Synthesis Report on the Workshop on International Regulations

Dec. 31, 2006

By Walden Bello

Crisis of Legitimacy of the International System of Economic Governance

The radical transformation of the system of global economic governance has become increasingly urgent. Events in the last years of the 20th century and at the turn of the millennium have underlined the fact that both the structure and the key institutions of the current international system are deeply dysfunctional. The Asian financial crisis in 1997, the unraveling of the World Trade Organizational ministerial meetings in Seattle in 1999 and Cancun in 2003, the stock market meltdown in 2001-2002, the collapse of the Argentine economy in 2002—these are among the milestones in the crisis of legitimacy that now pervades the system and its key actors.

The current system is built on and shores up the paradigm of neoliberalism, which became dominant after 1980. Nothing could be a more damning indictment of the neoliberal model than global social conditions a quarter of a century later. After 25 years of structural adjustment and other radical pro-market policies in the developing countries, there are more poor people in the world today than in 1985. There is much more inequality both within and among countries. The areas of the world that adopted pro-market policies most wholeheartedly—Latin America and the Caribbean, sub-Saharan Africa, and Central and Eastern Europe—saw their numbers of poor people increase significantly. Indeed, massively in the case of the former poster boy of neoliberalism, Argentina, where 53 per cent tumbled below the poverty line, with 25 per cent defined “indigent”, following the economic collapse of 2002.

So deep is the crisis of neoliberal institutions that even sectors of the global elite that have benefited from them say there are in need of fundamental reform. The Meltzer Commission, which was set up by the US Congress to look at the performance of the international financial institutions, proposed a radical transformation of the World Bank, eliminating its lending operations and parceling out its main functions to regional development banks. George Shultz, former US Secretary of the Treasury under Richard Nixon, demanded the abolition of the International Monetary Fund (IMF) for encouraging moral hazard.

Among established figures who have weighed in for reform in the last five years are economist Jeffrey Sachs, Nobel Prize-winner Joseph Stiglitz, and financier George Soros.

The common characteristic of all the writers mentioned so far is that their advocacy for reform has come from a desire to save or improve the current system of global capitalism. Even Shultz’s proposal to scrap the IMF comes from a perspective of freeing market forces from distortions introduced by government bailouts of irresponsible lenders. Freeing the market from...
bureaucratic interference is also what informs the recommendations of the Meltzer Commission.

**The Perspective of the E Group on International Regulations**

The contributions to the Electronic Forum on International Regulations come from a radically different perspective: that is how to protect people from the ravages of a global market driven by corporate profitability. The “disembedding” of the market from its social matrix, to use the language of the great Hungarian scholar Karl Polanyi, is, in their view, the central cause of the inter-linked crises of our time. And the key problematique with which each of the authors grapples is how the market and its key agents—the corporations, the multilateral institutions, and hegemonic governments—can be resubordinated to society. The proposals for change then that come from these papers cannot help but challenge the fundamental dynamics of the global capitalist system.

This synthesis paper attempts to draw out the key points and recommendations of each paper and the agreements and disagreements that emerged in the exchange. At selected junctures, the synthesizer will provide his comments on some aspects of the exchange and, in a few places, advances his own recommendations for institutional transformation. At the end of the discussion of each paper, there will be an addendum summarizing the relevant discussion at the two-day conference in Hong Kong on Dec. 14 and 15, 2005, that capped the activities of the E-Forum.

The exchange of views was lively but nuanced. The summaries of each section try to capture the nuances of the discussion. Here we would just like to point out the key points of agreement and disagreement in the discussion of each paper.

*International Board of Arbitration for Sovereign Debt (IBASD)*

- There was agreement that an International Board of Arbitration of Sovereign Debt should be established.

- There was agreement that its key principle would be the protection of debtors’ rights.

- There was no consensus on the functions of the board or panel of arbitrators and the role of civil society in the assessment of debt sustainability.

*Introduction of Currency Transaction Tax*

There was consensus that a Currency Transaction Tax (CTT) is to be introduced in order to curtail volatility of foreign exchange rate and excessive speculation of capital, and at the same time to acquire certain revenue from taxation to address the world’s poverty alleviation.

There was consensus that a CTT should be different from international tax, originally proposed by Dr. James Tobin in the 70s. It is based upon the idea of Professor Paul Spahn of two-tier CTT.
International Monetary Fund

- There was consensus that the International Monetary Fund (IMF) would be phased out.
- There was some disagreement on whether this would be immediate or protracted (“disempowerment”)—though it was not clear if the difference was semantic in nature or substantive.
- There was some disagreement on what would replace the IMF. One suggestion was that the role of managing capital flows and serving as a lender of last resort would be assumed by regional institutions. Another was that the function of lender of last resort and that of development lending could be filled by a transnational but decentralized bank or lending pool operating on progressive principles.

World Bank

- There was agreement on a “Shrink-the-Bank” strategy that would begin by eliminating the Bank’s research department and external relations department.
- There was strong support for setting up accountable, transparent, non-neoliberal, developmentally oriented lending agencies and policy centers to which the lending and policy advice functions of the Bank and other IFI’s would be devolved.
- There was agreement on a medium-term strategy of disempowering the Bank that would include the filing of lawsuits against the Bank in a number of countries for social and environmental damage.

