global factors. Because of the somewhat overblown expectations for the new world order in the media, Bush was widely criticized for lacking vision.

The Gulf crisis is seen as the catalyst for Bush's development and implementation of the new world order concept. The authors note that before the crisis, the concept remained "ambiguous, nascent, and unproven" and that the United States had not assumed a leadership role with respect to the new order. Essentially, the Cold War's end was the permissive cause for the new world order, but the Persian Gulf crisis was the active cause.

They reveal that in August 1990, U.S. Ambassador to Saudi Arabia Charles W. Freeman, Jr. sent a diplomatic cable to Washington from Saudi Arabia in which he argued that U.S. conduct in the Persian Gulf crisis would determine the nature of the world. Bush would then refer to the "new world order" at least 42 times from the summer of 1990 to the end of March 1991. They also note that Secretary of Defense Dick Cheney gave three priorities to the Senate on fighting the Persian Gulf War: prevent further aggression; protect oil supplies; and, further a new world order. The authors note that the new world order did not emerge in policy speeches until after Iraq's invasion of Kuwait, maintaining that the concept was clearly not critical in the U.S. decision to deploy. John H. Sununu later indicated that the administration wanted to refrain from talking about the concept until Soviet collapse was more clear. A reversal of Soviet collapse would have been the death knell for the new order.

Bush and Scowcroft were frustrated by the exaggerated and distorted ideas surrounding the new world order. They did not intend to suggest that the U.S. would yield significant influence to the UN, or that they expected the world to enter an era of peace and tranquility. They preferred multilateralism, but did not reject unilateralism. The new world order did not signal peace, but a "challenge to keep the dangers of disorder at bay."

Bush's drive toward the Persian Gulf War was based on the world making a clear choice. Baker recalls that UNSCR 660's "language was simply and crystal clear, purposely designed by us to frame the vote as being for or against aggression". Bush's motivation centered around 1) the dangers of appeasement, and 2) failure to check aggression could spark further aggression. Bush repeatedly invoked images of World War II in this connection, and became very emotional over Iraqi atrocities being committed in Kuwait. He also believed that failure to check Iraqi aggression would lead to more challenges to the U.S.-favored status quo and global stability. While the end of the Cold War increased U.S. security globally, it remained vulnerable to regional threats. Furthermore, Washington believed that addressing the Iraqi threat would help reassert U.S. predominance in light of growing concerns about relative decline, following the resurgence of Germany and Japan.

The Gulf War was also framed as a test case for UN credibility. As a model for dealing with aggressors, Scowcroft believed that the United States ought to act in a way that others can trust, and thus get UN support. It was critical that the U.S. not look like it was throwing its weight around. Great power cooperation and UN support would collapse if the U.S. marched on the Baghdad to try to remake Iraq. However, practically, superpower cooperation was limited. For example, when the U.S. deployed troops to Saudi Arabia, Soviet Foreign Minister Eduard Shevardnadze became furious at not being consulted.

By 1992, the authors note, the U.S. was already abandoning the idea of collective action. The leaked draft of the (Wolfowitz-Libby) 1992 Defense Guidance Report effectively confirmed this shift, as it called for a unilateral role for the U.S. in world affairs, focusing on preserving American dominance.

In closing *A World Transformed*, Scowcroft sums up what his expectations were for the new world order. He states that the U.S. has the strength and the resources to pursue its own interests, but has a disproportionate responsibility to use its power in pursuit of the common good, as well as an obligation to lead and to be involved. The U.S. is perceived as uncomfortable in exercising its power, and ought to work to create predictability and stability in international relations. America need not be embroiled in every conflict, but ought to aid in developing multilateral responses to them. The U.S. can unilaterally broker disputes, but ought to act whenever possible in concert with equally committed partners to deter major aggression.

Recent political usage

Henry Kissinger stated in 1994, "The New World Order cannot happen without U.S. participation, as we are the most significant single component. Yes, there will be a New World Order, and it will force the United States to change its perceptions." Then on January 5, 2009, when asked on television by CNBC anchors about what he suggests Barack Obama focus on during the current Israeli crises he replied that it is a time to reevaluate American foreign policy and that "he can give new impetus to American foreign policy ... I think that his task will be to develop an overall strategy for America in this period, when really a ‘new world order’ can be created. It’s a great opportunity. It isn’t such a crisis."

Former British United Kingdom Prime Minister and current British Middle East envoy Tony Blair stated on November 13, 2000 in his Mansion House Speech that *"There is a new world order like it or not"*. He used the term in 2001, November 12, 2001and 2002. On January 7, 2003 he stated that *"... the call was for a new world order. But a new order presumes a new consensus. It presumes a shared agenda and a global partnership to do it."*

Former United Kingdom Prime Minister Gordon Brown, on December 17, 2001, stated that "This is not the first time the world has faced this question – so fundamental and far-reaching. In the 1940s, after the greatest of wars, visionaries in America and elsewhere looked ahead to a new world and – in their day and for their times – built a new world order."

Brown also called for a "new world order" in a 2008 speech in New Delhi, to reflect the rise of Asia and growing concerns over global warming and finance. Brown said the new world order should incorporate a better representation of "the biggest shift in the balance of economic power in the world in two centuries." He then went on, "To succeed now, the post-war rules of the game and the post-war international institutions – fit for the Cold War and a world of just 50 states – must be radically reformed to fit our world of globalisation." He also called for the revamping of post-war global institutions including the World Bank, G8 and International Monetary Fund. Other elements of Brown's formulation include spending £100 million a year on setting up a rapid reaction force to intervene in failed states.

Turkish President, Abdullah Gül, has said "I don't think you can control all the world from one centre, There are big nations. There are huge populations. There is unbelievable economic development in some parts of the world. So what we have to do is, instead of unilateral actions, act all together, make common decisions and have consultations with the world. A new world order, if I can say it, should emerge."

On the Colbert Report, guest John King (of CNN) mentions Obama's "New World Order" after Stephen Colbert jokes about the media's role in getting Obama elected.
Some scholars of international relations have advanced the thesis that the declining global influence of the United States and the rise of largely illiberal powers such as China threaten the established norms and beliefs of the liberal, rule-based world order. They describe three pillars of the prevailing order that are upheld and promoted by the West: peaceful international relations (the Westphalian norm), democratic ideals, and free-market capitalism. Stewart Patrick suggests that emerging powers, China included, "often oppose the political and economic ground rules of the inherited Western liberal order" and Elizabeth C. Economy argues that China is becoming a "revolutionary power" that is seeking "to remake global norms and institutions." In contrast, Amitai Etzioni contends that such a world order was never fully consolidated, and that "the whole thesis that the U.S. is the champion and protector of a liberal rule-based global order and faces illiberal nations that do not buy into and need to be encouraged to accept prevailing norms, is a complex combination of beliefs many in the West truly hold. It is part of an ideological challenge to the legitimacy of the policies and regimes of other nations, mixed with a measure of self-congratulatory exceptionalism."

New world disorder

During 2014, the phrase "new world disorder" began to be used in the press, primarily in reference to renewed tensions between Russia under the leadership of Vladimir Putin and the Western world resulting from the 2014–15 Russian military intervention in Ukraine.
In the wake of the destruction of Malaysia Airlines Flight 17 in July 2014, the Daily Telegraph journalist Pete Foster wrote an article entitled "Flight MH17 and the new world disorder". In it he wrote "As before the First World War, the centenary of which falls next month, there is a detectable sense of complacency among the coddled citizens of Europe and America...But the belief that economic inter-dependence would protect us from wars – that the cost of conflict would far outweigh the gain – is a fallacy." and "How to respond to this new world disorder is suddenly the pressing issue of our time."
In a BBC News report broadcast in September 2014 the BBC's world affairs editor John Simpson made the claim that the events of the summer of 2014, including the Ukrainian crisis, the spread of the Islamic State of Iraq and the Levant and the 2014 Israel–Gaza conflict, constituted a "new world disorder".[66] Others, including Victor Davis Hanson in National Review and Michael Ignatieff writing in the New York Review of Books, have made similar claims.[67][68]
The **anti-globalization movement**, or **counter-globalisation movement**, is a social movement critical of the globalization of corporate capitalism. The movement is also commonly referred to as the global justice movement, alter-globalization movement, anti-globalist movement, anti-corporate globalization movement, or movement against neoliberal globalization.
Participants base their criticisms on a number of related ideas.[4] What is shared is that participants oppose what they see as large, multi-national corporations having unregulated political power, exercised through trade agreements and deregulated financial markets. Specifically, corporations are accused of seeking to maximize profit at the expense of work safety conditions and standards, labor hiring and

compensation standards, environmental conservation principles, and the integrity of national legislative authority, independence and sovereignty. As of January 2012, some commentators have characterized the unprecedented changes in the global economy as "turbo-capitalism" (Edward Luttwak), "market fundamentalism" (George Soros), "casino capitalism" (Susan Strange), and as "McWorld" (Benjamin Barber).

Many anti-globalization activists call for forms of global integration that better provide democratic representation, advancement of human rights, fair trade and sustainable development and therefore feel the term "anti-globalization" is misleading.

Ideology and causes

Main article: Criticisms of globalization

Supporters believe that by the late 20th century those they characterized as "ruling elites" sought to harness the expansion of world markets for their own interests; this combination of the Bretton Woods institutions, states, and multinational corporations has been called "globalization" or "globalization from above." In reaction, various social movements emerged to challenge their influence; these movements have been called "anti-globalization" or "globalization from below."

Opposition to international financial institutions and transnational corporations

People opposing globalization believe that international agreements and global financial institutions, such as the International Monetary Fund (IMF) and the World Trade Organization, undermine local decision-making. Corporations that use these institutions to support their own corporate and financial interests, can exercise privileges that individuals and small businesses cannot, including the ability to

1. move freely across borders,
2. extract desired natural resources, and
3. use a wide variety of human resources.

The movement aims for an end to the legal status of "corporate personhood" and the dissolution of free market fundamentalism and the radical economic privatization measures of the World Bank, the IMF, and the World Trade Organization.

Activists are especially opposed to the various abuses which they think are perpetuated by globalization and the international institutions that, they say, promote neoliberalism without regard to ethical standards or environmental protection.[11] Common targets include the World Bank (WB), International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) and free trade treaties like the North American Free Trade Agreement (NAFTA), Free Trade Area of the Americas (FTAA), the Trans Pacific Trade Agreement (TPPA), the Multilateral Agreement on Investment (MAI) and the General Agreement on Trade in Services (GATS). In light of the economic gap between rich and poor countries, adherents of the movement claim that free trade without measures to protect the environment and the health and wellbeing of workers will merely increase the power of industrialized nations (often termed the "North" in opposition to the developing world's "South"). Proponents of this line of thought refer to the process as polarization and argue that current neo-liberal economic policies have given wealthier states an advantage over developing nations, enabling their exploitation and leading to a widening of the global wealth gap.

A report by Jean Ziegler, UN Special Rapporteur on the right to food, notes that "millions of farmers are losing their livelihoods in the developing countries, but small farmers in the northern countries are also suffering" and concludes that "the current inequities of the global trading system are being perpetuated rather than resolved under the WTO, given the unequal balance of power between member countries." Activists point to the unequal footing and power between developed and developing nations within the WTO and with respect to global trade, most specifically in relation to the protectionist policies towards agriculture enacted in many developed countries. These activists also point out that heavy subsidization of developed nations' agriculture and the aggressive use of export subsidies by some developed nations to make their agricultural products more attractive on the international market are major causes of declines in the agricultural sectors of many developing nations.

Global opposition to neoliberalism

Through the Internet, a movement began to develop in opposition to the doctrines of neoliberalism which were widely manifested in the 1990s when the Organisation for Economic Co-operation and Development (OECD) proposed liberalization of cross-border investment and trade restrictions through its Multilateral Agreement on Investment (MAI). This treaty was prematurely exposed to public scrutiny and subsequently abandoned in November 1998 in the face of strenuous protest and criticism by national and international civil society representatives.

Neoliberal doctrine argued that untrammeled free trade and reduction of public-sector regulation would bring benefits to poor countries and to disadvantaged people in rich countries. Anti-globalization advocates urge that preservation of the natural environment, human rights (especially workplace rights and conditions) and democratic institutions are likely to be placed at undue risk by globalization unless mandatory standards are attached to liberalization. Noam Chomsky stated in 2002 that

The term "globalization" has been appropriated by the powerful to refer to a specific form of international economic integration, one based on investor rights, with the interests of people incidental. That is why the business press, in its more honest moments, refers to the "free trade agreements" as "free investment agreements" (Wall St. Journal). Accordingly, advocates of other forms of globalization are described as "anti-globalization"; and some, unfortunately, even accept this term, though it is a term of propaganda that should be dismissed with ridicule. No sane person is opposed to globalization, that is, international integration. Surely not the left and the workers movements, which were founded on the principle of international solidarity—that is, globalization in a form that attends to the rights of people, not private power systems.

Anti-war movement

Main article: Anti-war movement

By 2002, many parts of the movement showed wide opposition to the impending invasion of Iraq. Many participants were among those 11 million or more protesters that on the weekend of February 15, 2003, participated in global protests against the imminent Iraq war and were dubbed the "world's second superpower" by an editorial in the *New York Times*. Other anti-war demonstrations were organized by the antiglobalization movement: see for example the large demonstration, organized against the impending war in Iraq, which closed the first European Social Forum in November 2002 in Florence, Italy.

Anti-globalization militants worried for a proper functioning of democratic institutions as the leaders of many democratic countries (Spain, Italy, Poland and the United Kingdom) were acting against the wishes of the majorities of their populations in supporting the war.[17][18] Chomsky asserted that these leaders "showed their contempt for democracy". Critics of this type of argument have tended to point out that this is just a standard criticism of representative democracy — a democratically elected government will not always act in the direction of greatest current public support — and that, therefore, there is no inconsistency in the leaders' positions given that these countries are parliamentary democracies.

The economic and military issues are closely linked in the eyes of many within the movement.

Appropriateness of the term

Many participants (see Noam Chomsky's quotes above) consider the term "anti-globalization" to be a misnomer. The term suggests that its followers support protectionism and/or nationalism, which is not always the case - in fact, some supporters of anti-globalization are strong opponents of both nationalism and protectionism: for example, the No Border network argues for unrestricted migration and the abolition of all national border controls. S. A. Hamed Hosseini (an Australian sociologist and expert in global social movement studies), argues that the term anti-globalization can be ideal-typically used only to refer to only one ideological vision he detects alongside three other visions (the anti-globalist, the alter-globalist and the alter-globalization). He argues that the three latter ideal-typical visions can be categorized under the title of global justice movement. According to him, while the first two visions (the alter-globalism and the anti-globalism) represent the reconstructed forms of old and new left ideologies, respectively, in the context of current globalization, only the third one has shown the capacity to respond more effectively to the intellectual requirements of today's global complexities. Underlying this vision is a new conception of justice, coined accommodative justice by Hosseini, a new approach towards cosmopolitanism (transversal cosmopolitanism), a new mode of activist knowledge (accommodative consciousness), and a new format of solidarity, interactive solidarity.

The term "anti-globalization" does not distinguish the international leftist anti-globalization position from a strictly nationalist anti-globalization position. Many nationalist movements, such as the French National Front, Austrian Freedom Party, or the Italian Lega Nord are opposed to globalization, but argue that the alternative to globalization is the protection of the nation-state, sometimes, according to critics, in explicitly racist or fascist terms. Other groups, influenced by the Third Position, are also classifiable as anti-globalization. However, their overall world view is rejected by groups such as Peoples Global Action and anti-fascist groups such as ANTIFA.

Some activists, notably David Graeber, see the movement as opposed instead to neoliberalism or "corporate globalization". He argues that the term "anti-globalization" is a term coined by the media, and that radical activists are actually more in favor of globalization, in the sense of "effacement of borders and the free movement of people, possessions and ideas" than are the IMF or WTO. He also notes that activists use the terms "globalization movement" and "anti-globalization movement" interchangeably, indicating the confusion of the terminology. The term "alter-globalization" has been used to make this distinction clear.

While the term "anti-globalization" arose from the movement's opposition to free-trade agreements (which have often been considered part of something called "globalization"), various participants contend they are opposed to only certain aspects of globalization and instead describe themselves, at least in French-speaking organizations, as "anti-capitalist", "anti-plutocracy," or "anti-corporate." *Le Monde Diplomatique* 's editor, Ignacio Ramonet's, expression of "the one-way thought" (*la pensée unique*) became slang against neoliberal policies and the Washington consensus.

Several influential critical works have inspired the anti-globalization movement. *No Logo*, the book by the Canadian journalist Naomi Klein who criticized the production practices of multinational corporations and the omnipresence of brand-driven marketing in popular culture, has become "manifesto"[23] of the movement, presenting in a simple way themes more accurately developed in other works. In India some intellectual references of the movement can be found in the works of Vandana Shiva, an ecologist and feminist, who in her book *Biopiracy* documents the way that the natural capital of indigenous peoples and ecoregions is converted into forms of intellectual capital, which are then recognized as exclusive commercial property without sharing the private utility thus derived. The writer Arundhati Roy is famous for her anti-nuclear position and her activism against India's massive hydroelectric dam project, sponsored by the World Bank. In France the well-known monthly paper *Le Monde Diplomatique* has advocated the antiglobalization cause and an editorial of its director Ignacio Ramonet brought about the foundation of the association ATTAC. Susan George of the Transnational Institute has also been a long-term influence on the movement, as the writer of books since 1986 on hunger, debt, international financial institutions and capitalism. The works of Jean Ziegler, Christopher Chase-Dunn, and Immanuel Wallerstein have detailed underdevelopment and dependence in a world ruled by the capitalist system. Pacifist and anti-imperialist traditions have strongly influenced the movement. Critics of United States foreign policy such as Noam Chomsky, Susan Sontag, and anti-globalist pranksters The Yes Men are widely accepted inside the movement.

Although they may not recognize themselves as antiglobalists and are pro-capitalism, some economists who don't share the neoliberal approach of international economic institutions have strongly influenced the movement. Amartya Sen's *Development as Freedom* (Nobel Prize in Economics, 1999), argues that third world development must be understood as the expansion of human capability, not simply the increase in national income per capita, and thus requires policies attuned to health and education, not simply GDP. James Tobin's (winner of the Nobel Prize in Economics) proposal for a tax on financial transactions (called, after him, the Tobin tax) has become part of the agenda of the movement. Also, George Soros, Joseph E. Stiglitz (another Economic Sciences Nobel prize winner, formerly of the World Bank, author of Globalization and Its Discontents) and David Korten have made arguments for drastically improving transparency, for debt relief, land reform, and restructuring corporate accountability systems. Korten and Stiglitz's contribution to the movement include involvement in direct actions and street protest.

In some Roman Catholic countries such as Italy there have been religious influences, especially from missionaries who have spent a long time in the Third World (the most famous being Alex Zanotelli).

Internet sources and free-information websites, such as Indymedia, are a means of diffusion of the movement's ideas. The vast array of material on spiritual movements, anarchism, libertarian socialism and the Green Movement that is now available on the Internet has been perhaps more influential than any printed book.

Although over the past years more emphasis has been given to the construction of grassroots alternatives to (capitalist) globalization, the movement's largest and most visible mode of organizing remains mass decentralized campaigns of direct action and civil disobedience. This mode of organizing, sometimes under the banner of the Peoples' Global Action network, tries to tie the many disparate causes together into one global struggle. In many ways the process of organizing matters overall can be more important to activists than the avowed goals or achievements of any component of the movement.

At corporate summits, the stated goal of most demonstrations is to stop the proceedings. Although the demonstrations rarely succeed in more than delaying or inconveniencing the actual summits, this motivates the mobilizations and gives them a visible, short-term purpose. This form of publicity is expensive in police time and the public purse. Rioting has occurred at some protests, for instance in Genoa, Seattle and London - and extensive damage was done to the area, especially targeting corporations, including McDonald's and Starbucks restaurants.

Despite, or perhaps because of, the lack of formal coordinating bodies, the movement manages to successfully organize large protests on a global basis, using information technology to spread information and organize. Protesters organize themselves into "affinity groups," typically non-hierarchical groups of people who live close together and share a common political goal. Affinity groups will then send representatives to planning meetings. However, because these groups can be infiltrated by law enforcement intelligence, important plans of the protests are often not made until the last minute. One common tactic of the protests is to split up based on willingness to break the law. This is designed, with varying success, to protect the risk-averse from the physical and legal dangers posed by confrontations with law enforcement. For example, in Prague during the anti-IMF and World Bank protests in September 2000 demonstrators split into three distinct groups, approaching the conference center from three directions: one engaging in various forms of civil disobedience (the Yellow march), one (the Pink/Silver march) advancing through "tactical frivolity" (costume, dance, theatre, music, and artwork), and one (the Blue march) engaging in violent conflicts with the baton-armed police, with the protesters throwing cobblestones lifted from the street.[24] These demonstrations come to resemble small societies in themselves. Many protesters take training in first aid and act as medics to other injured protesters. In the USA, some organizations like the National Lawyer's Guild and, to a lesser extent, the American Civil Liberties Union, provide legal witnesses in case of law enforcement confrontation. Protesters often claim that major media outlets do not properly report on them; therefore, some of them created the Independent Media Center, a collective of protesters

International social forums

Main articles: Social forum, European Social Forum, Asian Social Forum and World Social Forum

The first World Social Forum (WSF) in 2001 was an initiative of Oded Grajew, Chico Whitaker, and Bernard Cassen. It was supported by the city of Porto Alegre (where it took place) and the Brazilian Worker's Party. The motivation was to constitute a counter-event to the World Economic Forum held in Davos at the same time. The slogan of the WSF is "Another World Is Possible". An *International Council* (IC) was set up to discuss and decide major issues regarding the WSF, while the local organizing committee in the host city is responsible for the practical preparations of the event. In June 2001, the IC adopted the World Social Forum Charter of Principles, which provides a framework for international, national, and local Social Forums worldwide.

The WSF became a periodic meeting: in 2002 and 2003 it was held again in Porto Alegre and became a rallying point for worldwide protest against the American invasion of Iraq. In 2004 it was moved to Mumbai (formerly known as Bombay, in India), to make it more accessible to the populations of Asia and Africa. This appointment saw the participation of 75,000 delegates. In 2006 it was held in three cities: Caracas (Venezuela), Bamako (Mali), and Karachi (Pakistan). In 2007, the Forum was hosted in Nairobi (Kenya). 2009 the Forum returned to Brazil, where it took place in Belém. 2011, the Forum is scheduled to take place in Dakar (Senegal). 2014 in Porto Alegre.

The idea of creating a meeting place for organizations and individuals opposed to Neoliberalism was soon replicated elsewhere. The first European Social Forum (ESF) was held in November 2002 in Florence. The slogan was "Against the war, against racism and against neo-liberalism". It saw the participation of 60,000 delegates and ended with a huge demonstration against the war (1,000,000 people according to the organizers). The following ESFs took place in Paris (2003), London (2004), Athens (2006), and Malmö (2008). The next ESF is scheduled to take place in Istanbul in 2010.

In many countries Social Forums of national and local scope where also held.

Recently there has been some discussion behind the movement about the role of the social forums. Some see them as a "popular university", an occasion to make many people aware of the problems of globalization. Others would prefer that delegates concentrate their efforts on the coordination and organization of the movement and on the planning of new campaigns. However it has often been argued that in the dominated countries (most of the world) the WSF is little more than an 'NGO fair' driven by Northern NGOs and donors most of which are hostile to popular movements of the poor.

Criticisms

The anti-globalization movement has been criticized by politicians, members of conservative think tanks, and many mainstream economists.

Lack of evidence

Critics assert that the empirical evidence does not support the views of the anti-globalization movement. These critics point to statistical trends which are interpreted to be results of globalization, capitalism, and the economic growth they encourage.

- There has been an absolute decrease in the percentage of people in developing countries living below $1 per day in east Asia (adjusted for inflation and purchasing power). Sub Saharan Africa, as an area that felt the consequences of poor governance and was less responsive to globalization, has seen an increase in poverty while all other areas of the world have seen no change in rates.
- The world income per head has increased by more over period 2002–2007 than during any other period on the record.
- The increase in universal suffrage, from no nations in 1900 to 62.5% of all nations in 2000.
- There are similar trends for electric power, cars, radios, and telephones per capita as well as the percentage of the population with access to clean water. However 1.4 billion people still live without clean drinking water and 2.6 billion of the world's population lack access to proper sanitation. Access to clean water has actually decreased in the world's poorest nations, often those that have not been as involved in globalization.

Members of the anti-globalization movement argue that positive data from countries which largely ignored neoliberal prescriptions, notably China, discredits the evidence that pro-globalists present. For example, concerning the parameter of per capita income growth, development economist Ha-Joon Chang writes that considering the record of the last two decades the argument for continuing neo-liberal policy prescriptions are "simply untenable." Noting that "It depends on the data we use, but roughly speaking, per capita income in developing countries grew at 3% per year between 1960 and 1980, but has grown only at about 1.5% between 1980 and 2000. And even this 1.5% will be reduced to 1%, if we take out India and China, which have not pursued liberal trade and industrial policies recommended by the developed countries." Jagdish Bhagwati argues that reforms that opened up the economies of China and India contributed to their higher growth in 1980s and 1990s. From 1980 to 2000 their GDP grew at average rate of 10 and 6 percent respectively. This was accompanied by reduction of poverty from 28 percent in 1978 to 9 percent in 1998 in China, and from 51 percent in 1978 to 26 percent in 2000 in India. Likewise, Joseph E. Stiglitz, speaking not only on China but East Asia in general, comments "The countries that have managed globalization...such as those in East Asia, have, by and large, ensured that they reaped huge benefits..." According to The Heritage Foundation, development in China was anticipated by Milton Friedman, who predicted that even a small progress towards economic liberalization would produce dramatic and positive effects. China's economy had grown together with its economic freedom. Critics of corporate-led globalization have expressed concern about the methodology used in arriving at the World Bank's statistics and argue that more detailed variables measuring poverty should be studied. According to the Center for Economic and Policy Research (CEPR), the period from 1980–2005 has seen diminished progress in terms of economic growth, life expectancy, infant and child mortality, and to a lesser extent education.

Disorganization

One of the most common criticisms of the movement, which does not necessarily come from its opponents, is simply that the anti-globalization movement lacks coherent goals, and that the views of different protesters are often in opposition to each other. Many members of the movement are also aware of this, and argue that, as long as they have a common opponent, they should march together - even if they don't share exactly the same political vision. Writers Michael Hardt & Antonio Negri have together in their books (*Empire* & *Multitude*) expanded on this idea of a disunified multitude: humans coming together for shared causes, but lacking the complete sameness of the notion of 'the people'.

Lack of effectiveness

One argument often made by the opponents of the anti-globalization movement (especially by *The Economist*), is that one of the major causes of poverty amongst third-world farmers are the trade barriers put up by rich nations and poor nations alike. The WTO is an organization set up to work towards removing those trade barriers. Therefore, it is argued, people really concerned about the plight of the third world should actually be encouraging free trade, rather than attempting to fight it. Specifically, commodities such as sugar are heavily distorted by subsidies on behalf of powerful economies (the United States, Europe, and Japan), who have a disproportionate influence in the WTO. As a result, producers in these countries often receive 2-3x the world market price. As Amani Elobeid and John Beghin note, the world price might decline by as much as 48% (by 2011 / 2012 baselines) were these distortions to be removed.

Many supporters of globalization think that policies different from those of today should be pursued, although not necessarily those advocated by the anti-globalization movement. For example, some see the World Bank and the IMF as corrupt bureaucracies which have given repeated loans to dictators who never do any reforms. Some, like Hernando De Soto, argue that much of the poverty in the Third World countries is caused by the lack of Western systems of laws and well-defined and universally recognized property rights. De Soto argues that because of the legal barriers poor people in those countries can not utilize their assets to produce more wealth.

Lack of widespread "Third World" support

Critics have asserted that people from poor (the Developing countries) have been relatively accepting and supportive of globalization while the strongest opposition to globalization has come from wealthy "First World" activists, unions and NGOs. Alan Shipman, author of "The Globalization Myth" accuses the anti-globalization movement of "defusing the Western class war by shifting alienation and exploitation to developing-country sweatshops." He later goes on to claim that the anti-globalization movement has failed to attract widespread support from poor and working people from the developing nations, and that its "strongest and most uncomprehending critics had always been the workers whose liberation from employment they were trying to secure."

These critics assert that people from the Third World see the anti-globalization movement as a threat to their jobs, wages, consuming options and livelihoods, and that a cessation or reversal of globalization would result in many people in poor countries being left in greater poverty. Jesús F. Reyes Heroles the former Mexican Ambassador to the US, stated that "in a poor country like ours, the alternative to low-paid jobs isn't well-paid ones, it's no jobs at all."

Egypt's Ambassador to the UN has also stated "The question is why all of a sudden, when third world labor has proved to be competitive, why do industrial countries start feeling concerned about our workers? When all of a sudden there is a concern about the welfare of our workers, it is suspicious."
On the other hand, there have been notable protests against certain globalization policies by workers in developing nations as in the cause of Indian farmers protesting against patenting seeds.
In the last few years, many developing countries (esp. in Latin America and Caribbean) created alter-globalization organizations as economic blocs Mercosur and Unasur, political community CELAC or Bank of the South which are supporting development of low income countries without involvement from IMF or World Bank.

Economic effects

Limitations on growth

The founder of Local Futures (formerly the International Society for Ecology and Culture), Helena Norberg-Hodge, has suggested that globalization does not work for all the economies that it affects, and that it does not always deliver the economic growth that is expected of it.
Globalization has been described as an "uneven process" in Africa due to the global integration of some groups happening alongside the marginalization or exclusion of others. Tensions resulting from this were a cause of the conflict in the Niger Delta.

Power of transnational corporations

Globalization has fueled the rise of transnational corporations, and their power has vaulted to the point where they can now rival many nation states. Of the world's one hundred largest economies, forty-two of them are corporations. Many of these transnational corporations now hold sway over many nation states, as their fates are intertwined with the nations that they are located in. Based in Finland, Nokia represents nearly two-thirds of the stock market's value, and provides a large share of the nation's tax revenue. With this much power, managers of the company have unprecedented influence in the politics of Finland.
Also, though transnational corporations could offer massive influence regarding the Third World, and bring about more pressure to help increase worker salaries and working conditions in sweatshops, this has not happened to a great extent, emphasized by the 2013 Savar building collapse, where over one thousand workers died having been producing garments to be exported across the world in unsafe working conditions.
Given that the scale on which these corporations operate is so large, problems that they create can be difficult for elected politicians to deal with.

Environmental effects

Damage from transnational corporations

In Nigeria, the exacerbation of environmental problems including air pollution, water pollution, noise pollution, land degradation and erosion has been attributed to the presence of the international petroleum industry as a result of globalization.

Infectious diseases

Main article: Globalization and disease
Infectious diseases, such as SARS and Ebola, have traveled across the world due to increased world trade and tourism.

Invasive organisms

The spread of invasive species has been accelerated by globalization.

Social effects

Growing inequality

The Governor of the Bank of England, Mark Carney, put forward globalization as a factor of an increase in the inequality of outcomes in societies.

Loss of languages

Acceleration in language death has been attributed to globalization, and is predicted to continue.

Prejudice

Professor Conor Gearty, of the London School of Economics, has suggested that global freedom of movement, brought on by globalization, has increased the scope for prejudice within societies.

The **World Federalist Movement** (**WFM**) is a global citizens movement with member and associate organizations around the world. The WFM International Secretariat is based in New York City across from the United Nations headquarters. The organization was created in 1947 by those concerned that the structure of the new United Nations was too similar to the League of Nations which had failed to prevent World War II, both being loosely structured associations of sovereign nation-states, with few autonomous powers. Supporters continue to advocate the establishment of a global federalist system of strengthened and accountable global institutions with plenary constitutional power and a division of international authority among separate global agencies.

The Movement has had Special Consultative Status with the United Nations Economic and Social Council (ECOSOC) since 1970 and is affiliated with the UN Department of Public Information (DPI) and a current board member of the Conference of NGOs (CONGO). It currently counts 30,000 to 50,000 supporters.

In the aftermath of World Wars I & II, activists around the world were forming organizations bent on creating a new world order that could prevent another global war.

The Campaign for World Government, the first world federalist organization, was founded in 1937 by two famous feminists, pacifists, and female suffragists: Rosika Schwimmer and Lola Maverick Lloyd. In 1938, the Federal Union was organized in the United Kingdom.[1] In the U.S., Federal Union (now: Association to Unite the Democracies) was established in 1939 calling for a federation of the Atlantic democracies. The Swiss Internationale Bewegung der Weltföderalisten-Schweiz was created in Geneva in 1940. During WWII, anti-fascist resistance movements shared clandestinely circulated copies of Altiero Spinelli's plan for European federation. In 1945, the Committee to Frame a World Constitution convened at the University of Chicago and drafted a Constitution for the World. In 1947, five small world federalist organizations came together in Asheville, North Carolina and agreed to merge as the United World Federalists.

These five groups had, in the previous year, met with representatives of fifteen others in Montreux to discuss creating a worldwide federalist organization. It was one year later, in August 1947, also in Montreux, that more than 51 organizations from 24 countries came together at the Conference of the World Movement for World Federal Government. The Conference concluded with the Montreux Declaration.

By its second congress in 1948 in Luxembourg, the Movement consisted of 150,000 members of 19 nationalities and 50 member and affiliated organizations. The 350 participants in the Congress laid the groundwork for an association of parliamentarians for world government, which came into being in 1951.

Federalists had hoped that the anticipated UN review conference (under Article 109 of the UN Charter) in 1955 would move the UN further in the direction of a world federal system. Unfortunately, the lack of political will dissipated any interest in such a conference. Around 1965 however, the Movement had established offices near the United Nations, with American federalist Marion McVitty as the Movement's UN observer and advocate.

Federalists in this period focused on amendments to the United Nations Charter as a way forward. Most involved reforms to institutions such as a more representative Security Council, a World Court with compulsory jurisdiction and judicial review authority and a democratically elected General Assembly (or a world parliament). Federalists proposed a number of new institutions such as a commission on sustainable development, an international development authority, a standing peacekeeping corps and an international criminal court.

The Institute for Global Policy (IGP), founded in 1983 by the World Federalist Movement, is a research and policy institute dedicated to the promotion of human security, international justice, the prevention of armed conflict and the protection of civilians. The Institute emphasizes the democratization of international and regional organizations and the development and global application of international law. Most recently, WFM-IGP has been at the forefront of advocating for NGO access to international conferences and meetings.

Member organizations

WFM-IGP is composed of autonomous national and regional organizations organized by individual supporters in their respective countries. In applying to the governing Council for membership, organizations are asked to endorse the WFM Statement of Purpose and to demonstrate a "capacity to contribute to the enhancement of public and political support" for the Movement's goals.

The World Federalist Movement has Member Organizations (MOs) and Associate Organizations around the world, including Citizens for Global Solutions, Union of European Federalists, World Federalist Movement-Canada, The Universal Party, and the World Federalist Movement of Japan. Others include Democratic World Federalists, One World Trust, Committee for a Democratic UN, and the Ugandan World Federalists.[3] The WFM umbrella organization also includes the Coalition for the International Criminal Court.

World government

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"Global state" redirects here. For the computing concept, see Global state (computing).

"United States of Earth" redirects here. For the government in the television show Futurama, see Politics in Futurama.

"World empire" and "World state" redirect here. For the video game, see World Empire. For the world state in *Brave New World*, see The World State.

This article is about the political concept. For conspiracy theories about world government, see New World Order (conspiracy theory). For other uses, see World government (disambiguation).

This article's introduction section **may not adequately summarize its contents**. To comply with Wikipedia's lead section guidelines, please consider modifying the lead to provide an accessible overview of the article's key points in such a way that it can stand on its own as a concise version of the article. (discuss). *(October 2014)*

World government is the notion of a common political authority for all of humanity, yielding a global government and a single state. Such a government could come into existence either through violent and compulsory world domination or through peaceful and voluntary supranational union.

Currently there is no worldwide executive, legislature, judiciary, military, or constitution with jurisdiction over the entire planet. The United Nations is limited to a mostly advisory role, and its stated purpose is to foster cooperation between existing national governments rather than exert authority over them.

League of Nations

Main article: League of Nations

See also: Fourteen Points

The League of Nations (LoN) was an inter-governmental organization founded as a result of the Treaty of Versailles in 1919–1920. At its largest size from 28 September 1934 to 23 February 1935, it had 58 members. The League's goals included upholding the Rights of Man, such as the rights of non-whites, women, and soldiers; disarmament, preventing war through collective security, settling disputes between countries through negotiation, diplomacy, and improving global quality of life. The diplomatic philosophy behind the League represented a fundamental shift in thought from the preceding hundred years. The League lacked its own armed force and so depended on the Great Powers to enforce its resolutions and economic sanctions and provide an army, when needed. However, these powers proved reluctant to do so. Lacking many of the key elements necessary to maintain world peace, the League failed to prevent World War II. Hitler withdrew Germany from the League of Nations once he planned to take over Europe. The rest of the Axis powers soon followed him. Having failed its primary goal, the League of Nations fell apart. The League of Nations consisted of the Assembly, the Council, and the Permanent Secretariat. Below these were many agencies. The Assembly was where delegates from all member states conferred. Each country was allowed three representatives and one vote.

World Communism

Although world Communism's long-term goal is a worldwide Communist society that is stateless, which would entail an absence of any government, many anti-Communists (especially during the Cold War) have considered it naive to think that the world revolution advocated by international Communists would not lead to world domination by a single government or an alliance of several, yielding a de facto world government of a totalitarian nature.

The heyday of international communism was the period from the end of World War I (the revolutions of 1917–23) through the 1950s, before the Sino-Soviet split.

Nazi Germany

The ruling Nazi Party of 1933-1945 Germany envisaged the ultimate establishment of a world government under the complete hegemony of the Third Reich.[11] In its move to overthrow the post-World War I Treaty of Versailles Germany had already withdrawn itself from the League of Nations, and it did not intend to join a similar internationalist organization ever again. In his desire and stated political aim of expanding the living space (*Lebensraum*) of the German people by destroying or driving out "lesser-deserving races" in and from other territories dictator Adolf Hitler may have devised an ideological system of self-perpetuating expansionism, in which the expansion of a state's population would require the conquest of more territory which would in turn lead to a further growth in population which would then require even more conquests. In 1927 Rudolf Hess relayed to Walter Hewel Hitler's belief that world peace could only be acquired "when one power, the racially best one, has attained uncontested supremacy". When this control would be achieved, this power could then set up for itself a world police and assure itself "the necessary living space.... The lower races will have to restrict themselves accordingly".

Atlantic Charter

The Atlantic Charter was a published statement agreed between the United Kingdom and the United States. It was intended as the blueprint for the postwar world after World War II, and turned out to be the foundation for many of the international agreements that currently shape the world. The General Agreement on Tariffs and Trade (GATT), the post-war independence of British and French possessions, and much more are derived from the Atlantic Charter. The Atlantic charter was made to show the goals of the allied powers during World War II. It first started with the United States and Great Britain, and later all the allies would follow the charter. Some goals include access to raw materials, reduction of trade restrictions, and freedom from fear and wants. The name, The Atlantic Charter, came from a newspaper that coined the title. However, Winston Churchill would use it, and from then on the Atlantic Charter was the official name. In retaliation, the Axis powers would raise their morale and try to work their way into Great Britain. The Atlantic Charter was a stepping stone into the creation of the United Nations.

Harry Truman

U.S. President Harry S. Truman commented: "We must make the United Nations continue to work, and to be a going concern, to see that difficulties between nations may be settled just as we settle difficulties between States here in the United States. When Kansas and Colorado fall out over the waters in the Arkansas River, they don't go to war over it; they go to the Supreme Court of the United States, and the matter is settled in a just and honorable way. There is not a difficulty in the whole world that cannot be settled in exactly the same way in a world court". -- President Truman's remarks in Omaha, Nebraska on June 5, 1948, at the dedication of the War Memorial. The cultural moment of the late 1940s was the peak of World Federalism among Americans.

World Federalist Movement

The years between the conclusion of World War II and 1950, when the Korean War started and the Cold War mindset became dominant in international politics, were the "golden age" of the world federalist movement. Wendell Wilkie's book *One World*, first published in 1943, sold over 2 million copies. In another, Emery Reves' book *The Anatomy of Peace* (1945) laid out the arguments for replacing the UN with a federal world government and quickly became the "bible" of world federalists. The grassroots world federalist movement in the US, led by people such as Grenville Clark, Norman Cousins, Alan Cranston and Robert Hutchins, organized itself into increasingly larger structures, finally forming, in 1947, the United World Federalists (later renamed to World Federalist Association, then Citizens for Global Solutions), claiming membership of 47,000 in 1949.

Similar movements concurrently formed in many other countries, leading to the formation, at a 1947 meeting in Montreux, Switzerland, of a global coalition, now called World Federalist Movement. By 1950, the movement claimed 56 member groups in 22 countries, with some 156,000 members.

United Nations.

World War II (1939–1945) resulted in an unprecedented scale of destruction of lives (over 60 million dead, most of them civilians), and the use of Weapons of Mass Destruction. Some of the acts committed against civilians during the war were on such a massive scale of savagery, they came to be widely considered as crimes against humanity itself. As the war's conclusion drew near, many shocked voices called for the establishment of institutions able to permanently prevent deadly international conflicts. This led to the founding of the United Nations in 1945, which adopted the Universal Declaration of Human Rights in 1948. Many, however, felt that the UN, essentially a forum for discussion and coordination between sovereign governments, was insufficiently empowered for the task. A number of prominent persons, such as Albert Einstein, Winston Churchill, Bertrand Russell and Mohandas K. Gandhi, called on governments to proceed further by taking gradual steps towards forming an effectual federal world government. The United Nations main goal is to work on international law, international security, economic development, human rights, social progress, and eventually world peace. The United Nations replaced the League of Nations in 1945, after World War II. Almost every internationally recognized country is in the U.N.; as it contains 193 member states out of the 196 total nations of the world. The United Nations gather regularly in order to solve big problems throughout the world. There are six official languages: Arabic, Chinese, English, French, Russian and Spanish. The United Nations is also financed by some of the wealthiest nations. The flag shows the Earth from a map that shows all of the populated continents.

Garry Davis

In France, 1948, Garry Davis began an unauthorized speech calling for a world government from the balcony of the UN General Assembly, until he was dragged away by the guards. Mr. Davis renounced his American citizenship and started a Registry of World Citizens, which claimed to have registered over 750,000 people in less than two years. Opinion polls carried out by UNESCO in 1948-1949 found world government favored by a majority of respondents in six European countries and rejected in three other countries (Australia, Mexico and the United States). On September 4, 1953, Davis announced from the city hall of Ellsworth, Maine the formation of the "World Government of World Citizens" based on 3 "World Laws" — One God (or Absolute Value), One World, and One Humanity. Following this declaration, mandated, he claimed, by Article twenty one, Section three of the Universal Declaration of Human Rights, he formed the United World Service Authority in New York City as the administrative agency of the new government. Its first task was to design and issue a "World Passport" based on Article 13, Section 2 of the UDHR. To date, over 800,000 of these documents have been issued to individuals worldwide. They have been recognized de facto by over 180 countries.

World Passport

The World Passport is a 45-page document issued by the World Service Authority, a non-profit organization, citing Article 13, Section 2, of the Universal Declaration of Human Rights. World Passports have reportedly been accepted on a *de facto* case-by-case basis by over 174 countries and, at one time or another, on an explicit, legal or *de jure* basis by Burkina Faso, Ecuador, Mauritania, Tanzania, Togo and Zambia. The latest edition of the World Passport, issued January 2007, is an MRD (machine readable document) with an alphanumeric code bar enabling computer input plus an embedded "ghost" photo for security, printing overcovered with a plastic film. The passport is in 7 languages: English, French, Spanish, Russian, Arabic, Chinese and Esperanto. Two covers are available: "World Passport", and "World Government Passport" (for registered World Citizens), ("passport" is in 7 languages on both covers). Duration is 8 years, 5 years or 3 years. Other documents issued by WSA are a World Birth Certificate (Art. 1, UDHR), a World Political Asylum Card (Art. 14, UDHR), a World Marriage Certificate, (Art. 16, UDHR) and a World Identity Card, (Art 21,3, UDHR). Each passport is numbered and each page has the World Citizen logo in the background. There are two pages for affiliation with companies, organizations, and firms. There are nineteen visa pages in the passport. In the back cover there are spaces for personal information such as a person’s home address.