Asian Development Bank

- There was agreement that the Asian Development Bank (ADB) cannot serve as an agency for progressive sustainable development and must eventually be replaced.
- Nevertheless, there was a sense that while the ADB should be eventually be phased out, there was need for a campaign aimed at minimizing the damage it causes presently, one component of which would be eliminating its role of proposing and imposing policy conditionalities and limiting it to financing projects.

World Trade Organization

- There was a consensus on the need for a new global trade regime structured on different principles from the WTO. Among the principles of this new regime would be the principle of subsidiarity.
- There was disagreement on whether the WTO should be abolished now or it should be “whittled down.” Again, as in the case of the IMF discussion, this might be a case of semantic as opposed to substantive difference.
- The synthesizer added a number of suggestions aimed at fleshing out the new trade regime, among which was not establishing another
centralized institution to govern global trade but leaving its management to regional and South-South economic formations.

**Transnational Corporations**

- There was agreement that voluntary regulation via corporate codes of conduct was a gravely inadequate way of countering the socially and environmentally damaging activities of transnational corporations (TNCs).

- There was agreement that the center of gravity for the regulation of TNCs should be at the national level and not at the international level, with institutions at the latter level playing mainly a supplementary role.

- The synthesizer added his suggestion that civil society should not wait for the establishment of an international regulatory framework for TNCs but should go ahead and create something like “Civil Society Rules for TNCs” that would be imposed by transborder campaigns against TNCs found in violation of such rules.

As a conclusion to this introduction, as principal coordinator of the E Forum, I would like to thank all the paper writers and commentators and for their very valuable and insightful contributions to this very important enterprise.

I would also like to acknowledge the inspiration the project derived from two insightful papers of Pierre Calame: “The Principle of Active Subsidiarity” and “Principles of Governance in the 21st Century.”

I would like to thank as well the Charles Leopold Mayer Foundation, the Alliance for a Responsible, Plural, and Solidarity-based World, the Workgroup on the Solidarity Socio-Economy, Focus on the Global South, Pacific Asia Resource Center, late Philippe Amoroux, Yoko Fukawa, and Reiko Inoue for the tremendous support they gave the project.

Julie de los Reyes kept managed the logistics of the e forum with wonderful efficiency, and I am grateful to her for this.

Last but not least, it must be mentioned that this enterprise would not have been conceived, implemented, and brought to a conclusion without the inspiration and efforts of Yoko Kitazawa and Marcos Arruda.

Walden Bello, Bangkok, Dec. 1, 2005

**Proposal for a New International Financial Architecture with An International Board of Arbitration for Sovereign Debt**

By Oscar Ugarteche

This valuable paper begins by elucidating the origins of the international debt crisis of the 1980’s. Contrary to orthodox accounts, this was not caused by higher oil prices but by the coincidence of the shooting up of interest rates created by the policies of the Reagan administration and the collapse of the prices of agricultural goods and raw materials exported by the developing countries. As the author explains later in the text: “The fact that real interest
rates went from -3.2 per cent to +26 per cent in 1982 helps to explain why we fell into the same ditch at the same time.”

He then goes to detail how countries fell even deeper in debt after the initial debt shock of 1982. The combination of structural adjustment programs, which pushed countries into recession, and continuous refinancing or rescheduling of debt instead of real debt reduction (through lowering interest rates or other mechanisms) made the massive debt overhang a permanent one requiring an ever increasing part of the government budget to be allocated to debt repayments. With debt repayment becoming the national economic priority, development went out of the window.

Aside from the refusal of the commercial banks to accommodate real debt reduction, another major obstacle to debt relief was the adamant refusal of the Bretton Woods institutions to allow the debt owed them to be included in any debt reduction deal—a position that was unjustified. Also problematic was the IMF’s refusal to press the creditors to write off part of the debt in recognition of the fact that their lending policies helped precipitate the debt crisis in the first place.

The paper then looks at the Heavily Indebted Poor Countries Initiative (HIPC) and shows how it has been a very inadequate mechanism for debt relief. The key problem is that to be eligible for debt relief, governments must comply with macroeconomic conditions laid out in Poverty Reduction Strategy Papers (PRSPs) prescribed by the IMF and the World Bank. The results have been either been bad or unimpressive. Bolivia, for instance, has successfully complied with the requirements of the HIPC, but its growth from 1998 on has been negative. Honduras is in the same boat. Uganda has shown a small rise in income, as have Ethiopia and Ghana, but this has been nullified by the catastrophic levels of extreme poverty in these countries. HIPC, a one-size-fits-all program, has been a failure as debt relief enterprise.

It is against this background of massive failure that the author proposes a new financial architecture one of the pillars of which would be the International Board of Arbitration for Sovereign Debt (IBASD).