Legal Realism (1954)

Main article: E. Adamson Hoebel

Legal anthropologist E. Adamson Hoebel concluded his treatise on broadening the legal realist tradition to include non-Western nations: “Whatever the idealist may desire, force and the threat of force are the ultimate power in the determination of international behavior, as in the law within the nation or tribe. But until force and the threat of force in international relations are brought under social control by the world community, by and for the world society, they remain the instruments of social anarchy and not the sanctions of world law. The creation in clear-cut terms of the corpus of world law cries for the doing. If world law, however, is to be realized at all, there will have to be minimum of general agreement as to the nature of the physical and ideational world and the relation of men in society to it. An important and valuable next step will be found in deep-cutting analysis of the major law systems of the contemporary world in order to lay bare their basic postulates – postulates that are too generally hidden; postulates felt, perhaps, by those who live by them, but so much taken for granted that they are rarely expressed or exposed for examination. When this is done – and it will take the efforts of many keen intellects steeped in the law of at least a dozen lands and also aware of the social nexus of the law – then mankind will be able to see clearly for the first time and clearly where the common consensus of the great living social and law systems lies. Here will be found the common postulates and values upon which the world community can build. At the same time the truly basic points of conflict that will have to be worked upon for resolution will be revealed. Law is inherently purposive".

End of the Cold War (1991)

While enthusiasm for multinational federalism in Europe incrementally led, over the following decades, to the formation of the European Union, the onset of the Cold War (1946–1991) eliminated the prospects of any progress towards federation with a more global scope. The movement quickly shrank in size to a much smaller core of activists, and the world government idea all but disappeared from wide public discourse.

Following the dissolution of the Soviet Union in 1991, interest in a federal world government and, more generally, in the global protection of human rights, was renewed. The most visible achievement of the world federalism movement during the 1990s is the Rome Statute of 1998, which led to the establishment of the International Criminal Court in 2002. In Europe, progress towards forming a federal union of European states gained much momentum, starting in 1952 as a trade deal between the German and French people led, in 1992, to the Maastricht Treaty that established the name and enlarged the agreement that the European Union (EU) is based upon. The EU expanded (1995, 2004, 2007, 2013) to encompass, in 2013, over half a billion people in 28 member states. Following the EU's example, the African Union was founded in 2002 and the Union of South American Nations in 2008.

The Earth is divided geographically and demographically into mutually exclusive territories and political structures called states which are independent and sovereign in most cases. There are numerous bodies, institutions, unions, coalitions, agreements and contracts between these units of authority, but, except in cases where a nation is under military occupation by another, *all* such arrangements depend on the continued consent of the participant nations. Thus the use of violence is unprohibited throughout the realm and is only checked by the threat of retaliatory actions. Where no such threat exists a nation may freely use violence against another.

Among the voluntary organizations and international arrangements are:

International law

> Encompassing international treaties, customs and globally accepted legal principles. With the exceptions of cases brought before the ICC and ICJ (see below), the laws are interpreted by national courts. Many violations of treaty or customary law obligations are overlooked.

United Nations (UN)

> The primary formal organization coordinating activities between states on a global scale and the only inter-governmental organization with a truly universal membership (193 governments). In addition to the main organs and various humanitarian programs and commissions of the UN itself, there are about 20 functional organizations affiliated with the UN's Economic and Social Council (ECOSOC), such as the World Health Organization, the International Labour Organization, and International Telecommunications Union.[19] Of particular interest politically are the World Bank, the International Monetary Fund and the World Trade Organization.
> Militarily, the UN deploys peacekeeping forces, usually to build and maintain post-conflict peace and stability. When a more aggressive international military action is undertaken, either *ad hoc* coalitions (for example, the

multinational force in Iraq) or regional military alliances (for example, NATO) are used.

Interpol

An international police force

International Criminal Court (ICC)

A relatively recent development in international law, the ICC (or ICCt) is the first permanent international criminal court established to ensure that the gravest international crimes (war crimes, genocide, other crimes against humanity, etc.) do not go unpunished. The ICC treaty was signed by 139 national governments, of which 100 ratified it by October 2005.

World Bank / International Monetary Fund (IMF)

Formed together in July 1944 at the Mount Washington Hotel in Bretton Woods, New Hampshire, United States to foster global monetary cooperation and to fight poverty by financially assisting states in need.

World Trade Organization (WTO)

Sets the rules of international trade. It has a semi-legislative body (the General Council, reaching decisions by consensus) and a judicial body (the Dispute Settlement Body). Another influential economical international organization is the **Organisation for Economic Co-operation and Development (OECD)**, with membership of 30 democratic members.

G7

An association of those seven nations with the world's highest Gross domestic products. The leaders of the G7 countries meet annually in person to coordinate their policies in confronting global issues, such as poverty, terrorism, infectious diseases, and climate change.

G20

An association of twenty developing and established nations and entities, including the European Union.

In addition to the formal, or semi-formal, international organizations and laws mentioned above, many other mechanisms act to regulate human activities across national borders. In particular, international trade in goods, services and currencies (the "global market") has a tremendous impact on the lives of people in almost all parts of the world, creating deep interdependency amongst nations (see globalization). Trans-national (or multi-national) corporations, some with resources exceeding those available to most governments, govern activities of people on a global scale. The rapid increase in the volume of trans-border digital communications and mass-media distribution (e.g., Internet, satellite television) has allowed information, ideas, and opinions to rapidly spread across the world, creating a complex web of international coordination and influence, mostly outside the control of any formal organizations or laws.

Existing regional unions of nations

Main articles: Regional organization and Supranational union

The only union generally recognized as having achieved the status of a supranational union is the European Union.

There are a number of other regional organizations that, while not supranational unions, have adopted or intend to adopt policies that may lead to a similar sort of integration in some respects.

- African Union (AU)
- Arab League
- Association of Southeast Asian Nations (ASEAN)
- Caribbean Community (CARICOM)
- Central American Integration System (SICA)
- Commonwealth of Independent States (CIS)
- Commonwealth of Nations
- Cooperation Council for the Arab States of the Gulf (CCASG)
- Eurasian Economic Community (EurAsEC)
- North Atlantic Treaty Organization (NATO)
- Organization of American States (OAS)
- South Asian Association for Regional Cooperation (SAARC)
- Turkic Council (TurkKon)
- Union of South American Nations (UNASUR)
- Union State

Other organisations that have also discussed greater integration include:

- Arab League into an "Arab Union"
- Caribbean Community (CARICOM) into a "Caribbean Federation"
- North American Free Trade Agreement (NAFTA) into a "North American Union"
- Pacific Islands Forum into a "Pacific Union"
- Eurasian Union

European Union

The most relevant model for the incremental establishment of a global federation may be the European Union (EU), which politically unites a large group of widely diverse (and some formerly hostile) nations spread over a large geographical area and encompassing over 500 million people. Though the EU is still evolving, it already has many attributes of a federal government, such as open internal borders, a directly elected parliament, a court system, an official currency (Euro) and a centralized economic policy.

The EU's example is being followed by the African Union, the Union of South American Nations, the Organization of Central American States, and the Association of Southeast Asian Nations. A multitude of regional associations, aggregating most nations of the world, are at different stages of development towards a growing extent of economic, and sometimes political, integration. The European Union consists of twenty-eight European states. It has developed a “single market” which allows people of different countries to travel from state to state without a passport. This also includes the same policies when it comes to trading. The European Union is said to have 26% of the world's money. Not all EU member states use the Euro; the United Kingdom, for example, retains the pound sterling. Where the Euro is in place, it allows easy access for the free circulation of trade goods. Tariffs are also the same for each country allowing no unfair practices within the union.

NATO

The North Atlantic Treaty Organization is an intergovernmental military alliance based on the North Atlantic Treaty which was signed on 4 April 1949. The organization constitutes a system of collective defence whereby its member states agree to mutual defense in response to an attack by any external party. NATO's headquarters are in Brussels, Belgium, one of the 28 member states across North America and Europe, the newest of which, Albania and Croatia, joined in April 2009. An additional 22 countries participate in NATO's "Partnership for Peace", with 15 other countries involved in institutionalized dialogue programs. The combined military spending of all NATO members constitutes over 70% of the world's defence spending.[21]

CARICOM

The Caribbean Community (CARICOM), is an organization of 15 Caribbean nations and dependencies. CARICOM's main purpose is to promote economic integration and cooperation among its members, to ensure that the benefits of integration are equitably shared and to coordinate foreign policy. Its major activities involve coordinating economic policies and development planning; devising and instituting special projects for the less-developed countries within its jurisdiction; operating as a regional single market for many of its members CARICOM Single Market and Economy (CSME); and handling regional trade disputes.

Since the establishment of CARICOM by the mainly English Creole-speaking parts of the Caribbean region CARICOM has become multilingual in practice with the addition of Dutch speaking Suriname on 4 July 1995 (although the lingua franca in Suriname is Sranan Tongo, which is an English-based Creole like the languages spoken in much of the rest of CARICOM) and Haiti, where French and Haitian Creole are spoken, on 2 July 2002. In 2001, the heads of government signed a Revised Treaty of Chaguaramas in Trinidad and Tobago, clearing the way for the transformation of the idea for a Common Market aspect of CARICOM into instead a Caribbean Single Market and Economy. Part of the revised treaty among member states includes the establishment and implementation of the Caribbean Court of Justice (CCJ).

African Union.

The African Union (AU) is an organisation consisting of fifty-four African states. Established on July 9, 2002, the AU was formed as a successor to the amalgamated African Economic Community (AEC) and the Organisation of African Unity (OAU). Eventually, the AU aims to have a single currency and a single integrated defence force, as well as other institutions of state, including a cabinet for the AU Head of State. The purpose of the union is to help secure Africa's democracy, human rights, and a sustainable economy, especially by bringing an end to intra-African conflict and creating an effective common market.

Projects for improved economic and political cooperation are also happening at a regional level with the Arab Maghreb Union, the Economic Community of West African States, the Economic Community of Central African States the Southern African Development Community and the East African Community.

ASEAN

ASEAN (/ˈɑːsiːɑːn/ ***AH**-see-ahn*), the Association of Southeast Asian Nations, is a geo-political and economic organization of 10 countries located in Southeast Asia, which was formed on August 8, 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand as a display of solidarity against communist expansion in Vietnam and insurgency within their own borders. Its claimed aims include the acceleration of economic growth, social progress, cultural development among its members, and the promotion of regional peace. All members later founded the Asia Cooperation Dialogue, which aims to unite the entire continent.

Shanghai Cooperation Organisation

The Shanghai Cooperation Organisation (SCO) is an intergovernmental organization which was founded on June 14, 2001 by the leaders of the People's Republic of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Except for Uzbekistan, these countries had been members of the Shanghai Five; after the inclusion of Uzbekistan in 2001, the members renamed the organization.

Commonwealth of Independent States

The Commonwealth of Independent States is comparable to a confederation similar to the original European Community. Although the CIS has few supranational powers, it is more than a purely symbolic organization, possessing coordinating powers in the realm of trade, finance, lawmaking, and security. It has also promoted cooperation on democratization and cross-border crime prevention. As a regional organization, CIS participates in UN peacekeeping forces. Some of the members of the CIS have established the Eurasian Economic Community with the aim of creating a full-fledged common market.

Arab League

The Arab League is a regional organization of Arab states in Southwest Asia, and North and Northeast Africa. It was formed in Cairo on March 22, 1945 with six members: Egypt, Iraq, Transjordan (renamed Jordan after 1946), Lebanon, Saudi Arabia, and Syria. Yemen joined as a member on May 5, 1945. The Arab League currently has 22 members, which also include, Algeria, Bahrain, Comoros, Djibouti, Kuwait, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Somalia, Sudan, Tunisia and the United Arab Emirates. It has also been proposed to reform the Arab League into an Arab Union. The Arab League currently is the most important organization in the region.[*citation needed*]

Union of South American Nations

The Union of South American Nations, modeled on the European Union, was founded between 2006 and 2008. It incorporates all the independent states of South America. These states are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, and Venezuela.

South Asian Association for Regional Cooperation

The South Asian Association for Regional Cooperation (SAARC) is an economic and political organization of eight countries in Southern Asia. In terms of population, its sphere of influence is the largest of any regional organization: almost 1.5 billion people, the combined population of its member states. It was established on December 8, 1985 by India, Pakistan, Bangladesh, Sri Lanka, Nepal, Maldives and Bhutan. In April 2007, at the Association's 14th summit, Afghanistan became its eighth member.

Organisation of Islamic Cooperation

The Organisation of Islamic Cooperation (OIC) is an international organisation with a permanent delegation to the United Nations. It groups 57 member states, from the Middle East, Africa, Central Asia, Caucasus, Balkans, Southeast Asia and South

Asia. The organization claims it represents the Global Islamic World (The official languages of the organisation are Arabic, English and French.

Since the 19th century, many Muslims have aspired to uniting the Muslim *ummah* to serve their common political, economic and social interests. Despite the presence of secularist, nationalist and socialist ideologies in modern Muslim states, they have cooperated to form the Organisation of Islamic Cooperation. The formation of the OIC happened in the backdrop of the loss of Muslim holy sites in Jerusalem. The final cause sufficiently compelled leaders of Muslim nations to meet in Rabat to establish the OIC on September 25, 1969.

According to its charter, the OIC aims to preserve Islamic social and economic values; promote solidarity amongst member states; increase cooperation in social, economic, cultural, scientific, and political areas; uphold international peace and security; and advance education, particularly in the fields of science and technology.

The former flag of the OIC (shown on the right) has an overall green background (symbolic of Islam). In the centre, there is an upward-facing red crescent enveloped in a white disc. On the disc the words "Allahu Akbar" (Arabic for "God is great") are written in Arabic calligraphy.

On August 5, 1990, 45 foreign ministers of the OIC adopted the Cairo Declaration on Human Rights in Islam to serve as a guidance for the member states in the matters of human rights in as much as they are compatible with the Sharia, or Quranic Law.

Turkic Council

The Turkic Council is an international organization comprising Turkic countries. Since 1992, the *Turkic Language Speaking Countries Summit* has been organizing amongst the Turkic countries. On October 3, 2009, four of these countries signed the Nahcivan Agreement. The organizational center is İstanbul. Additionally, the Joint Administration of Turkic Arts and Culture was founded in Almaty in 1992 and the *Turkic Countries Parliamentarian Assembly* was founded in Baku in 1998. All of these organizations were coopted into the Turkic Council. The Turkic Council has an operational style similar to organization like the Arab League. The member countries are Azerbaijan, Kazakhstan, Kyrgyzstan and Turkey. The remaining two Turkic states, Turkmenistan and Uzbekistan are not currently official members of the council. However, due to their neutral stance, they participate in international relations and are strongly predicted to be future members of the council. The idea of setting up this cooperative council was first put forward by Kazakh President Nursultan Nazarbayev back in 2006.

Proposed United Nations Parliamentary Assembly

A United Nations Parliamentary Assembly (UNPA) is a proposed addition to the United Nations System that would allow for participation of member nations' legislators and, eventually, direct election of United Nations (UN) parliament members by citizens worldwide. The idea was raised at the founding of the League of Nations in the 1920s and again following the end of World War II in 1945, but remained dormant throughout the Cold War. In the 1990s and 2000s, the rise of global trade and the power of world organizations that govern it led to calls for a parliamentary assembly to scrutinize their activity. The Campaign for the Establishment of a United Nations Parliamentary Assembly was formed in 2007 to coordinate pro-UNPA efforts, which as of July 2013 has received the support of over 850 Members of Parliament from over 90 countries worldwide, in addition to over

350 non-governmental organizations and 21 Nobel and Right Livelihood laureates and 16 Heads or former heads of state or government and foreign ministers.

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Corse Name: INTERNATIONAL BUSINESS STRATEGY

Introduction

Warfare (Marketing warfare) strategies are a type of strategies, used in business and marketing, that try to draw parallels between business and warfare, and then apply the principles of military strategy to business situations, with competing firms considered as analogous to sides in a military conflict, and market share considered as analogous to the territory which is being fought over. The four marketing warfare can be seen as follows:

The first strategy is the offensive marketing warfare strategies which is a type of marketing warfare strategy designed to obtain an objective, usually market share, from a target competitor. In addition to market share, an offensive strategy could be designed to obtain key customers, high margin market segments, or high loyalty market segments. There are four fundamental principles involved: (1)Assess the strength of the target competitor. Consider the amount of support that the target might muster from allies. Choose only one target at a time. (2) Find a weakness in the target's position; attack at this point. Consider how long it will take for the target to realign their resources so as to reinforce this weak spot. (3) Launch the attack on as narrow a front as possible. Whereas a defender must defend all their borders, an attacker has the advantage of being able to concentrate their forces at one place. (4) Launch the attack quickly. The element of surprise is worth more than a thousand tanks. The main types of offensive marketing warfare strategies are frontal attack; envelopment Strategy (also called encirclement strategy) - leapfrog strategy and flanking attack.

The second strategy is the flanking marketing warfare strategies which is a type of marketing warfare strategy designed to minimize confrontational losses. The fundamental principles involved are (1) Avoid areas of likely confrontation. A flanking move always occurs in an uncontested area. (2) Make your move quickly and stealth fully. The element of surprise is worth more than a thousand tanks. (3) Make moves that the target will not find threatening enough to respond decisively to. Flanking strategies can be either offensive or defensive: Flanking Attack (offensive) is designed to pressure the flank of the enemy line so the flank turns inward and the Flanking Position (defensive) involves the re-deployment of your resources to deter a flanking attack

The third strategy is the defensive marketing warfare strategies which is a type of marketing warfare strategy designed to protect a company's market share, profitability, product positioning, or mind share. It has five fundamental principles which are a) always counter an attack with equal or greater force; (b) defend every important market; (c) be forever vigilant in scanning for potential attackers. Assess the strength of the competitor. Consider the amount of support that the attacker might muster from allies; (d) the best defense is to attack yourself. Attack your weak spots and rebuild yourself anew and (e) defensive strategies should be the exclusive domain of the market leader.

And the last strategy is the guerrilla marketing warfare strategy which is an attack, retreat, hide, then do it again, and again, until the competitor moves on to other markets. Guerrilla Marketing Warfare Tactics are often the best, most cost effective methods to reach consumers. Often Guerrilla tactics are used against a company by advertising to their competitors' customers directly for the most impact. It employs the following principles: Deterrence Strategieswhich is a battle won in the minds of the enemy. You convince the competitor that it would be prudent to keep out of your markets;Pre-emptive strike which is attack before you are attacked; Frontal Attack which is a direct head-on confrontation; Flanking Attack which is attack the competitor's flank and Sequential Strategies which a strategy that consists of a series of sub-strategies that must all be successfully carried out in the right order.

Strategy

Strategic plan is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. In order to determine the direction of the organization, it is necessary to understand its current position and the possible avenues through which it can pursue a particular course of action. There are many reasons why strategic plan fails as can be seen below.

The first reason why a strategic plan fails is the failure to overcome organization hurdles. These can be classified as cognitive, motivational, resource and political hurdles. Even if the general managers has a good intention and are motivated to bring your business up, if they lack the skills to do so then there is a chance that their proposed plans contain a lot of loopholes. The same goes for a group of skilled managers who simply lack the motivation to help. But even if there is a group of skilled and highly motivated individuals but lack the budget or resources to put the plans into actions, then nothing will be achieved. Influence of politics can also contribute to a business plans failure.

Another reason why strategic plan fails is the management's failure to understand its customers. They should learn the reason why the customers buy their products. Is it really important in their lifestyle? Is there a credible data to back up all these and confirm a precise conclusion on how to best market the products to the target customers. The products should always be beneficial to the consumers, otherwise there is no use buying it.

Failure to predict market and environmental changes and how it reacts to stimuli is also a possible reason why plan fails. The management should always be aware of how the competition is faring and if it's possible to compete with the prices. Government intervention should also be considered and how it could impact the marketing status of the goods.

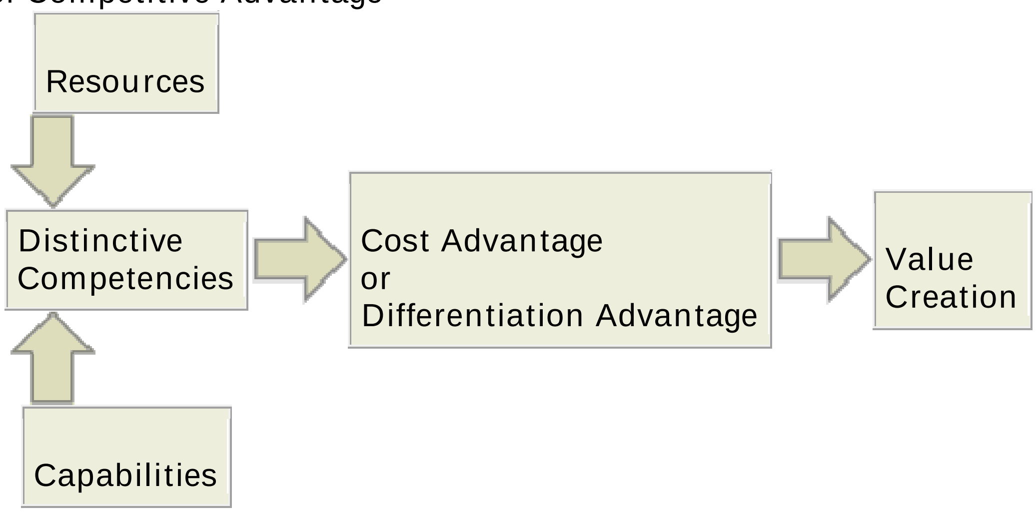
Overconfidence with the current resources can also lead to plan failure. Careful assessment of the staff, their skills, the equipment and current processes should be done to assure their capability of adapting to new strategies. Also, failure to adapt to new employment and managerial practices can severe relationships between the management and its staff and this can affect a business plan's success rate. This could lead to lack of coordination and commitment among members of the team.

Poor communications seems to take many forms. Apparently, some groups like to develop strategic plans, and then hide them under a rock. But they don't do it on purpose. "The failure to communicate the vision and strategic objectives to stakeholders" may mean that the developers of the strategy aren't getting out enough information for folks to understand what they're supposed to do with it. "New initiatives or objectives are outlined but not communicated throughout the organization as to how the new objectives should look and feel, what steps to take, time-frame, etc. Poor communications among team members responsible for decisions in implementation; Expectations and opinions are not shared openly, thoroughly, and effectively." Communication is also much more than words and pictures. Communication is also delivered through demonstration. "The management team does not follow the strategy themselves

Competitive Advantage

Competitive advantage is defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and positions a business better within the business environment. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. It can be illustrated as below

A Model of Competitive Advantage



A well-designed global strategy can help a firm to gain a competitive advantage. This advantage can arise from the following sources:

•Efficiency which leads to economies of scale from access to more customers and markets; exploit another country's resources - labor, raw materials; extend the product life cycle that is older products can be sold in lesser developed countries; operational flexibility that is shift production as costs, exchange rates, etc.change over time.

•Strategicwhich is a first mover advantage and only provider of a product to a market making a cross subsidization between countries and transfer price

•Risk is a diversify macroeconomic risks (business cycles not perfectly correlatedamong countries) advantage. It diversify operational risks (labor problems, earthquakes, wars)

•Learningwhich is the advantage of broadening learning opportunities due to diversity of operatingenvironments.

•Reputationwhich is the advantage of crossover customers between markets - reputation and brands

In finance, diversification means reducing risk by investing in a variety of assets. If the asset values do not move up and down in perfect synchrony, a diversified portfolio will have less risk than the weighted average risk of its constituent assets, and often less risk than the least risky of its constituents. Therefore, any risk-averse investor will diversify to at least some extent, with more risk-averse investors diversifying more completely than less risk-averse investors. The three types of diversification include:

The **concentric diversifications**which specify that there exists similarities between the industries in terms of the technological standpoint. It is through this that the firm may compare and apply its technological knowhow to an advantage. This is through a careful change or alteration in the marketing strategy performed by the business. This strategy aims to increase the market value of a particular product and therefore gain a higher profit.

The **horizontal diversification** tackles products or services that are in a sense, not related technologically to certain products but still pique the interest of current customers. This strategy is more effective is the current clientele is loyal to the existing products or services, and if the new additions are well priced and adequately promoted. The newest additions are marketed in the same way that the previous ones were which may cause instability. This is because the strategy increases the new products' dependence on an existing one. This integration normally occurs when a new business is introduced, however unrelated to the existing.

Conglomerate or lateral diversification is where the company or business promotes products or services with no relation commercially or technologically to the existing products or services, however still interest a number of customers. This type of diversification is unique to the current business and may prove quite risky. However, it may also prove very successful since it independently aims to improve on the profit the company accumulates with regards to the new product or service.

Diversification

Diversification as already explained above is associated with many risks; The Capital Asset Pricing Model introduced the concepts of diversifiable and non-diversifiable risk. Synonyms for diversifiable risk are idiosyncratic risk, unsystematic risk, and security-specific risk.

Systematic Risk -This influences a large number of assets. A significant political event, for example, could affect several of the assets in your portfolio. It is virtually impossible to protect yourself against this type of risk.

Unsystematic Risk is sometimes referred to as "specific risk". This kind of risk affects a very small number of assets. An example is news that affects a specific stock such as a sudden strike by employees. Diversification is the only way to protect you from unsystematic risk.

Credit or Default Risk is the risk that a company or individual will be unable to pay the contractual interest or principal on its debt obligations. This type of risk is of particular concern to investors who hold bonds in their portfolios. Government bonds, especially those issued by the federal government, have the least amount of default risk and the lowest returns, while corporate bonds tend to have the highest amount of default risk but also higher interest rates. Bonds with a lower chance of

default are considered to be investment grade, while bonds with higher chances are considered to be junk bonds.
Country Risk refers to the risk that a country won't be able to honor its financial commitments. When a country defaults on its obligations, this can harm the performance of all other financial instruments in that country as well as other countries it has relations with. Country risk applies to stocks, bonds, mutual funds, options and futures that are issued within a particular country. This type of risk is most often seen in emerging markets or countries that have a severe deficit.
Foreign-Exchange Risk - When investing in foreign countries you must consider the fact that currency exchange rates can change the price of the asset as well. Foreign-exchange risk applies to all financial instruments that are in a currency other than your domestic currency. As an example, if you are a resident of America and invest in some Canadian stock in Canadian dollars, even if the share value appreciates, you may lose money if the Canadian dollar depreciates in relation to the American dollar.
Interest Rate Risk is the risk that an investment's value will change as a result of a change in interest rates. This risk affects the value of bonds more directly than stocks.
Political Risk represents the financial risk that a country's government will suddenly change its policies. This is a major reason why developing countries lack foreign investment.
Market Risk is the most familiar of all risks also referred to as volatility; market risk is the day-to-day fluctuations in a stock's price. Market risk applies mainly to stocks and options. As a whole, stocks tend to perform well during a bull market and poorly during a bear market - volatility is not so much a cause but an effect of certain market forces. Volatility is a measure of risk because it refers to the behavior, or "temperament", of your investment rather than the reason for this behavior. Because market movement is the reason why people can make money from stocks, volatility is essential for returns, and the more unstable the investment the more chance there is that it will experience a dramatic change in either direction.

International trade

International trade is exchange of capital, goods, and services across international borders or territorie In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. International trade is a major source of economic revenue for any nation that is considered a world power. Without international trade, nations would be limited to the goods and services produced within their own borders.

International trade is in principle not different from domestic trade as the motivation and the behavior of parties involved in a trade does not change fundamentally depending on whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or a different culture.

International trade uses a variety of currencies, the most important of which are held as foreign reserves by governments and central banks. Here the percentage of global cumulative reserves held for each currency between 1995 and 2005 are shown: the US dollar is the most sought-after currency, with the Euro in strong demand as well.

Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Then trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing the factor of production a country can import goods that make intensive use of the factor of production and are thus embodying the respective factor. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor the United States is importing goods from China that were produced with Chinese labor. International trade is also a branch of economics, which, together with international finance, forms the larger branch of international economics.

Models used to predict trade patterns

Several different models have been proposed to predict patterns of trade and to analyze the effects of trade policies such as tariffs.

Ricardian model

The Ricardian model focuses on comparative advantage and is perhaps the most important concept in international trade theory. In a Ricardian model, countries specialize in producing what they produce best. Unlike other models, the Ricardian framework predicts that countries will fully specialize instead of producing a broad array of goods. Also, the Ricardian model does not directly consider factor endowments, such as the relative amounts of labor and capital within a country. The main merit of Ricardin model is that it assumes technology differences between countries. The Ricardian model makes the following assumptions:

1. Labor is the only primary input to production (labor is considered to be the ultimate source of value).
2. Constant Marginal Product of Labor (MPL) (Labor productivity is constant, constant returns to scale, and simple technology.)
3. Limited amount of labor in the economy
4. Labor is perfectly mobile among sectors but not internationally.

5. Perfect competition (price-takers).

The Ricardian model measures in the short-run, therefore technology differs internationally. This supports the fact that countries follow their comparative advantage and allows for specialization.

Modern development of the Ricardian model

The Ricardian trade model was studied by Graham, Jones, McKenzie and others. All the theories excluded intermediate goods, or traded input goods such as materials and capital goods. McKenzie(1954), Jones(1961) and Samuelson(2001)emphasised that condiderable gains from trade would be lost once intermediate goods were excluded from trade. In a famous comment McKenzie 1954 pointed that "A moment's consideration will convince one that Lancashire would be unlikely to produce cotton cloth if the cotton had to be grown in England.

Recently, the theory was extended to the case that includes traded intermediates.Thus the "labor only" assumption (#1 above) was removed from the theory. Thus the new Ricardian theory, or the Ricardo-Sraffa model, as it is sometimes named, theoretically includes capital goods such as machines and materials, which are traded across countries. In the time of global trade, this assumption is much more realistic than the Heckscher-Ohlin model, which assumes that capital is fixed inside the country and does not move internatioally.

Heckscher-Ohlin model

Heckscher-Ohlin model

The Heckscher-Ohlin model was produced as an alternative to the Ricardian model of basic comparative advantage. Despite its greater complexity it did not prove much more accurate in its predictions. However from a theoretical point of view it did provide an elegant solution by incorporating the neoclassical price mechanism into international trade theory.

The theory argues that the pattern of international trade is determined by differences in factor endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce. Empirical problems with the H-O model, known as the Leontief paradox, were exposed in empirical tests by Wassily Leontief who found that the United States tended to export labor intensive goods despite having a capital abundance.

The H-O model makes the following core assumptions:

1. Labor and capital flow freely between sectors
2. The production of shoes is labor intensive and computers is capital intensive

3. The amount of labor and capital in two countries differ (difference in endowments)
4. free trade
5. technology is the same across countries (long-term)
6. Tastes are the same.

The problem with the H-O theory is that it excludes the trade of capital goods (including materials and fuels). In the H-O theory, labor and capital are fixed entities endowed to each country. In a modern economy, capital goods are traded internationally. Gains from trade of intermediate goods are considerable, as it was emphasized by Samuelson (2001).In the early 1900s an international trade theory called factor proportions theory emerged by two Swedish economists, Eli Heckscher and Bertil Ohlin. This theory is also called the Heckscher-Ohlin theory. The Heckscher-Ohlin theory stresses that countries should produce and export goods that require resources (factors) that are abundant and import goods that require resources in short supply. This theory differs from the theories of comparative advantage and absolute advantage since these theory focuses on the productivity of the production process for a particular good. On the contrary, the Heckscher-Ohlin theory states that a country should specialise production and export using the factors that are most abundant, and thus the cheapest. Not produce, as earlier theories stated, the goods it produces most efficiently.

Reality and Applicability of the Heckscher-Ohlin Model

The Heckscher-Ohlin theory is preferred to the Ricardo theory by many economists, because it makes fewer simplifying assumptions. In 1953, Wassily Leontief published a study, where he tested the validity of the Heckscher-Ohlin theory The study showed that the U.S was more abundant in capital compared to other countries, therefore the U.S would export capital- intensive goods and import labour-intensive goods. Leontief found out that the U.S's export was less capital intensive than import.

After the appearance of Leontief's paradox, many researchers tried to save the Heckscher-Ohlin theory, either by new methods of measurement, or either by new interpretations. Leamer emphasized that Leontief did not interpret HO theory properly and claimed that with a right interpretation paradox did not occur. Brecher and Choudri found that, if Leamer was right, the American workers consumption per head should be lower than the workers world average consumption.

Many other trials followed but most of them failed. Many of famous textbook writers, including Krugman and Obstfeld and Bowen, Hollander and Viane, are negative about the validity of H-O model. After examining the long history of empirical research, Bowen, Hollander and Viane concluded: "Recent tests of the factor abundance theory [H-O theory and its developed form into many-commodity and many-factor case] that directly examine the H-O-V equations also indicate the rejection of the theory."Heckscher-Ohlin theory is not well adapted to the analyze South-North trade problems. The assumptions of HO are less realistic with respect to N-S than N-N (or S-S) trade. Income differences between North and South is the one that third world cares most. The factor price equalization [a consequence of HO theory] has not shown much sign of realization. HO model assumes identical production functions between countries. This is highly unrealistic. Technological gap between developed and developing countries is the main concern of the poor countries.

Specific factors model

In this model, labor mobility between industries is possible while capital is immobile between industries in the short-run. Thus, this model can be interpreted as a 'short run' version of the Heckscher-Ohlin model. The specific factors name refers to the given that in the short-run, specific factors of production such as physical capital are not easily transferable between industries. The theory suggests that if there is an increase in the price of a good, the owners of the factor of production specific to that good will profit in real terms. Additionally, owners of opposing specific factors of production (i.e. labor and capital) are likely to have opposing agendas when lobbying for controls over immigration of labor. Conversely, both owners of capital and labor profit in real terms from an increase in the capital endowment. This model is ideal for particular industries. This model is ideal for understanding income distribution but awkward for discussing the pattern of trade.

New Trade Theory

New Trade theory tries to explain several facts about trade, which the two main models above have difficulty with. These include the fact that most trade is between countries with similar factor endowment and productivity levels, and the large amount of multinational production(i.e.foreign direct investment) which exists. In one example of this framework, the economy exhibits monopolistic competition and increasing returns to scale.

Gravity model

Gravity model of trade

The Gravity model of trade presents a more empirical analysis of trading patterns rather than the more theoretical models discussed above. The gravity model, in its basic form, predicts trade based on the distance between countries and the interaction of the countries' economic sizes. The model mimics the Newtonian law of gravity which also considers distance and physical size between two objects. The model has been proven to be empirically strong through econometric analysis. Other factors such as income level, diplomatic relationships between countries, and trade policies are also included in expanded versions of the model.

Regulation for international trade

This belief became the dominant thinking among western nations since then. In the years since the Second World War, controversial multilateral treaties like the General Agreement on Tariffs and Trade (GATT) and World Trade Organization have attempted to create a globally regulated trade structure. These trade agreements have often resulted in protest and discontent with claims of unfair trade that is not mutually beneficial.

Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective protectionism for those industries which are strategically important such as the protective tariffs applied to agriculture by the United States and Europe. The Netherlands and the United Kingdom were both strong advocates of free trade when they were economically dominant, today the United States, the United Kingdom, Australia and Japan are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves. As tariff levels fall there is also an increasing willingness to negotiate non tariff measures, including foreign direct investment, procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures.

Risk in international trade

Companies doing business across international borders face many of the same risks as would normally be evident in strictly domestic transactions. For

example, Buyer insolvency (purchaser cannot pay);

- Non-acceptance (buyer rejects goods as different from the agreed upon specifications);
- Credit risk (allowing the buyer to take possession of goods prior to payment);
- Regulatory risk (e.g., a change in rules that prevents the transaction);
- Intervention (governmental action to prevent a transaction being completed);
- Political risk (change in leadership interfering with transactions or prices); and
- War and Acts of God.

In addition, international trade also faces the risk of unfavorable exchange rate movements (and, the potential benefit of favorable movements).

2. Borders

Borders define geographic boundaries of political entities or legal jurisdictions, such as governments, states or sub national administrative divisions. They may foster the setting up of buffer zones. Some borders are fully or partially controlled, and may be crossed legally only at designated border checkpoints.

Definitions of borders

In the past many borders were not clearly defined lines, but were neutral zones called marchlands. This has been reflected in recent times with the neutral zones that were set up along part of Saudi Arabia's borders with Kuwait and Iraq (however, these zones no longer exist). In modern times the concept of a marchland has been replaced by that of the clearly defined and demarcated border. For the purposes of border control, airports and seaports are also classed as borders. Most countries have some form of border control to restrict or limit the movement of people, animals, plants, and goods into or out of the country. Under international law, each country is generally permitted to define the conditions which have to be met by a person to legally cross its borders by its own laws, and to prevent persons from crossing its border when this happens in violation of those laws.

In order to cross borders, the presentation of passports and visas or other appropriate forms of identity document is required by some legal orders. To stay or work within a country's borders aliens (foreign persons) may need special immigration documents or permits that authorize them to do so.

Moving goods across a border often requires the payment of excise tax, often collected by customs officials. Animals (and occasionally humans) moving across borders may need to go into quarantine to prevent the spread of exotic or infectious diseases. Most countries prohibit carrying illegal drugs or endangered animals across their borders. Moving goods, animals or people illegally across a border, without declaring them, seeking permission, or deliberately evading official inspection constitutes smuggling.

Border economics

The presence of borders often fosters certain economic features or anomalies. Wherever two jurisdictions come into contact, special economic opportunities arise for border trade. Smuggling provides a classic case; contrariwise, a border region may flourish on the provision of excise or of import–export services — legal or quasi-legal, corrupt or corruption-free. Different regulations on either side of a border may encourage services to position themselves at or near that border: thus the provision of pornography, of prostitution, of alcohol and/or of narcotics may cluster around borders, city limits, county lines, ports and airports. In a more planned and official context, Special Economic Zones (SEZs) often tend to cluster near borders or ports.

Human economic traffic across borders (apart from kidnapping), may involve mass commuting between workplaces and residential settlements. The removal of internal barriers to commerce, as in France after the French Revolution or in Europe since the 1940s, de-emphasizes border-based economic activity and fosters free trade. Euro regions are similar official structures built around commuting across borders.

International finance

International finance is the branch of economics that studies the dynamics of exchange rates, foreign investment, and how these affect international trade. It also studies international projects, international investments and capital flows, and trade deficits. It includes the study of futures, options and currency swaps. Together with international trade theory, international finance is also a branch of international economics.

Some of the theories which are important in international finance include the Mundell-Fleming model, the optimum currency area (OCA) theory, as well as the purchasing power parity (PPP) theory. Moreover, whereas international trade theory makes use of mostly microeconomic methods and theories, international finance theory makes use of predominantly intermediate and advanced macroeconomic methods and concepts.

International economics is concerned with the effects upon economic activity of international differences in productive resources and consumer preferences and the institutions that affect them. It seeks to explain the patterns and consequences of transactions and interactions between the inhabitants of different countries, including trade, investment and migration.

- **International trade** studies goods-and-services flows across international boundaries from supply-and-demand factors, economic integration, and policy variables such as tariff rates and trade quotas.
- **International finance** studies the flow of capital across international financial markets, and the effects of these movements on exchange rates.
- **International monetary economics** and **macroeconomics** studies money and macro flows across countries.

International trade

Scope and methodology

The economic theory of international trade differs from the remainder of economic theory mainly because of the comparatively limited international mobility of the capital and labour [8]. In that respect, it would appear to differ in degree rather than in principle from the trade between remote regions in one country. Thus the methodology of international trade economics differs little from that of the remainder of economics. However, the direction of academic research on the subject has been influenced by the fact that governments have often sought to impose restrictions upon international trade, and the motive for the development of trade theory has often been a wish to determine the consequences of such restrictions.

The branch of trade theory which is conventionally categorized as "classical" consists mainly of the application of deductive logic, originating with Ricardo's Theory of *Comparative Advantage* and developing into a range of theorems that depend for their practical value upon the realism of their postulates. "Modern" trade theory, on the other hand, depends mainly upon *empirical analysis*.

Classical theory

The law of *comparative advantage* provides a logical explanation of international trade as the rational consequence of the comparative advantages that arise from inter-regional differences - regardless of how those differences arise. Since its exposition by John Stuart Mill the techniques of neo-classical economics have been applied to it to model the patterns of trade that would result from various postulated sources of comparative advantage. However, extremely restrictive (and often unrealistic) assumptions have had to be adopted in order to make the problem amenable to theoretical analysis. The best-known of the resulting models, the Heckscher-Ohlin theorem (H-O) depends upon the assumptions of no international differences of technology, productivity, or consumer preferences; no obstacles to pure competition or free trade and no scale economies. On those assumptions, it derives a model of the trade patterns that would arise solely from international differences in the relative abundance of labour and capital (referred to as factor endowments). The resulting theorem states that, on those assumptions, a country with a relative abundance of capital would export capital-intensive products and import labour-intensive products. The theorem proved to be of very limited predictive value, as was demonstrated by what came to be known as the "Leontief Paradox" (the discovery that, despite its capital-rich factor endowment, America was exporting labour-intensive products and importing capital-intensive products) Nevertheless the theoretical techniques (and many of the assumptions) used in deriving the H-O model were subsequently used to derive further theorems. The Stolper-Samuelson theorem , which is often described as a corollary of the H-O theorem, was an early example. In its most general form it states that if the price of a good rises (falls) then the price of the factor used intensively in that industry will also rise (fall) while the price of the other factor will fall (rise). In the international trade context for which it was devised it means that trade lowers the real wage of the scarce factor of production, and protection from trade raises it. Another corollary of the H-O theorem is Samuelson's factor price equalisation theorem which states that as trade between countries tends to equalise their product prices, it tends also to equalise the prices paid to their factors of production. Those theories have sometimes been taken to mean that trade between an industrialised country and a developing country would lower the wages of the unskilled in the industrialised country. (But, as noted below, that conclusion depends upon the unlikely assumption that productivity is the same in the two countries). Large numbers of learned papers have been produced in attempts to elaborate on the H-O and Stolper-Samuelson theorems, and while many of them are considered to provide valuable insights, they have seldom proved to be directly applicable to the task of explaining trade patterns.)

Modern theory

Modern trade theory moves away from the restrictive assumptions of the H-O theorem and explores the effects upon trade of a range of factors, including technology and scale economies. It makes extensive use of *econometrics* to identify from the available statistics, the contribution of particular factors among the many different factors that affect trade. The contribution of differences of technology have been evaluated in several such studies. The temporary advantage arising from a country's development of a new technology is seen as contributory factor in one study Other researchers have found research and development expenditure, patents issued, and the availability of skilled labor, to be indicators of the technological leadership that enables some countries to produce a flow of such technological innovations. and have found that technology leaders tend to export hi-tech products to others and receive imports of more standard products from them. Another econometric study also established a correlation between country size and the share of exports made up of goods in the production of which there are scale economies . It is further suggested in that study that internationally-traded goods fall into three categories, each with a different type of comparative advantage:

- goods that are produced by the extraction and routine processing of available natural resources – such as coal, oil and wheat, for which developing countries often have an advantage compared with other types of production – which might be referred to as "Ricardo goods";
- low-technology goods, such as textiles and steel, that tend to migrate to countries with appropriate factor endowments - which might be referred to as "Heckscher-Ohlin goods"; and,
- high-technology goods and high scale-economy goods, such as computers and aeroplanes, for which the comparative advantage arises from the availability of R&D resources and specific skills and the proximity to large sophisticated markets.

The effects of international trade

Gains

There is a strong presumption that any exchange that is freely undertaken will benefit both parties, but that does not exclude the possibility that it may be harmful to others. However (on assumptions that included constant returns and competitive conditions) Paul Samuelson has proved that it will always be possible for the gainers from international trade to compensate the losers . Moreover, in that proof, Samuelson did not take account of the gains to others resulting from wider consumer choice, from the international specialisation of productive activities - and consequent economies of scale, and from the transmission of the benefits of technological innovation. An OECD study has suggested that there are further dynamic gains resulting from better resource allocation, deepening specialisation, increasing returns to R&D, and technology spillover. The authors found the evidence concerning growth rates to be mixed, but that there is strong evidence that a 1 per cent increase in openness to trade increases the level of GDP per capita by between 0.9 per cent and 2.0 per cent . They suggested that much of the gain arises from the growth of the most productive firms at the expense of the less productive. Those findings and others have contributed to a broad consensus among economists that trade confers very substantial net benefits, and that government restrictions upon trade are generally damaging.

Factor price equalization

Nevertheless there have been widespread misgivings about the effects of international trade upon wage earners in developed countries. Samuelson's factor price equalisation theorem indicates that, if productivity were the same in both countries, the effect of trade would be to bring about equality in wage rates. As noted above, that theorem is sometimes taken to mean that trade between an industrialised country and a developing country would lower the wages of the unskilled in the industrialised country. However, it is unreasonable to assume that productivity would be the same in a low-wage developing country as in a high-wage developed country. A 1999 study has found international differences in wage rates to be approximately matched by corresponding differences in productivity . (Such discrepancies that remained were probably the result of over-valuation or under-valuation of exchange rates, or of inflexibilities in labour markets.) It has been argued that, although there may sometimes be short-term pressures on wage rates in the developed countries, competition between employers in developing countries can be expected eventually to bring wages into line with their employees' *marginal products*. Any remaining international wage differences would then be the result of productivity differences, so that there would be no difference between unit labour costs in developing and developed countries, and no downward pressure on wages in the developed countries.