The IBASD would provide protection for a debtor country with repayment problems via a standstill in payments to creditors and co-managing a debt relief process in which not just rescheduling but actual and significant debt reduction takes place. The IBASD would be innovative since debtor protection via a standstill that would allow them to organize their commitments to creditors is only recognized at a national level today. The idea of IBASD is patterned along the lines of Chapter 9 of Title 11 of the US Code which guides legal proceedings when a municipality declares insolvency, wherein protections are provided that are not available to a private firm.

All creditors would be obliged to participate in a debt reduction program, which means an end to the untouchability of the debt owed to the IMF and the World Bank. This is but right since the prescriptions and policies pushed by the Fund and the Bank have contributed to the debt crisis in the first place. As the author notes, “[A]s the IMF role in the 2001 Argentina debt crises shows, IFI’s...have a responsibility that must be accounted for and paid. IFI’s must be monitored and they must render accounts to the general public.”

Among the principles guiding debt reduction would be the following:
- Debt reduction should be based on a comprehensive “debt sustainability” analysis.

- Debt reduction should be sensitive to the particular conditions of different countries and not try to impose a one-shoe-fits-all model. Thus payback conditions for Argentina would be different from that of Ethiopia.

- Debt reduction should not be undertaken by imposing fiscal constraints that drastically impact on living standards, wages, development, and economic growth. As the author notes, “Debt payments must not mean that the population lose its wage levels and...domestic savings are exported, introducing a depression into the domestic economy…”

- Debt reduction should not mean a protracted process of rescheduling payments but should be real and the reduction should be put in place immediately, with the rest of the payments made on a long term basis and at fixed interest rates.

- Payback arrangements must ensure that a country does not end up owing creditors more than it received from them, which means, among other things, eliminating the variable rates of interest at which loans were originally contracted.

- Debt cancellation should simply be decreed for the poorest countries with none of the conditionalities associated with HIPC, and this would include 100 per cent cancellation of the debt owed to the multilateral institutions.

- Odious debt must be repudiated, though the author poses the question on whether this should be done unilaterally or by international agreement and raises the issue of what to do with current holders of debt who, owing to debt conversions such as from commercial paper to Brady bonds, did not issue the original loans to dictatorships.

- Related to the foregoing are loans contracted under corrupt conditions. Here the IBASD would be empowered to identify such loans and “seek invalidation of the contract...or recommend a penal procedure against those responsible…”

- Some way must be found to incorporate ecological debt of the North to the South in the final payment arrangements, with one simple arrangement being to “estimate the ecological damage done in the past 40 years by energy and other pollution in the north, and deduct from Governmental debt the amount that results.”

- The IMF should be converted into an International Monetary Authority that would coordinate economic policy among its member countries so that they can push counter-cyclical policies globally at times of economic slowdown, in contrast to the situation today where they have to suffer pro-cyclical policies pursued by the G 7 during such periods.

In the discussion that ensued, Walden Bello requested the author to clarify in what ways his proposal for the IBASD would differ from that of the Sovereign Debt Restructuring Mechanism (SDRM) advanced Ann Krueger, deputy director of the IMF. In response, the author wrote that:
- The IBASD would have to be established by an international agreement or convention and be part of the United Nations system in order to have a solid international legal basis. The IBASD, in other words, would be part of a process of establishing an international legal process governing debt. The SDRM, the FTAP, and the recent Schroeder and Berensmann initiative are not placed within such a framework and process.

- The IBASD would require all debtors to participate in debt reduction. The SDRM exempts the IFI’s.

- The SDRM would use the IMF to oversee the process of debt restructuring. The IBASD would itself be the agency that would oversee the process, organizing boards to deal with specific cases.

Kunibert Raffer raised a number of points in the first and second round of comments on the Ugarteche paper. Among these are the following:

- The author should have emphasized the self-evident right of a country to seek protection from its creditors.

- Even if the IBASD was institutionally connected to the United Nations, this would not elicit compliance by the G 7 powers, leaving it ultimately to civil society or public opinion to serve as the enforcer stemming from its moral authority.

- Related to this, while a UN or UNCTAD connection is desirable, ad hoc panels established by the creditors and the debtors would be preferable.

- Such panels or boards would not decide on a payback schedule, as in the Ugarteche proposal, but would simply “confirm” the results of negotiations between the creditors and the debtor.

- The IBASD should be more sharply distinguished from the IMF’s SDRM, which serves principally the institutional interests of the IMF.

- Converting the IMF into an International Monetary Authority that would coordinate economic policy among its members is an idea that should be junked completely owing to the continuing hegemony of its most powerful members in a new institutional guise. On this, it should be noted that Ugarteche, in his comments on the IMF paper of de los Reyes and Bello, recommends abolishing the IMF, and we take this to be his current position.

In his comments on the Ugarteche paper, Jurgen Kaiser strongly argues that debt sustainability analysis (DSA) of the kind that the proposed IBASD would engage in should be a “bottom up approach” enlisting the participation of civil society organizations, agencies of the UN system, in addition to financial authorities of the debtor countries. Kaiser is strongly critical of the monopoly that the IMF and the World Bank have sought to establish over this process, although it is not clear from his comments if he would exclude them completely.