Terms of trade

There has also been concern that international trade could operate against the interests of developing countries. Influential studies published in 1950 by the Argentine economist Raul Prebisch and the British economist Hans Singer suggested that there is a tendency for the prices of agricultural products to fall relative to the prices of manufactured goods; turning the *terms of trade* against the developing countries and producing an unintended transfer of wealth from them to the developing countries. Their findings have been confirmed by a number of subsequent studies, although it has been suggested that the effect may be due to *quality bias* in the index numbers used or to the possession of *market power* by manufacturers . The Prebisch/Singer findings remain controversial, but they were used at the time - and have been used subsequently - to suggest that the developing countries should erect barriers against manufactured imports in order to nurture their own "infant industries" and so reduce their need to export agricultural products. The arguments for and against such a policy are similar to those concerning the *protection* of infant industries in general.

Infant industries

The term "infant industry" is used to denote a new industry which has prospects of becoming profitable in the long-term, but which would be unable to survive in the face of competition from imported goods. That is a situation that can occur because time is needed either to achieve potential *economies of scale*, or to acquire potential *learning curve* economies. Successful identification of such a situation followed by the temporary imposition of a barrier against imports can, in principle, produce substantial benefits to the country that applies it – a policy known as "import substitution industrialization". Whether such policies succeed depends upon governments' skills in picking winners, and there might reasonably be expected to be both successes and failures. It has been claimed that North Korea's automobile industry owes its existence to initial protection against imports , but a study of infant industry protection in Turkey reveals the absence of any association between productivity gains and degree of protection, such as might be expected of a successful import substitution policy. . Another study provides descriptive evidence suggesting that attempts at import substitution industrialisation since the 1970s have usually failed , but the empirical evidence on the question has been contradictory and inconclusive . It has been argued that the case against import substitution industrialization is not that it is bound to fail, but that subsidies and tax incentives do the job better]. It has also been pointed out that, in any case, trade restrictions could not be expected to correct the domestic market imperfections that often hamper the development of infant industries

Trade policies

Economists' findings about the benefits of trade have often been rejected by government policy-makers, who have frequently sought to protect domestic industries against foreign competition by erecting barriers, such as *tariffs* and *quotas*, against imports. Average tariff levels of around 15 per cent in the late 19th century rose to about 30 percent in the 1930s, following the passage in the United States of the Smoot-Hawley Act . Mainly as the result of international agreements under the auspices of the General Agreement on Tariffs and Trade (GATT) and subsequently the World Trade Organisation (WTO), average tariff levels were progressively reduced to about 7 per cent during the second half of the 20th century, and some other trade restrictions were also removed. The restrictions that remain are nevertheless of major economic importance: among other estimates the World Bank estimated in 2004 that the removal of all trade restrictions would yield benefits of over $500 billion a year by 2015 . The largest of the remaining trade-distorting policies are those concerning agriculture. In the OECD countries government payments account for 30 per cent of farmers' receipts and tariffs of over 100 per cent are common OECD economists estimate that cutting all agricultural tariffs and subsidies by 50% would set off a chain reaction in realignments of production and consumption patterns that would add an extra $26 billion to annual world income.

Quotas prompt foreign suppliers to raise their prices toward the domestic level of the importing country. That relieves some of the competitive pressure on domestic suppliers, and both they and the foreign suppliers gain at the expense of a loss to consumers, and to the domestic economy, in addition to which there is a *deadweight loss* to the world economy. When quotas were banned under the rules of the General Agreement on Tariffs and Trade (GATT), the United States, Britain and the European Union made use of equivalent arrangements known as *voluntary restraint agreements* (VRAs) or voluntary export restraints (VERs) which were negotiated with the governments of exporting countries (mainly Japan) - until they too were banned. Tariffs have been considered to be less harmful than quotas, although it can be shown that their welfare effects differ only when there are significant upward or downward trends in imports. Governments also impose a wide range of non-tariff barriers that are similar in effect to quotas, some of which are subject to WTO agreements A recent example has been the application of the *precautionary principle* to exclude innovatory products].

International Finance

Scope and methodology

The economics of international finance do not differ in principle from the economics of international trade but there are significant differences of emphasis. The practice of international finance tends to involve greater uncertainties and risks because the assets that are traded are claims to flows of returns that often extend many years into the future. Markets in financial assets tend to be more volatile than markets in goods and services because decisions are more often revised and more rapidly put into effect. There is the share presumption that a transaction that is freely undertaken will benefit both parties, but there is a much greater danger that it will be harmful to others. For example, mismanagement of mortgage lending in the United States led in 2008 to banking failures and credit shortages in other developed countries, and sudden reversals of international flows of capital have often led to damaging financial crises in developing countries. And, because of the incidence of rapid change, the methodology of *comparative statics* has fewer applications than in the theory of international trade, and *empirical analysis* is more widely employed. Also, the consensus among economists concerning its principal issues is narrower and more open to controversy than is the consensus about international trade.

Exchange rates and capital mobility

A major change in the organisation of international finance occurred in the latter years of the twentieth century, and economists are still debating its implications. At the end of the second world war the national signatories to the Bretton Woods Agreement had agreed to maintain their currencies each at a fixed exchange rate with the United States dollar, and the United States government had undertaken to buy gold on demand at a fixed rate of $35 per ounce. In support of those commitments, most signatory nations had maintained strict control over their nationals' use of foreign exchange and upon their dealings in international financial assets. But in 1971 the United States government announced that it was suspending the convertibility of the dollar, and there followed a progressive transition to the current regime of *floating exchange rates* in which most governments no longer attempt to control their exchange rates or to impose controls upon access to foreign currencies or upon access to international financial markets. The behavior of the international financial system was transformed. Exchange rates became very volatile and there was an extended series of damaging financial crises. One study estimated that by the end of the twentieth century there had been 112 banking crises in 93 countries , another that there had been 26 banking crises, 86 currency crises and 27 mixed banking and currency crises - many times more than in the previous post-war years.

The outcome was not what had been expected. In making an influential case for flexible exchange rates in the 1950s, Milton Friedman had claimed that if there were any resulting instability, it would mainly be the consequence of macroeconomic instability but an empirical analysis in 1999 found no apparent connection ·Economists began to wonder whether the expected advantages of freeing financial markets from government intervention were in fact being realized .Neoclassical theory had led them to expect capital to flow from the capital-rich developed economies to the capital-poor developing countries - because the returns to capital there would be higher. Flows of financial capital would tend to increase the level of investment in the developing countries by reducing their costs of capital, and the direct investment of physical capital would tend to promote specialization and the transfer of skills and technology. However, theoretical considerations alone cannot determine the balance between those benefits and the costs of volatility, and the question has had to be tackled by empirical analysis. A 2006 International Monetary Fund working paper offers a summary of the empirical evidence The authors found little evidence either of the benefits of the liberalization of capital movements, or of claims that it is responsible for the spate of financial crises. They suggest that net benefits can be achieved by countries that are able to meet threshold conditions of financial competence but that for others, the benefits are likely to be delayed, and vulnerability to interruptions of capital flows is likely to be increased.

Policies and Institutions

Although the majority of developed countries now have "floating" exchange rates, some of them – together with many developing countries – maintain exchange rates that are nominally "fixed", usually with the US dollar or the euro. The adoption of a fixed rate requires intervention in the foreign exchange market by the country's central bank, and is usually accompanied by a degree of control over its citizens' access to international markets. A controversial case in point is the policy of the Chinese government who had, until 2005, maintained the renminbi at a fixed rate to the dollar, but have since "pegged" it to a basket of currencies. It is frequently alleged that in doing so they are deliberately holding its value lower than if it were allowed to float (but there is evidence to the contrary . Some governments have abandoned their national currencies in favour of the common currency of a currency area such as the "*eurozone*" and some, such as Denmark, have retained their national currencies but have pegged them at a fixed rate to an adjacent common currency. On an international scale, the economic policies promoted by the International Monetary Fund (IMF) have had a major influence, especially upon the developing countries. The IMF was set up in 1944 to encourage international cooperation on monetary matters, to stabilise exchange rates and create an international payments system. Its principal activity is the payment of loans to help member countries to overcome *balance of payments problems*, mainly by restoring their depleted currency reserves. Their loans are, however, conditional upon the introduction of economic measures by recipient governments that are considered by the Fund's economists to provide conditions favourable to recovery. Their recommended economic policies are broadly those that have been adopted in the United States and the other major developed countries (known as the "*Washington Consensus*") and have often included the removal of all restrictions upon incoming investment. The Fund has been severely criticised by Joseph Stiglitz and others for what they consider to be the inappropriate enforcement of those policies and for failing to warn recipient countries of the dangers that can arise from the volatility of capital movements.

International financial stability

From the time of the Great Depression onwards, regulators and their economic advisors have been aware that economic and financial crises can spread rapidly from country to country, and that financial crises can have serious economic consequences. For many decades, that awareness led governments to impose strict controls over the activities and conduct of banks and other credit agencies, but in the 1980s many governments pursued a policy of deregulation in the belief that the resulting efficiency gains would outweigh any *systemic risk*s. The extensive financial innovations that followed are described in the article on financial economics. One of their effects has been greatly to increase the international inter-connectedness of the financial markets and to create an international financial system with the characteristics known in control theory as "complex-interactive". The stability of such a system is difficult to analyze because there are many possible failure sequences. The internationally-systemic crises that followed included the equity crash of October 1987 , the Japanese asset price collapse of the 1990s the Asian financial crisis of 1997the Russian government default of 1998 (which brought down the Long-Term Capital Management hedge fund) and the 2007-8 sub-prime mortgages crisis. The symptoms have generally included collapses in asset prices, increases in risk premiums, and general reductions in liquidity. Measures designed to reduce the vulnerability of the international financial system have been put forward by several international institutions. The Bank for International Settlements made two successive recommendations (Basel I and Basel II concerning the regulation of banks, and a coordinating group of regulating authorities, and the Financial Stability Forum, that was set up in 1999 to identify and address the weaknesses in the system, has put forward some proposals in an interim report .

Free trade

Free trade is a type of trade policy that allows traders to act and transact without interference from government. According to the law of comparative advantage the policy permits trading partners mutual gains from trade of goods and services.

Under a free trade policy, prices are a reflection of true supply and demand, and are the sole determinant of resource allocation. Free trade differs from other forms of trade policy where the allocation of goods and services amongst trading countries are determined by artificial prices that do not reflect the true nature of supply and demand. These artificial prices are the result of protectionist trade policies, whereby governments intervene in the market through price adjustments and supply restrictions. Such government interventions generally increase the cost of goods and services to both consumers and producers.

Interventions include subsidies, taxes and tariffs, non-tariff barriers, such as regulatory legislation and quotas, and even inter-government managed trade agreements such as the North American Free Trade Agreement (NAFTA) and Central America Free Trade Agreement (CAFTA) (contrary to their formal titles) and any governmental market intervention resulting in artificial prices that do not reflect the principles of supply and demand.

Most states conduct trade polices that are to a lesser or greater degree protectionist. One ubiquitous protectionist policy employed by states comes in the form agricultural subsidies whereby countries attempt to protect their agricultural industries from outside competition by creating artificial low prices for their agricultural goods.

Free trade agreements are a key element of customs unions and free trade areas. The details and differences of these agreements are covered in their respective articles.

Features of free trade

Free trade implies the following features

- trade of goods without taxes (including tariffs) or other trade barriers (*e.g.,* quotas on imports or subsidies for producers)
- trade in services without taxes or other trade barriers
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others
- Free access to markets
- Free access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power
- The free movement of labor between and within countries
- The free movement of capital between and within countries

Economics of free trade

Economic models

Two simple ways to understand the potential benefits of free trade are through David Ricardo's theory of comparative advantage and by analyzing the impact of a tariff or import quota.

The pink regions are the net loss to society caused by the existence of the tariff.

A simple economic analysis using the law of supply and demand and the economic effects of a tax can be used to show the theoretical benefits of free trade.[10]

The chart at the right analyzes the effect of the imposition of an import tariff on some imaginary good. Prior to the tariff, the price of the good in the world market (and hence in the domestic market) is P. The tariff increases the domestic price to P. The higher price causes domestic production to increase from Q^{S1} to Q^{S2} and causes domestic consumption to decline from Q^{C1} to Q^{C2}. This has three main effects on societal welfare. Consumers are made worse off because the consumer surplus (green region) becomes smaller. Producers are better off because the producer surplus (yellow region) is made larger. The government also has additional tax revenue (blue region). However, the loss to consumers is greater than the gains by producers and the government. The magnitude of this societal loss is shown by the two pink triangles. Removing the tariff and having free trade would be a net gain for society.

An almost identical analysis of this tariff from the perspective of a net producing country yields parallel results. From that country's perspective, the tariff leaves producers worse off and consumers better off, but the net loss to producers is larger than the benefit to consumers (there is no tax revenue in this case because the country being analyzed is not collecting the tariff). Under similar analysis, export tariffs, import quotas, and export quotas all yield nearly identical results. Sometimes consumers are better off and producers worse off, and sometimes consumers are worse off and producers are better off, but the imposition of trade restrictions causes a net loss to society because the losses from trade restrictions are larger than the gains from trade restrictions. Free trade creates winners and losers, but theory and empirical evidence show that the size of the winnings from free trade are larger than the losses.

Trade diversion

According to mainstream economic theory, global free trade is a net benefit to society, but the selective application of free trade agreements to some countries and tariffs on others can sometimes lead to economic inefficiency through the process of trade diversion. It is economically efficient for a good to be produced by the country which is the lowest cost producer, but this will not always take place if a high cost producer has a free trade agreement while the low cost producer faces a high tariff. Applying free trade to the high cost producer (and not the low cost producer as well) can lead to trade diversion and a net economic loss. This is why many economists place such high importance on negotiations for global tariff reductions, such as the Doha Round.

Opposition

The relative costs, benefits and beneficiaries of free trade are debated by academics, governments and interest groups. A number of arguments for and against in the ongoing public debate can be seen in the free trade debate article.

Arguments for protectionism fall into the economic category (trade hurts the economy) or the moral category (the effects of trade might help the economy, but have ill effects in other areas). The moral category is wide, including concerns of income inequality, environmental degradation, supporting child labor and sweatshops, race to the bottom, wage slavery, accentuating poverty in poor countries, harming national defense, and forcing cultural change.

Free trade is often opposed by domestic industries that would have their profits and market share reduced by lower prices for imported goods.For example, if United States tariffs on imported sugar were reduced, U.S. sugar producers would receive lower prices and profits, while U.S. sugar consumers would spend less for the same amount of sugar because of those same lower prices. Economics says that consumers would necessarily gain more than producers would lose. Since each of those few domestic sugar producers would lose a lot while each of a great number of consumers would gain only a little, domestic producers are more likely to mobilize against the lifting of tariffs. More generally, producers often favor domestic subsidies and tariffs on imports in their home countries, while objecting to subsidies and tariffs in their export markets.

Socialists frequently oppose free trade on the ground that it allows maximum exploitation of workers by capital. For example, Karl Marx wrote in *The Communist Manifesto*, "The bourgeoisie... has set up that single, unconscionable freedom -- Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation."

"Free trade" is opposed by many anti-globalization groups, based on their assertion that free trade agreements generally do not increase the economic freedom of the poor, and frequently make them poor These opponents see free trade deals as being materially harmful to the common people, whether these agreements are really for free trade or for government-managed trade. Nevertheless, if the deals are essentially for government-managed trade, arguing against them is not a direct argument against free trade *per se*. For example, it is argued that it would be wrong to let subsidized corn from the U.S. into Mexico freely under NAFTA at prices well below production cost (dumping) because of its ruinous effects to Mexican farmers. Of course, such subsidies violate free trade, so this argument is not actually against the principle of free trade, but rather its selective implementation.

Comparative advantage

In economics, the **law of comparative advantage** refers to the ability of a party (an individual, a firm, or a country) to produce a particular good or service at a lower opportunity cost than another party. It is the ability to produce a product most efficiently given all the other products that could be produced. It can be contrasted with absolute advantage which refers to the ability of a party to produce a particular good at a lower absolute cost than another.

Comparative advantage explains how trade can create value for both parties even when one can produce all goods with fewer resources than the other. The net benefits of such an outcome are called gains from trade.

Examples for Comparative Advantage

The following hypothetical examples explain the reasoning behind the theory. In Example 2 all assumptions are italicized for easy reference, and some are explained at the end of the example.

Example 1

Two men live alone on an isolated island. To survive they must undertake a few basic economic activities like water carrying, fishing, cooking and shelter construction and maintenance. The first man is young, strong, and educated. He is also, faster, better, more productive at everything. He has an absolute advantage in all activities. The second man is old, weak, and uneducated. He has an absolute disadvantage in all economic activities. In some activities the difference between the two is great; in others it is small.

Despite the fact that the younger man has absolute advantage in all activities, it is not in the interest of either of them to work in isolation since they both can benefit from specialization and exchange. If the two men divide the work according to comparative advantage then the young man will specialize in tasks at which he is most productive, while the older man will concentrate on tasks where his productivity is only a little less than that of the young man. Such an arrangement will increase total production for a given amount of labor supplied by both men and it will benefit both of them.

Example 2

Suppose there are two countries *of equal size*, **Northland** and **Southland**, that both produce and consume two goods, **Food** and **Clothes**. The productive capacities and efficiencies of the countries are such that if both countries devoted all their resources to Food production, output would be as follows:

- Northland: 100 tonnes
- Southland: 400 tonnes

If all the resources of the countries were allocated to the production of Clothes, output would be:

- Northland: 100 tonnes
- Southland: 200 tonnes

Assuming each has *constant opportunity costs of production* between the two products and both economies have *full employment at all times*. All *factors of production are mobile within the countries* between clothing and food industries, but are *immobile between the countries*. *The price mechanism must be working to provide perfect competition*.

Southland has an absolute advantage over Northland in the production of Food and Clothing. There seems to be no mutual benefit in trade between the economies, as Southland is more efficient at producing both products. The **opportunity costs** shows otherwise. Northland's opportunity cost of producing one tonne of Food is one tonne of Clothes and vice versa. Southland's opportunity cost of one tonne of Food is 0.5 tonne of Clothes. The opportunity cost of one tonne of Clothes is 2 tonnes of Food. Southland has a comparative advantage in food production, because of its lower opportunity cost of production with respect to Northland. Northland has a comparative advantage over Southland in the production of clothes, the opportunity cost of which is higher in Southland with respect to Food than in Northland.

To show these different opportunity costs lead to mutual benefit if the countries specialize production and trade, consider the countries produce and consume only domestically. The volumes are:

This example includes no formulation of the preferences of consumers in the two economies which would allow the determination of the international exchange rate of Clothes and Food. Given the production capabilities of each country, in order for trade to be worthwhile Northland requires a price of at least one tonne of Food in exchange for one tonne of Clothes; and Southland requires at least one tonne of Clothes for two tonnes of Food. The exchange price will be somewhere between the two. The remainder of the example works with an international trading price of one tonne of Food for 2/3 tonne of Clothes.

If both specialize in the goods in which they have comparative advantage, their outputs will be:

World production of food increased. Clothing production remained the same. Using the exchange rate of one tonne of Food for 2/3 tonne of Clothes, Northland and Southland are able to trade to yield the following level of consumption:

Northland traded 50 tonnes of Clothing for 75 tonnes of Food. Both benefited, and now consume at points outside their production possibility frontiers.

Assumptions in Example 2

- **Two countries, two goods** - the theory is no different for larger numbers of countries and goods, but the principles are clearer and the argument easier to follow in this simpler case.
- **Equal size economies** - again, this is a simplification to produce a clearer example.
- **Full employment** - if one or other of the economies has less than full employment of factors of production, then this excess capacity must usually be used up before the comparative advantage reasoning can be applied.
- **Constant opportunity costs** - a more realistic treatment of opportunity costs the reasoning is broadly the same, but specialization of production can only be taken to the point at which the opportunity costs in the two countries become

equal. This does not invalidate the principles of comparative advantage, but it does limit the magnitude of the benefit.

- **Perfect mobility of factors of production within countries** - this is necessary to allow production to be switched *without cost*. In real economies this cost will be incurred: capital will be tied up in plant (sewing machines are not sowing machines) and labour will need to be retrained and relocated. This is why it is sometimes argued that 'nascent industries' should be protected from fully liberalised international trade during the period in which a high cost of entry into the market (capital equipment, training) is being paid for.
- **Immobility of factors of production between countries** - why are there different rates of productivity? The modern version of comparative advantage (developed in the early twentieth century by the Swedish economists Eli Heckscher and Bertil Ohlin) attributes these differences to differences in nations' factor endowments. A nation will have comparative advantage in producing the good that uses intensively the factor it produces abundantly. For example: suppose the US has a relative abundance of capital and India has a relative abundance of labor. Suppose further that cars are capital intensive to produce, while cloth is labor intensive. Then the US will have a comparative advantage in making cars, and India will have a comparative advantage in making cloth. If there is international factor mobility this can change nations' relative factor abundance. The principle of comparative advantage still applies, but who has the advantage in what can change.
- **Negligible Transport Cost** - Cost is not a cause of concern when countries decided to trade. It is ignored and not factored in.
- **Assume that half the resources are used to produce each good in each country.** This takes place before specialization
- **Perfect competition** - this is a standard assumption that allows perfectly efficient allocation of productive resources in an idealized free market.

Example 3

The economist Paul Samuelson provided another well known example in his *Economics*. Suppose that in a particular city the best lawyer happens also to be the best secretary, that is he would be the most productive lawyer and he would also be the best secretary in town. However, if this lawyer focused on the task of being an attorney and, instead of pursuing both occupations at once, employed a secretary, both the output of the lawyer and the secretary would increase.

Effects on the economy

Conditions that maximize comparative advantage do not automatically resolve trade deficits. In fact, in many real world examples where comparative advantage is attainable may in fact require a trade deficit. For example, the amount of goods produced can be maximized, yet it may involve a net transfer of wealth from one country to the other, often because economic agents have widely different rates of saving.

As the markets change over time, the ratio of goods produced by one country versus another variously changes while maintaining the benefits of comparative advantage. This can cause national currencies to accumulate into bank deposits in foreign countries where a separate currency is used.

Macroeconomic monetary policy is often adapted to address the depletion of a nation's currency from domestic hands by the issuance of more money, leading to a wide range of historical successes and failures.

Criticism

Free mobility of capital in a globalized world

Ricardo explicitly bases his argument on an assumed immobility of capital:

> *" ... if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labor price of commodities, than the additional quantity of labor required to convey them to the various markets where they were to be sold."*

He explains why from his point of view (anno 1817) this is a reasonable assumption: *"Experience, however, shows, that the fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and entrust himself with all his habits fixed, to a strange government and new laws, checks the emigration of capital."*

Some scholars, notably Herman Daly, an American ecological economist and professor at the School of Public Policy of University of Maryland, have voiced concern over the applicability of Ricardo's theory of comparative advantage in light of a perceived increase in the mobility of capital: *"International trade (governed by comparative advantage) becomes, with the introduction of free capital mobility, interregional trade (governed by Absolute advantage)."*

Protectionism

Protectionism is the economic policy of restraining trade between states, through methods such as tariffs on imported goods, restrictive quotas, and a variety of other restrictive government regulations designed to discourage imports, and prevent foreign take-over of local markets and companies. This policy is closely aligned with anti-globalization, and contrasts with free trade, where government barriers to trade are kept to a minimum. The term is mostly used in the context of economics, where **protectionism** refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations.

Protectionist policies

A variety of policies can be used to achieve protectionist goals. These include:

1. *Tariffs*: Typically, tariffs (or taxes) are imposed on imported goods. Tariff rates usually vary according to the type of goods imported. Import tariffs will increase the cost to importers, and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported. Tariffs may also be imposed on exports, and in an economy with floating exchange rates, export tariffs have similar effects as import tariffs. However, since export tariffs are often perceived as 'hurting' local industries, while import tariffs are perceived as 'helping' local industries, export tariffs are seldom implemented.
2. *Import quotas*: To reduce the quantity and therefore increase the market price of imported goods. The economic effects of an import quota is similar to that of a tariff, except that the tax revenue gain from a tariff will instead be distributed to those who receive import licenses. Economists often suggest that import licenses be auctioned to the highest bidder, or that import quotas be replaced by an equivalent tariff.
3. *Administrative Barriers*: Countries are sometimes accused of using their various administrative rules (eg. regarding food safety, environmental standards, electrical safety, etc.) as a way to introduce barriers to imports.
4. *Anti-dumping legislation* Supporters of anti-dumping laws argue that they prevent "dumping" of cheaper foreign goods that would cause local firms to close down. However, in practice, anti-dumping laws are usually used to impose trade tariffs on foreign exporters.
5. *Direct Subsidies*: Government subsidies (in the form of lump-sum payments or cheap loans) are sometimes given to local firms that cannot compete well against foreign imports. These subsidies are purported to "protect" local jobs, and to help local firms adjust to the world markets.
6. *Export Subsidies*: Export subsidies are often used by governments to increase exports. Export subsidies are the opposite of export tariffs, exporters are paid a percentage of the value of their exports. Export subsidies increase the amount of trade, and in a country with floating exchange rates, have effects similar to import subsidies.
7. Exchange Rate manipulation: A government may intervene in the foreign exchange market to lower the value of its currency by selling its currency in the foreign exchange market. Doing so will raise the cost of imports and lower the cost of exports, leading to an improvement in its trade balance. However, such a policy is only effective in the short run, as it will most likely lead to inflation in the country, which will in turn raise the cost of exports, and reduce the relative price of imports.

De facto protectionism

In the modern trade arena many other initiatives besides tariffs have been called protectionist. For example, some commentators, such as Jagdish Bhagwati, see developed countries efforts in imposing their own labor or environmental standards as protectionism. Also, the imposition of restrictive certification procedures on imports are seen in this light.

Further, others point out that free trade agreements often have protectionist provisions such as intellectual property, copyright, and patent restrictions that benefit large corporations. These provisions restrict trade in music, movies, drugs, software, and other manufactured items to high cost producers with quotas from low cost producers set to zero

Arguments for protectionism

Opponents of free trade often argue that the comparative advantage argument for free trade has lost its legitimacy in a globally integrated world—in which capital is free to move internationally. Herman Daly, a leading voice in the discipline of ecological economics, emphasizes that although Ricardo's theory of comparative advantage is one of the most elegant theories in economics, its application to the present day is illogical: "Free capital mobility totally undercuts Ricardo's comparative advantage argument for free trade in goods, because that argument is explicitly and essentially premised on capital (and other factors) being immobile between nations. Under the new globalization regime, capital tends simply to flow to wherever costs are lowest—that is, to pursue absolute advantage."

Protectionists fault the free trade model as being reverse protectionism in disguise, that of using tax policy to protect foreign manufacturers from domestic competition. By ruling out revenue tariffs on foreign products, government must fully rely on domestic taxation to provide its revenue, which falls disproportionately on domestic manufacturing. As Paul Craig Roberts notes: "[Foreign discrimination of US products] is reinforced by the US tax system, which imposes no appreciable tax burden on foreign goods and services sold in the US but imposes a heavy tax burden on US producers of goods and services regardless of whether they are sold within the US or exported to other countries."

Infant industry argument

: Infant industry argument

Some proponents of protectionism claim that imposing tariffs that help protect newly founded infant industries allows those domestic industries to grow and become self-sufficient within the international economy once they reach a reasonable size.

Arguments against protectionism

Protectionism is frequently criticized as harming the people it is meant to help. Nearly all mainstream economists instead support free trade. Economic theory, under the principle of comparative advantage, shows that the gains from free trade outweigh any losses as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage.Protectionism results in deadweight loss; this loss to overall welfare gives no-one any benefit, unlike in a free market, where there is no such total loss. According to economist Stephen P. Magee, the benefits of free trade outweigh the losses by as much as 100 to 1.

Most economists, including Nobel prize winners Milton Friedman and Paul Krugman, believe that free trade helps workers in developing countries, even though they are not subject to the stringent health and labor standards of developed countries. This is because "the growth of manufacturing — and of the myriad of other jobs that the new export sector creates — has a ripple effect throughout the economy" that creates competition among producers, lifting wages and living conditions. Economists have suggested that those who support protectionism ostensibly to further the interests of third world workers are in fact being disingenuous, seeking only to protect jobs in developed countries. Additionally, workers in the third world only accept jobs if they are the best on offer, as all mutually consensual exchanges must be of benefit to both sides, else they wouldn't be entered into freely. That they accept low-paying jobs from first world companies shows that their other employment prospects are worse.

Alan Greenspan, former chair of the American Federal Reserve, has criticized protectionist proposals as leading "to an atrophy of our competitive ability. ... If the protectionist route is followed, newer, more efficient industries will have less scope to expand, and overall output and economic welfare will suffer."

Protectionism has also been accused of being one of the major causes of war. Proponents of this theory point to the constant warfare in the 17th and 18th centuries among European countries whose governments were predominantly mercantilist and protectionist, the American Revolution, which came about primarily due to British tariffs and taxes, as well as the protective policies preceding both World War I and World War II. According to Frederic Bastiat, "When goods cannot cross borders, armies will."

Current world trends

Since the end of World War II, it has been the stated policy of most First World countries to eliminate protectionism through free trade policies enforced by international treaties and organizations such as the World Trade Organization. Certain policies of First World governments have been criticized as protectionist, however, such as the Common Agricultural Policyin the European Union and proposed "Buy American" provisions in economic recovery packages in the United States.

The current round of trade talks by the World Trade Organization is the Doha Development Round and the last session of talks in Geneva, Switzerland led to an impassé. The leaders' statement in the G20 meeting in London in early 2009 included a promise to continue the Doha Round.

Economic integration

Economic integration is a term used to describe how different aspects between economies are integrated. The basics of this theory were written by the Hungarian Economist Béla Balassa in the 1960s. As economic integration increases, the barriers of trade between markets diminishes. The most integrated economy today, between independent nations, is the European Union and its euro zone.

Economist Fritz Machlup traces the origin of the term 'economic integration' to a group of five economists writing in the 1940s, including Wilhelm Röpke, Ludwig von Mises and Friedrich von Hayek. Economic integration was a foundational plank of US foreign policy after World War II

The degree of economic integration can be categorized into six stages:

1. Preferential trading area
2. Free trade area
3. Customs union
4. Common market
5. Economic and monetary union
6. Complete economic integration

Economic integration also tends to precede political integration. In fact, Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically--and, thus, that economic communities naturally evolve into political unions over time.

Trade creation

Trade creation is an economic term related to international economics in which trade is created by the formation of a customs union.

Occurrence of Trade Creation

When a customs union is formed, the member nations establish a free trade area amongst themselves and a common external tariff on non-member nations. As a result, the member nations establish greater trading ties between themselves now that protectionist barriers such as tariffs, quotas, and non-tariff barriers such as subsidies have been eliminated. The result is an increase in trade among member nations in the good or service of each nation's comparative advantage.

Downside of Trade Creation

The creation of trade is important to the nation entering the customs union in that increased specialization may hurt other industries. Arguments for protectionism, such as the infant industry argument, national defense, outsourcing, and issues with health and safety regulations are brought to mind. However, customs unions are typically formed with friendly nations, eliminating the national defense argument, and in the long run serves to create more jobs and output due to specialization.

Trade diversion

Trade diversion is an economic term related to international economics in which trade is diverted from a more efficient exporter towards a less efficient one by the formation of a free trade agreement.

Occurrence

When a country applies the same tariff to all nations, it will always import from the most efficient producer, since the more efficient nation will provide the goods at a lower price. With the establishment of a bilateral or regional free trade agreement, that may not be the case. If the agreement is signed with a less-efficient nation, it may well be that their products become cheaper in the importing market than those from the more-efficient nation, since there are taxes for only one of them. Consequently, after the establishment of the agreement, the importing country would acquire products from a higher-cost producer, instead of the low-cost producer from which it was importing until then. In other words, this would cause a trade diversion.

Term

The term was coined by Jacob Viner in *The Customs Union Issue* in 1950. In its literal meaning the term was however incomplete, as it failed to capture all welfare effects of discriminatory tariff liberalization, and it was not useful when it came to non-tariff barriers. Economists have however dealt with this incompleteness in two ways. Either they stretched the original meaning to cover all welfare effects, or they introduced new terms like trade expansion or internal versus external trade creation.

Downside

Diverted trade may hurt the non-member nation economically and politically and create a strained relationship between the two nations. The decreased output of the good or service traded from one nation with a high comparative advantage to a nation of lower comparative advantage works against creating more efficiency and therefore more overall surplus. It is widely believed by economists that trade diversion is harmful to consumers.

Example

An example of trade diversion is the UK's import of lamb, before Britain joined the EU most lamb imports came from New Zealand, the cheapest lamb producer, however when Britain joined the EU the common external tariff made it more expensive to import lamb from New Zealand than countries inside the union, thus France became the majority exporter of lamb to the UK. Trade was diverted from New Zealand, and created between France and the UK. Balance of trade

Balance of trade

The **balance of trade** (or *net exports*, sometimes symbolized as *NX*) is the difference between the monetary value of exports and imports of output in an economy over a certain period. It is the relationship between a nation's imports and exports. A favourable balance of trade is known as a **trade surplus** and consists of exporting more than is imported; an unfavourable balance of trade is known as a **trade deficit** or, informally, a trade gap. The balance of trade is sometimes divided into a goods and a services balance.

Definition

The balance of trade forms part of the current account, which includes other transactions such as income from the international investment position as well as international aid. If the current account is in surplus, the country's net international asset position increases correspondingly. Equally, a deficit decreases the net international asset position.

The trade balance is identical to the difference between a country's output and its domestic demand (the difference between what goods a country produces and how many goods it buys from abroad; this does not include money re-spent on foreign stocks, nor does it factor the concept of importing goods to produce for the domestic market).

Measuring the balance of trade can be problematic because of problems with recording and collecting data. As an illustration of this problem, when official data for all the world's countries are added up, exports exceed imports by a few percent; it appears the world is running a positive balance of trade with itself. This cannot be true, because all transactions involve an equal credit or debit in the account of each nation. The discrepancy is widely believed to be explained by transactions intended to launder money or evade taxes, smuggling and other visibility problems. However, especially for developed countries, accuracy is likely.

Factors that can affect the balance of trade include:

- The cost of production (land, labor, capital, taxes, incentives, etc.) in the exporting economy vis-à-vis those in the importing economy;
- The cost and availability of raw materials, intermediate goods and other inputs;
- Exchange rate movements;
- Multilateral, bilateral and unilateral taxes or restrictions on trade;
- Non-tariff barriers such as environmental, health or safety standards;

- The availability of adequate foreign exchange with which to pay for imports; and
- Prices of goods manufactured at home (influenced by the responsiveness of supply)

In addition, the trade balance is likely to differ across the business cycle. In export led growth (such as oil and early industrial goods), the balance of trade will improve during an economic expansion. However, with domestic demand led growth (as in the United States and Australia) the trade balance will worsen at the same stage in the business cycle.

Since the mid 1980s, United States has had a growing deficit in tradeable goods, especially with Asian nations (China and Japan) which now hold large sums of U.S debt that has funded the consumption.The U.S. has a trade surplus with nations such as Australia and Canada. The issue of trade deficits can be complex. Trade deficits generated in tradeable goods such as manufactured goods or software may impact domestic employment to different degrees than trade deficits in raw materials.

Economies such as Canada, Japan, and Germany which have savings surpluses, typically run trade surpluses. China, a high growth economy, has tended to run trade surpluses. A higher savings rate generally corresponds to a trade surplus. Correspondingly, the United States with its lower savings rate has tended to run high trade deficits, especially with Asian nations.

Views on economic impact

Economists are sometimes divided on the economic impact of the trade deficit.

Conditions where trade deficits may be considered harmful

Those who ignore the effects of long run trade deficits may be confusing David Ricardo's principle of comparative advantage with Adam Smith's principle of absolute advantage, specifically ignoring the latter. The economist Paul Craig Roberts notes that the comparative advantage principles developed by David Ricardo do not hold where the factors of production are internationally mobile, a phenomenon described by economist Stephen S. Roach, where one country exploits the cheap labor of another, would be a case of absolute advantage that is not mutually beneficial.Detiorating U.S. net international investment position (NIIP) has caused concern among economists over the effects of outsourcing and high U.S. trade deficits over the long-run.

Conditions where trade imbalances may not be harmful

Small trade imbalances are generally not considered to be harmful to either the importing or exporting economy. However, when a national trade imbalance expands beyond prudence (generally thought to be several percent of GDP, for several years), adjustments tend to occur. While unsustainable imbalances may persist for long periods (cf, Singapore and New Zealand's surpluses and deficits, respectively), the distortions likely to be caused by large flows of wealth out of one economy and into another tend to become intolerable.

In simple terms, trade deficits are paid for out of foreign exchange reserves, and may continue until such reserves are depleted. At such a point, the importer can no longer continue to purchase more than is sold abroad. This is likely to have exchange rate implications: a sharp loss of value in the deficit economy's exchange rate with the surplus economy's currency will change the relative price of tradable goods, and facilitate a return to balance or (more likely) an over-shooting into surplus the other direction.

More complexly, an economy may be unable to export enough goods to pay for its imports, but is able to find funds elsewhere. Service exports, for example, are more than sufficient to pay for Hong Kong's domestic goods export shortfall. In poorer countries, foreign aid may fill the gap while in rapidly developing economies a capital account surplus often off-sets a current-account deficit. Finally, there are some economies where transfers from nationals working abroad contribute significantly to paying for imports. The Philippines, Bangladesh and Mexico are examples of transfer-rich economies.

Warren Buffett on trade deficits

The successful American businessman and investor Warren Buffett was quoted in the Associated Press (January 20, 2006) as saying "The U.S trade deficit is a bigger threat to the domestic economy than either the federal budget deficit or consumer debt and could lead to political turmoil... Right now, the rest of the world owns $3 trillion more of us than we own of them."

John Maynard Keynes on the balance of trade

In the last few years of his life, John Maynard Keynes was much preoccupied with the question of balance in international trade. He was the leader of the British delegation to the United Nations Monetary and Financial Conference in 1944 that established the Bretton Woods system of international currency management.

He was the principal author of a proposal—the so-called Keynes Plan—for an International Clearing Union. The two governing principles of the plan were that the problem of settling outstanding balances should be solved by 'creating' additional 'international money', and that debtor and creditor should be treated almost alike as disturbers of equilibrium. In the event, though, the plans were rejected, in part because *"American opinion was naturally reluctant to accept the principal of equality of treatment so novel in debtor-creditor relationships"*.

His view, supported by many economists and commentators at the time, was that creditor nations may be just as responsible as debtor nations for disequilibrium in exchanges and that both should be under an obligation to bring trade back into a state of balance. Failure for them to do so could have serious consequences. In the words of Geoffrey Crowther, then editor of The Economist, *"If the economic relationships between nations are not, by one means or another, brought fairly close to balance, then there is no set of financial arrangements that can rescue the world from the impoverishing results of chaos."*

These ideas were informed by events prior to the Great Depression when—in the opinion of Keynes and others—international lending, primarily by the United States, exceeded the capacity of sound investment and so got diverted into non-productive and speculative uses, which in turn invited default and a sudden stop to the process of lending.

Influenced by Keynes, economics texts in the immediate post-war period put a significant emphasis on balance in trade. For example, the second edition of the popular introductory textbook, *An Outline of Money*, devoted the last three of its ten chapters to questions of foreign exchange management and in particular the 'problem of balance'. However, in more recent years, since the end of the Bretton Woods system in 1971, with the increasing influence of Monetarist schools of thought in the 1980s, and particularly in the face of large sustained trade imbalances, these concerns—and particularly concerns about the destabilising affects of large trade surpluses—have largely disappeared from mainstream economics discourse and Keynes' insights have slipped from view, they are receiving some attention again in the wake of the financial crisis of 2007–2009.

Physical balance of trade

Monetary balance of trade is different from physical balance of trade (which is expressed in amount of raw materials). Developed countries usually import a lot of primary raw materials from developing countries at low prices. Often, these materials are then converted into finished products, and a significant amount of value is added. Although for instance the EU (as well as many other developed countries) has a balanced monetary balance of trade, its physical trade balance (especially with developing countries) is negative, meaning that a lot less material is exported than imported.

Balance of payments

In economics, the **balance of payments**, (or **BOP**) measures the payments that flow between any individual country and all other countries. It is used to summarize all international economic transactions for that country during a specific time period, usually a year. The BOP is determined by the country's exports and imports of goods, services, and financial capital, as well as financial transfers. It reflects all payments and liabilities to foreigners (debits) and all payments and obligations received from foreigners (credits). Balance of payments is one of the major indicators of a country's status in international trade, with net capital outflow.

The balance, like other accounting statements, is prepared in a single currency, usually the domestic. Foreign assets and flows are valued at the exchange rate of the time of transaction.

IMF definition

The IMF definition: "**Balance of Payments** is a statistical statement that summarizes transactions between residents and nonresidents during a period." The balance of payments comprises the **current account** and the **capital account** (or the **financial account**). "Together, these accounts balance in the sense that the sum of the entries is conceptually **zero**."

- The **current account** consists of the **goods and services account**, the primary income account and the secondary income account.
- The **capital account** is much smaller than the other two and consists primarily of debt forgiveness and assets from migrants coming to or leaving the country.
- The **financial account** consists of asset inflows and outflows, such as international purchases of stocks, bonds and real estate.

Balance of payments identity

The balance of payments identity states that:

> Current Account = Capital Account + Financial Account + Net Errors and Omissions

This is a convention of double entry accounting, where all debit entries must be booked along with corresponding credit entries such that the net of the Current Account will have a corresponding net of the Capital and Financial Accounts:

$$X + K_i = M + K_o$$

where:

- X = exports
- M = imports
- K_i = capital inflows
- K_o = capital outflows

Rearranging, we have:

$$(X - M) = K_o - K_i,$$

yielding the BOP identity.

The basic principle behind the identity is that a country can only *consume more than it can produce* (a current account deficit) if it *is supplied capital from abroad* (a capital account surplus).

Mercantile thought prefers a so-called balance of payments surplus where the net current account is in surplus or, more specifically, a positive balance of trade.

A **balance of payments equilibrium** is defined as a condition where the sum of debits and credits from the current account and the capital and financial accounts equal to zero; in other words, equilibrium is where

$$\text{Current account} + (\text{Capital and financial accounts}) = 0$$

This is a condition where there are no changes in Official Reserves.When there is no change in Official Reserves, the balance of payments may also be stated as follows:

$$\text{Current account} = -(\text{Capital and financial accounts})$$

or:

$$\text{Current account deficit (or surplus)} = \text{Capital and financial account surplus (or c}$$

Canada's Balance of Payments currently satisfies this criterion. It is the only large monetary authority with no Changes in Reserves.

Criticism

According to Murray Rothbard:

> “ Fortunately, the absurdity of worrying about the balance of payments is made evident by focusing on inter-state trade. For nobody worries about the balance of payments between New York and New Jersey, or, for that matter, between Manhattan and Brooklyn, because there are no customs officials recording such trade and such balances. ”

Trade facilitation.

Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximise efficiency while safeguarding legitimate regulatory objectives. Business costs may be a direct function of collecting information and submitting declarations or an indirect consequence of border checks in the form of delays and associated time penalties, forgone business opportunities and reduced competitiveness.

Understanding and use of the term “trade facilitation” varies in the literature and amongst practitioners. "Trade facilitation" is largely used by institutions which seek to improve the regulatory interface between government bodies and traders at national borders. The WTO, in an online training package, once defined trade facilitation as: “The simplification and harmonisation of international trade procedures” where trade procedures are the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.

In defining the term, many trade facilitation proponents will also make reference to trade finance and the procedures applicable for making payments (e.g. via a commercial banks). For example UN/CEFACT defines trade facilitation as "the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment".

Occasionally, the term trade facilitation is extended to address a wider agenda in economic development and trade to include: the improvement of transport infrastructure, the removal of government corruption, the modernization of customs administration, the removal of other non-tariff trade barriers, as well as export marketing and promotion.

Examples of regulatory activity in international trade

Fiscal: Collection of customs duties, excise duties and other indirect taxes; payment mechanisms

Safety and security: Security and anti smuggling controls; dangerous goods; vehicle checks; immigration and visa formalities

Environment and health: Phytosanitary, veterinary and hygiene controls; health and safety measures; CITES controls; ships’ waste

Consumer protection: Product testing; labelling; conformity checks with marketing standards (e.g. fruit and vegetables)

Trade policy: Administration of quota restrictions; export refunds

Topics and issues in trade facilitation

Trade facilitation has its intellectual roots in the fields of logistics and supply chain management. Trade facilitation looks at operational improvements at the interface between business and government and associated transaction costs. Trade facilitation has become a key feature in supply chain security and customs modernisation programmes. Within the context of economic development it has also come to prominence in the Doha Development Round. However, it is an equally prominent feature in unilateral and bilateral initiatives that seek to improve the trade environment and enhance business competitiveness. Reference to trade facilitation is sometimes also made in the context of "better regulation". Some organisations promoting trade facilitation will emphasis the cutting of red tape in international trade as their main objective. Propagated ideas and concepts to reforming trade and customs procedures generally resonate around the following themes:

- Simple rules and procedures
- Avoidance of duplication
- Memoranda of Understanding (MoUs)
- Alignment of procedures and adherence to international conventions
- Trade consultation
- Transparent and operable rules and procedures
- Accommodation of business practices
- Operational flexibility
- Public-service standards and performance measures
- Mechanisms for corrections and appeals
- Fair and consistent enforcement
- Proportionality of legislation and control to risk
- Time-release measures
- Risk management and trader authorisations
- Standardisation of documents and electronic data requirements
- Automation
- International electronic exchange of trade data
- Single Window System

International trade law

International trade law includes the appropriate rules and customs for handling trade between countries or between private companies across borders. Over the past twenty years, it has become one of the fastest growing areas of international law.