Addendum from Hong Kong Meeting:
On debt cancellation, there was agreement that 1) an International Board for Arbitration for Sovereign Debt should be set up along the lines proposed in the paper by Oscar Ugarteche; 2) that in any debt restructuring, social expenditures must be protected; 3) that corruption in loans must be dealt with via the establishment of an international court for economic crimes; and 4) that civil society organizations must be actively involved in the debt cancellation process.

**Introduction of CTT**

By David Hilman

On the paper written by David Hillman “Currency Transaction Tax”, there was no comment delivered at the E-Forum. This is due to the fact that there were only two specialists, namely the author of the paper and Sony Kapoor, among the E-Forum group.

The group felt this topic must be conveyed to the second phase of this workshop on global economic governance.

**International Monetary Fund**

By Julie de los Reyes and Walden Bello

The paper on the International Monetary Fund by Julie de los Reyes and Walden Bello traces the fall in the credibility of the International Monetary Fund (IMF) beginning with the Asian financial crisis in 1997 through the failure of efforts to reform the “international financial architecture” in the later nineties and early years of the current decade. It ends with proposing disempowering the IMF by pushing for its conversion into a research agency documenting global capital flows with no coercive power and transferring the role of lender of last resort to a regional agency that would be accountable not only to regional governments but also to regional civil society. Finally, it recommends that to manage the destabilizing flows of speculative capital, a system of capital controls be collectively erected by governments on a regional basis.

Abolishing the IMF right now might not be politically feasible, argue the authors. Converting it into a research agency with no coercive capabilities might, however, be possible.

Clearly, however, the role of the IMF as a lender of last resort with the capacity to impose conditionalities and exacting penalties should be ended. What should take its place is a regional institution constructed along the following lines:

“A regional fund that will have reserves especially earmarked to respond to financial difficulties would ensure that rapid liquidity is injected even before the problem exacerbates to a crisis and crisis contagion ensues. It will be significantly more effective at preempting a full-blown crisis by providing a ready dosage at the first signs of trouble. The massive dollar reserves of Asian and Latin American governments are sufficient to carry this out....
“In functioning as a regional quasi-lender of last resort, loans should be made available without the strings of conditionalities usually attached to IMF/WB loans. In regional arrangements, the grounds for imposing those very same types of conditionalities are not only principally wrong, but also downright foolish. Forestalling the release of loans in times of crisis due to non-compliance to conditionalities will not only be detrimental to the country in crisis but to the other countries in the region whose economies are closely integrated with one another.”

Lastly, this regional institution should create the framework for sustainable development that will not be destabilized by the free flow of capital. Central to this is the framing of agreements centered on capital controls, creation of mechanisms to promote orderly debt cancellation or reduction, and establishment of international standards and codes in coordination with national authorities, with no massive, centralized surveillance institution with coercive capabilities, sensitive to the needs of countries and not to the interests of speculative capital.”

Several very useful comments were evoked by the paper. Kunibert Raffer expressed his concern that the authors viewed the Sovereign Debt Restructuring Mechanism (SDRM) proposed by IMF Deputy Director Ann Krueger positively. Bello apologized if this was the impression given but he said that he and Julie de los Reyes agreed that the SDRM was flawed. It would be important, however, to reiterate here the very important reasons why Raffer felt the SDRM was inadequate, if not counterproductive:

- There would be no real change in debt management, with the IMF continuing to make the key decisions;
- The SDRM would increase the importance of the Fund since it would make it a key institutional player in the whole standstill and debt restructuring process;
- While allowing for a restructuring of debt against private creditors, the SDRM would secure the de facto preferential creditor status of the IMF and World Bank, thus exempting them from financial accountability for their own decisions”;
- The SDRM would not really solve the problem of a debt overhang and simply amount to “rescheduling mechanism” whose sole institutional beneficiary would be the IMF.

Eric Helleiner underlines the importance of increasing disaffection with the IMF among key sectors of the US elite as important in accounting for the diminished standing of the IMF. He makes the interesting point that the Bush administration undermined the IMF’s bargaining position at critical points during its negotiations with Argentina in 2004-2005, the reason for this being “partly in order to ‘bail in’ creditors and signal a break from the IMF bailout role in the 1990s.” Following Helleiner’s observation, the synthesizer asks the question if the Bush administration’s action was determined by the fact that that the major part of the Argentina’s private debt was owed to European—in particular, Italian—bondholders, thus allowing Bush to make a really easy stand on not bailing out creditors, something he would not have been able to do had there been significant US interests involved. This would, incidentally, support the thesis that under Bush the US state has become less and less
concerned with the interests of the capitalist class as a whole and more and more obsessed with the specific interests of US capital.

On the issue of alternatives to the IMF as a lender of last resort, Helleiner saw merit in the need for regional organizations to play a more important role. He wondered though “whether these organizations will [not] also come to be dominated by regional powers in the same way that the IMF is dominated by the US at a global level.” This is a really crucial point. As Helleiner notes, one reason the Chinese were lukewarm towards the Asian Monetary Fund (AMF) during the Asian financial crisis is their wariness about Japanese geopolitical intentions.

The synthesizer suggests that perhaps one way to counteract the hegemony of the richer or more powerful countries within a regional grouping is to work out a voting arrangement that is not proportional to the size of capital subscriptions and does not provide for any government being able to exercise veto power (as the US is able to do with its 17 per cent voting power at the IMF). In the Asian context, this could be supplemented by informal coordination based on existing formal processes, for instance on the part of the governments that belong to the Association of Southeast Asian Nations (ASEAN).

Oscar Ugarteche’s very thoughtful response centers on the political feasibility of doing away with the IMF, with him expressing his disagreement with the authors’ judgment that at this point it may not be politically feasible to abolish the IMF. Ugarteche may have a point here. The authors premise their strategy to disempower instead of abolishing the IMF on their assessment that the northern powers would not allow this at this conjuncture. However, as pointed out by Helleiner, major forces in the Bush administration do not like the IMF and have, in fact, tried to undermine it. This has brought them into conflict with the other dominant bloc, the European governments, for instance, in the negotiations over the Argentine debt and over the SDRM, which the Europeans supported but Washington squelched. With the big powers split over IMF policies, with key forces in the US right being quite critical of the IMF to the point of being sympathetic to calls for its abolition, with hardly any government in the developing world, as Ugarteche points out, having a stake in its continued existence, might not the present moment be the time to push hard for its abolition?

Ugarteche agrees that there should continue to be a lender of last resort, but that this should be a regional institution. While he can see this solution working out in Latin America and Asia so long as sufficient reserves are maintained by their central banks, he poses the question if this is possible in the case of Africa. Perhaps the solution here would be to work out arrangements between an African regional fund and the Asian and Latin American regional funds—a case of South-South cooperation at the financial level!

Ugarteche also asks if the move to regional financing institutions means letting off the G 7 governments from reparations for past lending and adjustment policies that they imposed on developing countries via the IMF. The synthesizer notes that the paper does not preclude this. The solution might lie in the establishment of an International Court for Economic Crimes, along the lines of the International Court for Corporate Crimes described in the paper on transnational corporations by Sarah Anderson.
Finally Ugarteche flags the importance of looking at the IMF and World Bank jointly. He points out that the key technocrats in developing countries that promoted neoliberal policies espoused by the IMF owed their positions to support from the World Bank. This complementary relationship of the Bretton Woods institutions leads him to consider that “[s]hutting it [the World Bank] down and strengthening the existing regional banks might be a solution in keeping with the general idea of regionalization.”

The idea of devolving the functions of the World Bank and IMF to existing regional banks advanced by Ugarteche in his commentary is one that John Fitzgerald disagrees with because the transparency, accountability, and effectiveness of these institutions are oftentimes much less than the World Bank. This is certainly true with respect to the Asian Development Bank, whose operations are marked by a high degree of non-transparency and lack of accountability but also complements the World Bank as a source of neoliberalism in the region. But perhaps, Ugarteche does not have in mind the ADB or the Inter-American Development Bank (IDB) since the example of a regional bank or development institution he provides is the “Fondo latinoamericano de reservas (FLAR)” based in Bogota.

Instead of relying on existing regional institutions to take the place of the IMF, Fitzgerald proposes the establishment of a “transnational bank or lending pool, drawing from pension funds, union-owned banks, progressive national and state treasuries, socially responsible mutual funds, hedge funds, and other institutional investors.” This new institution could function as both a lender of last resort as well as a development bank lending on the principles of “green economics.” It could be relatively decentralized and would have a governing structure with representatives from both creditors and debtors.

Fitzgerald’s proposal is salutary. However, it has its drawbacks, the most important of which is that it would be a relatively small development institution since the enterprises that would be attracted to it—“socially responsible” enterprises—would be relatively few. Thus, its capital resources would be limited. It could, however, function as to complement a new public regional financial institution or development bank that would be built on similar principles of lending and development.

Addendum from Hong Kong Meeting:

There was consensus on the existence of a very deep crisis of legitimacy of the International Monetary Fund that made it very vulnerable to efforts to phase it out at this point. Discussion centered on regional alternatives to the IMF. It was pointed out that in Asia, there were initiatives like the Asian Monetary Fund and the ASEAN Plus Three arrangement that were in progress and were supported by key countries like Japan. There was some movement along these lines, with institutions like the Andean Finance Corporation, in Latin America as well. However, there were as yet no viable regional finance mechanisms in Africa, where there might be limited financial resources available for balance of payments support or development.

This issue—whether or not Africa has viable financial resources available regionally—deserves more study. A propos of this, a passage from the campaign document “The IMF: Sink it or Shrink it” (July 31, 2006) might be useful in terms of illuminating the issues:
But, one objection goes: East Asia and Latin America have significant capital resources to serve as a pool for a regional lender of last resort. But what about capital-poor Africa? This is the concern that has made many African governments reluctant to distance themselves from the Fund.