International trade law should be distinguished from the broader field of international economic law. The latter could be said to encompass not only WTO law, but also law governing the international monetary system and currency regulation, as well as the law of international development.

The body of rules for transnational trade in the 21st century derives from medieval commercial laws called the *lex mercatoria* and *lex maritima* — respectively, "the law for merchants on land" and "the law for merchants on sea." Modern trade law (extending beyond bilateral treaties) began shortly after the Second World War, with the negotiation of a multilateral treaty to deal with trade in goods: the General Agreement on Tariffs and Trade (GATT).

International trade law is based on theories of economic liberalism developed in Europe and later the United States from the 18th century onwards.

World Trade Organization

In 1995, the World Trade Organization, a formal international organization to regulate trade, was established. It is the most important development in the history of international trade law.

The purposes and structure of the organization is governed by the *Agreement Establishing The World Trade Organization*, also known as the "Marrakesh Agreement". It does not specify the actual rules that govern international trade in specific areas. These are found in separate treaties, annexed to the Marrakesh Agreement.

Trade in goods

The GATT has been the backbone of international trade law throughout most of the twentieth century. It contains rules relating to "unfair" trading practices — dumping and subsidies.

Trade and Human Rights

The World Trade Organisation Trade Related Intellectual Property Rights (TRIPS) agreement required signatory nations to raise intellectual property rights (also known as intellectual monopoloy privileges. This arguably has had a negative impact on access to essential medicines in some nations.

Dispute settlement

Since there are no international governing judges (2004) the means of dispute resolution is determined by jurisdiction. Each individual country hears cases that are brought before them. Governments choose to be party to a dispute. And private citizens determine jurisdiction by the Forum Clause in their contract.

Besides forum, another factor in international disputes is the rate of exchange. With currency fluctuation ascending and descending over years, a lack of Commerce Clause can jeopardize trade between parties when one party becomes unjustly enriched through natural market fluctuations. By listing the rate of exchange expected over the contract life, parties can provide for changes in the market through reassessment of contract or division of exchange rate fluctuations.

Dumping (pricing policy)

In economics, "**dumping**" can refer to any kind of predatory pricing. However, the word is now generally used only in the context of international trade law, where dumping is defined as the act of a manufacturer in one country exporting a product to another country at a price which is either below the price it charges in its home market or is below its costs of production. The term has a negative connotation, but advocates of free markets see "dumping" as beneficial for consumers and believe that protectionism to prevent it would have *net* negative consequences. Advocates for workers and laborers however, believe that safeguarding businesses against predatory practices, such as dumping, help alleviate some of the harsher consequences of free trade between economies at different stages of development (see *protectionism*). The Bolkestein directive, for example, was accused in Europe of being a form of "social dumping," as it favored competition between workers, as exemplified by the Polish Plumber stereotype. While there are very few examples of a national scale dumping that succeeded in producing a national-level monopoly, there are several examples of dumping that produced a monopoly in regional markets for certain industries. Ron Chenow points to the example of regional oil monopolies in *Titan : The Life of John D. Rockefeller, Sr.* where Rockefeller receives a message from Colonel Thompson outlining an approved strategy where oil in one market, Cincinnati, would be sold at or below cost to drive competition's profits down and force them to exit the market. In another area where other independent businesses were already driven out, namely in Chicago, prices would be increased by a quarter. A standard technical definition of dumping is the act of charging a lower price for a good in a foreign market than one charges for the same good in a domestic market. This is often referred to as selling at less than "fair value." Under the World Trade Organization (WTO) Agreement, dumping is condemned (but is not prohibited) if it causes or threatens to cause material injury to a domestic industry in the importing country.

Remedies and penalties

In United States, domestic firms can file an antidumping petition under the regulations determined by the United States Department of Commerce, which determines "less than fair value" and the International Trade Commission, which determines "injury". These proceedings operate on a timetable governed by U.S. law. The Department of Commerce has regularly found that products have been sold at less than fair value in U.S. markets. If the domestic industry is able to establish that it is being injured by the dumping, then antidumping duties are imposed on goods imported from the dumpers' country at a percentage rate calculated to counteract the dumping margin.

Related to antidumping duties are "countervailing duties." The difference is that countervailing duties seek to offset injurious subsidization while antidumping duties offset injurious dumping.

Some commentators have noted that domestic protectionism, and lack of knowledge regarding foreign cost of production, lead to the unpredictable institutional process surrounding investigation. Members of the WTO can file complaints against anti-dumping measures.

Anti-dumping actions

Legal issues

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product. Opinions differ as to whether or not this is unfair competition, but many governments take action against dumping in order to defend their domestic industries. The WTO agreement does not pass judgment. Its focus is on how governments can or cannot react to dumping—it disciplines anti-dumping actions, and it is often called the "Anti-Dumping Agreement". (This focuses only on the reaction to dumping contrasts with the approach of the Subsidies & Countervailing Measures Agreement.)

The legal definitions are more precise, but broadly speaking the WTO agreement allows governments to act against dumping where there is genuine ("material") injury to the competing domestic industry. In order to do that the government has to be able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter's home market price), and show that the dumping is causing injury or threatening to do so.

Definitions and degrees of dumping

While permitted by the WTO, General Agreement on Tariffs and Trade (GATT) (Article VI) allows countries the option of taking action against dumping. The Anti-Dumping Agreement clarifies and expands Article VI, and the two operate together. They allow countries to act in a way that would normally break the GATT principles of binding a tariff and not discriminating between trading partners—typically anti-dumping action means charging extra import duty on the particular product from the particular exporting country in order to bring its price closer to the "normal value" or to remove the injury to domestic industry in the importing country.

There are many different ways of calculating whether a particular product is being dumped heavily or only lightly. The agreement narrows down the range of possible options. It provides three methods to calculate a product's "normal value". The main one is based on the price in the exporter's domestic market. When this cannot be used, two alternatives are available—the price charged by the exporter in another country, or a calculation based on the combination of the exporter's production costs, other expenses and normal profit margins. And the agreement also specifies how a fair comparison can be made between the export price and what would be a normal price.

Calculating the extent of dumping on a product is not enough. Anti-dumping measures can only be applied if the dumping is hurting the industry in the importing country. Therefore, a detailed investigation has to be conducted according to specified rules first. The investigation must evaluate all relevant economic factors that have a bearing on the state of the industry in question. If the investigation shows dumping is taking place and domestic industry is being hurt, the exporting company can undertake to raise its price to an agreed level in order to avoid anti-dumping import duty.

Procedures in investigation and litigation

Detailed procedures are set out on how anti-dumping cases are to be initiated, how the investigations are to be conducted, and the conditions for ensuring that all interested parties are given an opportunity to present evidence. Anti-dumping measures must expire five years after the date of imposition, unless a review shows that ending the measure would lead to injury.

Anti-dumping investigations are to end immediately in cases where the authorities determine that the margin of dumping is, *de minimis,* or insignificantly small (defined as less than 2% of the export price of the product). Other conditions are also set. For example, the investigations also have to end if the volume of dumped imports is negligible (i.e., if the volume from one country is less than 3% of total imports of that product—although investigations can proceed if several countries, each supplying less than 3% of the imports, together account for 7% or more of total imports). The agreement says member countries must inform the Committee on Anti-Dumping Practices about all preliminary and final anti-dumping actions, promptly and in detail. They must also report on all investigations twice a year. When differences arise, members are encouraged to consult each other. They can also use the WTO's dispute settlement procedure.

Actions in the European Union

European Union anti-dumping is under the purview of the European Council. It is governed by European Council regulation 384/96. However, implementation of anti-dumping actions (trade defence actions) is taken after voting by various committees with member state representation.

The bureaucratic entity responsible for advising member states on anti-dumping actions is the Directorate General Trade (DG Trade), based in Brussels. Community industry can apply to have an anti-dumping investigation begin. DG Trade first investigates the standing of the complainants. If they are found to represent at least 25% of community industry, the investigation will probably begin. The process is guided by quite specific guidance in the regulations. The DG Trade will make a recommendation to a committee known as the Anti-Dumping Advisory Committee, on which each member state has one vote. Member states abstaining will be treated as if they voted in favour of industrial protection, a voting system which has come under considerable criticism

As is implied by the criterion for beginning an investigation, EU anti-dumping actions are primarily considered part of a "trade defence" portfolio. Consumer interests and non-industry related interests ("community interests") are not emphasized during an investigation. An investigation typically looks for damage caused by dumping to community producers, and the level of tariff set is based on the damage done to community producers by dumping.

If consensus is not found, the decision goes to the European Council.

If imposed, duties last for five years theoretically. In practice they last at least a year longer, because expiry reviews are usually initiated at the end of the five years, and during the review process the status-quo is maintained.

Chinese economic situation

The dumping investigation essentially compares domestic prices of the accused dumping nation with prices of the imported product on the European market. However, several rules are applied to the data before the dumping margin is calculated. Most contentious is the concept of "analogue market". Some exporting nations are not granted "Market Economy Status" by the EU: China is a prime example. In such cases, the DG Trade is prevented from using domestic prices as the fair measure of the domestic price. A particular exporting industry may also lose market status if the DG Trade concludes that this industry receives government assistance. Other tests applied include the application of international accounting standards and bankruptcy laws.

The consequences of not being granted market economy status have a big impact on the investigation. For example, if China is accused of dumping widgets, the basic approach is to consider the price of widgets in China against the price of Chinese widgets in Europe. But China does not have market economy status, so Chinese domestic prices can not be used as the reference. Instead, the DG Trade must decide upon an analogue market: a market which does have market economy status, and which is similar enough to China. Brazil and Mexico have been used, but the USA is a popular analogue market. In this case, the price of widgets in the USA is regarded as the substitute for the price of widgets in China. This process of choosing an analogue market is subject to the influence of the complainant, which has led to some criticism that it is an inherent bias in the process.

However,China is one of the countries that has the cheapest labourforce. Criticizims have argued that it is quite unreasonable to compare China's goods price to the USA's as analogue. China is now developing to a more free and open market, unlike its planned-economy in the early 60s, the market in China is more willing to embrace the global competition. It is thus required to improve its market regulations and conquer the free trade barriers to improve the situation and produce a properly judged pricing level to assess the "dumping" behavior.

Agricultural support and dumping

European Union and Common Agricultural Policy

The Common Agricultural Policy of the European Union has often been accused of dumping though significant reforms were made as part of the Agreement on Agriculture at the Uruguay round of GATT negotiations in 1992 and in subsequent incremental reforms, notably the Luxembourg Agreement in 2003. Initially the CAP sought to increase European agricultural production and provide support to European farmers through a process of market intervention whereby a special fund - the European Agricultural Guidance and Guarantee Fund (EAGGF) - would buy up surplus agricultural produce if the price fell below a certain centrally determined level (the intervention level). Through this measure European farmers were given a 'guaranteed' price for their produce when sold in the European community. In addition to this internal measure a system of export reimbursements ensured that European produce sold outside of the European community would sell at or below world prices at no detriment to the European producer. This policy was heavily criticized as distorting world trade and since 1992 the policy has moved away from market intervention and towards direct payments to farmers regardless of production (a process of "decoupling"). Furthermore the payments are generally dependent on the farmer fulfilling certain environmental or animal welfare requirements so as to encourage responsible, sustainable farming in what is termed 'multifunctional' agricultural subsidies - that is, the social, environmental and other benefits from subsidies that do not include a simple increase in production.

Multinational corporation

A **multinational corporation** (**MNC**) or **transnational corporation** (**TNC**), also called **multinational enterprise** (**MNE**) is a corporation or enterprise that manages production or delivers services in more than one country. It can also be referred to as an ***international corporation***.

The first modern MNC is generally thought to be the Poor Knights of Christ and the Temple of Solomon, first endorsed by the pope in 1129. The key element of transnational corporations was present even back then: the British East India Company and Dutch East India Company were operating in different countries than the ones where they had their headquarters. Nowadays many corporations have offices, branches or manufacturing plants in different countries than where their original and main headquarter is located. This is the very definition of a transnational corporation. Having multiple operation points that all respond to one headquarter.

This often results in very powerful corporations that have budgets that exceed some national GDPs. Multinational corporations can have a powerful influence in local economies as well as the world economy and play an important role in international relations and globalization. The presence of such powerful players in the world economy is reason for much controversy.

Market imperfections

It may seem strange that a corporation can decide to do business in a different country, where it doesn't know the laws, local customs or business practices. Why is it not more efficient to combine assets of value overseas with local factors of production at lower costs by renting or selling them to local investors?

One reason is that the use of the market for coordinating the behaviour of agents located in different countries is less efficient than coordinating them by a multinational enterprise as an institution. The additional costs caused by the entrance in foreign markets are of less interest for the local enterprise. According to Hymer, Kindleberger and Caves, the existence of MNEs is reasoned by structural market imperfections for final products. In Hymer's example, there are considered two firms as monopolists in their own market and isolated from competition by transportation costs and other tariff and non-tariff barriers. If these costs decrease, both are forced to competition; which will reduce their profits. The firms can maximize their joint income by a merger or acquisition which will lower the competition in the shared market. Due to the transformation of two separated companies into one MNE the pecuniary externalities are going to be internalized. However, this doesn't mean that there is an improvement for the society. This could also be the case if there are few substitutes or limited licenses in a foreign market. The consolidation is often established by acquisition, merger or the vertical integration of the potential licensee into overseas manufacturing. This makes it easy for the MNE to enforce price discrimination schemes in various countries. Therefore Humyer considered the emergence of multinational firms as "an (negative) instrument for restraining competition between firms of different nations".Market imperfections had been considered by Hymer as structural and caused by the deviations from perfect competition in the final product markets. Further reasons are originated from the control of proprietary technology and distribution systems, scale economies, privileged access to inputs and product differentiation. In the absence of these factors, market are fully efficient.The transaction costs theories of MNEs had been developed simultaneously and independently by McManus (1972), Buckley & Casson (1976), Brown (1976) and Hennart (1977, 1982). All these authors claimed that market imperfections are inherent conditions in markets and MNEs are institutions which try to bypass these imperfections. The imperfections in markets are natural as the neoclassical assumptions like full knowledge and enforcement don't exist in real markets.

International power

Tax competition

Multinational corporations have played an important role in globalization. Countries and sometimes subnational regions must compete against one another for the establishment of MNC facilities, and the subsequent tax revenue, employment, and economic activity. To compete, countries and regional political districts sometimes offer incentives to MNCs such as tax breaks, pledges of governmental assistance or improved infrastructure, or lax environmental and labor standards enforcement. This process of becoming more attractive to foreign investment can be characterized as a race to the bottom, a push towards greater autonomy for corporate bodies, or both.

However, some scholars for instance the Columbia economist Jagdish Bhagwati, have argued that multinationals are engaged in a 'race to the top.' While multinationals certainly regard a low tax burden or low labor costs as an element of comparative advantage, there is no evidence to suggest that MNCs deliberately avail themselves of lax environmental regulation or poor labour standards. As Bhagwati has pointed out, MNC profits are tied to operational efficiency, which includes a high degree of standardization. Thus, MNCs are likely to tailor production processes in all of their operations in conformity to those jurisdictions where they operate (which will almost always include one or more of the US, Japan or EU) which has the most rigorous standards. As for labor costs, while MNCs clearly pay workers in, e.g. Vietnam, much less than they would in the US (though it is worth noting that higher American productivity—linked to technology—means that any comparison is tricky, since in America the same company would probably hire far fewer people and automate whatever process they performed in Vietnam with manual labour), it is also the case that they tend to pay a premium of between 10% and 100% on local labor rates. Finally, depending on the nature of the MNC, investment in any country reflects a desire for a long-term return. Costs associated with establishing plant, training workers, etc., can be very high; once established in a jurisdiction, therefore, many MNCs are quite vulnerable to predatory practices such as, e.g., expropriation, sudden contract renegotiation, the arbitrary withdrawal or compulsory purchase of unnecessary 'licenses,' etc. Thus, both the negotiating power of MNCs and the supposed 'race to the bottom' may be overstated, while the substantial benefits which MNCs bring (tax revenues aside) are often understated.

Market withdrawal

Because of their size, multinationals can have a significant impact on government policy, primarily through the threat of market withdrawal.For example, in an effort to reduce health care costs, some countries have tried to force pharmaceutical companies to license their patented drugs to local competitors for a very low fee, thereby artificially lowering the price. When faced with that threat, multinational pharmaceutical firms have simply withdrawn from the market, which often leads to limited availability of advanced drugs. In these cases, governments have been forced to back down from their efforts. Similar corporate and government confrontations have occurred when governments tried to force MNCs to make their intellectual property public in an effort to gain technology for local entrepreneurs. When companies are faced with the option of losing a core competitive technological advantage or withdrawing from a national market, they may choose the latter. This withdrawal often causes governments to change policy. Countries that have been the most successful in this type of confrontation with multinational corporations are large countries such as United States and Brazil , which have viable indigenous market competitors.

Lobbying

Multinational corporate lobbying is directed at a range of business concerns, from tariff structures to environmental regulations. There is no unified multinational perspective on any of these issues. Companies that have invested heavily in pollution control mechanisms may lobby for very tough environmental standards in an effort to force non-compliant competitors into a weaker position. Corporations lobby tariffs to restrict competition of foreign industries. For every tariff category that one multinational wants to have reduced, there is another multinational that wants the tariff raised. Even within the U.S. auto industry, the fraction of a company's imported components will vary, so some firms favor tighter import restrictions, while others favor looser ones. Says Ely Oliveira, Manager Director of the MCT/IR: This is very serious and is very hard and takes a lot of work for the owner.

Multinational corporations such as Wal-mart and McDonald's benefit from government zoning laws, to create barriers to entry.

Many industries such as General Electric and Boeing lobby the government to receive subsidies to preserve their monopoly.

Patents

Many multinational corporations hold patents to prevent competitors from arising. For example, Adidas holds patents on shoe designs, Siemens A.G. holds many patents on equipment and infrastructure and Microsoft benefits from software patents The pharmaceutical companies lobby international agreements to enforce patent laws on others.

Government power

In addition to efforts by multinational corporations to affect governments, there is much government action intended to affect corporate behavior. The threat of nationalization (forcing a company to sell its local assets to the government or to other local nationals) or changes in local business laws and regulations can limit a multinational's power. These issues become of increasing importance because of the emergence of MNCs in developing countries.

Micro-multinationals

Enabled by Internet based communication tools, a new breed of multinational companies is growing in numbers."How startups go global". http://money.cnn.com/2006/06/28/magazines/business2/startupsgoglobal.biz2/index.htm. These multinationals start operating in different countries from the very early stages. These companies are being called micro-multinationals. What differentiates micro-multinationals from the large MNCs is the fact that they are small businesses. Some of these micro-multinationals, particularly software development companies, have been hiring employees in multiple countries from the beginning of the Internet era. But more and more micro-multinationals are actively starting to market their products and services in various countries. Internet tools like Google, Yahoo, MSN, Ebay and Amazon make it easier for the micro-multinationals to reach potential customers in other countries.

Service sector micro-multinationals, like Indigo Design & Engineering Associates Pvt. Ltd. Facebook, Alibaba etc. started as dispersed virtual businesses with employees, clients and resources located in various countries. Their rapid growth is a direct result of being able to use the internet, cheaper telephony and lower traveling costs to create unique business opportunities

Criticism of multinationals

The rapid rise of multinational corporations has been a topic of concern among intellectuals, activists and laypersons who have seen it as a threat of such basic civil rights as privacy. They have pointed out that multinationals create false needs in consumers and have had a long history of interference in the policies of sovereign nation states. Evidence supporting this belief includes invasive advertising (such as billboards, television ads, adware, spam, telemarketing, child-targeted advertising, guerilla marketing), massive corporate campaign contributions in democratic elections, and endless global news stories about corporate corruption (Martha Stewart and Enron, for example). Anti-corporate protesters suggest that corporations answer only to shareholders, giving human rights and other issues almost no consideration.[15] Films and books critical of multinationals include *Surplus: Terrorized into Being Consumers*, *The Corporation*, *The Shock Doctrine*, *Downsize This* and others.

World Trade Organization

The **World Trade Organization** (**WTO**) is an international organization designed by its founders to supervise and liberalize international capital trade. The organization officially commenced on January 1, 1995 under the Marrakesh Agreement, replacing the General Agreements on Tariffs and Trade (GATT), which commenced in 1947. The World Trade Organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalising trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986-1994). The organization is currently endeavouring to persist with a trade negotiation called the Doha Development Agenda (or Doha Round), which was launched in 2001 to enhance equitable participation of poorer countries which represent a majority of the world's population. However, the negotiation has been dogged by "disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers on the precise terms of a 'special safeguard measure' to protect farmers from surges in imports. At this time, the future of the Doha Round is uncertain."

The WTO has 153 members,

representing more than 95% of total world trade and 30 bservers, most seeking membership. The WTO is governed by a ministerial conference, meeting every two years; a general council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the ministerial conference. The WTO's headquarters is at the Centre William Rappard, Geneva, Switzerland.

Harry Dexter White (l) and John Maynard Keynes at the Bretton Woods Conference – Both economists had been strong advocates of a liberal international trade environment, and recommended the establishment of three institutions: the IMF (fiscal and monetary issues), the World Bank (financial and structural issues), and the ITO (international economic cooperation).

The WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation - notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A comparable international institution for trade, named the International Trade Organization was successfully negotiated. The ITO was to be a United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the United States and a few other signatories and never went into effect.

In the absence of an international organization for trade, the GATT would over the years "transform itself" into a *de facto* international organization.

GATT rounds of negotiations

General Agreement on Tariffs and Trade

The GATT was the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995. Despite attempts in the mid 1950s and 1960s to create some form of institutional mechanism for international trade, the GATT continued to operate for almost half a century as a semi-institutionalized multilateral treaty regime on a provisional basis.

From Geneva to Tokyo

Seven rounds of negotiations occurred under the GATT. The first GATT trade rounds concentrated on further reducing tariffs. Then, the Kennedy Round in the mid-sixties brought about a GATT anti-dumping Agreement and a section on development. The Tokyo Round during the seventies was the first major attempt to tackle trade barriers that do not take the form of tariffs, and to improve the system, adopting a series of agreements on non-tariff barriers, which in some cases interpreted existing GATT rules, and in others broke entirely new ground. Because these plurilateral agreements were not accepted by the full GATT membership, they were often informally called "codes". Several of these codes were amended in the Uruguay Round, and turned into multilateral commitments accepted by all WTO members. Only four remained plurilateral (those on government procurement, bovine meat, civil aircraft and dairy products), but in 1997 WTO members agreed to terminate the bovine meat and dairy agreements, leaving only two.

WTO Ministerial Conference of 2001

Was held in Doha In Persian Gulf nation of Qatar. The Doha Development Round was launched at the conference. The conference also approved the joining of China, which became the 143rd member to join.

Fifth ministerial conference

WTO Ministerial Conference of 2003

The ministerial conference was held in Cancún, Mexico, aiming at forging agreement on the Doha round. An alliance of 22 southern states, the G20 developing nations (led by India, China[22] and Brazil), resisted demands from the North for agreements on the so-called "Singapore issues" and called for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.

Sixth ministerial conference

For more details on this topic, see WTO Ministerial Conference of 2005.

The sixth WTO ministerial conference was held in Hong Kong from 13 December – 18 December 2005. It was considered vital if the four-year-old Doha Development Agenda negotiations were to move forward sufficiently to conclude the round in 2006. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006. Further concessions to developing countries included an agreement to introduce duty free, tariff free access for goods from the Least Developed Countries, following the Everything But Arms initiative of the European Union — but with up to 3% of tariff lines exempted. Other major issues were left for further negotiation to be completed by the end of 2010

Seventh ministerial conference

The WTO General Council, on 26 May 2009, agreed to hold a seventh WTO ministerial conference session in Geneva from 30 November–December 2009. A statement by chairman Amb. Mario Matus acknowledged that the prime purpose was to remedy a breach of protocol requiring two-yearly "regular" meetings, which had lapsed with the Doha Round failure in 2005, and that the "scaled-down" meeting would not be a negotiating session, but "emphasis will be on transparency and open discussion rather than on small group processes and informal negotiating structures".

Functions

Among the various functions of the WTO, these are regarded by analysts as the most important:

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes. Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of developing, least-developed and low-income countries in transition to adjust to WTO rules and disciplines through technical cooperation and training. The WTO is also a center of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Principles of the trading system

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-Discrimination**. It has two major components: the most favored nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services, and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e. a WTO member has to grant the most favorable conditions under which it allows trade in a certain product type to all other WTO members. "Grant someone a special favor and you have to do the same for all other WTO members." National treatment means that imported and locally-produced goods should be treated equally (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).
2. **Reciprocity**. It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral

liberalization; reciprocal concessions intend to ensure that such gains will materialize.

3. **Binding and enforceable commitments**. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish "ceiling bindings": a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.
4. **Transparency**. The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.
5. **Safety valves**. In specific circumstances, governments are able to restrict trade. There are three types of provisions in this direction: articles allowing for the use of trade measures to attain noneconomic objectives; articles aimed at ensuring "fair competition"; and provisions permitting intervention in trade for economic reasons. Exceptions to the MFN principle also allow for preferential treatment of developing countries, regional free trade areas and customs unions. There are 11 committees under the jurisdiction of the Goods Council each with a specific task. All members of the WTO participate in the committees. The Textiles Monitoring Body is separate from the other committees but still under the jurisdiction of Goods Council. The body has its own chairman and only ten members. The body also has several groups relating to textiles.

Council for Trade-Related Aspects of Intellectual Property Rights

Information on intellectual property in the WTO, news and official records of the activities of the TRIPS Council, and details of the WTO's work with other international organizations in the field.

Council for Trade in Services

The Council for Trade in Services operates under the guidance of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). It is open to all WTO members, and can create subsidiary bodies as required. The Service Council has three subsidiary bodies: financial services, domestic regulations, GATS rules and specific commitments.

Other committees

The General council has several different committees, working groups, and working parties.

Committees on

- Trade and Environment
- Trade and Development (Subcommittee on Least-Developed Countries)
- Regional Trade Agreements
- Balance of Payments Restrictions
- Budget, Finance and Administration

Working parties on

- Accession

Working groups on

- Trade, debt and finance
- Trade and technology transfer

Trade Negotiations Committee

The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. The chair is WTO's director-general. The committee is currently tasked with the Doha Development Round.

Voting system

The WTO operates on a *one country, one vote* system, but actual votes have never been taken. Decision making is generally by consensus, and relative market size is the primary source of bargaining power. The advantage of consensus decision-making is that it encourages efforts to find the most widely acceptable decision. Main disadvantages include large time requirements and many rounds of negotiation to develop a consensus decision, and the tendency for final agreements to use ambiguous language on contentious points that makes future interpretation of treaties difficult.

In reality, WTO negotiations proceed not by consensus of all members, but by a process of informal negotiations between small groups of countries. Such negotiations are often called "Green Room" negotiations (after the colour of the WTO Director-General's Office in Geneva), or "Mini-Ministerials", when they occur in other countries. These processes have been regularly criticised by many of the WTO's developing country members which are often totally excluded from the negotiations.

Richard Harold Steinberg (2002) argues that although the WTO's consensus governance model provides law-based initial bargaining, trading rounds close through power-based bargaining favouring Europe and the United States, and may not lead to Pareto improvement.

Dispute settlement

In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994.Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy·WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

The operation of the WTO dispute settlement process involves the DSB panels, the Appellate Body, the WTO Secretariat, arbitrators, independent experts and several specialized institution·

Accession and membership

The process of becoming a WTO member is unique to each applicant country, and the terms of accession are dependent upon the country's stage of economic development and current trade regime. The process takes about five years, on average, but it can last more if the country is less than fully committed to the process or if political issues interfere· As is typical of WTO procedures, an offer of accession is only given once consensus is reached among interested parties.

Members and observers

The WTO has 153 members (almost all of the 123 nations participating in the Uruguay Round signed on at its foundation, and the rest had to get membership).The 27 states of the European Union are represented also as the European Communities. WTO members do not have to be full sovereign nation-members. Instead, they must be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong (as "Hong Kong, China" since 1997) became a GATT contracting party, and the Republic of China (ROC) (commonly known as Taiwan, whose sovereignty has been disputed by the People's Republic of China) acceded to the WTO in 2002 under the name of "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu" (Chinese Taipei). A number of non-members (30) are observers at WTO proceedings and are currently negotiating their membership. As observers, Iran, Iraq and Russia are not yet members. With the exception of the Holy See, observers must start accession negotiations within five years of becoming observers. Some international intergovernmental organizations are also granted observer status to WTO bodies. 14 states and 2 territories so far have no official interaction with the WTO.

Agreements

The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession

Some of the important agreements

- **Agreement on Agriculture (AoA)**

The Agreement on Agriculture came into effect with the establishment of the WTO at the beginning of 1995. The AoA has three central concepts, or "pillars": domestic support, market access and export subsidies.

- **General Agreement on Trade in Services (GATS)**

The General Agreement on Trade in Services was created to extend the multilateral trading system to service sector, in the same way the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade. The Agreement entered into force in January 1995

- **Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPs)**

The Agreement on Trade-Related Aspects of Intellectual Property Rights sets down minimum standards for many forms of intellectual property (IP) regulation. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.

- **Sanitary and Phyto-Sanitary (SPS) Agreement**

The Agreement on the Application of Sanitary and Phytosanitary Measures - also known as the SPS Agreement was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO at the beginning of 1995.

Under the SPS agreement, the WTO sets constraints on members' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (imported pests and diseases).

- **Agreement on Technical Barriers to Trade (TBT)**

The Agreement on Technical Barriers to Trade is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO at the end of 1994.

The object ensures that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade".

Criticism The stated aim of the WTO is to promote free trade and stimulate economic growth. Critics argue that free trade leads to a divergence instead of convergence of income levels within rich and poor countries (the rich get richer and the poor get poorer) .Martin Khor, Director of the Third World Network, argues that the WTO does not manage the global economy impartially, but in its operation has a systematic bias toward rich countries and multinational corporations, harming smaller countries which have less negotiation power. He argues that developing countries have not benefited from the WTO agreements of the Uruguay Round because, among other reasons, market access in industry has not improved; these countries have had no gains yet from the phasing-out of textile quotas; non-tariff barriers such as anti-dumping measures have increased; and domestic support and export subsidies for agricultural products in the rich countries remain high. Jagdish Bhagwati asserts, however, that there is greater tariff protection on manufacturers in the poor countries, which are also overtaking the rich nations in the number of anti-dumping filings.

Other critics claim that the issues of labor relations and environment are steadfastly ignored. Steve Charnovitz, former director of the Global Environment and Trade Study (GETS), believes that the WTO "should begin to address the link between trade and labor and environmental concerns." Further, labor unions condemn the labor rights record of developing countries, arguing that, to the extent the WTO succeeds at promoting globalization, the environment and labor rights suffer in equal measure On the other side, Khor responds that "if environment and labor were to enter the WTO system [...] it would be conceptually difficult to argue why other social and cultural issues should also not enter."Bhagwati is also critical towards "rich-country lobbies seeking on imposing their unrelated agendas on trade agreements." Therefore, both Bhagwati and Arvind Panagariya of Columbia University, have criticized the introduction of TRIPs into the WTO framework, fearing that such non-trade agendas might overwhelm the organization's function.

Other critics have characterized the decision making in the WTO as complicated, ineffective, unrepresentative and non-inclusive, and they have proposed the establishment of a small, informal steering committee (a "consultative board") that can be delegated responsibility for developing consensus on trade issues among the member countries.The Third World Network has called the WTO "the most non-transparent of international organisations", because "the vast majority of developing countries have very little real say in the WTO system"; the Network stresses that "civil society groups and institutions must be given genuine opportunities to express their views and to influence the outcome of policies and decisions."Certain non-governmental organizations, such as the World Federalist Movement, argue that democratic participation in the WTO could be enhanced through the creation of a parliamentary assembly, although other analysts have characterized this proposal as ineffective.Some libertarians and small-government conservatives, as well as think tanks such as the Ludwig von Mises Institute, oppose the World Trade Organization, seeing it as a bureaucratic and anti-capitalistic organization not promoting free trade, but political interventionism. The chairman of the Ludwig von Mises Institute, Llewellyn H Rockwell Jr, argued that

. . . the World Trade Organization says that the US must stop permitting US exporters to set up foreign subsidiaries that save as much as 30 percent in taxes they would otherwise pay. Now the US must either raise taxes by eliminating loopholes or face massive new sanctions that will seriously harm our export sector. [...] There's been a lot of talk recently about foreigners who hate our prosperity and civilization, and seek ways to inflict violence in retaliation. Well, here's another case in point, except these are not swarthy Islamic terrorists; they are diplomats and statesmen on nobody's list of suspicious characters.

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Course Name: Globalization and Economic Development

Economic globalization is the increasing economic integration and interdependence of national, regional and local economies across the world through an intensification of cross-border movement of goods, services, technologies and capital. Whereas globalization is a broad set of processes concerning multiple networks of economic, political and cultural interchange, contemporary economic globalization is propelled by the rapid growing significance of information in all types of productive activities and marketization, and by developments in science and technology.

Economic globalization primarily comprises the globalization of production and finance, markets and technology, organizational regimes and institutions, corporations and labour. While economic globalization has been expanding since the emergence of trans-national trade, it has grown at an increased rate over the last 20–30 years under the framework of General Agreement on Tariffs and Trade and World Trade Organization, which made countries gradually cut down trade barriers and open up their current accounts and capital accounts.[2] This recent boom has been largely accounted by developed economies integrating with less developed economies, by means of foreign direct investment, the reduction of trade barriers, and in many cases cross border immigration.

While globalization has radically increased incomes and economic growth in developing countries and lowered consumer prices in developed countries, it also changes the power balance between developing and developed countries and has an impact on the culture of each affected country. And the shifting location of goods production has caused many jobs to cross borders, requiring some workers in developed countries to change careers.

History

International commodity markets, labor markets and capital markets make up the economy and define economic globalization.

Beginning as early as 4000 BC, people were trading livestock, tools, and other items. In Sumer, an early civilization in Mesopotamia, a token system was one of the first forms of commodity money. Labor markets consist of workers, employers, wages, income, supply and demand. Labor markets have been around as long as commodity markets. The first labor markets provided workers to grow crops and tend livestock for later sale in local markets. Capital markets emerged in industries that required resources beyond those of an individual farmer.

By the early 1900s, it was rare to come across a town that was not influenced by foreign markets—whether it be in labor, prices, or any other part of business. With advances in ship and rail transport and electronic communications, trade with other parts of the world became much easier. Towns were no longer limited to what they alone could produce and what nearby towns over could trade with them.

These advances in economic globalization were disrupted by World War I. Most of the global economic powers constructed protectionist economic policies and introduced trade barriers that slowed trade growth to the point of stagnation. This caused a slowing of world-wide trade and even led to other countries introducing immigration caps. Globalization didn't fully resume until the 1970s, when governments began to emphasize the benefits of trade. Today, follow-on advances in technology have led to the rapid expansion of global trade.

Three suggested factors accelerated economic globalization: advancement of science and technology, market oriented economic reforms and contributions by multinational corporations.

A reduction of transportation and communication costs were a key part of the growth of globalization. Since the 1930s, ocean shipping costs fell by half, airfreight by 85%, and telecommunications by 99%.

The GATT/WTO framework led participating countries to reduce their tariff and non-tariff barriers to trade. Governments shifted their economies from central planning to markets. These internal reforms allowed enterprises to adapt more quickly and exploit opportunities created by technology shifts.

Multinational corporations reorganized production to take advantage of these opportunities. Labor-intensive production migrated to areas with lower labor costs, later followed by other functions as skill levels increased.

The 1956 invention of containerized shipping, increases in ship sizes were a major part of the reduction in shipping costs.

On October 27, 1986, the London Stock Exchange enacted newly degregulated rules that enabled global interconnection of markets, with an expectation of huge increases in market activity. This event came to be known as the Big Bang.

Irreversibility

According to prominent Chinese economist Gao Shanguan, economic globalization is an irreversible trend due to the fact that world markets are in great need of science and information technologies. With the growing demands of science and technology, Shanquan states that with world markets take on an "increasing cross-border division of labor".

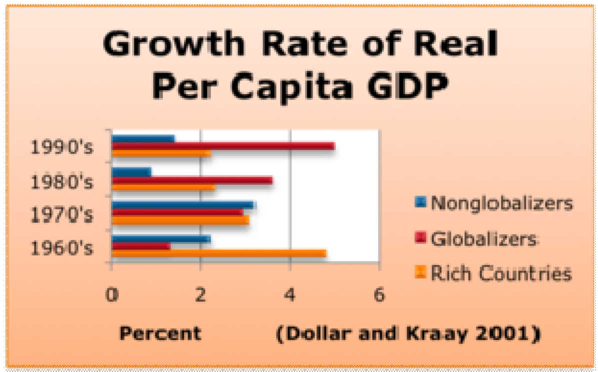
However, Princeton University professor Robert Gilpin argues that nations' economic policies have mistakenly slowed their own growth by resisting globalization, showing that globalization is not irreversible.[15] Antonio L. Rappa agrees that economic globalization is reversible and cites International Studies professor Peter J. Katzenstein.

Effects

Economic growth and poverty reduction

Economic growth accelerated and poverty declined globally following the acceleration of globalization.

Per capita GDP growth in the post-1980 globalizers accelerated from 1.4 percent a year in the 1960s and 2.9 percent a year in the 1970s to 3.5 percent in the 1980s and 5.0 percent in the 1990s. This acceleration in growth is even more remarkable given that the rich countries saw steady declines in growth from a high of 4.7 percent in the 1960s to 2.2 percent in the 1990s. Also, the non-globalizing developing countries did much worse than the globalizers, with the former's annual growth rates falling from highs of 3.3 percent during the 1970s to only 1.4 percent during the 1990s. This rapid growth among the globalizers is not simply due to the strong performances of China and India in the 1980s and 1990s—18 out of the 24 globalizers experienced increases in growth, many of them quite substantial."



Growth Rate of Real GDP per capita

According to the International Monetary Fund, growth benefits of economic globalization are widely shared. While several globalizers have seen an increase in inequality, most notably China, this increase in inequality is a result of domestic liberalization, restrictions on internal migration, and agricultural policies, rather than a result of international trade.

Poverty has been reduced as evidenced by a 5.4 percent annual growth in income for the poorest fifth of the population of Malaysia. Even in China, where inequality continues to be a problem, the poorest fifth of the population saw a 3.8 percent annual growth in income. In several countries, those living below the dollar-per-day poverty threshold declined. In China, the rate declined from 20 to 15 percent and in Bangladesh the rate dropped from 43 to 36 percent.

Globalizers are narrowing the per capita income gap between the rich and the globalizing nations. China, India, and Bangladesh, once among the poorest countries in the world, have greatly narrowed inequality due to their economic expansion.

Multinational corporations

The spread of multinational corporations has accompanied the rise of globalization. One of the many changes they have brought to developing countries is increased automation, which may damage less-automated local firms and require their workers to develop new skills in order to transition into the changing economy, leaving some behind. The necessary education infrastructure is often not present, requiring a redirection of the government's focus from social services to education.

ECLAC states that in order to create better economic relations globally, international lending agencies must work with developing countries to change how and where credit is concentrated as well as work towards accelerating financial development in developing countries. ECLAC further suggests that the United Nations expand its agenda to work more rigorously with international lending agencies and that they become more inclusive of all nations. Key factors in achieving universal competition is the spread of knowledge at the State level through education, training and technological advancements. Economist Jagdish Bhagwati suggested that programs to help developing countries adjust to the global economy would be beneficial for international economic relations.

Several movements, such as the fair trade movement and the anti-sweatshop movement, claim to promote a more socially just global economy. The fair trade movement works towards improving trade, development and production for disadvantaged producers. The fair trade movement has reached 1.6 billion US dollars in annual sales. The movement works to raise consumer awareness of exploitation of developing countries. Fair trade works under the motto of "trade, not aid", to improve the quality of life for farmers and merchants by participating in direct sales, providing better prices and supporting the community.

Capital flight

Capital flight occurs when assets or money rapidly flow out of a country because of that country's recent increase in unfavorable financial conditions such as taxes, tariffs, labor costs, government debt or capital controls. This is usually accompanied by a sharp drop in the exchange rate of the affected country or a forced devaluation for countries living under fixed exchange rates. Currency declines improve the terms of trade, but reduce the monetary value of financial and other assets in the country. This leads to decreases in the purchasing power of the country's assets.

A 2008 paper published by Global Financial Integrity estimated capital flight, also called illicit financial flows to be leaving developing countries at the rate of "$850 billion to $1 trillion a year."[24] But capital flight also affects developed countries. A 2009 article in *The Times* reported that hundreds of wealthy financiers and entrepreneurs had recently fled the United Kingdom in response to recent tax increases, relocating to low tax destinations such as Jersey, Guernsey, the Isle of Man and the British Virgin Islands.[25] In May 2012 the scale of Greek capital flight in the wake of the first "undecided" legislative election was estimated at €4 billion a week.[26]

Capital flight can cause liquidity crises in directly affected countries and can cause related difficulties in other countries involved in international commerce such as shipping and finance. Asset holders may be forced into distress sales. Borrowers typically face higher loan costs and collateral requirements, compared to periods of ample liquidity, and unsecured debt is nearly impossible to obtain. Typically, during a liquidity crisis, the interbank lending market stalls.

Inequality

While within-country income inequality has increased throughout the globalization period, globally inequality has lessened as developing countries have experienced much more rapid growth. Economic inequality varies between societies, historical periods, economic structures or economic systems, ongoing or past wars, between genders, and between differences in individuals' abilities to create wealth. Among the various numerical indices for measuring economic inequality, the Gini coefficient is most often-cited.

Of the factors influencing the duration of economic growth in both developed and developing countries, income equality has a more beneficial impact than trade openness, sound political institutions, and foreign investment.

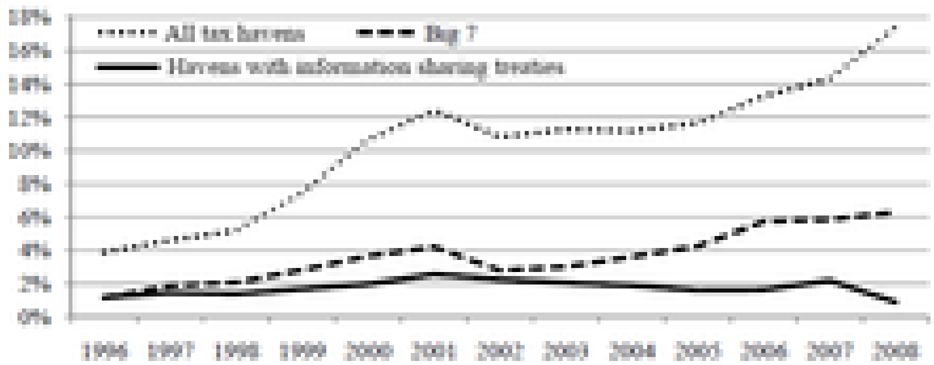
Economic inequality affects equity, equality of outcome and subsequent equality of opportunity. Although earlier studies considered economic inequality as necessary and beneficial,[30] some economists see it as an important social problem. Early studies suggesting that greater equality inhibits economic growth did not account for lags between inequality changes and growth changes.[32] Later studies claimed that one of the most robust determinants of sustained economic growth is the level of income inequality.

International inequality is inequality between countries. Income differences between rich and poor countries are very large, although they are changing rapidly. Per capita incomes in China and India doubled in the prior twenty years, a feat that required

150 years in the US. According to the United Nations Human Development Report for 2013, for countries at varying levels of the UN Human Development Index the GNP per capita grew between 2004 and 2013 from 24,806 to 33,391 or 35% (very high human development), 4,269 to 5,428 or 27% (medium) and 1,184 to 1,633 or 38% (low) PPP$, respectively (PPP$ = purchasing power parity measured in United States dollars).

Certain demographic changes in the developing world after active economic liberalization and international integration resulted in rising welfare and hence, reduced inequality. According to Martin Wolf, in the developing world as a whole, life expectancy rose by four months each year after 1970 and infant mortality rate declined from 107 per thousand in 1970 to 58 in 2000 due to improvements in standards of living and health conditions. Also, adult literacy in developing countries rose from 53% in 1970 to 74% in 1998 and much lower illiteracy rate among the young guarantees that rates will continue to fall as time passes. Furthermore, the reduction in fertility rates in the developing world as a whole from 4.1 births per woman in 1980 to 2.8 in 2000 indicates improved education level of women on fertility, and control of fewer children with more parental attention and investment.[35] Consequentially, more prosperous and educated parents with fewer children have chosen to withdraw their children from the labor force to give them opportunities to be educated at school improving the issue of child labor. Thus, despite seemingly unequal distribution of income within these developing countries, their economic growth and development have brought about improved standards of living and welfare for the population as a whole.

Tax havens



Ratio of German Financial Assets in Tax Havens to GDP

The ratio of German assets in tax havens in relation to the total German GDP. The "Big 7" shown are Hong Kong, Ireland, Lebanon, Liberia, Panama, Singapore, and Switzerland.

A tax haven is a state, country or territory where certain taxes are levied at a low rate or not at all, which are used by businesses for tax avoidance and tax evasion. Individuals and/or corporate entities can find it attractive to move themselves to areas with reduced taxation. This creates a situation of tax competition among governments. Taxes vary substantially across jurisdictions. Sovereign states have theoretically unlimited powers to enact tax laws affecting their territories, unless limited by previous international treaties. The central feature of a tax haven is that its laws and other measures can be used to evade or avoid the tax laws or regulations of other jurisdictions. In its December 2008 report on the use of tax havens by American corporations, the U.S. Government Accountability Office was unable to provide a satisfactory definition of a tax haven, but regarded the following characteristics as indicative of it: nil or nominal taxes; lack of effective exchange of tax information with foreign tax authorities; lack of transparency in the operation of legislative, legal or administrative provisions; no requirement for a substantive local presence; and self-promotion as an offshore financial center.

A 2012 report from the Tax Justice Network estimated that between USD $21 trillion and $32 trillion is sheltered from taxes in tax havens worldwide. If such hidden offshore assets are considered, many countries with governments nominally in debt would be net creditor nations. However, the tax policy director of the Chartered Institute of Taxation expressed skepticism over the accuracy of the figures.[43] Daniel J. Mitchell of the US-based Cato Institute says that the report also assumes, when considering notional lost tax revenue, that 100% of the money deposited offshore is evading payment of tax.

The tax shelter benefits result in a tax incidence disadvantaging the poor. Many tax havens are thought to have connections to "fraud, money laundering and terrorism." Ongoing investigations of illegal tax haven abuse have produced few convictions.[47][48] Accountants' opinions on the propriety of tax havens have been evolving, as have the opinions of their corporate users, governments, and politicians, although their use by Fortune 500 companies and others remains widespread. Reform proposals centering on the Big Four accountancy firms have been advanced. Some governments appear to be using computer spyware to scrutinize corporations' finances.

Red: U.S. corporate profits after tax. Blue: U.S. nonresidential business investment, both as fractions of GDP, 1989-2012. Wealth concentration of corporate profits in global tax havens due to tax avoidance spurred by imposition of austerity measures can stall investment, inhibiting further growth.[59]

Voices of developing countries

The Economic Commission for Latin America and the Caribbean (ECLAC) has proposed an agenda to support conditions for developing countries to improve their standing in the global economy.[60] However, the advantaged countries continue to control the economic agenda. Lechner and Boli state that the World Bank and the International Monetary Fund must give voice to developing countries.

Cultural effects

Economic globalization may impact culture. Populations may mimic the international flow of capital and labor markets in the form of immigration and the merger of cultures. Foreign resources and economic measures may impact different native cultures and may cause assimilation of a native people. As these populations are exposed to the English language, computers, western music, and North American culture, changes are being noted in shrinking family size, immigration to larger cities, more casual dating practices, and gender roles are transformed.

Yu Xintian noted two contrary trends in culture due to economic globalization. Yu argued that culture and industry not only flow from the developed world to the rest, but trigger an effort to protect local cultures. He notes that economic globalization began after World War II, whereas internationalization began over a century ago.

George Ritzer wrote about the McDonaldization of society and how fast food businesses spread throughout the United States and the rest of the world, attracting other places to adopt fast food culture.[65] Ritzer describes other businesses such as The Body Shop, a British cosmetics company, that have copied McDonald's business model for expansion and influence. In 2006, 233 of 280 or over 80% of new McDonalds opened outside the US. In 2007, Japan had 2,828 McDonalds locations.

Global media companies export information around the world. This creates a mostly one-way flow of information, and exposure to mostly western products and values. Companies like CNN, Reuters and the BBC dominate the global airwaves with western points of view. Other media news companies such as Qatar's Al Jazeera network offer a different point of view, but reach and influence fewer people.

Migration

“With an estimated 210 million people living outside their country of origin (International Labour Organization [ILO] 2010), international migration has touched the lives of almost everyone in both the sending and receiving countries of the Global South and the Global North” Because of advances made in technology, human beings as well as goods are able to move through different countries and regions with relative ease.

“The geography of contemporary globalization is related closely to the history of colonialism and imperialism even if this is not usually made explicit in globalization theory” Colonialism created links between various societies across the world that encouraged some people to leave their original countries to work in another country. “Globalization theories have, by and large, neglected race and ethnicity in their accounts of the making of the new global order”. “International migrants facilitate globalization processes by linking together disparate peoples and places into an increasingly single, shared global political-economic context Those who are not separated from their families still have a desire to migrate because “knowledge of living standards and social conditions across countries has become increasingly more available, especially through travel; both the real and symbolic reduction of time and distance have created powerful incentives for people to move”. This impacts women the most because “from a gender perspective, we have witnessed the feminization of most migration flows, especially since the 1990s, with profound transformations in the structure of families and gender roles in the international division of labor”. Another reason for individuals to migrate is to make more money. Incomes in developed countries are far higher than in developing countries.

Economic union

An **economic union** is a type of trade bloc which is composed of a common market with a customs union. The participant countries have both common policies on product regulation, freedom of movement of goods, services and the factors of production (capital and labour) and a common external trade policy. When an **economic union** involves unifying currency it becomes a economic and monetary union.

Purposes for establishing an economic union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.

Economic union is established through trade pact.

List of economic unions

Stages of economic integration around the World (each country colored according to the most integrated form that it participates with):

Economic and Monetary Union (CSME/EC$, EU/€)

Economic union (CSME, EU, EEU/EAEU)

Customs and Monetary Union (CEMAC/franc, UEMOA/franc)

Common market (EEA, EFTA, CES)

Customs union (CAN, CUBKR, EAC, EUCU, MERCOSUR, SACU)

Multilateral Free Trade Area (AFTA, CEFTA, CISFTA, COMESA, GAFTA, GCC, NAFTA, SAFTA, SICA)

Additionally the autonomous and dependent territories, such as some of the EU member state special territories, are sometimes treated as separate customs territory from their mainland state or have varying arrangements of formal or de facto customs union, common market and currency union (or combinations thereof) with the mainland and in regards to third countries through the trade pacts signed by the mainland state.

Foreign direct investment

A **foreign direct investment** (*FDI*) is a controlling ownership in a business enterprise in one country by an entity based in another country.

Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the *Financial Times*, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control."

The origin of the investment does not impact the definition as an FDI, i.e., the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country.

Definitions

Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable. As a part of the national accounts of a country, and in regard to the GDP equation Y=C+I+G+(X-M)[Consumption + gross Investment + Government spending +(exports - imports)], where I is domestic investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.[2] FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. *Stock* of FDI is the *net* (i.e., inward FDI minus outward FDI) cumulative FDI for any given period. Direct investment excludes investment through purchase of shares.[3] FDI is one example of international factor movements A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country.Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control".[1] According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control." yes that is fact.

Theoretical background

According to Grazia Ietto-Gillies (2012), prior to Stephen Hymer's theory regarding direct investment in the 1960s, the reasons behind Foreign Direct Investment and Multinational Corporations were explained by neoclassical economics based on macro economic principles. These theories were based on the classical theory of trade in which the motive behind trade was a result of the difference in the costs of production of goods between two countries, focusing on the low cost of production as a motive for a firm's foreign activity. For example, Joe S. Bain only explained the internationalization challenge through three main principles, which are: Absolut cost advantages, product differentiation advantages and economies on scale. Further more, the neo classical theories where created under the assumption of the existence of a perfect competition. Intrigued by the motivations behind large foreign investments made by corporation from the United States of America, Hymer developed a framework that explained beyond the existing theories, why this phenomenon occurred, since he considered that the previously mentioned theories could not explain foreign investment and it motivations.

Facing the challenges of his predecessors, Hymer focused his theory on filling the gaps regarding international investment. The theory proposed by the author approaches international investment from a different and more firm specific point of view. As opposed to traditional macroeconomic-based theories of investment, Hymer states that there is a difference between mere capital investment, else known as portfolio investment, and direct investment. The difference between these two, which will become the corner stone of his whole theoretical framework, is the issue of control, meaning that with direct investment firms are able to obtain a greater level of control than with portfolio investment. Further more, Hymer proceeds to criticize the neoclassical theories, stating that the theory of capital movements cannot explain international production. yes that is fact Moreover, he clarifies that FDI is not necessarily a movement of funds from a home country to a host country, nor and that it is concentrated on particular industries within many countries and not vice versa (as would be the case if interest rates were the main motive for international investment). Another interesting observation made by Hymer in his theory, was that opposite of what was sustained by the neoclassical theories, foreign direct investment is not limited to investment of excess profits abroad. In fact, foreign direct investment can be financed through loans obtained in the host country, payments in exchange for equity (patents, technology, machinery etc.), among others. The previous criticisms lead Hymer to propose the three main determinants of foreign direct investment, taking into account imperfections in the market as a key assumption: Existence of firm specific advantages, their link to market imperfections, Removal of conflicts with rivals in foreign markets and propensity to formulate an internationalization strategy to mitigate risk.

1. Firm-specific advantages: Once domestic investment was exhausted, a firm could exploit its advantages linked to the market imperfections, which could appropriate the firm with: market power and competitive advantage. Further studies try to explain how firms could sell these advantages in the form of licenses.

2. Removal of conflicts: conflict arises if a firm is already operating in foreign market or looking to expand its operations within the same market. He proposes that the solution for this hurdle arose in the form of collusion, sharing the market with rival or to try and obtain direct control of production. However, it must be taken into account that a reduction in conflict through acquisition of control of operations will increase the market imperfections

3. Propensity to formulate an internationalization strategy to mitigate risk: According to his position, firms are characterized with 3 levels of decision making: the day to day supervision, management decision coordination and long run strategy planning and decision making. The extent to which a company can mitigate risk depends on how well a firm can formulate an internationalization strategy taking these levels of decision into account.

Hymer's importance in the field of International Business and Foreign Direct Investment can be summarized in the following reasons: first, he was the first to theorize the existence of Multinational Enterprises (MNE) and the reasons behind Foreign Direct Investment (FDI). He came up with an actual theory taking into account firm specific characteristics and not only macroeconomic principles as it was done before.

The second reason is that all following scholar theories about International Business after Hymer's death were actually very influenced by his work. Indeed, he influenced several generations that add their part to the Hymer's theory by discussing it, criticizing it or complementing it! In this way, his work set up the grounds of International Business theories. For example, the OLI theory (Ownership, Location and Internationalization) by John Dunning and Christos Pitelis takes over on Stephen Hymer framework but by focusing more on transaction costs. Moreover, "the efficiency-value creation component of FDI and MNE activity was further strengthened by two other major scholarly developments in the 1990s: the resource-based (RBV) and evolutionary theories" (Dunning & Pitelis, 2008) The third reason is that some of his predictions about concepts he explained in his thesis were visionary for the era and actually realized later on. We can take the example of his explanation about the power of supranational bodies such as IMF of the World Bank that enhance an unequal spreading of wealth and raise inequalities in a more general view. (Dunning & Piletis, 2008)

Types

1. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
2. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Methods

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

Forms of FDI incentives

Foreign direct investment incentives may take the following forms:[*citation needed*]

- low corporate tax and individual income tax rates
- tax holidays
- other types of tax concessions
- preferential tariffs
- special economic zones
- EPZ – Export Processing Zones
- Bonded warehouses
- Maquiladoras
- investment financial subsidies[8]
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects)

Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing.

- by excluding the internal investment to get a profited downstream.

Importance and barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita. The data available to confirm this are freely available.

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. The local population may be able to benefit from the employment opportunities created by new businesses. In many instances, the investing company is simply transferring its older production capacity and machines, which might still be appealing to the host country because of technological lags or under-development, in order to avoid competition against its own products by the host country/company.

Developing world

A 2010 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

China

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of FDI. In 2013 the FDI flow into China was $64.1 billion, resulting in a 34.7% market share of FDI into the Asia-Pacific region. By contrast, FDI out of China in 2013 was $18.97 billion, 10.7% of the Asia-Pacific share.

During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

India

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

Nine from 10 largest foreign companies investing in India(from April 2000- January 2011) are based in Mauritius . List of the ten largest foreign companies investing in India(from April 2000- January 2011) are as follows --

1. TMI Mauritius Ltd. ->Rs 7294 crore/$1600 million
2. Cairn UK Holding -> Rs6663 crores/$1492 million
3. Oracle Global (Mauritius) Ltd. -> Rs 4805 crore/$1083 million
4. Mauritius Debt Management Ltd.-> Rs 3800 crore/$956 million
5. Vodafone Mauritius Ltd. – Rs 3268 crore/$801 million
6. Etisalat Mauritius Ltd. – Rs 3228 crore
7. CMP Asia Ltd. – Rs 2638.25 crore/$653.74 million
8. Oracle Global Mauritius Ltd. – Rs 2578.88 crore / $563.94 million
9. Merrill Lynch(Mauritius) Ltd. – Rs 2230.02 crore / $483.55 million
10. Name of the company not given (but the Indian company which got the FDI is Dhabol Power company Ltd.)

United States

Broadly speaking, the United States has a fundamentally "open economy" and low barriers to FDI.

U.S. FDI totaled $19 Billion in 2010. 84% of FDI in the United States in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada. A major source of investment is the real estate, the foreign investment in this area totaled $92.2 billion in 2013, under various forms of purchase structures (considering the U.S. taxation and residency laws).

A 2008 study by the Federal Reserve Bank of San Francisco indicated that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capita. Countries with fewer capital controls and greater trade with the United States also invest more in U.S. equity and bond markets.

In 2011, Rick Kimball, Gordon M. Goldstein, Daniel Zwirn, et al. created a study in behalf of Brookings Institution on the role and importance of foreign capital funds in the United States. The study reviews practices of Global Public Investors and recommends promoting of investment in U.S. infrastructure development.

White House data reported in 2011 found that a total of 5.7 million workers were employed at facilities highly dependent on foreign direct investors. Thus, about 13% of the American manufacturing workforce depended on such investments. The average pay of said jobs was found as around $70,000 per worker, over 30% higher than the average pay across the entire U.S. workforce.

President Barack Obama said in 2012, "In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring prosperity to our people."
In September 2013, the United States House of Representatives voted to pass the Global Investment in American Jobs Act of 2013 (H.R. 2052; 113th Congress), a bill which would direct the United States Department of Commerce to "conduct a review of the global competitiveness of the United States in attracting foreign direct investment". Supporters of the bill argued that increased foreign direct investment would help job creation in the United States.

Canada

Foreign direct investment by country and by industry are tracked by Statistics Canada. Foreign direct investment accounted for CAD$634 billion in 2012, eclipsing the United States in this economic measure. Global FDI inflows and outflows are tabulated by Statistics Canada.

United Kingdom

The UK has a very free market economy and is open to foreign investment. Prime Minister David Cameron has sought investment from emerging markets and from the Far East in particular and some of Britain's largest infrastructure including energy and skyscrapers such as The Shard have been built with foreign investment.

Russian Federation

- History of Foreign Investment Law

In 1991, for the first time, Russia regulated the form, range and favorable policy of FDI in Russia.
In 1994, a consulting council of FDI was established in Russia, which was responsible for setting tax rate and policies for exchange rate, improving investment environment, mediating relationship between central and local government, researching and improving images of FDI work, and increasing the right and responsibility of Ministry of Economic in appealing FDI and enforcing all kinds of policies.
In 1997, Russia starts to enact policies for appealing FDI on particular industries, for example, fossil fuel, gas, woods, transportation, food reprocessing, etc.
In 1999, Russia announced a law named FDI of Russian Federation, which aimed at providing a basic guarantee for foreign investors on investing, running business, earnings.
In 2008, Russia banned on FDI on strategic industries, such as military defense and country safety.
In 2014, president Putin announced that once abroad Russian investment inflows legally, it would not be checked by tax or law sector. This is a favorable policy of Putin to appeal Russian investment to come back.

- Structure of foreign investment in Russia

1. Direct investment: Investing directly with cash. Basically, investment more than 10% of the item is called Direct investment.

2. Portfolio investment: Investing indirectly with company loans, financial loans, stocks, etc. Basically, investment less than 10% of the item is called Portfolio investment.
3. Other investment: Except for direct and portfolio investment, including international assistance and loans for original country.

Free trade is a policy in international markets in which governments do not restrict imports or exports. Free trade is exemplified by the European Union / European Economic Area and the North American Free Trade Agreement, which have established open markets. Most nations are today members of the World Trade Organization (WTO) multilateral trade agreements. However, most governments still impose some protectionist policies that are intended to support local employment, such as applying tariffs to imports or subsidies to exports. Governments may also restrict free trade to limit exports of natural resources. Other barriers that may hinder trade include import quotas, taxes, and non-tariff barriers, such as regulatory legislation.

Features of free trade

Free trade policies generally promote the following features:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g., quotas on imports or subsidies for producers)
- Trade in services without taxes or other trade barriers
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others
- Unregulated access to markets
- Unregulated access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power
- Trade agreements which encourage free trade.

Economics of free trade

Economic models

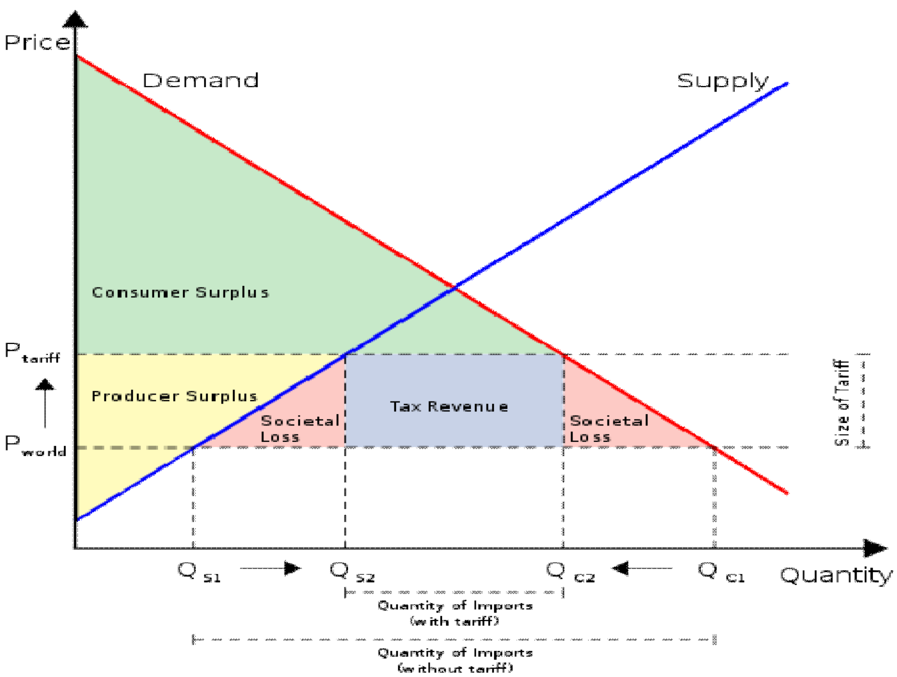
For more details on this topic, see Supply and demand.

Two simple ways to understand the proposed benefits of free trade are through David Ricardo's theory of comparative advantage and by analyzing the impact of a tariff or import quota. An economic analysis using the law of supply and demand and the economic effects of a tax can be used to show the theoretical benefits and disadvantages of free trade.

Currently, the World Bank believes that, at most, rates of 20% can be allowed by developing nations; but Ha-Joon Chang believes higher levels may be justified because the productivity gap between developing and developed nations is much higher than the productivity gap which industrial countries faced. (A general feature is that the underdeveloped nations of today are *not* in the same position that the developed nations were in when they had a similar level of technology, because they are weak players in a competitive system; the developed nations have always been strong players, although formerly at an overall lower level.

Counterarguments to this point of view are that the developing countries are able to adopt technologies from abroad, whereas developed nations had to create new technologies themselves, and that developing countries have far richer markets to which to export than was the case in the 19th century. If the main defense tariffs is to stimulate infant industries, a tariff must be high enough to allow domestic manufactured goods to compete for the tariff to be successful. This theory, known as import substitution industrialization, is largely considered ineffective for currently developing nations.

Disadvantages of tariffs



The pink regions are the net loss to society caused by the existence of the tariff.

The chart at the right analyzes the effect of the imposition of an import tariff on some imaginary good. Prior to the tariff, the price of the good in the world market (and hence in the domestic market) is P_{world}. The tariff increases the domestic price to P_{tariff}. The higher price causes domestic production to increase from Q_{S1} to Q_{S2} and causes domestic consumption to decline from Q_{C1} to Q_{C2}.

This has three main effects on societal welfare. Consumers are made worse off because the consumer surplus (green region) becomes smaller. Producers are better off because the producer surplus (yellow region) is made larger. The government also has additional tax revenue (blue region). However, the loss to consumers is greater than the gains by producers and the government. The magnitude of this societal loss is shown by the two pink triangles. Removing the tariff and having free trade would be a net gain for society.

An almost identical analysis of this tariff from the perspective of a net producing country yields parallel results. From that country's perspective, the tariff leaves producers worse off and consumers better off, but the net loss to producers is larger than the benefit to consumers (there is no tax revenue in this case because the country being analyzed is not collecting the tariff. Under similar analysis, export tariffs, import quotas, and export quotas all yield nearly identical results.

Sometimes consumers are better off and producers worse off, and sometimes consumers are worse off and producers are better off, but the imposition of trade restrictions causes a net loss to society because the losses from trade restrictions are larger than the gains from trade restrictions. Free trade creates winners and losers, but theory and empirical evidence show that the size of the winnings from free trade are larger than the losses.

Trade diversion

According to mainstream economic theory, the selective application of free trade agreements to some countries and tariffs on others can lead to economic inefficiency through the process of trade diversion. It is economically efficient for a good to be produced by the country which is the lowest cost producer, but this does not always take place if a high cost producer has a free trade agreement while the low cost producer faces a high tariff. Applying free trade to the high cost producer (and not the low cost producer as well) can lead to trade diversion and a net economic loss. This is why many economists place such high importance on negotiations for global tariff reductions, such as the Doha Round.

Opinion of economists

The literature analysing the economics of free trade is extremely rich with extensive work having been done on the theoretical and empirical effects. Though it creates winners and losers, the broad consensus among economists is that free trade is a large and unambiguous net gain for society. In a 2006 survey of American economists (83 responders), "87.5% agree that the U.S. should eliminate remaining tariffs and other barriers to trade" and "90.1% disagree with the suggestion that the U.S. should restrict employers from outsourcing work to foreign countries."

Quoting Harvard economics professor N. Gregory Mankiw, "Few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards." Nonetheless, quoting Professor Peter Soderbaum of Malardalen University, Sweden, "This neoclassical trade theory focuses on one dimension, i.e., the price at which a commodity can be delivered and is extremely narrow in cutting off a large number of other considerations about impacts on employment in different parts of the world, about environmental impacts and on culture."

Most economists would agree that although increasing returns to scale might mean that certain industry could settle in a geographical area without any strong economic reason derived from comparative advantage, this is not a reason to argue against free trade because the absolute level of output enjoyed by both "winner" and "loser" will increase with the "winner" gaining more than the "loser" but both gaining more than before in an absolute level.

In the classic text *An Inquiry into the Nature and Causes of the Wealth of Nations* (*Wealth of Nations*), namely, in the passage "Of Restraints upon the Importation from Foreign Countries of such Goods as can be Produced at Home" economist Adam Smith describes reasons for allowing free trade.

The notion of a free trade system encompassing multiple sovereign states first originated in a rudimentary form in 16th century Imperial Spain. American jurist Arthur Nussbaum noted that Spanish theologian Francisco de Vitoria was "the first to set forth the notions (though not the terms) of freedom of commerce and freedom of the seas." Vitoria made the case under principles of *jus gentium*.[12] However, it was two early British economists Adam Smith and David Ricardo who later developed the idea of free trade into its modern and recognizable form.

Economists who advocated free trade believed trade was the reason why certain civilizations prospered economically. Adam Smith, for example, pointed to increased trading as being the reason for the flourishing of not just Mediterranean cultures such as Egypt, Greece, and Rome, but also of Bengal (East India) and China. The great prosperity of the Netherlands after throwing off Spanish Imperial rule and pursuing a policy of free trade made the free trade/mercantilist dispute the most important question in economics for centuries. Free trade policies have battled with mercantilist, protectionist, isolationist, communist, populist, and other policies over the centuries.

Trade in colonial America was regulated by the British mercantile system through the Act of Trade and Navigation. Until the 1760s, few colonists openly advocated for free trade, in part because regulations were not strictly enforced—New England was famous for smuggling—but also because colonial merchants did not want to compete with foreign goods and shipping. According to historian Oliver Dickerson, a desire for free trade was not one of the causes of the American Revolution. "The idea that the basic mercantile practices of the eighteenth century were wrong," wrote Dickerson, "was not a part of the thinking of the Revolutionary leaders".[14]

Free trade came to what would become the United States as a result of American Revolutionary War, when the British Parliament issued the Prohibitory Act, blockading colonial ports. The Continental Congress responded by effectively declaring economic independence, opening American ports to foreign trade on April 6, 1776. According to historian John W. Tyler, "Free trade had been forced on the Americans, like it or not."

The 1st U.S. Secretary of the Treasury, Alexander Hamilton, advocated tariffs to help protect infant industries in his "Report on Manufactures." For the most part, the "Jeffersonians" strongly opposed it. In the 19th century, statesmen such as Senator Henry Clay continued Hamilton's themes within the Whig Party under the name "American System." The opposition Democratic Party contested several elections throughout the 1830s, 1840s, and 1850s in part over the issue of the tariff and protection of industry.

In Britain, free trade became a central principle practiced by the 1840s. The first free trade agreement, the Cobden-Chevalier Treaty, was put in place in 1860 between the United Kingdom and France, which led to successive agreements between other countries in Europe.

In the U.S., the Democratic Party favored moderate tariffs used for government revenue only, while the Whigs favored higher protective tariffs to protect favored industries. The economist Henry Charles Carey became a leading proponent of the "American System" of economics.

This mercantilist "American System" was opposed by the Democratic Party of Andrew Jackson, Martin Van Buren, James K. Polk, Franklin Pierce, and James Buchanan.

The fledgling Republican Party led by Abraham Lincoln, who called himself a "Henry Clay tariff Whig", strongly opposed free trade and implemented a 44-percent tariff during the Civil War—in part to pay for railroad subsidies and for the war effort, and to protect favored industries.[17] William McKinley (later to become President of the United States) stated the stance of the Republican Party (which won every election for President from 1868 until 1912, except the two non-consecutive terms of Grover Cleveland) as thus:

Under free trade the trader is the master and the producer the slave. Protection is but the law of nature, the law of self-preservation, of self-development, of securing the highest and best destiny of the race of man. [It is said] that protection is immoral.... Why, if protection builds up and elevates 63,000,000 [the U.S. population] of people, the influence of those 63,000,000 of people elevates the rest of the world. We cannot take a step in the pathway of progress without benefitting mankind everywhere. Well, they say, 'Buy where you can buy the cheapest'.... Of course, that applies to labor as to everything else. Let me give you a maxim that is a thousand times better than that, and it is the protection maxim: 'Buy where you can pay the easiest.' And that spot of earth is where labor wins its highest rewards.

Many classical liberals, especially in 19th and early 20th century Britain (e.g., John Stuart Mill) and in the United States for much of the 20th century (e.g., Cordell Hull), believed that free trade promoted peace. Woodrow Wilson included free-trade rhetoric in his "Fourteen Points" speech of 1918:

The program of the world's peace, therefore, is our program; and that program, the only possible program, all we see it, is this: [...]

3. The removal, so far as possible, of all economic barriers and the establishment of equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.

During the interwar period, economic protectionism took hold in the United States, particularly as a result of the Smoot-Hawley Tariff Act which prolonged and spread the Great Depression.[20]:33 From 1934, trade liberalization began to take place through the Reciprocal Trade Agreements Act.

Post-war

Since the end of World War II, in part due to industrial size and the onset of the Cold War, the United States has often been a proponent of reduced tariff-barriers and free trade. The U.S. helped establish the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO); although it had rejected an earlier version in the 1950s (International Trade Organization or ITO). Since the 1970s, U.S. governments have negotiated managed-trade agreements, such as the North American Free Trade Agreement (NAFTA) in the 1990s, the Dominican Republic-Central America Free Trade Agreement (CAFTA) in 2006, and a number of bilateral agreements (such as with Jordan).

In Europe, six countries formed the European Coal and Steel Community (ECSC) in 1951 which became the European Economic Community (EEC) in 1958. Two core objectives of the

EEC were the development of a common market, subsequently renamed the single market, and a customs union between its member states. After expanding its membership, the EEC became the European Union (EU) in 1993. The European Union, now the world's largest single market,[26] has concluded free trade agreements with many countries around the world.

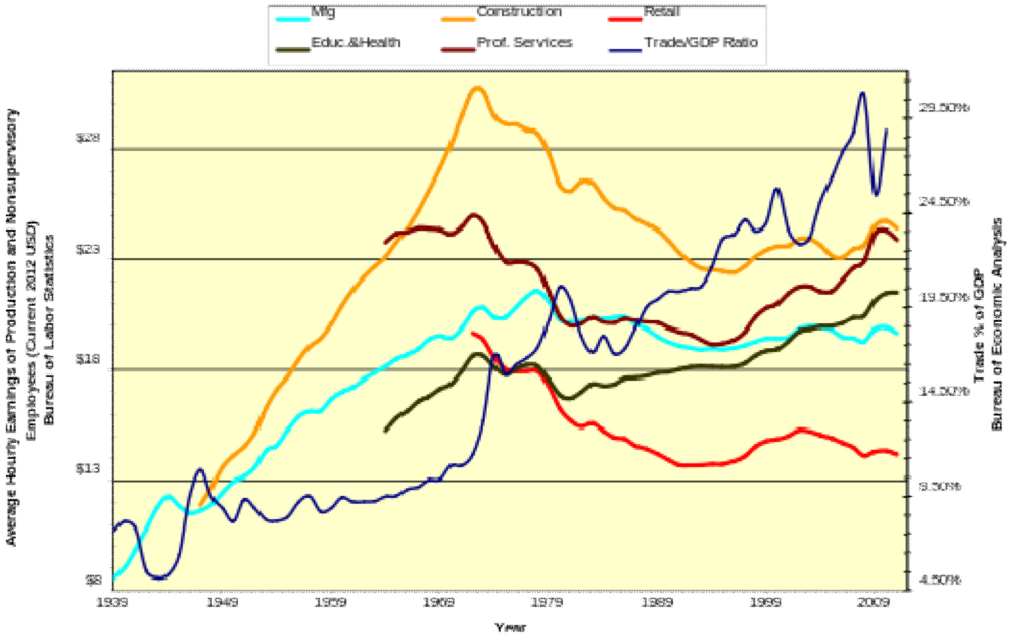
Most countries in the world are members of the World Trade Organization, which limits in certain ways but does not eliminate tariffs and other trade barriers. Most countries are also members of regional free trade areas that lower trade barriers among participating countries. The EU and the US are negotiating a Transatlantic Trade and Investment Partnership. Led by the U.S., twelve countries that have borders on the Pacific Ocean are currently in private negotiations around the Trans-Pacific Partnership, which is being touted by the negotiating countries as a free trade policy.

The relative costs, benefits and beneficiaries of free trade are debated by academics, governments and interest groups.

Arguments for protectionism fall into the economic category (trade hurts the economy) or the moral category (the effects of trade might help the economy, but have ill effects in other areas); a general argument against free trade is that it is colonialism or imperialism in disguise. The moral category is wide, including concerns of destroying infant industries and undermining long-run economic development, income inequality, environmental degradation, supporting child labor and sweatshops, race to the bottom, wage slavery, accentuating poverty in poor countries, harming national defense, and forcing cultural change.

Economic arguments against free trade criticize the assumptions or conclusions of economic theories. Sociopolitical arguments against free trade cite social and political effects that economic arguments do not capture, such as political stability, national security, human rights and environmental protection.

Free trade is often opposed by domestic industries that would have their profits and market share reduced by lower prices for imported goods.[32][33] For example, if United States tariffs on imported sugar were reduced, U.S. sugar producers would receive lower prices and profits, while U.S. sugar consumers would spend less for the same amount of sugar because of those same lower prices. The economic theory of David Ricardo holds that consumers would necessarily gain more than producers would lose.[34][35] Since each of those few domestic sugar producers would lose a lot while each of a great number of consumers would gain only a little, domestic producers are more likely to mobilize against the lifting of tariffs.[33] More generally, producers often favor domestic subsidies and tariffs on imports in their home countries, while objecting to subsidies and tariffs in their export markets.



Real Wages vs Trade as a Percent of GDP[36][37]

Socialists frequently oppose free trade on the ground that it allows maximum exploitation of workers by capital. For example, Karl Marx wrote in *The Communist Manifesto*, "The bourgeoisie... has set up that single, unconscionable freedom – free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation." Nonetheless, Marx favored free trade *solely* because he felt that it would hasten the social revolution.

"Free trade" is opposed by many anti-globalization groups, based on their assertion that free trade agreements generally do not increase the economic freedom of the poor or the working class, and frequently make them poorer. Where the foreign supplier allows de facto exploitation of labor, domestic free-labor is unfairly forced to compete with the foreign exploited labor, and thus the domestic "working class would gradually be forced down to the level of helotry." To this extent, free trade is seen as nothing more than an end-run around laws that protect individual liberty, such as the Thirteenth Amendment to the United States Constitution (outlawing slavery and indentured servitude).

It is important to distinguish between arguments against free trade theory, and free trade *agreements* as applied. Some opponents of NAFTA see the agreement as being materially harmful to the common people, but some of the arguments are actually against the particulars of government-managed trade, rather than against free trade *per se*. For example, it is argued that it would be wrong to let subsidized corn from the U.S. into Mexico freely under NAFTA at prices well below production cost (dumping) because of its ruinous effects to Mexican farmers. Of course, such subsidies violate free trade theory, so this argument is not actually against the principle of free trade, but rather its selective implementation.

Colonialism

For more details on this topic, see Dependency theory.

It has long been argued that free trade is a form of colonialism or imperialism, a position taken by various proponents of economic nationalism and the school of mercantilism. In the 19th century these criticized British calls for free trade as cover for British Empire, notably in the works of American Henry Clay, architect of the American System[41] and by German American economist Friedrich List.[42]

More recently, Ecuadorian President Rafael Correa has denounced the "sophistry of free trade" in an introduction he wrote for a book titled *The Hidden Face of Free Trade Accords*, written in part by Correa's current Energy Minister Alberto Acosta. Citing as his source the book *Kicking Away the Ladder*, written by Ha-Joon Chang, Correa identified the difference between an "American system" opposed to a "British System" of free trade. The latter, he says, was explicitly viewed by the Americans as "part of the British imperialist system." According to Correa, Chang showed that it was Treasury Secretary Alexander Hamilton, and not Friedrich List, who was the first to present a systematic argument defending industrial protectionism.

Alternatives

The following alternatives for free trade have been proposed: balanced trade, fair trade, protectionism, industrial policy, and Tobin tax.

In literature

The value of free trade was first observed and documented by Adam Smith in *The Wealth of Nations*, in 1776. He wrote,

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy.... If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.

This statement uses the concept of absolute advantage to present an argument in opposition to mercantilism, the dominant view surrounding trade at the time, which held that a country should aim to export more than it imports, and thus amass wealth. Instead, Smith argues, countries could gain from each producing exclusively the good(s) in which they are most suited to, trading between each other as required for the purposes of consumption. In this vein, it is not the value of exports relative to that of imports that is important, but the value of the goods produced by a nation. The concept of absolute advantage however does not address a situation where a country has no advantage in the production of a particular good or type of good.

This theoretical shortcoming was addressed by the theory of comparative advantage. Generally attributed to David Ricardo who expanded on it in his 1817 book *On the Principles of Political Economy and Taxation*, it makes a case for free trade based not on absolute advantage in production of a good, but on the relative opportunity costs of production. A country should specialize in whatever good it can produce at the lowest cost, trading this good to buy other goods it requires for consumption. This allows for countries to benefit from trade even when they do not have an absolute advantage in any area of production. While their gains from trade might not be equal to those of a country more productive in all goods, they will still be better off economically from trade than they would be under a state of autarky.

Exceptionally, Henry George's 1886 book *Protection or Free Trade* was read out loud in full into the Congressional Record by five Democratic congressmen. Tyler Cowen wrote that 'Protection or Free Trade *"remains perhaps the best-argued tract on free trade to this day.".* George discusses the subject in particular with respect to the interests of labor. Although George is very critical towards protectionism:

We all hear with interest and pleasure of improvements in transportation by water or land; we are all disposed to regard the opening of canals, the building of railways, the deepening of harbors, the improvement of steamships as beneficial. But if such things are beneficial, how can tariffs be beneficial? The effect of such things is to lessen the cost of transporting commodities; the effect of tariffs is to increase it. If the protective theory be true, every improvement that cheapens the carriage of goods between country and country is an injury to mankind unless tariffs be commensurately increased.[53]

George considers the general free trade argument 'inadequate'. He argues that the removal of protective tariffs only can never be sufficient to improve the situation of the working class, unless there is a shift towards land value tax as well.

- Neoliberalism

Neoliberalism

From Wikipedia, the free encyclopedia

For the school of international relations, see Neoliberalism in international relations.

Neoliberalism is a term whose usage and definition have changed over time.

Since the 1980s, the term has been used primarily by scholars and critics in reference to the resurgence of 19th century ideas associated with *laissez-faire* economic liberalism beginning in the 1970s and 1980s, whose advocates support extensive economic liberalization policies such as privatization, fiscal austerity, deregulation, free trade, and reductions in government spending in order to enhance the role of the private sector in the economy. Neoliberalism is famously associated with the economic policies introduced by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States.[3] The transition of consensus towards neoliberal policies and the acceptance of neoliberal economic theories in the 1970s are seen by some academics as the root of financialization, with the financial crisis of 2007–08 one of the ultimate results.[12][13][14][15][16]

Neoliberalism was originally an economic philosophy that emerged among European liberal scholars in the 1930s in an attempt to trace a so-called ‘Third’ or ‘Middle Way’ between the conflicting philosophies of classical liberalism and collectivist central planning. The impetus for this development arose from a desire to avoid repeating the economic failures of the early 1930s, which were mostly blamed on the economic policy of classical liberalism. In the decades that followed, the use of the term neoliberal tended to refer to theories at variance with the more *laissez-faire* doctrine of classical liberalism, and promoted instead a market economy under the guidance and rules of a strong state, a model which came to be known as the social market economy.

In the 1960s, usage of the term "neoliberal" heavily declined. When the term was reintroduced in the 1980s in connection with Augusto Pinochet's economic reforms in Chile, the usage of the term had shifted. It had not only become a term with negative connotations employed principally by critics of market reform, but it also had shifted in meaning from a moderate form of liberalism to a more radical and *laissez-faire* capitalist set of ideas. Scholars now tended to associate it with the theories of economists Friedrich Hayek and Milton Friedman. Once the new meaning of neoliberalism was established as a common usage among Spanish-speaking scholars, it diffused directly into the English-language study of political economy. Scholarship on the phenomenon of neoliberalism has been growing. The impact of the global 2008-09 crisis has also given rise to new scholarship that critiques neoliberalism and seeks developmental alternatives. From the other part the financial crisis made posible the reemergence of the 'Middle way' neoliberalism (and balanced fiscal policies) together with austerity policies.

Terminology

The German scholar Alexander Rüstow coined the term "neoliberalism" in 1938 at the Colloque Walter Lippmann. The colloquium defined the concept of neoliberalism as involving "the priority of the price mechanism, the free enterprise, the system of competition and a strong and impartial state". To be "neoliberal" meant advocating a modern economic policy with State intervention. Neoliberal State interventionism brought a clash with the opposite laissez-faire camp of classical liberals, like Ludwig von Mises. While present-day scholars tend to identify Friedrich Hayek, Milton Friedman, and Ayn Rand as the most important theorists of neoliberalism, most scholars in the 1950s and 1960s understood neoliberalism as referring to the social market economy and its principal economic theorists such as Eucken, Röpke, Rüstow, and Müller-Armack. Although Hayek had intellectual ties to the German neoliberals, his name was only occasionally mentioned in conjunction with neoliberalism during this period due to his more pro-free market stance. Friedman's name essentially never appeared in connection with neoliberalism until the 1980s. In the sixties, use of the term "neoliberal" heavily declined.

Another movement from the American left that used the term "Neoliberalism" to describe its ideology formed in the United States in the 1970s. Prominent neoliberal politicians supposedly included Al Gore and Bill Clinton of the Democratic Party of the United States. The neoliberals coalesced around two magazines, *The New Republic* and the *Washington Monthly*. The "godfather" of this version of neoliberalism was the journalist Charles Peters who in 1983 published "A Neoliberal's Manifesto."

Elizabeth Tandy Shermer argues that, "Academics (largely left-wing) started using “neoliberalism” in the 1970s to describe and decry a late twentieth-century effort by policy makers, think-tank experts, and industrialists to condemn social-democratic reforms and unapologetically implement free-market policies." Other academics note that neoliberalism has critics from across the political spectrum.

During the military rule under Augusto Pinochet (1973–1990) in Chile, opposition scholars took up the expression to describe the economic reforms implemented in Chile after 1973 and its proponents (the Chicago Boys). Once the new meaning of neoliberalism was established as a common usage among Spanish-speaking scholars, it diffused directly into the English-language study of political economy. In the last two decades, according to the Boas and Gans-Morse study of 148 journal articles, neoliberalism is almost never defined but used in several senses to describe ideology, economic theory, development theory, or economic reform policy. It has largely become a term of condemnation employed by critics. And it now suggests a market fundamentalism closer to the laissez-faire principles of the "paleoliberals" than to the ideas of the original neoliberals who attended the colloquium. This leaves some controversy as to the precise meaning of the term and its usefulness as a descriptor in the social sciences, especially as the number of different kinds of market economies have proliferated in recent years. In the book *Neoliberalism: A Very Short Introduction*, published by Oxford University Press (2010), the authors argue that neoliberalism is "anchored in the principles of the free-market economics."

According to Boas and Gans-Morse, neoliberalism is nowadays an academic catchphrase used mainly by critics as a pejorative term, and has outpaced the use of similar terms such as monetarism, neoconservatism, the Washington Consensus and "market reform" in much scholarly writing.[2] Daniel Stedman Jones, a historian of the concept, says the term "is too often used as a catch-all shorthand for the horrors associated with globalization and recurring financial crises"[32] Nowadays the most common use of the term neoliberalism refers to market-oriented reform policies such as "eliminating price controls, deregulating capital markets, lowering trade barriers", and reducing state influence on the economy especially by privatization and fiscal austerity.[2] The term is used in several senses: as a development model it refers to the rejection of structuralist economics in favor of the Washington Consensus; as an ideology the term is used to denote a conception of freedom as an overarching social value associated with reducing state functions to those of a minimal state; and finally as an academic paradigm the term is closely related to neoclassical economic theory. The sociologists Fred L. Block and Margaret R. Somers claim there is a dispute over what to call the influence of free market ideas which have been used to justify the retrenchment of New Deal programs and policies over the last thirty years: neoliberalism, *laissez-faire* or just "free market ideology."

Other academics, such as Susan Braedley and Meg Luxton, assert that neoliberalism is a political philosophy which seeks to "liberate" the processes of capital accumulation. American professor of political science and Democratic socialist Frances Fox Piven sees neoliberalism as essentially hyper-capitalism.[34] Robert W. McChesney, American professor at the University of Illinois at Urbana–Champaign and co-editor of the independent socialist magazine *Monthly Review,* claims that the term neoliberalism, which he defines as "capitalism with the gloves off," is largely unknown by the general public, particularly in the United States.