First of all, the principal need in Sub-Saharan Africa, as for most countries of the South, is genuine debt cancellation without external conditionalities, not the bogus HIPC (“highly indebted poor country”) laced with IMF–style conditionalities. This would include the African countries’ debt to the IMF, which the Fund has stubbornly opposed, though it grudgingly agreed recently to cancel the debt owed to it by 19 HIPC countries. As for the issue of who would serve as lender of last resort for Africa, this is important, but the IMF’s awful record of bad advice and bad policies in this area hardly qualifies it to continue to serve this role. As one specialist has noted, not only is Africa becoming the refuge of policies that have failed elsewhere, but they are being implemented by Fund staff that are either less experienced or of lower caliber.

Instead of relying on the IMF, African governments could possibly draw on the cooperation of relatively capital-rich developing countries such as China, Venezuela, India, and South Africa to set up a regional institution that would serve as a lender of last resort. However, learning from their experience with the North and the IMF, they should insist on equitable, no-strings-attached arrangements with these governments, which will not be easy, since some of them are just as exploitative as Northern interests.

But Africans have no choice but to gain control of the resources of their rich continent – through debt cancellation or repudiation, or through alliances with potential sympathetic allies in Venezuela and others who have already cut their ties to the Fund – and mobilize these resources for development instead of allowing them to hemorrhage out of Africa in the form of massive debt repayments to the big creditors, the World Bank, and the IMF.

The World Bank
by Robin Broad

In her provocative paper on the World Bank, Robin Broad asserts that changes at the World Bank during the presidency of James Wolfensohn (1995-2005) were largely rhetorical rather than substantive. While programs were repackaged as “anti-poverty loans” or “development policy support,” in fact, “the key components of the neo-liberal Washington Consensus remained unquestioned.” This said, there were some gains achieved by NGO’s, including increased transparency and disclosure and new “safeguard” policies on the environmental and social impacts of Bank loans, at least in the early Wolfensohn period.

Since the early 2000’s, however, there has been some backsliding, Broad claims, with the Bank moving to reduce or eliminate environmental and social safeguards on loans to medium income countries like Mexico and moving back to “large infrastructure loans reminiscent of those that generated so much NGO criticism in the 1980s.”

These developments have disillusioned NGOs and move them from advocating reforming to “shrinking” the Bank.

Broad moves on to propose six items for an action agenda vis a vis the Bank:
- launch a discussion on whether there is a need for a global public institution that provides long-term, low-interest loans and/or grants (her opinion being “probably not,” though there might be a need for a “much smaller global institution” engaged in public lending for “specific purposes” or “regional institutions” not under the control of the US that have “more democratic and open governance structures.”);

- discuss whether there is a need for a global institution that offers policy advice (her opinion being that while a global institution offering one-size-fits-all policy advice is a no-no, “a more democratic and open entity offering a menu of policy options to respond to different problems” might be acceptable);

- dismantling the Bank’s research department, which predetermines answers according to ideological preference, then structures the research to back them up, contributing in this way to “maintaining the neoliberal paradigm”;

- dismantling of the Bank’s external relations department;

- carefully maneuver in the intensifying conflict between pragmatic conservatives who are essentially satisfied with the current role and structure of the Bank in supporting US foreign economic policy and radical free marketers that seek to “shrink” the Bank, but with assumptions, tactics, and strategic goals different from the progressive NGO’s that also have a “shrink the Bank” agenda; and

- work with governments such as those in Brazil, Argentina, and Venezuela with the aim of getting them to “disengage” from the Bank and the other financial institutions.

In her comment on Broad’s paper, Angela Wood agrees with some recommendations while expressing her reservations over others. She supports a “shrink” rather than a reform agenda, adding to Broad’s list of windows for elimination the International Finance Corporation and the Multilateral Investment Guarantee Agency. In addition to this shrink agenda, Wood proposes more directors from the South in the Bank’s board, elimination of the US’ veto power, much greater disclosure at much earlier stages of a program, and greater involvement of parliaments in the South and North in approving projects and making the Bank accountable.

She also agrees that it is time to put the spotlight on the Bank’s role as the dispenser of policy advice since the greater part of its power may derive from this rather than its being the source of loans.

Wood is skeptical on whether we need the World Bank at all, though she asserts that we do need multilateralism and, presumably, multilateral institutions. Aid should not, however, be the function of these agencies since this will always come with strings attached. Development funds should come from trade and international taxes such as a Tobin tax.

She supports policy advice for governments, but this should probably come from regional and “well resourced national level institutions.” Lending and policy advice should be performed by different institutions, and no institution should have a monopoly on advice giving.
She agrees with Broad that it would be important to be careful in assessing enemies and allies in the coming post-Wolfensohn period since some forces could be mistaken for allies who could actually “pose an even greater threat than the World Bank itself.”

Wood says, though, that she does not follow Broad in seeing Southern governments as natural allies since few of them “share the same agenda as civil society.”

Wood thinks that it might be more profitable to “forge alliances with the bilateral donors’ country offices,” where there is considerable frustration with the Bank. These offices might, in fact, share more of their agenda than Southern governments.