Classical liberalism in the 20th century

This section **relies too much on references to primary sources**. Please improve this article by adding secondary or tertiary sources. *(June 2013)*

Classical liberalism was revived in inter-War Austria by economists, including Friedrich Hayek and Ludwig von Mises. They were concerned about the erosion of liberty by both socialist and fascist governments in Europe at that time and tried to restate the case for liberty. Hayek's 1970s book, *The Constitution of Liberty* sums up this argument. In the introduction he states: *If old truths are to retain their hold on* *men's minds, they must be restated in the language and concepts of successive generations*.

Hayek's belief in liberty stemmed from an argument about information. He believed that no individual (or group, including the government) could ever understand everything about an economy or a society in order to rationally design the best system of governance. He argued this only got worse as scientific progress increased and the scope of human knowledge grew, leaving individuals increasingly more and more ignorant in their lifetimes. As a result, he believed it was impossible for any person or government to design the perfect systems under which people could be governed. The only solution to this, he believed, was to allow all possible systems to be tried in the real world and to allow the better systems to beat the worse systems through competition. In a liberal society, he believed, the few who used liberty to try out new things would come up with successful adaptations of existing systems or new ways of doing things. These discoveries, once shared and become mainstream, would benefit the whole of society, even those who did not directly partake of liberty.

Due to the ignorance of the individual, Hayek argued that an individual could not understand which of the various political, economic and social rules they had followed had made them successful. In his mind, this made the superstitions and traditions of a society in which an individual operated vitally important, since in probability they had, in some way, aided the success of the individual. This would be especially true in a successful society, where these superstitions and traditions would, in all probability be successful ones that had evolved over time to exploit new circumstances. However, this did not excuse any superstition or tradition being followed if it had outlived its usefulness: respect of tradition and superstition for the sake of tradition and superstition were not acceptable values to him. Therefore classical liberalism combined a respect for the old, drawn from conservatism, with the progressive striving towards the future, of liberalism.

In emphasising evolution and competition of ideas, Hayek highlighted the divide between practical liberalism that evolved in a haphazard way in Britain, championed by such people as David Hume and Adam Smith, versus the more theoretical approach of the French, in such people as Descartes and Rousseau. Hayek christened these the pragmatic and rationalist schools, the former evolving institutions with an eye towards liberty and the later creating a brave new world by sweeping all the old and therefore useless ideas away. Hayeks's ideas on information and the necessity of evolving evolutions placed liberalism firmly on the pragmatic side against both rationalist socialists (such as communists, fascism and social liberals) and rationalist capitalists (such as economic libertarians, laissez-faire capitalists) alike.

The rule of law

At the centre of liberalism was the rule of law. Hayek believed that liberty was maximised when coercion was minimised. Hayek did not believe that a complete lack of coercion was possible, or even desirable, for a liberal society, and he argued that a set of traditions was absolutely necessary which allowed individuals to judge whether they would or would not be coerced. This body of tradition he notes as law and the use of this tradition the Rule of Law. In designing a liberal system of law, Hayek believed that two things were vitally important: the protection and delineation of the personal sphere and the prevention of fraud and deception, which could be maintained only by threat of coercion from the state. In delineating a personal sphere, individuals could know under what circumstances they would or would not be coerced, and could plan accordingly.

In designing such a system, Hayek believed that it could maintain a protected sphere by protecting against abuses by the ruling power, be it a monarch (e.g., Bill of Rights 1689), the will of the majority in a democracy (e.g., the US Constitution) or the administration[101] (e.g. the Rechtsstaat). He believed that the most important features of such protections were equality before the law, and generality of the law. Equality meant that all should be equal before the law and therefore subject to it, even those decisions of a legislature or government administration. Generality meant that the law should be general and abstract, focusing not on ends or means, as a command would, but on general rules which, by their lack of specificity, could not be said to grant privileges, discriminate or compel any specific individual to an end. General laws could also be used to transmit knowledge and encourage spontaneous order in human societies (much like the use of Adam Smith's invisible hand in economics). He also stressed the importance of individuals being responsible for their actions in order to encourage others to respect the law.

Policy

Important practical tools for making these things work included separation of powers, the idea that those enforcing the law and those making it should be separate, to prevent the lawmakers from pursuing short-term ends and constitutionalism, the idea that lawmakers should be legally bound about the laws they could pass, thereby preventing absolute rule by the majority.

In the late 1980s, a practical statement of neoliberal aims was codified in the Washington Consensus.

Conservatism

Classical neoliberalism's respect for tradition, combined with its pragmatic approach to progress, endeared it to conservative movements around the world looking for a way to adapt to the changing nature of the modern world. This saw it adopted by conservative movements, most famously in Chile under Pinochet, the United Kingdom under Margaret Thatcher[106] and in the United States of America under Ronald Reagan.

David Harvey suggests that Lewis Powell's 1971 confidential memorandum to the US Chamber of Commerce, a call to arms to the business community to counter criticism of the free enterprise system, was a significant factor in the rise of conservative organizations and think-tanks which advocated for neoliberal policies, such as The Heritage Foundation, The Cato Institute, Citizens for a Sound Economy, Accuracy in Academia and the Manhattan Institute for Policy Research. For Powell, universities were becoming an ideological battleground and recommended the establishment of an intellectual infrastructure to serve as a counterweight to the increasingly popular ideas of Ralph Nader and other opponents of big business.

Economic neoliberalism

The next important form of neoliberalism is economic neoliberalism. Economic neoliberalism stems out of the historical rift between classical liberalism and economic liberalism, and developed when the economically liberal minded co-opted the language and ideas of classical neoliberalism to place economic freedom at its heart, making it a right-wing ideology. Essentially, economic neoliberalism can be derived by taking the classical neoliberal definition above and taking the protected personal sphere to solely refer to property rights and contract. The liberal opposite of economic neoliberalism is modern liberalism, the corresponding left-wing ideology. The best known proponent of economic neoliberalism is Milton Friedman.

Economic neoliberalism is the most common form of neoliberalism, and is what is usually meant when a system is described as neoliberal. According to Tayab Mahmud, quoting terminology from Anthony Carty

The neoliberal project is to turn the "nation-state" into a "market-state," one with the primary agenda of facilitating global capital accumulation unburdened from any legal regulations aimed at assuring welfare of citizens. In summary, neoliberalism seeks unbridled accumulation of capital through a rollback of the state, and limits its functions to minimal security and maintenance of law, fiscal and monetary discipline, flexible labor markets, and liberalization of trade and capital flows.

Economic neoliberalism is distinct from classical neoliberalism for many reasons. Hayek believed that certain elements that now make up modern economic neoliberal thought are too rationalist, relying on preconceived notions of human behaviour, such as the idea of homo economicus. Paul Treanor points out that it is too utopian, and therefore illiberal. David Harvey points out that economic neoliberalism is "theory of economic political practices", rather than a complete ideology, and therefore, no correlation or connection needs to exist between a favourable assessment of neoliberal economic practises and a commitment to liberalism proper. Likewise Anna-Maria Blomgren views neoliberalism as a continuum ranging from classical to economic liberalism. A broad and, it is hoped, clearer restatement of the above is to point out that classic liberals must be economic liberals, but economic liberals do not have to be classically liberal, and it is the latter group that makes up the "new liberalism" of economic neoliberalism.

Neoliberal economics

Friedman's chief argument about neoliberalism can be described as a consequentialist libertarian one: that the reason for adopting minimal government interference in the economy is for its beneficial consequences, and not any ideological reason. At the heart of economic neoliberalism are various theories that prove the economic neoliberal ideology.

Neoliberal economics in the 1920s took the ideas of the great liberal economists, such as Adam Smith, and updated them for the modern world. Friedrich Hayek's ideas on information flow, present in classical neoliberalism, were codified in economic form under the Austrian School as the economic calculation problem. This problem of information flow implied that a decentralised system, in which information travelled freely and was freely determined at each localised point (Hayek called this catallaxy), would be much better than a central authority trying to do the same, even if it was completely efficient and was motivated to act in the public good. In this view, the free market is a perfect example of such a system in which the market determined prices act as the information signals flowing through the economy. Actors in the economy could make decent decisions for their own businesses factoring in all the complex factors that led to market prices without having to understand or be completely aware of all of those complex factors.

In accepting the ideas of the Austrian School regarding information flow, economic neoliberals were forced to accept that free markets were artificial, and therefore would not arise spontaneously, but would have to be enforced, usually through the state and the rule of law. In this way, economic neoliberalism enshrines the role of the state and becomes distinct from libertarian thought. However, in accepting the ideas of self-regulating markets, neoliberals drastically restrict the role of the government to managing those forms of market failure that the neoliberal economics allowed: property rights and information asymmetry. This restricted the government to maintaining property rights by providing law and order through the police, maintaining an independent judiciary and maintaining the national defence, and basic regulation to guard against fraud. This made neoliberal economics distinct from Keynesian economics of the preceding decades.

These ideas were then developed further. Milton Friedman introduced the idea of adaptive expectations during the stagflation of the 1970s, which claims to describe why government interference (in the form of printing money) resulted in increasing inflation, as shop owners started to predict the rate of increase in the money supply, rendering the government action useless. This developed into the idea of rational expectations, which concludes that all government interference is useless and disruptive because the free market would predict and undermine the government's proposed action. At the same time, the efficient-market hypothesis assumed that, because of catallaxy, the market could not be informationally wrong. Or, to paraphrase the famous quote of Warren Buffett, "the market is there to inform you, not serve you". Combined with rational expectations, this showed that markets would be self-regulating, and that regulation was unnecessary and disruptive.

Additionally, claims proliferated that the free market would produce the socially optimum equilibrium with regard to production of goods and services, such as the fundamental theorems of welfare economics and general equilibrium theory, which helped prove further that government intervention could only result in making society worse off (see Pareto efficient).

Criticism

This section **possibly contains original research**. Please improve it by verifying the claims made and adding inline citations. Statements consisting only of original research should be removed. *(March 2014)*

The rise of neoliberalism in the 1970s as a practical system of government saw it implemented in various forms across the world. In some cases, the result was not anything that could be identified as neoliberalism, often with catastrophic results for the poor. This has resulted in many on the left claiming that this is a deliberate goal of neoliberalism, while those on the right defend the original goals of neoliberalism and insist otherwise, an argument that rages to this day. Nevertheless, neoliberalism has come under attack not only from the political left (social democrats), but also elements of the right (cultural nationalists) and myriad activists and academics. This section attempts to provide an unbiased overview of this discussion, focusing on all the forms of neoliberalism that are not in any way neoliberal, but which have come to be associated with it, as well as the reasons for why this has happened.

One of the best and least controversial examples of "neoliberal" reform is in Russia, whose reforms in 1989 were justified under neoliberal economic policy but which lacked any of the basic features of a neoliberal state (e.g. the rule of law, free press) which could have justified the reforms.

General liberal failure

The least controversial aspect of neoliberalism has often been presented by modern economists critical of neoliberalism's role in the world economic system. Among these economists, the chief voices of dissent are Joseph Stiglitz and Paul Krugman.

Both use arguments about market failure to justify their views on neoliberalism. They argue that when markets are imperfect (which is to say all markets everywhere to some degree), then they can fail and may not work as neoliberals predict, resulting in some form of crony capitalism. The two chief modes of failure are usually due to imperfect property rights and due to imperfect information and correspond directly to Friedrich Hayek's assertion that classical liberalism will not work without protection of the private sphere and the prevention of fraud and deception.

The failure of property rights means that individuals can't protect ownership of their resources and control what happens to them, or prevent others from taking them away. This usually stifles free enterprise and results in preferential treatment for those who can.

Class project

Not all members of a society may have equal access to the law or to information, even when everyone is theoretically equal under the law, as in a liberal democracy. This is because access to the law and information is not free as liberals (such as Hayek) assume, but have associated costs. Therefore, in this context, it is sound to say that the wealthy have greater rights than the poor.

In some cases, the poor may have practically no rights at all if their income falls below the levels necessary to access the law and unbiased sources of information, while the very wealthy may have the ability to choose which rights and responsibilities they bear if they can move themselves and their property internationally, resulting in social stratification, also known as class. This alleged tendency to create and strengthen class has resulted in some (most famously David Harvey claiming that neoliberalism is a class project, designed to impose class on society through liberalism. Economist David M. Kotz contends that neoliberalism "is based on the thorough domination of labor by capital."[The emergence of the 'precariat', a new class facing acute socio-economic insecurity and alienation, has been attributed to the globalization of neoliberalism.

Sociologist Thomas Volscho has argued that the imposition of "neoliberalism" in the United States arose from a conscious political mobilization by capitalist elites in the 1970s who faced two crises: the legitimacy of capitalism and a falling rate of profitability in industry. Various "neoliberal" ideologies (such as "monetarism" and "supply-side economics") had been long advanced by elites, translated into policies by the Reagan administration, and ultimately resulted in less governmental regulation and a shift from a tax-financed state to a debt-financed one. While the profitability of industry and the rate of economic growth never recovered to the heyday of the 1960s, the political and economic power of Wall Street and finance capital vastly increased due to the debt-financing of the state."

Sociologist Loïc Wacquant argues that neoliberal policy for dealing with social instability among economically marginalized populations following the retrenchment of the social welfare state and the rise of punative workfare, increased gentrification of urban areas, privatization of public functions, the shrinking of collective protections for the working class via economic deregulation, and the rise of underpaid, precarious wage labor is the criminalization of poverty followed by mass incarceration. By contrast, it is extremely lenient in dealing with those in the upper echelons of society, in particular when it comes to economic crimes of the privileged classes and corporations such as fraud, embezzlement, insider trading, credit and insurance fraud, money laundering, and violation of commerce and labor codes. According to Wacquant, neoliberalism doesn't shrink government but instead sets up a *centaur state,* with little governmental oversight for those at the top and strict control of those at the bottom.

In expanding upon Wacquant's thesis, sociologist and political economist John L. Campbell of Dartmouth College suggests that through privatization, the prison system exemplifies the *centaur state*:

On the one hand, it punishes the lower class, which populates the prisons; on the other hand, it profits the upper class, which owns the prisons, and it employs the middle class, which runs them.

In addition, he says the prison system benefits corporations through outsourcing, as the inmates are "slowly becoming a source of low-wage labor for some US corporations." Both through privatization and outsourcing, Campbell argues, the US penal state reflects neoliberalism. Campbell also argues that while neoliberalism in the US established a penal state for the poor, it also put into place a debtor state for the middle class, and that "both have had perverse effects on their respective targets: increasing rates of incarceration among the lower class and increasing rates of indebtedness—and recently home foreclosure—among the middle class."

Feminism

Neo-liberalism has been criticized by feminist theory for having a negative effect on the female workforce population across the globe -especially in the global south. Masculinist assumptions and objectives continue to dominate economic and geopolitical thinking. Women's experiences in non-industrialized countries reveal often deleterious effects of modernization policies and undercut orthodox claims that development benefits everyone. Proponents of neoliberalism have often theorized that by furthering women's participation in the workforce, there will be heightened economic progress, but feminist critics have noted that this participation alone does not further equality in gender relations. Neoliberalism has failed to address significant problems such as the devaluation of feminized labour, the structural privileging of men and masculinity, and the politicization of women's subordination in the family and the workplace. The 'feminization of employment' refers to a conceptual characterization of deteriorated and devalorized labour conditions that are less desirable, meaningful, safe and secure. Employers in the global south have perceptions about feminine labour and seek workers who are perceived to be undemanding, docile and willing to accept low wages. Social constructs about feminized labour have played a big part in this, for instance, employers often perpetuate ideas about women as 'secondary income earners to justify their lower rates of pay and not deserving of training or promotion. The exploitation of female workers production centers is very widespread, women workforces are subject to high levels of control and surveillance, and worked under extreme measures to achieve production goals under the observation of their supervisors. The privatization that comes along with neoliberal economic reforms for countries who want loans from western multinational corporations reduce public spending drastically and women are disproportionately affected because they depend on secure government jobs and public resources more often than men. When economic condition deteriorate, women are culturally expected to fill the gap, in spite of few resources.

Neoliberalism can also be seen as gutting liberal concepts under market values. Liberal feminism has seen the same effect with new definitions under neoliberalism using key liberal terms such as equality, opportunity, and free choice while displacing and replacing their content to individualized and entrepreneurial content. The individualistic nature of this new feminism disavows the social, cultural, and economic forces producing this inequality, moving feminism from a structural problem into an individual affair. This hollows out the potential of liberal feminism to underscore the constitutive contradictions of liberal democracy and further entrenches neoliberal rationality and imperialistic logic. The neoliberal shift in feminism neutralizes collective uprising and transfers the site of activity from the public arena to each individuals psyche. With no orientation beyond the self, feminism is not being steered towards the toppling of the political order or even coming to awareness of systematic male domination. Liberal feminism when individualized rather than collectivized completely detaches from social inequality and consequently cannot offer any sustained analysis of the structures of male dominance, power, privilege. The larger support in feminism for Hillary Clinton in 2016 (NOW and "Feminists for Clinton") is an example of this shift in feminism towards neoliberalism considering Clinton has consistently favored policies devastating to women and LGBT practices. This shift reflects a narrowness of analysis, vision, and values that only apply to wealthy white women who share in the wealth from corporate capitalism and U.S. imperial power.

Globalization

In practice, less developed nations have less developed rights and institutions, resulting in greater risk for international lenders and businesses. This means that developing countries usually have less privileged access to international markets than developed countries. Because of this effect, international lenders are also more likely to invest in foreign companies (i.e. multinational corporations) inside a country, rather than in local businesses, giving international firms an unfair competitive advantage. Also, speculative flows of capital may enter the country during a boom and leave during a recession, deepening economic crises and destabilizing the economy.

Both of these problems imply that developing countries should have greater protections against international markets than developed ones and greater barriers to trade. Despite such problems, IMF policy in response to crises, which is supposed to be guided by neoliberal ideas such as the Washington Consensus, is to increase liberalization of the economy and decrease barriers, allowing bigger capital flight and the chance for foreign firms to shore up their monopolies. Additionally, the IMF acts to increase moral hazard, since international involvement will usually result in an international bailout with foreign creditors being treated preferentially, leading international firms to discount the risks of doing business in less developed countries and forcing the government to pay for them instead.

The view of some that international involvement and the imposition of "neoliberal" policies usually serves to make things worse and acts against the interests of the country being "saved", has led some to argue that the policies have nothing to do with any form of liberalism, but hide some other purpose. The most common assertion given by opponents is that they are a form of neocolonialism, where the more developed countries can exploit the less developed countries. However, even opponents do not agree. For example, Stiglitz assumes that there is no neoimperial plot, but that the system is driven by a mixture of ideology and special interests, in which neoliberal fundamentalists, who do not believe that neoliberalism can fail, work with financial and other multinational corporations, who have the most to benefit from opening up foreign markets. David Harvey, on the other hand, argues that local elites exploit neoliberal reforms in order to impose reforms that benefit them at the cost of the poor, while transferring the blame onto the "evil imperialist" developed countries, citing the example of Argentina in 2001.

Corporatism

Mark Arthur has written that the influence of neoliberalism has given rise to an "anti-corporatist" movement that "is articulated around the need to re-claim the power that corporations and global institutions have stripped governments of...". He says that Adam Smith's "rules for mindful markets" served as a basis for the anti-corporate movement, "following government's failure to restrain corporations *from hurting or disturbing the happiness of the neighbor* [Smith]".

Policy implications

Neoliberalism seeks to transfer control of the economy from public to the private sector, under the belief that it will produce a more efficient government and improve the economic health of the nation. The definitive statement of the concrete policies advocated by neoliberalism is often taken to be John Williamson's "Washington Consensus."[150] The Washington Consensus is a list of policy proposals that appeared to have gained consensus approval among the Washington-based international economic organizations (like the International Monetary Fund (IMF) and World Bank). Williamson's list included ten points:

- Fiscal policy Governments should not run large deficits that have to be paid back by future citizens, and such deficits can have only a short term effect on the level of employment in the economy. Constant deficits will lead to higher inflation and lower productivity, and should be avoided. Deficits should only be used for occasional stabilization purposes.
- Redirection of public spending from subsidies (especially what neoliberals call "indiscriminate subsidies") and other spending neoliberals deem wasteful toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment
- Tax reform – broadening the tax base and adopting moderate marginal tax rates to encourage innovation and efficiency;
- Interest rates that are market determined and positive (but moderate) in real terms;
- Floating exchange rates;
- Trade liberalization – liberalization of imports, with particular emphasis on elimination of quantitative restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs; thus encouraging competition and long term growth

- Liberalization of the "capital account" of the balance of payments, that is, allowing people the opportunity to invest funds overseas and allowing foreign funds to be invested in the home country
- Privatization of state enterprises; Promoting market provision of goods and services which the government cannot provide as effectively or efficiently, such as telecommunications, where having many service providers promotes choice and competition.
- Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions;
- Legal security for property rights;

Reach and effects

Effects in Latin American urbanization

Between the 1930s and the late 1970s most countries in Latin America used the import substitution industrialization model (ISI) to build industry and reduce the dependency on imports from foreign countries. The result of ISI in these countries included: rapid urbanization of one or two major cities, a growing urban population of the working class, and frequent protests by trade unions and left-wing parties. In response to the economic crisis, the leaders of these countries quickly adopted and implemented new neoliberal policies.

A study based on the transformations of urban life and systems as a result of neoliberalism in six countries of Latin America was published by Alejandro Portes and Bryan Roberts. This comparative study included census data analysis, surveying, and fieldwork focused in Argentina, Brazil, Chile, Mexico, Peru, and Uruguay. Predictions of the neoliberalism were extended to these six countries in four areas: urban systems and primacy, urban unemployment and informal employment, urban inequality and poverty, and urban crime and victimization. Data collected support a relationship between the economic policies of neoliberalism and the resulting patterns of urbanization.

In the area of urban systems and primacy two tendencies were revealed in the data. The first was continuing growth in total size of urban populations while the second tendency was the decline in size of the principal city with decreased migration flows to these cities. Therefore, when calculating the urban growth rate each of these countries all showed minimal or a significant decline in growth. Portes and Roberts theorize that the changes are due to the “loss of attraction of major cities ... due to a complex set of factors, but is undoubtedly a related to the end of the ISI era”. Although the relationship between the open-market and the transformation of urban systems has not been proven to be a perfect one-to-one relationship, the evidence supports the acceleration or initiation of these two tendencies following neoliberal changes.

There was also a variation in the inequality and poverty in the six countries. While the majority of the population within these countries suffered from poverty, the "upper classes" received the benefits of the neoliberal system. According to Portes and Roberts, “the ‘privileged decile’ received average incomes equivalent to fourteen times the average Latin American poverty-line income”. According to the authors, a direct result of the income inequality is that each country struggled with increased crime and victimization in both urban and suburban settings. However, due to corruption within the police force it is not possible to accurately extrapolate a trend in the data of crime and victimization.

Effects on global health

The effect of neoliberalism on global health, particularly the aspect of international aid involves key players such as non-governmental organizations (NGOs), the International Monetary Fund (IMF), and the World Bank. Neoliberal emphasis has been placed on free markets and privatization which has been tied to the "new policy agenda", an agenda in which NGOs are viewed to provide better social welfare than that of a nation's government. International NGO's have been promoted to fill holes in public services created by the World Bank and IMF through their promotion of Structural Adjustment Programs (SAP's) which slash government health spending and are an unsustainable source of foreign aid. The reduced health spending and the gain of the public health sector by NGOs causes the local health system to become fragmented, undermines local control of health programs and contributes to local social inequality between NGO workers and local individuals.

Support

Political freedom

In *The Road to Serfdom*, Hayek argued that "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends."

Later, in his book *Capitalism and Freedom* (1962), Friedman developed the argument that economic freedom, while itself an extremely important component of total freedom, is also a necessary condition for political freedom. He commented that centralized control of economic activities was always accompanied with political repression.

In his view, the voluntary character of all transactions in an unregulated market economy and wide diversity that it permits are fundamental threats to repressive political leaders and greatly diminish power to coerce. Through elimination of centralized control of economic activities, economic power is separated from political power, and the one can serve as counterbalance to the other. Friedman feels that competitive capitalism is especially important to minority groups, since impersonal market forces protect people from discrimination in their economic activities for reasons unrelated to their productivity.

Ampflifying Friedman's argument, it has often been pointed out that increasing economic freedoms tend to rise expectations on political freedoms, eventually leading to democracy. Other scholars see the existence of non-democratic yet market-liberal regimes and the undermining of democratic control by market processes as strong evidence that such a general, ahistorical nexus cannot be upheld. Contemporary discussion on the relationship between neoliberalism and democracy shifted to a more historical perspective, studying extent and circumstances of how much the two are mutually dependent, contradictory or incompatible.

Stanley Fish argues that neoliberalization of academic life may promote a narrower and, in his opinion, more accurate definition of academic freedom "as the freedom to do the academic job, not the freedom to expand it to the point where its goals are infinite." What Fish urges is "not an inability to take political stands, but a refraining from doing so in the name of academic responsibility."

Opposition

Opponents of neoliberalism commonly argue these following points:

- Globalization can subvert nations' ability for self-determination.
- Accountability to the stakeholders, who depend upon the service provided by the privatised entity, is lost as a consequence of business secrecy, a practice that is normally adopted by private investors.
- The replacement of a government-owned monopoly with private companies, each supposedly trying to provide the consumer with better value service than all of its private competitors, removes the efficiency that can be gained from the economy of scale.
- Even if it could be shown that neoliberal capitalism increases productivity, it erodes the conditions in which production occurs long term, i.e., resources/nature, requiring expansion into new areas. It is therefore not sustainable within the world's limited geographical space.
- Exploitation: critics consider neo-liberal economics to promote exploitation and social injustice.
- Negative economic consequences: Critics argue that neo-liberal policies produce economic inequality.
- Mass incarceration of the poor: some critics claim that neoliberal policies result in an expanding carceral state and the criminalization of poverty.
- Increase in corporate power: some organizations and economists believe neoliberalism, unlike liberalism, changes economic and government policies to increase the power of corporations, and a shift to benefit the upper classes.
- Anti-democratic: some scholars contend that neoliberalism undermines the basic elements of democracy.
- There are terrains of struggles for neoliberalism locally and socially. Urban citizens are increasingly deprived of the power to shape the basic conditions of daily life.
- Trade-led, unregulated economic activity and lax state regulation of pollution lead to environmental impacts or degradation.
- Deregulation of the labor market produces flexibilization and casualization of labor, greater informal employment, and a considerable increase in industrial accidents and occupational diseases.

Instead of citizens, it produces consumers. Instead of communities, it produces shopping malls. The net result is an atomized society of disengaged individuals who feel demoralized and socially powerless.

Critics sometimes refer to neoliberalism as the "American Model," and make the claim that it promotes low wages and high inequality. According to the economists Howell and Diallo (2007), neoliberal policies have contributed to a U.S. economy in which 30% of workers earn low wages (less than two-thirds the median wage for full-time workers), and 35% of the labor force is underemployed; only 40% of the working-age population in the U.S. is adequately employed. The Center for Economic Policy Research's (CEPR) Dean Baker (2006) argued that the driving force behind rising inequality in the U.S. has been a series of deliberate, neoliberal policy choices including anti-inflationary bias, anti-unionism, and profiteering in the health industry. However, countries have applied neoliberal policies at varying levels of intensity; for example, the OECD (Organisation for Economic Cooperation and Development) has calculated that only 6% of Swedish workers are beset with wages it considers low, and that Swedish wages are overall lower due to their lack of neoliberal policies Others argue that Sweden's adoption of neoliberal reforms, in particular the privatization of public services and reduced state benefits, has resulted in income inequality growing faster in Sweden than any other OECD nation. In the 2014 elections, Swedish voters rejected the neoliberal policies of the center-right government which had undermined the social safety net and put the left-leaning Social Democrats back in power. John Schmitt and Ben Zipperer (2006) of the CEPR have analyzed the effects of intensive Anglo-American neoliberal policies in comparison to continental European neoliberalism, concluding "The U.S. economic and social model is associated with substantial levels of social exclusion, including high levels of income inequality, high relative and absolute poverty rates, poor and unequal educational outcomes, poor health outcomes, and high rates of crime and incarceration. At the same time, the available evidence provides little support for the view that U.S.-style labor-market flexibility dramatically improves labor-market outcomes. Despite popular prejudices to the contrary, the U.S. economy consistently affords a lower level of economic mobility than all the continental European countries for which data is available." The rise of anti-austerity parties in Europe and SYRIZA's victory in the Greek legislative elections of 2015 have some proclaiming “the end of neoliberalism.”

In Latin America, the "pink tide" that swept leftist governments into power at the turn of the millennium can be seen as a reaction against neoliberal hegemony and the notion that "there is no alternative" (TINA) to the Washington Consensus.

Notable critics of neoliberalism in theory or practice include economists Joseph Stiglitz, Amartya Sen, Michael Hudson, Robert Pollin, Julie Matthaei, and Richard D. Wolff, linguist Noam Chomsky, geographer David Harvey,[Marxist feminist Gail Dines, American scholar and cultural critic Henry Giroux, journalist and environmental activist George Monbiot,[184] Belgian Psychologist Paul Verhaeghe and the alter-globalization movement in general, including groups such as ATTAC. Critics of neoliberalism argue that not only is neoliberalism's critique of socialism (as unfreedom) wrong, but neoliberalism cannot deliver the liberty that is supposed to be one of its strong points. Daniel Brook's "The Trap" (2007), Robert Frank's "Falling Behind" (2007), Robert Chernomas and Ian Hudson's "Social Murder" (2007), and Richard G. Wilkinson's "The Impact of Inequality" (2005) all claim high inequality is spurred by neoliberal policies and produces profound political, social, economic, health, and environmental constraints and problems. The economists and policy analysts at the Canadian Centre for Policy Alternatives (CCPA) offer inequality-reducing social democratic policy alternatives to neoliberal policies.

The invisible hand of the market and the iron fist of the state combine and complement each other to make the lower classes accept desocialized wage labor and the social instability it brings in its wake. After a long eclipse, the prison thus returns to the frontline of institutions entrusted with maintaining the social order.

Critics allege that neoliberalism holds that market forces should organize every facet of society, including economic and social life, and promotes a social darwinist ethic which elevates self-interest over social needs. Santa Cruz History of Consciousness professor Angela Davis and Princeton sociologist Bruce Western have claimed that the high rate (compared to Europe) of incarceration in the U.S. – specifically 1 in 37 American adults is in the prison system – heavily promoted by the Clinton administration, is the neoliberal U.S. policy tool for keeping unemployment statistics low, while stimulating economic growth through the maintenance of a contemporary slave population and the promotion of prison construction and "militarized policing." David McNally, Professor of Political Science at York University, argues that while expenditures on social welfare programs have been cut, expenditures on prison construction have increased significantly during the neoliberal era, with California having "the largest prison-building program in the history of the world." The scholar Bernard Harcourt contends the neoliberal concept that the state is inept when it comes to economic regulation but efficient in policing and punishing "has facilitated the slide to mass incarceration." Both Wacquant and Harcourt refer to this phenomenon as "Neoliberal Penality."

The Clinton Administration embraced neoliberalism by pursuing international trade agreements that would benefit the corporate sector globally (normalization of trade with China for example). Domestically, Clinton fostered such neoliberal reforms as the corporate takeover of health care in the form of the HMO, the reduction of welfare subsidies, and the implementation of "Workfare".

Neoliberal policies advanced by supranational organizations have come under criticism, from both socialist and libertarian writers, for advancing a corporatist agenda. Rajesh Makwana, on the left, writes that "the World Bank and IMF, are major exponents of the neoliberal agenda" advancing corporate interests. Sheldon Richman, editor of the libertarian journal *The Freeman*, also sees the IMF imposing "corporatist-flavored 'neoliberalism' on the troubled countries of the world." The policies of spending cuts coupled with tax increases give "real market reform a bad name and set back the cause of genuine liberalism." Paternalistic supranational bureaucrats foster "long-term dependency, perpetual indebtedness, moral hazard, and politicization, while discrediting market reform and forestalling revolutionary liberal change." Free market economist Richard M. Salsman goes further and argues the IMF “is a destructive, crisis-generating global welfare agency that should be abolished." "In return for bailouts, countries must enact such measures as new taxes, high interest rates, nationalizations, deportations, and price controls." Writing in *Forbes*, E. D. Kain sees the IMF as "paving the way for international corporations entrance into various developing nations" and creating dependency. He quotes Donald J. Boudreaux on the need to abolish the IMF.

Protest

In a dramatic act of defiance against neoliberal globalization, South Korean farmer and former president of the Korean Advanced Farmers Federation Lee Kyung-hae committed suicide by stabbing himself in the heart during a meeting of the WTO in Cancun, Mexico. Prior to his death he expressed his concerns in broken English:

My warning goes out to the all citizens that human beings are in an endangered situation that uncontrolled multinational corporations and a small number of bit WTO members officials are leading an undesirable globalization of inhuman, environment-distorting, farmer-killing, and undemocratic. It should be stopped immediately otherwise the failed logic of the neo-liberalism will perish the diversities of agriculture and disastrously to all human being.

Trade globalization is a type of economic globalization and a measure (economic indicator) of economic integration. On a national scale, it loosely represents the proportion of all production that crosses the boundaries of a country, as well as the number of jobs in that country dependent upon external trade. On a global scale, it represents the proportion of all world production that is used for imports and exports between countries.

- For *an individual country*, trade globalization is measured as the proportion of that country's total volume of trade to its Gross Domestic Product (GDP):

$$\frac{Imports + Exports}{GDP}$$

- For *the world as a whole*, trade globalization is the share of total world trade in total world production (GDP), where the sums are taken over all countries:

$$\frac{\sum Exports}{\sum GDP}$$

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Definition

Preyer and Bös provide a simple operationalization of trade globalization as "the proportion of all world production that crosses international boundaries". Chase-Dunn et al. note that trade globalization is one of the types of economic globalization, and define trade globalization as "the extent to which the long-distance and global exchange of commodities has increased (or decreased) relative to the exchange of commodities within national societies", and precisely operationalize it as "the sum of all international exports as a percentage of the global product, which is the sum of all the national gross domestic products (GDPs)." Erreygers and Vermeire define trade globalization as "the degree of dissimilarity between the actual distribution of bilateral trade flows and their gravity benchmark, determined only by size and distance." They note that trade globalization would be maximized in a situation where only size and distance affected the intensity of bilateral trade flows - in other words, in a situation where neither trade barriers nor other factors would matter.

Babones notes that trade globalization is the indicator of a country's level of globalization most commonly used in empirical literature. Data for most countries in the modern era are available from the World Bank World Development Indicators database.

Trend

Chase-Dunn et al. note that there have been cyclical waves of trade globalization, with declines corresponding to wars and economic depressions, and that there has been a steady trend over the centuries for trade globalization to increase. With regards to the modern age, trade globalization increased until 1880, then decreased until 1905, increased again until 1914, decreased during World War I, increased until 1929, decreased until the end of World War II, and has been growing steadily since. They note that the main explanatory factors in this trend are the continued decline in transportation and communication costs, and stability provided by the "hegemonic system" supportive of trade in recent world-systems. Decreases can be explained by wars, and periods of conflict and tension often leading to them, where international actors cannot reach consensus on trade agreements and usually give into to protectionism.

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Disaster Preparedness and Management

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Introduction to disaster management

Emergency management (or disaster management) is the discipline of dealing with and avoiding risks. It is a discipline that involves preparing for disaster before it occurs, disaster response (e.g., emergency evacuation, quarantine, mass decontamination, etc.), and supporting, and rebuilding society after natural or human-made disasters have occurred. In general, any Emergency management is the continuous process by which all individuals, groups, and communities manage hazards in an effort to avoid or ameliorate the impact of disasters resulting from the hazards. Actions taken depend in part on perceptions of risk of those exposed. Effective emergency management relies on thorough integration of emergency plans at all levels of government and non-government involvement. Activities at each level (individual, group, community) affect the other levels. It is common to place the responsibility for governmental emergency management with the institutions for civil defense or within the conventional structure of the emergency services. However, emergency management actually starts at the lowest level and only increases to the next higher organizational level after the current levels resources have been exhausted. In the private sector, emergency management is sometimes referred to as business continuity planning.

Emergency Management is one of a number of terms which, since the end of the Cold War, have largely replaced Civil defense, whose original focus was protecting civilians from military attack. Modern thinking focuses on a more general intent to protect the civilian population in times of peace as well as in times of war. Another current term, Civil Protection is widely used within the European Union and refers to government-approved systems and resources whose task is to protect the civilian population, primarily in the event of natural and human-made disasters. Within EU countries the term Crisis Management emphasises the political and security dimension rather than measures to satisfy the immediate needs of the civilian population.[citation needed] An academic trend is towards using the term disaster risk reduction, particularly for emergency management in a development management context. This focuses on the mitigation and preparedness aspects of the emergency cycle.

Definition of disaster

A disaster is the tragedy of a natural or human-made hazard (a hazard is a situation which poses a level of threat to life, health, property, or environment) that negatively affects society or environment. In contemporary academia, disasters are seen as the consequence of inappropriately managed risk. These risks are the product of hazards and vulnerability. Hazards that strike in areas with low vulnerability are not considered a disaster, as is the case in uninhabited regions.

Developing countries suffer the greatest costs when a disaster hits – more than 95 percent of all deaths caused by disasters occur in developing countries, and losses due to natural disasters are 20 times greater (as a percentage of GDP) in developing countries than in industrialized countries. A disaster can be defined as any tragic event with great loss stemming from events such as earthquakes, floods, catastrophic accidents, fires, or explosions.

Etymology

The word derives from Middle French désastre and that from Old Italian disastro, which in turn comes from the Greek pejorative prefix δυσ-, (dus-) "bar + ἀστήρ (aster), "star".The root of the word disaster ("bad star" in Greek) comes from an astrological theme in which the ancients used to refer to the destruction or deconstruction of a star as a disaster.

Classification of disasters

For more than a century researchers have been studying disasters and for more than forty years disaster research has been institutionalized through the Disaster Research Center. The studies reflect a common opinion when they argue that all disasters can be seen as being human-made, their reasoning being that human actions before the strike of the hazard can prevent it developing into a disaster. All disasters are hence the result of human failure to introduce appropriate disaster management measures. Hazards are routinely divided into natural or human-made, although complex disasters, where there is no single root cause, are more common in developing countries. A specific disaster may spawn a secondary disaster that increases the impact. A classic example is an earthquake that causes a tsunami, resulting in coastal flooding.

Natural disaster

A natural disaster is a consequence when a natural hazard (e.g., volcanic eruption or earthquake) affects humans and/or the built environment. Human vulnerability, caused by the lack of appropriate emergency management, leads to financial, environmental, or human impact. The resulting loss depends on the capacity of the population to support or resist the disaster: their resilience. This understanding is concentrated in the formulation: "disasters occur when hazards meet vulnerability". A natural hazard will hence never result in a natural disaster in areas without vulnerability, e.g., strong earthquakes in uninhabited areas.

Man-made disaster

Disasters caused by human action, negligence, error, or involving the failure of a system are called man-made disasters. Man-made disasters are in turn categorized as technological or sociological. Technological disasters are the results of failure of technology, such as engineering failures, transport disasters, or environmental disasters. Sociological disasters have a strong human motive, such as criminal acts, stampedes, riots and war. Man-made earthquakes are well documented even though less known by the general public. The latest one is the December 9, 2006 Basel, Switzerland earthquake triggered by a quest for geothermal energy.

Disaster management

With the tropical climate and unstable landforms, coupled with high population density, poverty, illiteracy and lack of adequate infrastructure, India is one of the most vulnerable developing countries to suffer very often from various natural disasters, namely drought, flood, cyclone, earth quake, landslide, forest fire, hail storm, locust, volcanic eruption, etc. Which strike causing a devastating impact on human life, economy and environment. Though it is almost impossible to fully recoup the damage caused by the disasters, it is possible to (i) minimize the potential risks by developing early warning strategies (ii) prepare and implement developmental plans to provide resilience to such disasters (iii) mobilize resources including communication and telemedicinal services, and (iv) to help in rehabilitation and post-disaster reconstruction. Space technology plays a crucial role in efficient mitigation of disasters. While communication satellites help in disaster warning, relief mobilization and tele-medicinal support, earth observation satellites provide required database for pre-disaster preparedness programmes, disaster response, monitoring activities and post-disaster damage assessment, and reconstruction, and rehabilitation. The article describes the role of space technology in evolving a suitable strategy for disaster preparedness and operational framework for their monitoring, assessment and mitigation, identifies gap areas and recommends appropriate strategies for disaster mitigation vis-à-vis likely developments in space and ground segments.

Various disasters like earthquake, landslides, volcanic eruptions, flood and cyclones are natural hazards that kill thousands of people and destroy billions of dollars of habitat and property each year. The rapid growth of the world's population and its increased concentration often in hazardous environment[citation needed] has escalated both the frequency and severity of natural disasters. With the tropical climate and unstable land forms, coupled with deforestation, unplanned growth proliferation non-engineered constructions which make the disaster-prone areas mere vulnerable, tardy communication, poor or no budgetary allocation for disaster prevention, developing countries suffer more or less chronically by natural disasters.[citation needed] Asia tops the list of casualties due to natural disaster.

Among various natural hazards, earthquakes, landslides, floods and cyclones are the major disasters adversely affecting very large areas and population in the Indian sub-continent. These natural disasters are of (i) geophysical origin such as earthquakes, volcanic eruptions, land slides and (ii) climatic origin such as drought, flood, cyclone, locust, forest fire. Though it may not be possible to control nature and to stop the development of natural phenomena but the efforts could be made to avoid disasters and alleviate their effects on human lives, infrastructure and property. Rising frequency, amplitude and number of natural disasters and attendant problem coupled with loss of human lives prompted the General Assembly of the United Nations to proclaim 1990s as the International Decade for Natural Disaster Reduction (IDNDR) through a resolution 44/236 of December 22, 1989 to focus on all issues related to natural disaster reduction. In spite of IDNDR, there had been a string of major disaster throughout the decade. Nevertheless, by establishing the rich disaster management related traditions and by spreading public awareness the IDNDR provided required stimulus for disaster reduction. It is almost impossible to prevent the occurrence of natural disasters and their damages.

However, it is possible to reduce the impact of disasters by adopting suitable disaster mitigation strategies. The disaster mitigation works mainly address the following:
Minimize the potential risks by developing disaster early warning strategies
Prepare and implement developmental plans to provide resilience to such disasters,
Mobilize resources including communication and tele-medicinal services
To help in rehabilitation and post-disaster reduction.
Disaster management on the other hand involves
Pre-disaster planning, preparedness, monitoring including relief management capability
Prediction and early warning
Damage assessment and relief management.
Disaster reduction is a systematic work which involves with different regions, different professions and different scientific fields, and has become an important measure for human, society and nature sustainable development.

Emergency management and Business continuity planning

The local communities at the time of disaster or before the disaster make groups for helping the people from suffering during the disaster. These groups include, First Aid group, Health group, Food and Welfare group etc. They all are well trained by some local community members. All the groups are sent for helping any other local community that is suffering from a disaster. They also migrate the people from the area affected from disaster to some other safe regions. They are given shelter and every possible facilities by those local management communities. Today, Government is also making effort to provide good facilities during the disaster. In India, in the rural areas, the community(group of families) are choosing a leader and developing their Disaster management skills to protect themselves and other local communities as well.

The Natural Disasters

A natural disaster is the effect of a natural hazard (e.g. flood, tornado, volcano eruption, earthquake, or landslide) that affects the environment, and leads to financial, environmental and/or human losses. The resulting loss depends on the capacity of the population to support or resist the disaster, and their resilience. This understanding is concentrated in the formulation: "disasters occur when hazards meet vulnerability." A natural hazard will hence never result in a natural disaster in areas without vulnerability, e.g. strong earthquakes in uninhabited areas. The term natural has consequently been disputed because the events simply are not hazards or disasters without human involvement.

Land movement disasters / Avalanches
Avalanche on the backside (East) of Mt. Timpanogos, Utah at Aspen Grove trail
Notable avalanches include:
The 1910 Wellington avalanche
The 1954 Blons avalanches
The 1970 Ancash earthquake
The 1999 Galtür Avalanche
The 2002 Kolka-Karmadon rock ice slide
The 2008 Wenchuan earthquake
The 2010 Haiti earthquake
The 2010 Chile earthquake
The 2010 Yushu earthquake

Earthquakes
An Earthquake is a sudden shake of the Earth's crust.The vibrations may vary in magnitude. The underground point of origin of the earthquake is called the "focus". The point directly above the focus on the surface is called the"epicenter". Earthquakes by themselves rarely kill people or wildlife. It is usually the secondary events that they trigger, such as building collapse, fires, tsunamis (seismic sea waves) and volcanoes, that are actually the human disaster. Many of these could possibly be avoided by better construction, safety systems, early warning and evacuation planning.
Earthquakes are caused by the discharge of accumulated along geologic faults.

Lahars
A lahar is a volcanic mudflow or landslide. The 1953 Tangiwai disaster was caused by a lahar, as was the 1985 Armero tragedy in which the town of Armero was buried and an estimated 23,000 people were killed

Volcanic eruptions
An Eruption may in itself be a disaster due to the explosion of the volcano or the fall of rock but there are several effects that may happen after an eruption that are also hazardous to human life.