A final suggestion is that NGOs both in the North and South should engage with their governments and politicians and not overlook national political processes in favor of advocating directly with the Bank.

Nancy Alexander agrees with Broad’s assessment that campaigning in the 1980’s and 1990’s brought few lasting reforms. The Bank’s power is greater today, US power in the Bank has increased, and the Bank’s mandate has increased significantly. She adds a fact not mentioned by Broad: the Bank’s adoption under the Bush administration of an overarching Private Sector Development Strategy which aims to privatize basic services in developing countries.

Alexander endorses Broad’s proposal for a shrink-the-Bank strategy and her dismantling of the Bank’s research department, adding that research should be farmed out to an independent body. A novel recommendation from her is the establishment of a Washington, DC-based training institute that would acquaint Southern leaders with the aims, roles, and interests of the Bank and other international financial institutions. On these two points, the synthesizer has some comments: on the first, it would be important to ensure that the independent research agency not have a neo-liberal orientation or we could end up with research that is just as bad or worse than the Bank’s; on the second, why base such a training institute in DC? Caracas or Porto Alegre could serve just as well.

Doug Hellinger’s brief reaction was to pose the question of how gets rid of the Bank under the current environment. A fair question, but Broad is not talking about a dismantle-the-Bank-now strategy but a more nuanced, protracted “shrink the Bank” strategy. Of course, the end point is abolition of the Bank, but the process is quite different from a straightforward abolitionist strategy.

Kunibert Raffer, Ahmed Swapan, and Eric Toussaint focus their comments on taking advantage of the World Bank’s lack of immunity to make it accountable for the extensive social and economic damage it has caused in many countries subjected to its disastrous advice. Raffer rightfully points out that “Actions against the Bank in courts of competent jurisdiction in the territories of members in which the Bank has offices, appointed agents for the purpose of accepting service or notice of process, or issued or guaranteed securities. The Bank’s founders had no intention to exempt or protect it from all legal and economic consequences of failures. Accountability was not initially meant to be removed.”
Raffer suggests that legal action against the Bank and other IFI’s could be initiated on the grounds that they have violated their constitution by not fulfilling their duty to grant debt relief in the case of default or the imminence of default. Toussaint writes on the possibility of using the Bank’s lack of immunity to being sued to bring suits against it for the damaging impact of its projects, policies, and advice on social welfare, human rights, and the environment. As Toussaint notes, “One might imagine that associations representing the interests of people adversely affected by WB loans and/or by its support for dictatorships could bring an independent action and sue the WB for damages in national courts. One might also imagine that holders of WB bonds—not only bankers but also trade unions—could sue the Bank over the use it makes of the money it borrows from them. There is no guarantee that such lawsuits could be successful, but it is hard to see why citizens’ movements should not use their right to hold the WB accountable for its acts.”

That the Bank does feel it is vulnerable on this score is shown by its efforts to get the parliament of Bangladesh to pass a law giving it legal immunity after a former Bank executive filed a case against it.

In summary, this extremely valuable discussion has yielded some of the short-term and medium tactics of a civil society strategy of “shrinking the bank” with the strategic goal of depriving it of much or all of its power:

- filing of lawsuits against the Bank in a number of countries for social and environmental damage;
- a global campaign to abolish the research and external relations departments of the Bank;
- tactical alliances with selected progressive governments of the South against Bank policies;
- tactical alliances with selected bilateral donors against Bank policies;
- careful exploitation of the differences between pragmatic pro-Bank conservatives and liberals and right wing radicals seeking to “shrink” the Bank;
- setting up a training institute to educate leaders of the South on the regressive character and policies of the Bank and other IFI’s;
- push for setting up accountable, transparent, non-neoliberal, developmentally oriented regional lending agencies and policy centers to which the lending and policy advice functions of the Bank and other IFI’s would be devolved.

Addendum from Hong Kong Meeting:

There was support for Robin Broad’s recommendation for a campaign to close the World Bank’s research and external affairs departments, which play a very critical ideological role in legitimizing neoliberal policies. In addition to these departments, two other World Bank windows, the International Finance Institution (IFC) and the Multilateral Investment Guarantee Agency (MIGA), were also recommended as targets for closure.

**The Asian Development Bank**
By Shalmali Guttal

Shalmali Guttal provides a wide-ranging expose of the Asian Development Bank (ADB), which probably has as great an impact in many Asian countries as the World Bank. Certainly, the ADB is a high-profile financier of large infrastructure projects. It has also been an aggressive promoter of the privatization of public infrastructure and services, providing funds to support private-public “partnerships” such as Build-Own-Operate (BOO) and Build-Own-Transfer (BOT) arrangements.

According to Guttal, the ADB’s privatization program has been notable for its reliance on flimsy data and sketchy and incomplete analysis. The result has been rises in electricity prices and greater financial risk for governments which have no way of recouping their costs except by raising tariffs and levies on their citizens.

The ADB’s reputation has been tarnished by a number of problem projects that have become national issues, the most important being the Samut Prakarn Wastewater Management Project in Thailand, which posed the threat of environmental destabilization and was ridden with corruption, and the Chasma Right Bank irrigation project in Pakistan, which threatened 30,000 people with displacement and loss of livelihoods.