Lava may be produced during the eruption of a volcano a material consisting of superheated rock. There are several different forms which may be either crumbly or gluey. Leaving the volcano this destroys any buildings and plants it encounters.

Volcanic ash - generally meaning the cooled ash - may form a cloud, and settle thickly in nearby locations. When mixed with water this forms a concrete like material. In sufficient quantity ash may cause roofs to collapse under its weight but even small quantities will cause ill health if inhaled. Since the ash has the consistency of ground glass it causes abrasion damage to moving parts such as engines.

Supervolcanoes : According to the Toba catastrophe theory 70 to 75 thousand years ago a super volcanic event at Lake Toba reduced the human population to 10,000 or even 1,000 breeding pairs creating a bottleneck in human evolution. It also killed three quarters of all plant life in the northern hemisphere. The main danger from a supervolcano is the immense cloud of ash which has a disastrous global effect on climate and temperature for many years.

Pyroclastic flows consist of a cloud of hot volcanic ash which builds up in the air above under its own weight and streams very rapidly from the mountain burning anything in its path. It is believed that Pompeii was destroyed by a pyroclastic flow.

Water disasters / Floods
The Limpopo River, in southern Mozambique, during the 2000 Mozambique flood
Some of the most notable floods include:
The Huang He (Yellow River) in China floods particularly often. The Great Flood of 1931 caused between 800,000 and 4,000,000 deaths.
The Great Flood of 1993 was one of the most costly floods in United States history.
The 1998 Yangtze River Floods, also in China, left 14 million people homeless.
The 2000 Mozambique flood covered much of the country for three weeks, resulting in thousands of deaths, and leaving the country devastated for years afterward.
Tropical cyclones can result in extensive flooding and storm surge, as happened with:
Bhola Cyclone, striking East Pakistan (now Bangladesh) in 1970,
Typhoon Nina, striking China in 1975,
Tropical Storm Allison, which struck Houston, Texas in 2001 and
Hurricane Katrina, which left most of New Orleans under water in 2005. Much of the flooding was due to the failure of the city's levee system.

Limnic eruptions
A cow suffocated by gases from Lake Nyos after a limnic eruption
A limnic eruption occurs when CO_2 suddenly erupts from deep lake water, posing the threat of suffocating wildlife, livestock and humans. Such an eruption may also cause tsunamis in the lake as the rising CO_2 displaces water. Scientists believe landslides, volcanic activity, or explosions can trigger such an eruption.Till date, only two limnic eruptions have been observed and recorded:
In 1984, in Cameroon, a limnic eruption in Lake Monoun caused the deaths of 37 nearby residents
At nearby Lake Nyos in 1986 a much larger eruption killed between 1,700 and 1,800 people by asphyxiation.

Tsunami
The tsunami caused by the December 26, 2004 earthquake strikes Ao Nang, Thailand.

Tsunamis can be caused by undersea earthquakes as the one caused in Ao Nang, Thailand by the 2004 Indian Ocean Earthquake, or by landslides such as the one which occurred at Lituya Bay, Alaska.
Ao Nang, Thailand (2004). The 2004 Indian Ocean Earthquake created the Boxing Day Tsunami and disaster at this site.
Lituya Bay, Alaska (1953). A mega-tsunami occurred here, the largest ever recorded.
(This also fits within the "Land movement disaster" category because it started with an earthquake.)

Weather disasters / Blizzards
Significant blizzards in the United States include:
The Great Blizzard of 1888
The Schoolhouse Blizzard earlier the same year
The Armistice Day Blizzard in 1940
The Storm of the Century in 1993

Cyclonic storms
Tropical cyclone and cyclone
Cyclone, tropical cyclone, hurricane, and typhoon are different names for the same phenomenon a cyclonic storm system that forms over the oceans. The deadliest hurricane ever was the 1970 Bhola cyclone the deadliest Atlantic hurricane was the Great Hurricane of 1780 which devastated Martinique St. Eustatius and Barbados. Another notable hurricane is Hurricane Katrina which devastated the Gulf Coast of the United States in 2005.

Droughts
Well-known historical droughts include:
1900 India killing between 250,000 and 3.25 million.
1921-22 Soviet Union in which over 5 million perished from starvation due to drought
1928-30 northwest China resulting in over 3 million deaths by famine.
1936 and 1941 Sichuan Province China resulting in 5 million and 2.5 million deaths respectively.
As of 2006, states of Australia including Western Australia, New South Wales, Victoria and Queensland had been under drought conditions for five to ten years. The drought is beginning to affect urban area populations for the first time.
In 2006 Sichuan Province China experienced its worst drought in modern times with nearly 8 million people and over 7 million cattle facing water shortages.

Hailstorms
Hailstorms (AKA hailstones) are rain drops that have formed together into ice. A particularly damaging hailstorm hit Munich, Germany on August 31, 1986, felling thousands of trees and causing millions of dollars in insurance claims.

Heat waves
The worst heat wave in recent history was the European Heat Wave of 2003.

Hurricane Katrina
A summer heat wave in Victoria, Australia caused the massive bushfires in 2009. Melbourne experienced 3 days in a row of temperatures exceeding 40°C.

Different Types of Tornadoes

Supercell Tornadoes
Some of the most violent tornadoes develop from supercell thunderstorms. A supercell thunderstorm is a long-lived thunderstorm possessing within its structure a continuously rotating updraft of air. These storms have the greatest tendency to produce tornadoes, some of the huge wedge shape. The supercell thunderstorm has a low-hanging, rotating layer of cloud known as a "wall cloud." It looks somewhat like a layer of a layer cake that hangs below the broader cloud base. One side of the wall cloud is often rain-free, while the other is neighbored by dense shafts of rain. The rotating updraft of the supercell is seen on radar as a "mesocyclone."

The tornadoes that accompany supercell thunderstorms are more likely to remain in contact with the ground for long periods of time—an hour or more—than other tornadoes, and are more likely to be violent, with winds exceeding-200 mph.

Landspout
Generally weaker than a supercell tornado, a landspout is not associated with a wall cloud or mesocyclone. It may be observed beneath cumulonimbus or towering cumulus clouds and is the land equivalent of a waterspout. It often forms along the leading edge of rain-cooled downdraft air emanating from a thunderstorm, known as a "gust front."

Gustnado
Weak and usually short-lived, a gustnado forms along the gust front of a thunderstorm, appearing as a temporary dust whirl or debris cloud. There may be no apparent connection to or circulation in the cloud aloft. These appear like dust devils.

Waterspout
A waterspout is a tornado over water. A few form from supercell thunderstorms, but many form from weak thunderstorms or rapidly growing cumulus clouds. Waterspouts are usually less intense and causes far less damage. Rarely more than fifty yards wide, it forms over warm tropical ocean waters, although its funnel is made of freshwater droplets condensed from water vapor from condensation - not saltwater from the ocean. Waterspouts usually dissipate upon reaching land.
The following are tornado-like circulations

Dust Devils
Dry, hot, clear days on the desert or over dry land can bring about dust devils. Generally forming in the hot sun during the late morning or early afternoon hours, these mostly harmless whirlwinds are triggered by light desert breezes that create a swirling plume of dust with speeds rarely over 70 mph. These differ from tornadoes in that they are not associated with a thunderstorm (or any cloud), and are usually weaker than the weakest

Tornado.
Typically, the life cycle of a dust devil is a few minutes or less, although they can last much longer. Although usually harmless, they have been known to cause minor damage. They can blow vehicles off the road and could damage your eyes by blowing dust into them.

Firewhirls
Sometimes the intense heat created by a major forest fire or volcanic eruption can create what is known as a firewhirl, a tornado-like rotating column of smoke and/or fire. This happens when the fire updraft

concentrates some initial weak whirl or eddy in the wind. Winds associated with firewhirls have been estimated at over 100 mph. They are sometimes called fire tornadoes, fire devils, or even firenadoes.

Fire

Wildfires are an uncontrolled fire burning in wildland areas. Common causes include lightning and drought but wildfires may also be started by human negligence or arson. They can be a threat to those in rural areas and also wildlife.

A notable case of wildfire was the 2009 Victorian bushfires in Australia.

Health and diseases

Epidemic

http://en.wikipedia.org/wiki/File:Colorized_transmission_electron_micrograph_of_Avian_influenza_A_H5N1_viruses.jpgThe A H5N1 virus, which causes Avian influenza

An epidemic is an outbreak of a contractible disease that spreads at a rapid rate through a human population. A pandemic is an epidemic whose spread is global. There have been many epidemics throughout history, such as Black Death. In the last hundred years, significant pandemics include:

The 1918 Spanish flu pandemic, killing an estimated 50 million people worldwide

The 1957-58 Asian flu pandemic, which killed an estimated 1 million people

The 1968-69 Hong Kong flu pandemic

The 2002-3 SARS pandemic

The AIDS epidemic, beginning in 1959

The H1N1 Influenza (Swine Flu) Pandemic 2009-Present

Other diseases that spread more slowly, but are still considered to be global health emergencies by the WHO include:

XDR TB, a strain of tuberculosis that is extensively resistant to drug treatments

Malaria, which kills an estimated 1.6 million people each year

Ebola hemorrhagic fever, which has claimed hundreds of victims in Africa in several outbreaks

Famine

In modern times, famine has hit Sub-Saharan Africa the hardest, although the number of victims of modern famines is much smaller than the number of people killed by the Asian famines of the 20th century.

Space

Fallen trees caused by the Tunguska meteoroid of the Tunguska event in June, 1908.

Gamma ray bursts. Impact eventsOne of the largest impact events in modern times was the Tunguska event in June, 1908.

Solar flares

A solar flare is a phenomenon where the sun suddenly releases a great amount of solar radiation, much more than normal. Some known solar flares include:

An X20 event on August 16, 1989

A similar flare on April 2, 2001

The most powerful flare ever recorded, on November 4, 2003, estimated at between X40 and X45

The most powerful flare in the past 500 years is believed to have occurred in September 1859

Supernova and hypernova

Future of natural disasters
The United Kingdom based charity Oxfam publicly stated that the number of people hit by climate-related disasters is expected to rise by about 50%, to reach 375 million a year by 2015.

Insurance
Natural disasters play a major role in the insurance industry, which pays for certain damages arising from hurricanes, wildfires, and other catastrophes. Large reinsurance companies are particularly involved.

Disaster Risk Reduction (DRR) http://wikimediafoundation.org/
Disaster Risk Reduction (DRR) is a term used for techniques that focus on preventing or minimizing the effects of disasters. For instance, certain areas of a city that are prone to flooding may have development restricted or building codes may be implemented that protect up to a specified level of shaking, to protect against earthquakes. The term has been adopted by the United Nations, which has developed an international strategy on promoting disaster risk reduction as it has been shown to be very cost effective.
Initiatives that are focused on disaster risk reduction will either seek to reduce the likelihood of a disaster occurring (flood protection works, known as dykes, levees and stopbanks) or enhance the community's ability to respond to an emergency (ensuring three days food and water). As a disaster is a product of a severe event and people, changing either will have an effect on any disasters that occur. Further examples of initiatives include increasing knowledge and creating legal and policy frameworks. Closely linked is the issue of post-disaster long term recovery. The International Recovery Platform functions as a knowledge hub to disseminate best practices and lessons from recovery efforts. The platform advocates to ensure the recovery process is utilized as an opportunity for "build back better", to reduce risks inherent before the disaster. Disaster risk reduction is related to the following areas: humanitarian relief, development aid sectors, risk management, climate change, and emergency preparedness.

Definition
The term "Disaster risk reduction" refers to a wide sector of work on disaster management including: mitigationhttp://en.wikipedia.org/wiki/Disaster_Risk_Reduction - cite_note-3#cite_note-3, prevention, risk reduction, preparedness, and vulnerabilities. The common definition of the UNISDR & UNDP for disaster risk reduction is:

> “ The conceptual framework of elements considered with the possibilities to minimize vulnerabilities and disaster risks throughout a society, to avoid (prevention) or to limit (mitigation and preparedness) the adverse impacts of hazards, within the broad context of sustainable development. ”

Context
Only 4% of the estimated $10 billion in annual humanitarian assistance is devoted to prevention and yet every dollar spent on risk reduction saves between $5 and $10 in economic losses from disasters.

Major International Conferences & Workshops

The World Conference on Disaster Reduction (WCDR) was held in Kobe, Japan in January 2005, only days after the 2004 Indian Ocean earthquake. The Conference was to take stock of progress in disaster risk reduction accomplished since the Yokohama Conference of 1994 and to make plans for the next ten years. The key outcome of this conference was the Hyogo Framework for Action.
The International Disaster Reduction Conference (IDRC) was held in Davos, Switzerland in August 2006.
The UNISDR Global Platform for Disaster Risk Reduction held its first session from 5-7 June 2007 in Geneva, Switzerland.
The International Recovery Forum 2010 was held at Kobe Japan on 16 January 2010

Major International Agreements & Funding Loci

The key outcome of the WCDR was the Hyogo Framework for Action : building the resilience of nations and communities to disasters (HFA).
The UNISDR Global Facility for Disaster Reduction and Recovery (GFDRR) is a major initiative launched in September 2006 through a partnership between the World Bank and ISDR to support national, regional and global capacities in reducing disaster risk, particularly in low and middle-income countries. A progress report on GFDRR accomplishments to date in support of the implementation of Hyogo Framework for Action is now available here.

Sector leaders
Some of the leaders in the sector include:
UNISDR, formerly IDNDR - Salvano Briceño
ProVention Consortium - Margaret Arnold
The International Federation of Red Cross and Red Crescent Societies - Antony Spalton
USAID's Office of U.S. Foreign Disaster Assistance (OFDA) - David Hajjar
The Emergency Capacity Building (ECB) Project http://www.ecbproject.org/.
UNDP - Joanne Burke (CADRI), Andrew Maskrey, Maxx Dilley, & Fenella Frost (BCPR)
The World Bank - Saroj Kumar Jha, Global Facility for Disaster Reduction and Recovery (GFDRR)
The BOND UK DRR Working Group
Christian Aid - Sarah Moss http://christianaid.org.uk/emergencies/prevention/index.aspx
The InterAction Risk Reduction Working Group - Susan Romanski Mercy Corps & Rebecca Schurer (American Red Cross)
Tearfund - Marcus Oxley
ActionAid - Roger Yates & Yasmin McDonnell
Department for International Development (DFID), UK - Olivia Coghlan
Global Risk Identification Program (GRIP) - Carlos Villacis

Space-based Information

The use of space-based solutions and information to support risk and disaster management has increased significantly in recent years. The use of such technologies has been proven useful in the risk assessment, mitigation and preparedness phases of disaster management. As the global community learnt from the tsunami event of December 2004, space technologies have a central role to play in providing early warning to communities that are at risk and in supporting rescue efforts. The recent disasters in Myanmar (Cyclone Nargis) and China (Wenchen earthquake) have shown how the problem now is not accessing such information but coordinating the many opportunities and actually being able to take advantage of the information being provided.

In order for developing countries to be able to incorporate the use of space technology-based solutions and information there is a need to increase awareness, build national capacity and also develop solutions that are customised and appropriate to the needs of the developing world.

This is what the UN-SPIDER is helping achieve. In its resolution 61/110 of 14 December 2006 the United Nations General Assembly agreed to establish the "United Nations Platform for Space-based Information for Disaster Management and Emergency Response - UN-SPIDER" as a new United Nations programme, within the United Nations Office for Outer Space Affairs - UNOOSA, with the following mission statement: "Ensure that all countries and international and regional organizations have access to and develop the capacity to use all types of space-based information to support the full disaster management cycle". UN-SPIDER is being implemented as an open network of providers of space-based solutions to support disaster management activities. Besides Vienna (where UNOOSA is located), the programme also has an office in Bonn, Germany and will also have an office in Beijing, China and a Liaison Office in Geneva, Switzerland. Additionally, Algeria, the I.R. of Iran and Nigeria are setting up Regional Support Offices.

United Nations - International Strategy for Disaster Reduction
United Nations - International Strategy for Disaster Reduction- Regional Unit for the Americas
UN-SPIDER - United Nations Platform for Space-based Information for Disaster Management and Emergency Response
Preventionweb - Building the resilience of nations and communities to disasters
Education for hazards - What to do A guide for children and youth
International Federation of Red Cross and Red Crescent Societies Disaster Management The ProVention Consortium - Red Cross and Red Crescent
UNDP/CADRI
UNDP/BCPR
UNDP DRR links
The World Bank, Hazards Management Unit
United Nations Platform for Space-based Information for Disaster Management and Emergency Response
Earthquakes and Megacities Initiative
International Recovery Platform

Phases and professional activities

The nature of management depends on local economic and social conditions. Some disaster relief experts such as Fred Cuny have noted that in a sense the only real disasters are economic. Experts, such as Cuny, have long noted that the cycle of emergency management must include long-term work on infrastructure, public awareness, and even human justice issues. This is not important in developing nations. The process of emergency management involves four phases: mitigation, preparedness, response, and recovery.
http://en.wikipedia.org/wiki/File:Em_cycle.png

Disaster Mitigation

Mitigation efforts attempt to prevent hazards from developing into disasters altogether, or to reduce the effects of disasters when they occur. The mitigation phase differs from the other phases because it focuses on long-term measures for reducing or eliminating risk. The implementation of mitigation strategies can be considered a part of the recovery process if applied after a disaster occurs. Mitigative measures can be structural or non-structural. Structural measures use technological solutions, like flood levees. Non-structural measures include legislation, land-use planning (e.g. the designation of nonessential land like parks to be used as flood zones), and insurance. Mitigation is the most cost-efficient method for reducing the impact of hazards, however it is not always suitable. Mitigation does include providing regulations regarding evacuation, sanctions against those who refuse to obey the regulations (such as mandatory evacuations), and communication of potential risks to the public. Some structural mitigation measures may have adverse effects on the ecosystem.

A precursor activity to the mitigation is the identification of risks. Physical risk assessment refers to the process of identifying and evaluating hazards. The hazard-specific risk (Rh) combines both the probability and the level of impact of a specific hazard. The equation below states that the hazard multiplied by the populations' vulnerability to that hazard produces a risk Catastrophe modeling. The higher the risk, the more urgent that the hazard specific vulnerabilities are targeted by mitigation and preparedness efforts. However, if there is no vulnerability there will be no risk, e.g. an earthquake occurring in a desert where nobody lives.

Disaster Preparedness

Preparedness is a continuous cycle of planning, organizing, training, equipping, exercising, evaluation and improvement activities to ensure effective coordination and the enhancement of capabilities to prevent, protect against, respond to, recover from, and mitigate against natural disasters, acts of terrorism, and other man-made disasters.

In the preparedness phase, emergency managers develop plans of action to manage and counter their risks and take action to build the necessary capabilities needed to implement such plans. Common preparedness measures include:

Communication plans with easily understandable terminology and methods.
Proper maintenance and training of emergency services, including mass human resources such as community emergency response teams.
Development and exercise of emergency population warning methods combined with emergency shelters and evacuation plans.
Stockpiling, inventory, and maintain disaster supplies and equipment.develop organizations of trained volunteers among civilian populations. (Professional emergency workers are rapidly overwhelmed in mass emergencies so trained, organized, responsible volunteers are extremely valuable. Organizations like Community Emergency Response Teams and the Red Cross are ready sources of trained volunteers. The latter's emergency management system has gotten high ratings from both California, and the Federal Emergency Management Agency (FEMA).)

Another aspect of preparedness is casualty prediction, the study of how many deaths or injuries to expect for a given kind of event. This gives planners an idea of what resources need to be in place to respond to a particular kind of event.

Emergency Managers in the planning phase should be flexible, and all encompassing - carefully recognizing the risks and exposures of their respective regions and employing unconventional, and atypical means of support. Depending on the region - municipal, or private sector emergency services can rapidly be depleted and heavily taxed. Non-governmental organizations that offer desired resources, i.e., transportation of displaced homeowners to be conducted by local school district buses, evacuation of flood victims to be performed by mutual aide agreements between fire departments and rescue squads, should be identified early in planning stages, and practiced with regularity.

Disaster Response

The response phase includes the mobilization of the necessary emergency services and first responders in the disaster area. This is likely to include a first wave of core emergency services, such as firefighters, police and ambulance crews. When conducted as a military operation, it is termed Disaster Relief Operation (DRO) and can be a follow-up to a Non-combatant evacuation operation (NEO). They may be supported by a number of secondary emergency services, such as specialist rescue teams.
A well rehearsed emergency plan developed as part of the preparedness phase enables efficient coordination of rescue. Where required, search and rescue efforts commence at an early stage. Depending on injuries sustained by the victim, outside temperature, and victim access to air and water, the vast majority of those affected by a disaster will die within 72 hours after impact.
Organizational response to any significant disaster - natural or terrorist-borne - is based on existing emergency management organizational systems and processes: the Federal Response Plan (FRP) and the Incident Command System (ICS). These systems are solidified through the principles of Unified Command (UC) and Mutual Aid (MA)

Disaster Recovery

The aim of the recovery phase is to restore the affected area to its previous state. It differs from the response phase in its focus; recovery efforts are concerned with issues and decisions that must be made after immediate needs are addressed. Recovery efforts are primarily concerned with actions that involve rebuilding destroyed property, re-employment, and the repair of other essential infrastructure. Efforts should be made to "build back better", aiming to reduce the pre-disaster risks inherent in the community and infrastructure. An important aspect of effective recovery efforts is taking advantage of a ‘window of opportunity’ for the implementation of mitigative measures that might otherwise be unpopular. Citizens of the affected area are more likely to accept more mitigative changes when a recent disaster is in fresh memory.

In the United States, the National Response Plan dictates how the resources provided by the Homeland Security Act of 2002 will be used in recovery efforts. It is the Federal government that often provides the most technical and financial assistance for recovery efforts in the United States.

Phases and personal activities

Mitigation

Personal mitigation is mainly about knowing and avoiding unnecessary risks. This includes an assessment of possible risks to personal/family health and to personal property.
One example of mitigation would be to avoid buying property that is exposed to hazards, e.g., in a flood plain, in areas of subsidence or landslides. Home owners may not be aware of a property being exposed

to a hazard until it strikes. However, specialists can be hired to conduct risk identification and assessment surveys. Purchase of insurance covering the most prominent identified risks is a common measure.

Personal structural mitigation in earthquake prone areas includes installation of an Earthquake Valve to instantly shut off the natural gas supply to a property, seismic retrofits of property and the securing of items inside a building to enhance household seismic safety. The latter may include the mounting of furniture, refrigerators, water heaters and breakables to the walls, and the addition of cabinet latches. In flood prone areas houses can be built on poles, as in much of southern Asia. In areas prone to prolonged electricity black-outs installation of a generator would be an example of an optimal structural mitigation measure. The construction of storm cellars and fallout shelters are further examples of personal mitigative actions.
Mitigation involves Structural and Non-structural measures taken to limit the impact of disasters.

Crisis management

Crisis management is the process by which an organization deals with a major unpredictable event that threatens to harm the organization, its stakeholders, or the general public. Three elements are common to most definitions of crisis: (a) a threat to the organization, (b) the element of surprise, and (c) a short decision time. Veneteargues that "crisis is a process of transformation where the old system can no longer be maintained." Therefore the fourth defining quality is the need for change. If change is not needed, the event could more accurately be described as a failure or incident.

In contrast to risk management, which involves assessing potential threats and finding the best ways to avoid those threats, crisis management involves dealing with threats after they have occurred. It is a discipline within the broader context of management consisting of skills and techniques required to identify, assess, understand, and cope with a serious situation, especially from the moment it first occurs to the point that recovery procedures start.

Introduction

Crisis management consists of:

- Methods used to respond to both the reality and perception of crises.
- Establishing metrics to define what scenarios constitute a crisis and should consequently trigger the necessary response mechanisms.
- Communication that occurs within the response phase of emergency management scenarios.

Crisis management methods of a business or an organization are called **Crisis Management Plan**.

Crisis management is occasionally referred to as incident management, although several industry specialists such as Peter Power argue that the term crisis management is more accurate.

The credibility and reputation of organizations is heavily influenced by the percpetion of their responses during crisis situations. The organization and communication involved in responding to a crisis in a timely fashion makes for a challenge in businesses. There must be open and consistent communication throughout the hierarchy to contribute to a successful crisis communication process.

The related terms emergency management and business continuity management focus respectively on the prompt but short lived "first aid" type of response (e.g. putting the fire out) and the longer term recovery and restoration phases (e.g. moving operations to another site). Crisis is also a facet of risk management, although it is probably untrue to say that Crisis Management represents a failure of Risk Management since it will never be possible to totally mitigate the chances of catastrophes occurring.

Types of crisis

During the crisis management process, it is important to identify types of crises in that different crises necessitate the use of different crisis management strategies.Potential crises are enormous, but crises can be clustered. Lerbingercategorized seven types of crises

1. Natural disaster
2. Technological crises
3. Confrontation
4. Malevolence
5. Crises of skewed management value
6. Crises of deception
7. Crises of management misconduct

Natural crises

Natural crises, typically natural disasters considered as'acts of God,' are such environmental phenomena as earthquakes, volcanic eruptions, tornadoes and hurricanes, floods, landslides, tidal waves, storms, and droughts that threaten life, property, and the environment itself.

Example: 2004 Indian Ocean earthquake (Tsunami)

Technological crises

Technological crises are caused by human application of science and technology. Technological accidents inevitably occur when technology becomes complex and coupled and something goes wrong in the system as a whole (Technological breakdowns). Some technological crises occur when human error causes disruptions (Human breakdowns). People tend to assign blame for a technological disaster because technology is subject to human manipulation whereas they do not hold anyone responsible for natural disaster. When an accident creates significant environmental damage, the crisis is categorized as *megadamage*. Samples include software failures, industrial accidents, and oil spills.

Confrontation crises

Confrontation crises occur when discontented individuals and/or groups fight businesses, government, and various interest groups to win acceptance of their demands and expectations. The common type of confrontation crises is boycotts, and other types are picketing, sit-ins, ultimatums to those in authority, blockade or occupation of buildings, and resisting or disobeying police.

Example: Rainbow/PUSH’s (People United to Serve Humanity) boycott of Nike

Crises of malevolence

An organization faces a crisis of malevolence when opponents or miscreant individuals use criminal means or other extreme tactics for the purpose of expressing hostility or anger toward, or seeking gain from, a company, country, or economic system, perhaps with the aim of destabilizing or destroying it. Sample crises include product tampering, kidnapping, malicious rumors, terrorism, and espionage.

Example: 1982 Chicago Tylenol murders

Crises of organizational misdeeds

Crises occur when management takes actions it knows will harm or place stakeholders at risk for harm without adequate precautions. Lerbinger specified three different types of crises of organizational misdeeds: crises of skewed management values, crises of deception, and crises of management misconduct.

Crises of skewed management values

Crises of skewed management values are caused when managers favor short-term economic gain and neglect broader social values and stakeholders other than investors. This state of lopsided values is rooted in the classical business creed that focuses on the interests of stockholders and tends to view the interests of its other stakeholders such as customers, employees, and the community.

Example: Sears sacrifices customer trust

Crises of deception

Crises of deception occur when management conceals or misrepresents information about itself and its products in its dealing with consumers and others.

Crises of management misconduct

Some crises are caused not only by skewed values and deception but deliberate amorality and illegality.

Workplace violence

Crises occur when an employee or former employee commits violence against other employees on organizational grounds.

Example: DuPont's Lycra

Rumors

False information about an organization or its products creates crises hurting the organization's reputation. Sample is linking the organization to radical groups or stories that their products are contaminated.

Models and theories associated with crisis management

Crisis management model

Successfully diffusing a crisis requires an understanding of how to handle a crisis – before it occurs. Gonzalez-Herrero and Pratt created a four-phase crisis management model process that includes: issues management, planning-prevention, the crisis, and post-crisis (Gonzalez-Herrero and Pratt, 1995). The art is to define what the crisis specifically is or could be and what has caused it or could cause it.

Management crisis planning

No corporation looks forward to facing a situation that causes a significant disruption to their business, especially one that stimulates extensive media coverage. Public scrutiny can result in a negative financial, political, legal and government impact. Crisis management planning deals with providing the best response to a crisis.

Contingency planning

Preparing contingency plans in advance, as part of a crisis management plan, is the first step to ensuring an organization is appropriately prepared for a crisis. Crisis management teams can rehearse a crisis plan by developing a simulated scenario to use as a drill. The plan should clearly stipulate that the only people to speak publicly about the crisis are the designated persons, such as the company spokesperson or crisis team members. The first hours after a crisis breaks are the most crucial, so working with speed and efficiency is important, and the plan should indicate how quickly each function should be performed. When preparing to offer a statement externally as well as internally, information should be accurate. Providing incorrect or manipulated information has a tendency to backfire and will greatly exacerbate the situation. The contingency plan should contain information and guidance that will help decision makers to consider not only the short-term consequences, but the long-term effects of every decision.

Business continuity planning

When a crisis will undoubtedly cause a significant disruption to an organization, a business continuity plan can help minimize the disruption. First, one must identify the critical functions and processes that are necessary to keep the organization running. Then each critical function and or/process must have its own contingency plan in the event that one of the functions/processes ceases or fails. Testing these contingency plans by rehearsing the required actions in a simulation will allow for all involved to become more sensitive and aware of the possibility of a crisisis. As a result, in the event of an actual crisis, the team members will act more quickly and effectively.

Structural-functional systems theory

Providing information to an organization in a time of crisis is critical to effective crisis management. Structural-functional systems theory addresses the intricacies of information networks and levels of command making up organizational communication. The structural-functional theory identifies information flow in organizations as "networks" made up of members and "links". Information in organizations flow in patterns called networks.

Diffusion of innovation theory

Another theory that can be applied to the sharing of information is Diffusion of Innovation Theory. Developed by Everett Rogers, the theory describes how innovation is disseminated and communicated through certain channels over a period of time. Diffusion of innovation in communication occurs when an individual communicates a new idea to one or several others. At its most elementary form, the process involves: an innovation, (2) an individual or other unit of adoption that has knowledge of or experience with using the innovation, (3) another individual or other unit that does not yet have knowledge of the innovation, and (4) a communication channel connecting the two units. A communication channel is the means by which messages get from one individual to another.

Role of apologies in crisis management

There has been debate about the role of apologies in crisis management, and some argue that apology opens an organization up for possible legal consequences. "However some evidence indicates that compensation and sympathy, two less expensive strategies, are as effective as an apology in shaping people's perceptions of the organization taking responsibility for the crisis because these strategies focus on the victims' needs. The sympathy response expresses concern for victims while compensation offers victims something to offset the suffering."

Examples of successful crisis management

Tylenol (Johnson and Johnson)

In the fall of 1982, a murderer added 65 milligrams of cyanide to some Tylenol capsules on store shelves, killing seven people, including three in one family. Johnson & Johnson recalled and destroyed 31 million capsules at a cost of $100 million. The affable CEO, James Burke, appeared in television ads and at news conferences informing consumers of the company's actions. Tamper-resistant packaging was rapidly introduced, and Tylenol sales swiftly bounced back to near pre-crisis levels.

Johnson & Johnson was again struck by a similar crisis in 1986 when a New York woman died on Feb. 8 after taking cyanide-laced Tylenol capsules. Johnson & Johnson was ready. Responding swiftly and smoothly to the new crisis, it immediately and indefinitely canceled all television commercials for Tylenol, established a toll-free telephone hot-line to answer consumer questions and offered refunds or exchanges to customers who had purchased Tylenol capsules. At week's end, when another bottle of tainted Tylenol was discovered in a store, it took only a matter of minutes for the manufacturer to issue a nationwide warning that people should not use the medication in its capsule form.

Odwalla Foods

When Odwalla's apple juice was thought to be the cause of an outbreak of E. coli infection, the company lost a third of its market value. In October 1996, an outbreak of E. coli bacteria in Washington state, California, Colorado and British Columbia was traced to unpasteurized apple juice manufactured by natural juice maker Odwalla Inc. Forty-nine cases were reported, including the death of a small child. Within 24 hours, Odwalla conferred with the FDA and Washington state health officials; established a schedule of daily press briefings; sent out press releases which announced the recall; expressed remorse, concern and apology, and took responsibility for anyone harmed by their products; detailed symptoms of E. coli poisoning; and explained what consumers should do with any affected products. Odwalla then developed - through the help of consultants - effective thermal processes that would not harm the products' flavors when production resumed. All of these steps were communicated through close relations with the media and through full-page newspaper ads.

Mattel

Mattel Inc., the toy maker, has been plagued with more than 28 product recalls and in Summer of 2007, amongst problems with exports from China, faced two product recall in two weeks. The company *did everything it could to get its message out, earning high marks from consumers and retailers. Though upset by the situation, they were appreciative of the company's response. At Mattel, just after the 7 a.m. recall announcement by federal officials, a public relations staff of 16 was set to call reporters at the 40 biggest media outlets. They told each to check their e-mail for a news release outlining the recalls, invited them to a teleconference call with executives and scheduled TV appearances or phone conversations with Mattel's chief executive. The Mattel CEO Robert Eckert did 14 TV interviews on a Tuesday in August and about 20 calls with individual reporters. By the week's end, Mattel had responded to more than 300 media inquiries in the U.S. a*

Pepsi

The Pepsi Corporation faced a crisis in 1993 which started with claims of syringes being found in cans of diet Pepsi. Pepsi urged stores not to remove the product from shelves while it had the cans and the situation investigated. This led to an arrest, which Pepsi made public and then followed with their first video news release, showing the production process to demonstrate that such tampering was impossible within their factories. A second video news release displayed the man arrested. A third video news release showed surveillance from a convenience store where a woman was caught replicating the tampering incident. The company simultaneously publicly worked with the FDA during the crisis. The corporation was completely open with the public throughout, and every employee of Pepsi was kept aware of the details. This made public communications effective throughout the crisis. After the crisis had been resolved, the corporation ran a series of special campaigns designed to thank the public for standing by the corporation, along with coupons for further compensation. This case served as a design for how to handle other crisis situations.

Lessons learned in crisis management

Impact of catastrophes on shareholder value

One of the foremost recognized studies conducted on the impact of a catastrophe on the stock value of an organization was completed by Dr Rory Knight and Dr Deborah Pretty (1995, Templeton College, University of Oxford - commissioned by the Sedgewick Group). This study undertook a detailed analysis of the stock price (post impact) of organizations that had experienced catastrophes. The study identified organizations that recovered and even exceeded pre-catastrophe stock price, (*Recoverers*), and those that did not recover on stock price, (*Non-recoverers*). The average cumulative impact on shareholder value for the recoverers was 5% plus on their original stock value. So the net impact on shareholder value by this stage was actually positive. The non-recoverers remained more or less unchanged between days 5 and 50 after the catastrophe, but suffered a net negative cumulative impact of almost 15% on their stock price up to one year afterwards.

One of the key conclusions of this study is that "Effective management of the consequences of catastrophes would appear to be a more significant factor than whether catastrophe insurance hedges the economic impact of the catastrophe".

While there are technical elements to this report it is highly recommended to those who wish to engage their senior management in the value of crisis management.

Bhopal

The Bhopal disaster in which poor communication before, during, and after the crisis cost thousands of lives, illustrates the importance of incorporating cross-cultural communication in crisis management plans. According to American University's Trade Environmental Database Case Studies (1997), local residents were not sure how to react to warnings of potential threats from the Union Carbide plant. Operating manuals printed only in English is an extreme example of mismanagement but indicative of systemic barriers to information diffusion. According to Union Carbide's own chronology of the incident (2006), a day after the crisis Union Carbide's upper management arrived in India but was unable to assist in the relief efforts because they were placed under house arrest by the Indian government. Symbolic intervention can be counter productive; a crisis management strategy can help upper management make more calculated decisions in how they should respond to disaster scenarios. The Bhopal incident illustrates the difficulty in consistently applying management standards to multi-national operations and the blame shifting that often results from the lack of a clear management plan.

Ford and Firestone Tire and Rubber Company

The Ford-Firestone Tire and Rubber Company dispute transpired in August 2000. In response to claims that their 15-inch Wilderness AT, radial ATX and ATX II tire treads were separating from the tire core—leading to grisly, spectacular crashes—Bridgestone/Firestone recalled 6.5 million tires. These tires were mostly used on the Ford Explorer, the world's top-selling sport utility vehicle (SUV).

The two companies' committed three major blunders early on, say crisis experts. First, they blamed consumers for not inflating their tires properly. Then they blamed each other for faulty tires and faulty vehicle design. Then they said very little about what they were doing to solve a problem that had caused more than 100 deaths—until they got called to Washington to testify before Congress.

Exxon

On March 24, 1989, a tanker belonging to the Exxon Corporation ran aground in the Prince William Sound in Alaska. The Exxon Valdez spilled millions of gallons of crude oil into the waters off Valdez, killing thousands of fish, fowl, and sea otters. Hundreds of miles of coastline were polluted and salmon spawning runs disrupted; numerous fishermen, especially Native Americans, lost their livelihoods. Exxon, by contrast, did not react quickly in terms of dealing with the media and the public; the CEO, Lawrence Rawl, did not become an active part of the public relations effort and actually shunned public involvement; the company had neither a communication plan nor a communication team in place to handle the event—in fact, the company did not appoint a public relations manager to its management team until 1993, 4 years after the incident; Exxon established its media center in Valdez, a location too small and too remote to handle the onslaught of media attention; and the company acted defensively in its response to its publics, even laying blame, at times, on other groups such as the Coast Guard. These responses also happened within days of the incident.

Public sector crisis management

Corporate America is not the only community that is vulnerable to the perils of a crisis. Whether a school shooting, a public health crisis or a terrorist attack that leaves the public seeking comfort in the calm, steady leadership of an elected official, no sector of society is immune to crisis. In response to that reality, crisis management policies, strategies and practices have been developed and adapted across multiple disciplines.

Schools and crisis management

In the wake of the Columbine High School Massacre, the September 11 attacks in 2001, and shootings on college campuses including the Virginia Tech massacre, educational institutions at all levels are now focused on crisis management.[18]

A national study conducted by the University of Arkansas for Medical Sciences (UAMS) and Arkansas Children's Hospital Research Institute (ACHRI) has shown that many public school districts have important deficiencies in their emergency and disaster plans (The School Violence Resource Center, 2003).

In response the Resource Center has organized a comprehensive set of resources to aid schools is the development of crisis management plans

Crisis management plans cover a wide variety of incidents including bomb threats, child abuse, natural disasters, suicide, drug abuse and gang activities – just to list a few. In a similar fashion the plans aim to address all audiences in need of information including parents, the media and law enforcement officials.http://en.wikipedia.org/wiki/Crisis_Management - cite_note-VaDoE-19#cite_note-VaDoE-19

Government and crisis management

Historically, government at all levels – local, state, and national – has played a large role in crisis management. Indeed, many political philosophers have considered this to be one of the primary roles of government. Emergency services, such as fire and police departments at the local level, and the United States National Guard at the federal level, often play integral roles in crisis situations.

To help coordinate communication during the response phase of a crisis, the U.S. Federal Emergency Management Agency (FEMA) within the Department of Homeland Security administers the National Response Plan (NRP). This plan is intended to integrate public and private response by providing a common language and outlining a chain-of-command when multiple parties are mobilized. It is based on the premise that incidences should be handled at the lowest organizational level possible. The NRP recognizes the private sector as a key partner in domestic incident management, particularly in the area of critical infrastructure protection and restoration. The NRP is a companion to the National Incidence Management System that acts as a more general template for incident management regardless of cause, size, or complexity.

FEMA offers free web-based training on the National Response Plan through the Emergency Management Institute.

Common Alerting Protocol (CAP) is a relatively recent mechanism that facilitates crisis communication across different mediums and systems. CAP helps create a consistent emergency alert format to reach geographically and linguistically diverse audiences through both audio and visual mediums.

Elected officials and crisis management

Historically, politics and crisis go hand-in-hand. In describing crisis, President Abraham Lincoln said, “We live in the midst of alarms, anxiety beclouds the future; we expect some new disaster with each newspaper we read.”http://en.wikipedia.org/wiki/Wikipedia:Citation_needed

Crisis management has become a defining feature of contemporary governance. In times of crisis, communities and members of organizations expect their public leaders to minimize the impact of the crisis at hand, while critics and bureaucratic competitors try to seize the moment to blame incumbent rulers and their policies. In this extreme environment, policy makers must somehow establish a sense of normality, and foster collective learning from the crisis experience.

In the face of crisis, leaders must deal with the strategic challenges they face, the political risks and opportunities they encounter, the errors they make, the pitfalls they need to avoid, and the paths away from crisis they may pursue. The necessity for management is even more significant with the advent of a 24-hour news cycle and an increasingly internet-saavy audience with ever-changing technology at its fingertips.

Public leaders have a special responsibility to help safeguard society from the adverse consequences of crisis. Experts in crisis management note that leaders who take this responsibility seriously would have to concern themselves with all crisis phases: the incubation stage, the onset, and the aftermath. Crisis leadership then involves five critical tasks: sense making, decision making, meaning making, terminating, and learning.

A brief description of the five facets of crisis leadership includes: Sense making may be considered as the classical situation assessment step in decision making.

1. Decision making is both the act of coming to a decision as the implementation of that decision.
2. Meaning making refers to crisis management as political communication.
3. Terminating a crisis is only possible if the public leader correctly handles the accountability question.
4. Learning, refers to the actual learning from a crisis is limited. The authors note, a crisis often opens a window of opportunity for reform for better or for worse.

Structural Mitigation:-

This involves proper layout of building, particularly to make it resistant to disasters.
Non Structural Mitigation:-
This involves measures taken other than improving the structure of building.
Preparedness

Airport emergency preparedness exercise.
While preparedness is aimed at preventing a disaster from occurring, personal preparedness focuses on preparing equipment and procedures for use when a disaster occurs, i.e., planning. Preparedness

measures can take many forms including the construction of shelters, installation of warning devices, creation of back-up life-line services (e.g., power, water, sewage), and rehearsing evacuation plans. Two simple measures can help prepare the individual for sitting out the event or evacuating, as necessary. For evacuation, a disaster supplies kit may be prepared and for sheltering purposes a stockpile of supplies may be created. The preparation of a survival kit such as a "72-hour kit", is often advocated by authorities. These kits may include food, medicine, flashlights, candles and money.

Response

The response phase of an emergency may commence with search and rescue but in all cases the focus will quickly turn to fulfilling the basic humanitarian needs of the affected population. This assistance may be provided by national or international agencies and organisations. Effective coordination of disaster assistance is often crucial, particularly when many organisations respond and local emergency management agency (LEMA) capacity has been exceeded by the demand or diminished by the disaster itself.

On a personal level the response can take the shape either of a shelter in place or an evacuation. In a shelter-in-place scenario, a family would be prepared to fend for themselves in their home for many days without any form of outside support. In an evacuation, a family leaves the area by automobile or other mode of transportation, taking with them the maximum amount of supplies they can carry, possibly including a tent for shelter. If mechanical transportation is not available, evacuation on foot would ideally include carrying at least three days of supplies and rain-tight bedding, a tarpaulin and a bedroll of blankets being the minimum.

Recovery

The recovery phase starts after the immediate threat to human life has subsided. During reconstruction it is recommended to consider the location or construction material of the property.

The most extreme home confinement scenarios include war, famine and severe epidemics and may last a year or more. Then recovery will take place inside the home. Planners for these events usually buy bulk foods and appropriate storage and preparation equipment, and eat the food as part of normal life. A simple balanced diet can be constructed from vitamin pills, whole-meal wheat, beans, dried milk, corn, and cooking oil.[10] One should add vegetables, fruits, spices and meats, both prepared and fresh-gardened, when possible.

As a profession

Emergency managers are trained in a wide variety of disciplines that support them through out the emergency life-cycle. Professional emergency managers can focus on government and community preparedness (Continuity of Operations/Continuity of Government Planning), or private business preparedness (Business Continuity Management Planning). Training is provided by local, state, federal and private organizations and ranges from public information and media relations to high-level incident command and tactical skills such as studying a terrorist bombing site or controlling an emergency scene.

In the past, the field of emergency management has been populated mostly by people with a military or first responder background. Currently, the population in the field has become more diverse, with many experts coming from a variety of backgrounds without military or first responder history. Educational opportunities are increasing for those seeking undergraduate and graduate degrees in emergency management or a related field. There are eight schools in the US with emergency management-related doctorate programs, but only one doctoral program specifically in emergency management.

Professional certifications such as Certified Emergency Manager (CEM) and Certified Business Continuity Professional (CBCP) are becoming more common as the need for high professional standards is recognized by the emergency management community, especially in the United States.

Tools

In recent years the continuity feature of emergency management has resulted in a new concept, Emergency Management Information Systems (EMIS). For continuity and interoperability between emergency management stakeholders, EMIS supports the emergency management process by providing an infrastructure that integrates emergency plans at all levels of government and non-government involvement and by utilizing the management of all related resources (including human and other resources) for all four phases of emergencies. In the healthcare field, hospitals utilize HICS (Hospital Incident Command System) which provides structure and organization in a clearly defined chain of command with set responsibilities for each division.

Within other professions

Practitioners in emergency management (disaster preparedness) come from an increasing variety of backgrounds as the field matures. Professionals from memory institutions (e.g., museums, historical societies, libraries, and archives) are dedicated to preserving cultural heritage—objects and records contained in their collections. This has been an increasingly major component within these field as a result of the heightened awareness following the September 11 attacks in 2001, the hurricanes in 2005, and the collapse of the Cologne Archives.

To increase the opportunity for a successful recovery of valuable records, a well-established and thoroughly tested plan must be developed. This plan must not be overly complex, but rather emphasize simplicity in order to aid in response and recovery. As an example of the simplicity, employees should perform similar tasks in the response and recovery phase that they perform under normal conditions. It should also include mitigation strategies such as the installation of sprinklers within the institution. This task requires the cooperation of a well-organized committee led by an experienced chairperson. Professional associations schedule regular workshops and hold focus sessions at annual conferences to keep individuals up to date with tools and resources in practice in order to minimize risk and maximize recovery.

Tools

The joint efforts of professional associations and cultural heritage institutions have resulted in the development of a variety of different tools to assist professionals in preparing disaster and recovery plans. In many cases, these tools are made available to external users. Also frequently available on websites are plan templates created by existing organizations, which may be helpful to any committee or group preparing a disaster plan or updating an existing plan. While each organization will need to formulate plans and tools which meet their own specific needs, there are some examples of such tools that might represent useful starting points in the planning process. In 2009, the US Agency for International Development created a web-based tool for estimating populations impacted by disasters. Called Population Explorer the tool uses Landscan population data, developed by Oak Ridge National Laboratory, to distribute population at a resolution 1 km2 for all countries in the world. Used by USAID's FEWS NET Project to estimate populations vulnerable and or impacted by food insecurity, Population Explorer is gaining wide use in a range of emergency analysis and response actions, including estimating populations impacted by floods in Central America and a Pacific Ocean Tsunami event in 2009.

In 2007, a checklist for veterinarians pondering participation in emergency response was published in the Journal of the American Veterinary Medical Association, it had two sections of questions for a professional to ask themself before assisting with an emergency: Absolute requirements for participation: Have I chosen to participate?, Have I taken ICS training?, Have I taken other required background courses?, Have I made arrangements with my practice to deploy?,Have I made arrangements with my family?

Incident Participation: Have I been invited to participate?, Are my skill sets a match for the mission?, Can I access just-in-time training to refresh skills or acquire needed new skills?, Is this a self-support mission?, Do I have supplies needed for three to five days of self support?
While written for veterinarians, this checklist is applicable for any professional to consider before assisting with an emergency.

International organizations

International Association of Emergency Managers
The International Association of Emergency Managers (IAEM) is a non-profit educational organization dedicated to promoting the goals of saving lives and protecting property during emergencies and disasters. The mission of IAEM is to serve its members by providing information, networking and professional opportunities, and to advance the emergency management profession.

Red Cross/Red Crescent
National Red Cross/Red Crescent societies often have pivotal roles in responding to emergencies. Additionally, the International Federation of Red Cross and Red Crescent Societies (IFRC, or "The Federation") may deploy assessment teams to the affected country. They specialize in the recovery component of the emergency management framework.

United Nations
Within the United Nations system responsibility for emergency response rests with the Resident Coordinator within the affected country. However, in practice international response will be coordinated, if requested by the affected country’s government, by the UN Office for the Coordination of Humanitarian Affairs (UN-OCHA), by deploying a UN Disaster Assessment and Coordination (UNDAC) team.

World Bank
Since 1980, the World Bank has approved more than 500 operations related to disaster management, amounting to more than US$40 billion. These include post-disaster reconstruction projects, as well as projects with components aimed at preventing and mitigating disaster impacts, in countries such as Argentina, Bangladesh, Colombia, Haiti, India, Mexico, Turkey and Vietnam to name only a few.
Common areas of focus for prevention and mitigation projects include forest fire prevention measures, such as early warning measures and education campaigns to discourage farmers from slash and burn agriculture that ignites forest fires; early-warning systems for hurricanes; flood prevention mechanisms, ranging from shore protection and terracing in rural areas to adaptation of production; and earthquake-prone construction.

In a joint venture with Columbia University under the umbrella of the ProVention Consortium the World Bank has established a Global Risk Analysis of Natural Disaster Hotspots.

In June 2006, the World Bank established the Global Facility for Disaster Reduction and Recovery (GFDRR), a longer term partnership with other aid donors to reduce disaster losses by mainstreaming disaster risk reduction in development, in support of the Hyogo Framework of Action. The facility helps developing countries fund development projects and programs that enhance local capacities for disaster prevention and emergency preparedness.

Emergency service /social services

Emergency services are organizations which ensure public safety by addressing different emergencies. Some agencies exist solely for addressing certain types of emergencies whilst others deal with ad hoc emergencies as part of their normal responsibilities. Many agencies will engage in community awareness and prevention programs to help the public avoid, detect, and report emergencies effectively.

The availability of emergency services depends very heavily on location, and may in some cases also rely on the recipient giving payment or holding suitable insurance or other surety for receiving the service.

Core emergency services

There are three services which are almost universally acknowledged as being core to the provision of emergency care to the populace, and are often government run. They would generally be summoned on a dedicated emergency telephone number, reserved for critical emergency calls. They are:

- **Police** — providing community safety and acting to reduce crime against persons and property
- **Fire and Rescue Service** — providing firefighters to deal with fire and rescue operations, and may also deal with some secondary emergency service duties
- **Emergency medical service** — providing ambulances and staff to deal with medical emergencies

Other emergency services

These services can be provided by one of the core services or by a separate government or private body.

- **Military** — to provide specialist services, such as bomb disposal or to supplement emergency services at times of major disaster, civil dispute or high demand.
- **Coastguard** — Provide coastal patrols with a security function at sea, as well as involvement in search and rescue operations
- **Lifeboat** — Dedicated providers of rescue lifeboat services, usually at sea (such as by the RNLI in the United Kingdom).
- **Mountain rescue** — to provide search and rescue in mountainous areas, and sometimes in other wilderness environments.
- **Cave rescue** — to rescue people injured, trapped, or lost during caving explorations.
- **Mine rescue** — specially trained and equipped to rescue miners trapped by fires, explosions, cave-ins, toxic gas, flooding, etc.
- **Technical rescue** — other types of technical or heavy rescue, but usually specific to a discipline (such as swift water).

- **Search and rescue** — can be discipline-specific, such as urban, wildland, maritime, etc.
- **Wildland fire suppression** — to suppress, detect and control fires in forests and other wildland areas.
- **Bomb disposal** — to render safe hazardous explosive ordnance, such as terrorist devices or unexploded wartime bombs.
- **Blood/organ transplant supply** — to provide organs or blood on an emergency basis, such as the National Blood Service of the United Kingdom.
- **Emergency management** — to provide and coordinate resources during large-scale emergencies.
- **Amateur radio emergency communications** — to provide communications support to other emergency services.

Civil emergency services

These groups and organisations respond to emergencies and provide other safety-related services either as a part of their on-the-job duties, as part of the main mission of their business or concern, or as part of their hobbies.

- **Public utilities** — safeguarding gas, electricity and water, which are all potentially hazardous if infrastructure fails
- **Emergency road service** — provide repair or recovery for disabled or crashed vehicles
- **Civilian Traffic Officers** — such as operated by the Highways Agency in the UK to facilitiate clearup and traffic flow at road traffic collisions
- **Emergency social services**
- **Community emergency response teams** — help organize facilities such as rest centers during large emergencies
- **Disaster relief** — such as services provided by the Red Cross and Salvation Army
- **Famine relief** teams
- **Amateur radio** communications groups — provide communications support during emergencies
- **Poison Control** — providing specialist support for poisoning
- **Animal control** — can assist or lead response to emergencies involving animals
- **Forest Service**
- **St. John Ambulance** / **Red Cross** / **Order of Malta Ambulance Corps** — Medical & First Aid Support

Location-specific emergency services

Some locations have emergency services dedicated to them, and whilst this does not necessarily preclude employees using their skills outside this area (or be used to support other emergency services outside their area), they are primarily focused on the safety or security of a given geographical place.

- Park rangers — looking after many emergencies within their given area, including fire, medical and security issues
- Lifeguards — charged with reacting to emergencies within their own given remit area, usually a pool, beach or open water area

Working together

Effective emergency service management requires agencies from many different services to work closely together and to have open lines of communication. Most services do, or should, have procedures and liaisons in place to ensure this, although absence of these can be severely detrimental to good working. There can sometimes be tension between services for a number of other reasons, including professional versus voluntary crew members, or simply based on area or division.

To aid effective communications, different services may share common practices and protocol for certain large-scale emergencies. In the UK, commonly used shared protocols include CHALET and ETHANE while in the US, the Department of Homeland Security has called for nationwide implementation of the National Incident Management System (NIMS), of which the Incident Command System (ICS) is a part.

Environmental degradation

Environmental degradation is the deterioration of the environment through depletion of resources such as air, water and soil; the destruction of ecosystems and the extinction of wildlife]

Environmental degradation is one of the ten threats officially cautioned by the High Level Threat Panel of the United Nations. The **ten threats** identified by the High Level Threat Panel of the United Nations are these: Poverty , Infectious disease , Environmental degradation , Inter-state war , Civil war , Genocide , Other Atrocities (*e.g.*, trade in women and children for sexual slavery, or kidnapping for body parts) , Weapon of mass destruction (nuclear proliferation, chemical weapon proliferation, biological weapon proliferation) , Terrorism .

Transnational organized crime. The World Resources Institute (WRI), UNEP (the United Nations Environment Programme), UNDP (the United Nations Development Programme) and the World Bank have made public an important report on health and the environment worldwide on May 1, 1998.

Environmental degradation is of many types. When natural habitats are destroyed or natural resources are depleted, environment is degraded.

Environmental Change and Human Health, a special section of World Resources 1998-99 in this report describes how preventable illnesses and premature deaths are still occurring in very large numbers. If vast improvements are made in human health, millions of people will be living longer, healthier lives than ever before. In these poorest regions of the world an estimated 11 million children, or about one in five, will not live to see their fifth birthday, primarily because of environment-related diseases. Child mortality is larger than the combined populations of Norway and Switzerland, and mostly due to malaria, acute respiratory infections or diarrhea — illnesses that are largely preventable.

Combating Environmental Degradation

Introduction

The landmark report of the World Commission on Environment and Development, entitled "Our Common Future", warned that unless we change many of our lifestyle patterns, the world will face unacceptable levels of environmental damage and human suffering. The Commission, echoing the urgent need for tailoring the pace and the pattern of global economic growth to the planet's carrying capacity, said that: "Humanity has the ability to make development sustainable and to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs."

In the final analysis, the environmental crisis affects everyone on the planet, but the degree to which the inhabitants of different parts of the world contribute to this crisis depends on the level of their economic development and their consumption patterns. As much as 70% of the world's consumption of fossil fuel and 85% of chemical products is attributable to 25% of the world's population. Water consumption is also unevenly distributed. The per caput water consumption in the United States is about 2 300 m^3 per annum, as compared to 1 500 m^3 for the Canadians and 225 m^3 for the British. The average per caput consumption of water in developing countries ranges between 20 to 40 m^3. The consumption patterns for forest products and many other commodities have the same direct inverse proportion to the size of population of the top 20% of the richest societies. This profligate demand puts excessive pressure on both national and global natural resources. The rest of the world, comprising 80% of its population with a share of less than 20% of global income, has a far more modest consumption level.

While international environmental concerns are often expressed in broad terms such a desertification or climatic change, the environmental problems of concern to vulnerable groups in marginal areas are generally quite localized in nature, revolving around immediate issues, such as the degradation of a particular rangeland or soil erosion on farmland or the progressive shortening of fallow. These affect the poor because they are directly related to household food security. Degradation of the resource base generally translates into decreases in production or income and thus in the availability of food. Declining soil fertility leads to lower crop yields while rangeland depletion reduces offtake, and any deterioration in water quality adversely affects the fish catch. Degradation of common property resources pulls labour away from directly productive activities towards gathering - simply collecting non-wood and minor forest products - and probably diminishes opportunities for deriving income from this source. Linkages with food security can also be less direct. Shortages of biomass may result in a transition to lower-nutrition foods that require less fuel for cooking. In addition, recurrent drought or natural calamities also directly result in progressive loss of food security prospects.

In their quest for food security, the rural poor have sometimes little choice but to overuse the limited resources available to them. The resulting environmental degradation imposes further constraints on their livelihood in what has been called a "downward spiral" or "vicious circle". They are often forced to make trade-offs between immediate household food requirements and environmental sustainability both in production and consumption. Their negligible man-made capital assets, ill-defined or non-existent property rights, limited access to financial services and other markets, inadequate safety nets in time of stress or disaster, and lack of participation in decision-making can result in their adopting "short time horizons", which favour immediate imperatives over longer-term objectives. This can result in coping strategies that rely on the drawing down of the capital available to them -- mainly in the form of natural resources. It also makes them more vulnerable to environmental degradation, including degradation wrought by others than the poor themselves.

The poor may be both agents and victims of environmental degradation, especially in marginal areas, where the resource base is ill-suited to agriculture. But it cannot be assumed that the poor have an intrinsic propensity to degrade environmental resources. On the contrary, many poor traditional communities demonstrate an admirable environmental ethic and have developed complex resource management regimes. There is little evidence that the rural poor, when offered an appropriate environment - including secure tenure and access to markets- pursue resource-degrading strategies. Thus, while poverty may be an underlying cause of environmental degradation, it is more accurately seen as a proximate cause influenced by a complex of policy and institutional factors. The very same processes that lead to and perpetuate poverty constrain the poor in their decision- making with regard to natural resource management. Affluence and poverty affect the environment in different ways: poverty eradication would not erase environmental degradation but change the nature of environmental problems facing **society.**

Poverty in fragile ecosystems

Absolute poverty has been on the retreat in most high-potential areas in developing countries. The combination of more productive technologies, fertile land and water, and high levels of development and public investment have raised incomes significantly for people living in these areas. While this development has not always been equitable - or sustainable, the most important disparities are not between rich and poor people within high- potential areas, but rather between high-potential high-investment areas and fragile ecosystems. In the latter areas, politically marginal indigenous populations have been neglected and have been joined by new groups displaced from more fertile areas through a variety of processes. These processes, although varying across countries and regions, include expropriation, demographic pressures, land fragmentation, privatization of common property lands, and consolidation and expansion of the commercial sector combined with reduced demand for labour due to mechanization.

While the challenge for poverty alleviation in high-potential areas remains considerable, the prognosis is not grim provided agricultural intensification proceeds without environmental destruction. On the other hand, for the 60% of poor populations who are found in fragile ecosystems and mainly remote and ecologically vulnerable rural areas, the challenge of environmentally sustainable poverty alleviation is immense. It has been estimated that 80% of poor people in Latin America live in such areas, 60% in Africa and 50% in Asia. Reliance on the currently prevailing patterns of growth will postpone the resolution of poverty in marginal areas, with severe implications not only for the people affected but also for the environment. The immediate-to-medium-term prospects for the rural poor to abandon these areas for other sectors of the economy, as was the case in Europe in the last century, are not promising. As a result, fragile ecosystems are rapidly becoming ghettos of poverty and environmental degradation.

The need for urgent action can be recognized in relation to the following characteristics of these regions:

(a) They constitute a significant part of the world's land resources. Forty percent of the earth's land surface is considered dryland, of which approximately 70% is already degraded or subject to heavy degradation. On the other hand, hilly and mountainous regions cover about 21% of the earth land mass and, although not so extensive as dry lands, they exert a far-reaching influence on other areas, primarily through watershed functions.

(b) The role of both ecosystems in terms of human habitat is also significant: approximately 900 million of the world's population are subsisting in dry zones. Although only about 10% of the world population live in mountain areas, a much larger percentage (about 40%) occupies the watersheds below. It is safe to assume that the future of mountain ecosystems affects the life of half of the world's population. From the Andes to the Himalayas, and from South East Asia to East and Central Africa a serious ecological deterioration caused by overgrazing, deforestation and excessive cultivation threatens the livelihood of these populations.

(c) Mountains are important sources of water, energy, minerals, agricultural products and a major reserve for the world's biodiversity. Similarly, dry zones are rich in biodiversity, hosting many endangered species. Moreover, crops, grasses, trees, and livestock species, that form the core of survival in drought prone regions, exist in these regions only.

(d) A high proportion of the absolute poor in ecologically fragile areas are indigenous peoples, estimated at some 300 million worldwide. They depend on renewable resources to maintain their well-being. This has led to the development of livelihood systems which are well-adapted to the harsh conditions in which they lived. Their holistic, traditional knowledge of their natural resources and environment constitutes a rich human heritage. However, their traditional ways of life are now being threatened, disturbing the delicate balance of natural resource use. Nevertheless, viable technology and institutional arrangements for resource conservation in these areas could be built upon indigenous knowledge; and similarly effective disaster prevention policies can benefit from coping strategies developed by the local population.

(e) Rural women play a key role in on- and off-farm activities in the developing countries. This is particularly true in the case of the ecologically fragile areas. With the growing male out-migration from marginal areas, the number of women headed households in these areas is increasing. Women are becoming more and more responsible for the day to day survival of the family. Women tend to be more vulnerable than men to the effects of environmental degradation because they are often involved in harvesting common property resources such as wood and water. Since women usually make a greater contribution to household food security than men, a decline in women's access to resources may have a significant impact on household consumption. Environmental degradation implies further burdens and responsibilities which are not compensated for by increased decision-making power.

(f) Degradation of land and loss of its vegetative cover also have consequences at the global level, primarily because of its influence on carbon exchange, but also in terms of loss of biodiversity. The large amount of carbon stored in the vegetation of the dry zones, for example, averaging about 30 tonnes per hectare, decreases when the vegetation is depleted or disappears. Carbon-rich soils, frequently found in dry zones, store a substantial amount of this element (nearly half the total quantity of carbon is stored in the organic matter in the soil, much more than is found in the world's vegetation). The destruction of these soils has a very powerful effect on the carbon cycle and boosts the greenhouse effect as a result of the release of carbon.

Towards action

Over the past two decades, environmental degradation, including land degradation has continued to worsen exacerbating further poverty and food insecurity. Conversely, awareness of the importance of the environment and its conservation has increased. There has been a transformation in people's perception of the poverty problem in developing countries. If one accepts that hard core rural poverty is increasingly a phenomenon associated with marginal lands, then new strategies are required that integrate poverty alleviation and environmental management. Until recently, the international community and national governments have tended not to appreciate the need for integrated rural poverty alleviation and environmental management programmes in marginal areas. There were a number of promising initiatives in this field, usually undertaken by NGOs and community- based organizations, but they were usually small and very localized. At the same time, in many regions, rural people's perception of their environment and the priority they give to a better relationship with it have changed. Increasingly, rural people are realizing that: (a) the fragile environment on which they depend for their survival is being neglected or over- exploited, and it is now necessary to rehabilitate it and manage it sustainably; and (b) the environment belongs primarily to them, and they must take the responsibility for the land and organize themselves in groups, cooperatives, village development associations and other local association to defend it.

UNCED's Agenda 21, the global action programme for sustainable development, is perhaps the first expression of international commitment to addressing the poverty- environment nexus. Chapter 3 on "combating poverty" called for specific long-term strategies that integrate poverty eradication and sustainable management of the environment. Agenda 21 devoted two chapters to the special needs of fragile ecosystems, namely Chapter 12 on "Combating Desertification and Drought" and Chapter 13 on "Sustainable Mountain Development". In the follow-up to UNCED, promising initiatives have emerged for these thematic areas. For drylands, the United Nations Convention to Combat Desertification in Those Countries Experiencing Serious Drought and/or Desertification, Particularly in Africa (CCD) provides a framework for concrete action at the local level. For mountainous areas, efforts are currently under way to develop the basis for an action plan for sustainable mountain development, known as the "Mountain Agenda".

The Agenda involves the establishment of a network on sustainable mountain development consisting of United Nations agencies, NGOs and intergovernmental institutions. A set of action proposals has been developed by those involved in promoting sustainable mountain development. In recognition of the need to give prominence to the "Mountain Agenda" on the international and national lists of priorities, a global Inter-Governmental Organizations (IGO)/NGO Conference, as well as regional inter-governmental consultations are being convened. The main proposals for action that are emerging, identified through a broad participatory process involving the major NGOs, encompass five specific areas of focus: poverty eradication; the strengthening of a global information network and database; strengthening country capacity and the generation of "National Mountain Action Programmes"; raising awareness through the preparation and organization of a World Conference on Sustainable Mountain Development in early 1997; and the formulation, negotiation and implementation of regional or sub-regional mountain conventions and possibly the development of a "Global Mountain Charter".

The Desertification Convention offers new and exciting opportunities for collective action, as well as a fertile field for testing and nurturing innovative partnerships in development cooperation for local level action. It is the first International Treaty to squarely address poverty and environmental degradation in rural areas. Unlike the other Conventions associated with Rio, the direct beneficiaries of CCD are the hundreds of millions of predominantly poor and food-insecure people who populate the drylands of the world. It is the first Convention that casts resource users and their communities as central to the solution rather than part of the problem. At the very heart of the CCD is the concept of "Partnership". Partnership embodies the new thrust in development assistance, in which it is finally recognized that interdependence rather than dependence is the way forward. But partnerships won't work unless all partners stand to benefit. CCD tries to translate this attractive concept into more or less concrete terms.

While the underlying incentives to enter into partnership must exist, what is also needed is a favourable context to promote its emergence and functioning. In the context of CCD, the National Action Programmes - or NAPs - are the instrument for partnership. NAPs, which are not intended as static plans but as a dynamic programming capacity, should offer a macroeconomic and institutional framework that will support local-level action. Here, more is meant than economic and fiscal policies, although these are of course extremely important. It also means a policy orientation that actively focuses on empowerment of local actors to take advantage of new opportunities and overcome old constraints. The Convention therefore encourages devolution of decision-making from the centre to local populations and resource users. The most important reasons for this are compellingly obvious:

Local Ownership in Decision-making - Local structures are more likely to make decisions that are relevant and suitable to local circumstances.

Removing Bottlenecks in Information Flow and Decision-making - Decision-making for natural resource management requires prompt and relevant information.

Improved Ability to Involve Marginalized Groups - Decentralization might allow better targeting of services and better identification of needy groups.

Better Tailoring of Approaches to Local Conditions - Local appreciation of constraints and opportunities can only improve the quality of solutions.

An emphasis on empowerment of local populations and civil society should not be construed as a wish to actively withdraw from the sustainable development arena. Instead, it is based on a recognition that the public sector and multilateral finance can facilitate but cannot substitute for action that must come from economic agents at the local level that act individually or collectively. What is needed now is to build an operational coalition between NGOs, CBOs as well as other institutions of civil society together with government institutions and international agencies, to form action-oriented partnerships around specific and concrete areas of intervention.

The Challenge of Financing Action

Promoted by the world's distress over the loss of life in the Sahelian famine of early 1970, the UN Conference on Desertification (UNCOD, Nairobi 1977) adopted a plan of action to end desertification by the close of the century. The response to the plan of action was dismal and it was virtually left on the shelf. Now with only four years left to the day when UNCOD's promises should have materialized, desertification has almost doubled, and the poor are paying the cost, with their health and lives. The CCD diligently negotiated and enthusiastically adopted holds new promises, as the degree of awareness, globally and locally, has increased. But unlike its sister Conventions on climate change and biological diversity, the CCD does not promote establishment of a new financial mechanism. Instead it foresees the creation of a "Global Mechanism" to be housed in an existing organization to coordinate and facilitate the flow of additional funds including grants and concessional loans through both bilateral and multilateral channels.

Neither national budgets nor statistics on international financial flows to developing countries give clear figures on resources presently allocated to combat desertification. But there is little argument about the dearth of international funding for desertification control. Even resources formally provided under Global Environmental Facility (GEF) - which, by and large, precludes eligibility for desertification programmes - are judged to be inadequate. Nevertheless, financing constitutes a major pillar for the success of CCD without which it may very well face the same fate as UNCOD. Within this context, a proactive role for the Global Mechanism should be promoted.

The multi-source and multi-channel orientation of the CCD is more of a strength than a weakness. Instead of relying on one mechanism - say, the GEF - the Convention is not predicated on the availability of external grant finance earmarked for the purpose. In contrast, the Global Mechanism configuration is about improving the effectiveness and efficiency of existing flows, in addition to catalyzing and leveraging new flows and sources of finance. It encourages a greater role for domestic resource mobilization, private sector initiative, and a blending of various concessional and non-concessional external finance.

This diversity of flows and the multifaceted diverse coalition which one hopes it would represent, will in the end make the Convention and the actions it triggers more robust and sustainable. One should work towards that coalition, by assisting to set in place policy and institutional frameworks that are favourable to private initiative, by helping governments to provide public goods, by pump-priming promising initiatives, and by assisting local populations and community organizations to interface more productively with the private sector.

Financing Peoples' Participation

Local-level activities and creativity championed by CCD have a number of implications for the nature of resource mobilization as well as the manner through which resources are utilized. First, there is a need to step up efforts aimed at awareness- building at local level. This is a task for which NGOs and CBOs are best suited. The NGO community, and in particular the international NGOs, should give a high priority to this objective when mobilizing resources for CCD as stipulated in the Convention. Second, CCD calls upon Parties to promote a National Desertification Fund (NDF) and similar mechanisms for directing funds to the local level. Such mechanisms should be run on the basis of a participatory governance involving local communities and their partners in the NGO community.

NDF should also be flexible and simple in design. To preserve the confidence of both donors and local populations, it is imperative to ensure full transparency and effective accountability in its management. Moreover, the local populations could be true shareholders and effectively claim their share in the partnership if, in addition to the contribution from the external donors and national resources, they shoulder part of the financial burden. This could be done by mobilization and pooling of individual savings as well as through decentralization of collection and management of taxes, levies and other revenues derived from local resources. Third, it is absolutely important that the NDF resources are to be utilized for community level investment and that they lead to the creation of durable economic assets, shared collectively. Using the proceeds of NDF for relief activities or financing individually- owned enterprises would be a costly mistake. The former would deplete the resources of the fund without any lasting benefit, and the latter would distort the local financial market, preventing the creation of sound credit/saving structures. Such structures are equally important to facilitate investment for crop intensification or to promote economic diversification to lessen man and livestock pressure on land.

Conclusion

Populations in marginal areas are not doomed to despair. On the contrary, it is in these very regions that the people, forced by circumstance, manage to cope most creatively with their harsh and unpredictable environment, and to diversify their resource use strategies over space, season and sector. They capitalize as much as they can on biological diversity - most pronounced in these regions and constituting a core of their survival. They are responsible for most appropriate technological and institutional innovations which depend minimally on costly and external inputs. This is particularly true in the conservation of rainwater, notwithstanding the saline soils common in those regions. It is also true for the institutions which developed for the collective management of very scarce common resources, such as water points, grazing land and forests.

Effective actions against poverty, household food insecurity, and environmental degradation in marginal areas require first and foremost the empowering and equipping of local communities to take up the reins of resource management. The importance of local area development and improved local governance - also covered in the other issues papers - must be emphasized. An important factor in this context, of course, is the issue of incentive frameworks and enabling environments, with specific regard to the question of how to combine longer-term concerns for environmental rehabilitation and conservation with the pressing short-term needs of household food security. Also important are the technology and related measures to be promoted that build on traditional knowledge, such as those which will in the short term generate tangible benefits for the farmer, as outlined in the discussion paper on this topic.

Many conservation policies and strategies in the past have failed because of their top-down approach and their reliance on technologies which were irrelevant to the local circumstances. In contrast to the result of these efforts, the micro-projects implemented in many places over the past decade have made it possible to build up a store of knowledge allowing for the implementation of new approaches. Within this context, a consensus has emerged on the importance of indigenous people's traditional knowledge and practices in the management of arid land, forest, pasture and farmland to conserve soil and moisture, and in diversifying crop and livestock production to minimize risks.

Some traditional rural communities have developed complex resource management systems that have stood the test of time, and have much to offer in addressing present-day concerns over long-term resource sustainability. Their admirable environmental ethic deserves its due place. Asserting the importance of local knowledge calls for the empowerment of local people through their own organizations. Moreover, the considerable cultural and environmental heterogeneity of mountain areas and the scattered nature of dryland populations underline the need for decentralized local-level action toward integrated management of local areas.

This is not to suggest that local communities can be left to their own devices. There is a need for supportive and facilitating measures on the part of governments. The international community should also be aware of the global dimension of the process and the responsibility that this implies. There is therefore a need for a coalition of actors ranging from the international to the national and the local level. This is precisely what the CCD is promoting and what an eventual Mountain Agenda might promote. In the short term, what is needed is what one might risk calling "affirmative action" in the form of finance and assistance to local communities.

The immediate challenge is to consider how ratification of the CCD can be expedited, how it can be implemented and how to secure adequate financing for local area development. The CCD also stipulates a major role for civil society organizations, foremost among them the community-based organizations - namely that they should galvanize energies and mobilize resources. The private sector, as well as civil society at large, should also be encouraged to think beyond individual or corporate interests towards a recognition of a shared responsibility for the environment. Vigorous resource mobilization to combat desertification would stand a better change of succeeding if launched on the basis of empirically verifiable improvements.

Vulnerability

Vulnerability is the susceptibility to physical or emotional injury or attack. It also means to have one's guard down, open to censure or criticism. Vulnerability refers to a person's state of being liable to succumb, as to manipulation, persuasion or temptation.

A **window of vulnerability**, sometimes abbreviated to **wov**, is a time frame within which defensive measures are reduced, compromised or lacking.

Common applications

In relation to hazards and disasters, **vulnerability** is a concept that links the relationship that people have with their environment to social forces and institutions and the cultural values that sustain and contest them. “The concept of vulnerability expresses the multidimensionality of disasters by focusing attention on the totality of relationships in a given social situation which constitute a condition that, in combination with environmental forces, produces a disaster” (Bankoff et al. 2004: 11).

It's also the extent to which changes could harm a system.In other words, it's the extent to which a community can be affected by the impact of a hazard.

In global warming, vulnerability is the degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes

Emerging research

Vulnerability research covers a complex, multidisciplinary field including development and poverty studies, public health, climate studies, security studies, engineering, geography, political ecology, and disaster and risk management. This research is of particular importance and interest for organizations trying to reduce vulnerability – especially as related to poverty and other Millennium Development Goals. Many institutions are conducting interdisciplinary research on vulnerability. A forum that brings many of the current researchers on vulnerability together is the Expert Working Group (EWG).1 Researchers are currently working to refine definitions of “vulnerability”, measurement and assessment methods, and effective communication of research to decision makers (Birkmann et al. 2006).

Major research questions

Within the body of literature related to vulnerability, major research streams include questions of methodology, such as: measuring and assessing vulnerability, including finding appropriate indicators for various aspects of vulnerability, up- and downscaling methods, and participatory methods (Villagran 2006).

A sub-category of vulnerability research is social vulnerability, where increasingly researchers are addressing some of the problems of complex human interactions, vulnerability of specific groups of people, and shocks like natural hazards, climate change, and other kinds of disruptions. The importance of the issue is indicated by the establishment of endowed chairs at university departments to examine social vulnerability.

Military vulnerability

In military circles Vulnerability is a subset of Survivability (the others being Susceptibility and Recoverability). Vulnerability is defined in various ways depending on the nation and service arm concerned, but in general it refers to the near-instantaneous effects of a weapon attack. In some definitions Recoverability (damage control, firefighting, restoration of capability) is included in Vulnerability.

Invulnerability

Invulnerability is a common feature found in video games. It makes the player impervious to pain, damage or loss of health. It can be found in the form of "power-ups" or cheats. Generally, it does not protect the player from certain instant-death hazards, most notably "bottomless" pits from which, even if the player were to survive the fall, they would be unable to escape. As a rule, invulnerability granted by power-ups is temporary, and wears off after a set amount of time, while invulnerability cheats, once activated, remain in effect until deactivated, or the end of the level is reached. Depending on the game in question, invulnerability to damage may or may not protect the player from non-damage effects, such as being immobilized or sent flying.

In comic books, some superheroes are considered invulnerable, though this usually only applies up to a certain level. (e.g. Superman is invulnerable to physical attacks from normal people but not to the extremely powerful attacks of Doomsday.

Expert Working Group on Vulnerability

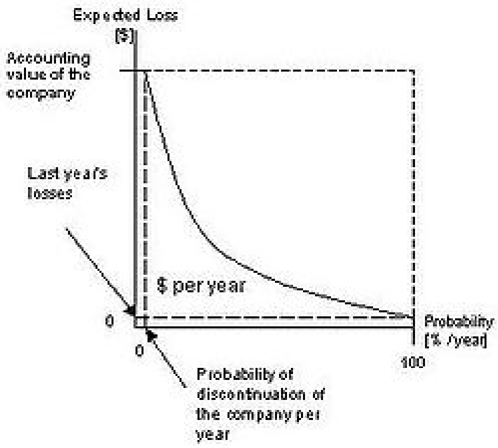
- The Expert Working Group on Vulnerability is a group of experts brought together by the United Nations University Institute of Environment and Human Security (UNU-EHS). The overall goal of the Expert Working Group is to advance the concept of human security regarding vulnerability of societies to hazards of natural origin. The EWG exchanges ideas about the development of methodologies, approaches and indicators to measure vulnerability. This is a key task to build a bridge between the theoretical conceptualization of vulnerability and its practical application in decision-making processes. The Expert Working Group is an exchange platform for experts and practitioners from various scientific backgrounds and world regions dealing with the identification and measurement of vulnerability. Emphasis is given to the identification of the different features and characteristics of vulnerability, coping capacities and adaptation strategies of different social groups, economic sectors and environmental components.

Risk assessment

Risk assessment is a step in a risk management process. Risk assessment is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat (also called hazard). Quantitative risk assessment requires calculations of two components of risk: R, the magnitude of the potential loss L, and the probability p, that the loss will occur.
Methods may differ whether it is about general financial decisions or environmental or public health risk assessment.

Explanation
Risk assessment consists in an objective evaluation of risk in which assumptions and uncertainties are clearly considered and presented. Part of the difficulty of risk management is that measurement of both

of the quantities in which risk assessment is concerned - potential loss and probability of occurrence - can be very difficult to measure. The chance of error in the measurement of these two concepts is large. A risk with a large potential loss and a low probability of occurring is often treated differently from one with a low potential loss and a high likelihood of occurring. In theory, both are of nearly equal priority in dealing with first, but in practice it can be very difficult to manage when faced with the scarcity of resources, especially time, in which to conduct the risk management process. Expressed mathematically,



http://en.wikipedia.org/wiki/File:Risk.jpg

Risk assessment is a in financial point of view.

Financial decisions, such as insurance, express loss in terms of dollar amounts. When risk assessment is used for public health or environmental decisions, loss can be quantified in a common metric,such as a country's currency, or some numerical measure of a location's quality of life. For public health and environmental decisions, loss is simply a verbal description of the outcome, such as increased cancer incidence or incidence of birth defects. In that case, the "risk" is expressed as:

If the risk estimate takes into account information on the number of individuals exposed, it is termed a "population risk" and is in units of expected increased cases per a time period. If the risk estimate does not take into account the number of individuals exposed, it is termed an "individual risk" and is in units of incidence rate per a time period. Population risks are of more use for cost/benefit analysis; individual risks are of more use for evaluating whether risks to individuals are "acceptable"....

Risk assessment in public health

In the context of public health, risk assessment is the process of quantifying the probability of a harmful effect to individuals or populations from certain human activities. In most countries, the use of specific chemicals, or the operations of specific facilities (e.g. power plants, manufacturing plants) is not allowed unless it can be shown that they do not increase the risk of death or illness above a specific threshold. For example, the American Food and Drug Administration (FDA) regulates food safety through risk assessmen. The FDA required in 1973 that cancer-causing compounds must not be present in meat at concentrations that would cause a cancer risk greater than 1 in a million lifetimes.

How the risk is determined

In the estimation of the risks, three or more steps are involved, requiring the inputs of different disciplines:

Hazard Identification, aims to determine the qualitative nature of the potential adverse consequences of the contaminant (chemical, radiation, noise, etc.) and the strength of the evidence it can have that effect. This is done, for chemical hazards, by drawing from the results of the sciences of toxicology and epidemiology. For other kinds of hazard, engineering or other disciplines are involved.
Dose-Response Analysis, is determining the relationship between dose and the probability or the incidence of effect (dose-response assessment). The complexity of this step in many contexts derives mainly from the need to extrapolate results from experimental animals (e.g. mouse, rat) to humans, and/or from high to lower doses. In addition, the differences between individuals due to genetics or other factors mean that the hazard may be higher for particular groups, called susceptible populations. An alternative to dose-response estimation is to determine an effect unlikely to yield observable effects, that is, a no effect concentration. In developing such a dose, to account for the largely unknown effects of animal to human extrapolations, increased variability in humans, or missing data, a prudent approach is often adopted by including safety factors in the estimate of the "safe" dose, typically a factor of 10 for each unknown step.

Exposure Quantification, aims to determine the amount of a contaminant (dose) that individuals and populations will receive. This is done by examining the results of the discipline of exposure assessment. As different location, lifestyles and other factors likely influence the amount of contaminant that is received, a range or distribution of possible values is generated in this step. Particular care is taken to determine the exposure of the susceptible population(s).

Finally, the results of the three steps above are then combined to produce an estimate of risk. Because of the different susceptibilities and exposures, this risk will vary within a population.

Small subpopulations
When risks apply mainly to small subpopulations, there is uncertainty at which point intervention is necessary. What if a risk is very low for everyone but 0.1% of the population? A difference exists whether this 0.1% is represented by *all infants younger than X days or *recreational users of a particular product. If the risk is higher for a particular sub-population because of abnormal exposure rather than susceptibility, there is a potential to consider strategies to further reduce the exposure of that subgroup. If an identifiable sub-population is more susceptible due to inherent genetic or other factors, there is a policy choice whether to set policies for protecting the general population that are protective of such groups (as is currently done for children when data exists, or is done under the Clean Air Act for populations such as asthmatics) or whether if the group is too small, or the costs to high. Sometimes, a suitable position is to at least limit the risk of the more susceptible to some risk level above which it seems too inequitable to leave them out of the risk.

Acceptable risk increase
The idea of not increasing lifetime risk by more than one in a million has become common place in public health discourse and policy. How consensus settled on this particular figure is unclear. In some respects, this figure has the characteristics of a mythical number. In another sense, the figure provides a numerical basis for what to consider a negligible increase in risk. Some current environmental decision making allows some discretion to deem individual risks potentially "acceptable" if below one in ten thousand increased lifetime risk. Low risk criteria such as these do provide some protection for the case that individuals may be exposed to multiple chemicals (whether pollutants or food additives, or other chemicals). But both of these benchmarks are clearly small relative to the typical one in four lifetime risk of death by cancer (due to all causes combined) in developed countries. On the other hand, adoption of a zero-risk policy could be motivated by the fact that the 1 in a million policy still would

cause the death of hundreds or thousands of people in a large enough population. In practice however, a true zero-risk is possible only with the suppression of the risk-causing activity.
More stringent requirements, or even the 1 in a million one, may not be technologically feasible at a given time, or so expensive as to render the risk-causing activity unsustainable, resulting in the optimal degree of intervention being a balance between risks vs. benefit. For example, it might well be that the emissions from hospital incinerators result in a certain number of deaths per year. However, this risk must be balanced against the available alternatives. In some unusual cases, there are significant public health risks, as well as economic costs, associated with all options. For example, there are risks associated with no incineration (with the potential risk for spread of infectious diseases) or even no hospitals. But, often further investigation identifies further options, such as separating noninfectious from infectious wastes, or air pollution controls on a medical incinerator, that provide a broad range of options of acceptable risk - though with varying practical implications and varying economic costs. Intelligent thought about a reasonably full set of options is essential. Thus, it is not unusual for there to be an iterative process between analysis, consideration of options, and then further analysis.

Risk assessment in auditing

In auditing, risk assessment is a very crucial stage before accepting an audit engagement. According to ISA315 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement, "the auditor should perform risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control."<evidence relating to the auditor’s risk assessment of a material misstatement in the client’s financial statements. Then, auditor obtains initial evidence regarding the classes of transactions at the client and the operating effectiveness of the client’s internal controls.In auditing, audit risk includes inherent risk, control risk and detection risk.

Risk assessment in information security

There are two methods of risk assessment in information security field, qualitative and quantitative. Purely quantitative risk assessment is a mathematical calculation based on security metrics on the asset (system or application). Qualitative risk assessment is performed when the organization requires a risk assessment be performed in a relatively short time or to meet a small budget, a significant quantity of relevant data is not available, or the persons performing the assessment don't have the sophisticated mathematical, financial, and risk assessment expertise required.Qualitative risk assessment can be performed in a shorter period of time and with less data. Qualitative risk assessments are typically performed through interviews of a sample of personnel from all relevant groups within an organization charged with the security of the asset being assessed. Qualitative risk assessments are descriptive versus measurable.

Quantitative Risk Assessment software

Quantitative risk assessments include a calculation of the single loss expectancy (SLE) of an asset. The single loss expectancy can be defined as the loss of value to asset based on a single security incident. The team then calculates the annualized rate of occurrence (ARO) of the threat to the asset. The ARO is an estimate based on the data of how often a threat would be successful in exploiting a vulnerability. From this information, the annualized loss expectancy (ALE) can be calculated. The annualized loss expectancy is a calculation of the single loss expectancy multiplied the annual rate of occurrence, or how much an organization could estimate to lose from an asset based on the risks, threats, and vulnerabilities. It then becomes possible from a financial perspective to justify expenditures to implement countermeasures to protect the asset.

Criticisms of quantitative risk assessment

Barry Commoner, Brian Wynne and other critics have expressed concerns that risk assessment tends to be overly quantitative and reductive. For example, they argue that risk assessments ignore qualitative differences among risks. Some charge that assessments may drop out important non-quantifiable or inaccessible information, such as variations among the classes of people exposed to hazards. Furthermore, Commoner and O'Brien claim that quantitative approaches divert attention from precautionary or preventative measures. Others, like Nassim Nicholas Taleb consider risk managers little more than "blind users" of statistical tools and methods.

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AFRICA POPULATION INSTITUTE
WORLD POLITICS AND PROCEDURES
PAPER CODES: **APDIR 401**

1. a) What has been the achievements and failures of peace keeping for of the United Nations.
b) Discuss the different organs of the United Nations

2. a) There are goals set by the international communities through the United Nations. How has your government responded to Eradication of extreme poverty and hunger?
b) How did the Gulf war of the 1990 affect the new world order?

3. a) A new paradigm emerge based on a number of issues on world governance discuss.
b. Why is world governance not world government.

INTERNATIONAL BUSINESS STRATEGY
PAPER CODES: **APDIR 402, APDBA 404, APDLPS 404**

1. a) What are the drivers that determine an industry globalization potential?
b) Diversification is a marketing strategy, discuss the different types of diversification.

2. a) Strategic plan are very important for organizational survival why do strategic plan fail.
b) Discuss the importance of the relationship to integrated Marketing communications.

3. a) How was the Art of Japan sent management different from that of Americans.
c) There are eight keys to excellence of a firm survival outline them.

GLOBALISATION AND ECONOMIC DEVELOPMENT
PAPER CODES: **APDIR 403**

1. a) Discuss the change status in international law of transfer of population.
b) How has Alter Globalization as movement shaped the issue of the world?

2. a) Why is Alter Globalizations consider as a social movement.
b) Distinguish between Pa-modern migration and Modern migration.

3. a) The financial crisis of 2007-2010 was tugged by insolvent is the banking systems. What where the causes?
b) What was its impact on the globe?

DISASTER PREPAREDNESS AND MANAGEMENT

PAPER CODES: **APDSW 405, APDPM 404, APDIR 404, APDPA 403**

1. a) Differentiate between crisis management and risk management
   b) Explain the different types of Disaster
   c) How has the population growth affected the disaster control?

2. a) As someone responsible for disaster response in your country; you are informed that river Nile has burst its banks, how would you handle the situation?
   b) Distinguish between personal mitigation and personal structural mitigation

3. a). Global warming is a great concern as a result of environmental degradation, what are the causes of environmental degradation in your country?
   b) Identify and elaborate the different types of crisis.

APDIRM 405 Field Attachments

Internship report Template

1. Give a brief background of the institution where you were attached
2. Give a brief description of roles you were assigned
3. State the opportunities you encountered during the field excursion
4. Explain how you exploited those opportunities
5. Discuss the challenges that you encountered during the internship
6. State how you dealt with such challenges?
7. Suggest the recommendations to the institution where you were attached
8. What advice would do you give to Africa Population Institute