If regional development institutions are the answer to the World Bank, then the ADB is not the agency to take the place of the Bank since it shares the same neo-liberal paradigm and socially and environmentally approaches as the Bank. Still many governments in the region feel that the ADB is more flexible and sensitive to realities in the region than the World Bank. This means that even if the ADB is not a candidate for replacing the Bank, civil society must come up with an agenda to neutralize its negative impacts. Among the elements of this “defensive agenda” enumerated by Guttal are: stripping the ADB of its immunity in order to make it legally liable for bad projects and faulty advice; overhauling the system of governance to incorporate civil society participation in shaping programs and projects; setting up an ADB “watchdog”; ending the strong role of non-regional actors such as the EU and US on governance; and ending policy conditionalities on financing commitments.

Two comments here from the synthesizer: First, it is important to make sure that this defensive agenda is clearly designed as a defensive agenda and not a strategic one. Second, while it is important to reduce the power of governments outside the region, it is also critical to reduce the power of Japan, which dominates the institution and which has not hesitated to direct some ADB lending to areas beneficial to its conglomerates. Third, the policies of some recipient states within the ADB can be just as problematic as those of donor states external to the region. For instance, China played an enormously negative role trying to undermine the findings and recommendations on the inspection panel on the Samut Prakarn project in which were critical of the ADB and the Thai government.

Of great value is Guttal’s list of desired features of a regional development agency. Among other things, such an institution must have the ability to give non-doctrinaire non-neoliberal policy advice; possess the capacity to
institutionalize learning at multiple levels; have a vision of regional integration that goes beyond trade and investment liberalization; provide loans as needed and without conditionalities; institutionalize civil society participation in governance and formulation of development programs; and support non-big business actors such as community banks and workers’ cooperatives.

Commentaries on Guttal’s paper were very supportive of her proposals, though they asked for more details, such as how an ADB watchdog agency might be constituted (Ahmed Swapan); how financing might be separated from policy conditionalities (Nancy Alexander); and whether there was a place for more active oversight of the ADB by national parliaments (Alexander).

One thought: it might be good to supplement Guttal’s excellent analysis of the ADB, which is based on a lot of experience campaigning against the ADB, with a parallel, campaign-based analysis of the Inter-American Development Bank and the African Development Bank. A comparative study would yield more insight into the global practices of the current regional development banks that would round out their positive and negative lessons for a progressive regional institution the future..

The World Trade Organization
by Aileen Kwa and Nicola Bullard

The paper on the WTO by Aileen Kwa and Nicola Bullard goes in some detail into how the WTO’s guiding principles and different agreements have subverted development.

The WTO’s focus on export expansion has led not to integrated development but to enclave-like development—a form of economic growth that is concentrated in a small part of the economy, both geographically and sectorally.

The Agreement on Agriculture has, by institutionalizing subsidies for Northern agriculture, been a massive destabilizing force to the 70 per cent of the workforce in the South that is employed in the agricultural sector.

Through the Trade Related Investment Measures Agreement (TRIMs), which have outlawed trade tools for industrial policy like local content policies, the WTO is eroding the industrial base of developing countries. Significantly lowering tariffs on industrial products, which is the goal of Non-Agricultural Market Access (NAMA) also has the same effect.

The General Agreement on Trade in Services (GATS), by establishing the principle of national treatment, which gives foreign service providers equal rights as local providers, could lead to foreign dominance in services owing to their tremendous resources compared to local firms. It also encourages privatization of essential services like water and energy, thus opening up these sectors to possible foreign investor control.

The Trade Related Intellectual Property Rights Agreement (TRIPs) has little to do with trade and everything to do with ensuring monopolistic control of technology and knowledge through the grant of draconian patent rights to transnational corporations (TNCs). Among its effects would be to consign developing countries to being simple manufacturers with little incentive to move to the production of high-end, high value-added products. TRIPs also
legitimizes TNC activities that amount to biopiracy. It also poses a threat to public health with the restrictions it ties to the production and distribution of life-saving medicines—restrictions demanded by TNCs.

The world demands a new trade regime. According to the authors, the following should be the principles guiding the establishment of a new trade regime: 1) it “cannot prescribe a one-size-fits-all solution but must be loose enough to allow for a wide diversity in its members’ economic arrangements”; 2) it must subordinate trade to development and the improvement of the living standards and welfare of people; and 3) it should institutionalize the principle of subsidiarity, meaning local production must have first priority at serving local needs; and 4) it should not interfere with domestic regulation and environmental policy.

Comments came from Pierre Johnson and Yoko Kitazawa. Johnson noted, among other things, that in the elaboration of a new trade regime, we can learn from the Fair Trade Movement’s key principles: 1) pricing based on calculation of cost of production and cost of living; and 2) integration of social and environmental cost in the price of products.

Yoko Kitazawa expressed her disagreement with the idea of a “whittled down WTO,” saying that the WTO should be completely abolished. This is in contrast to her position on the IMF and World Bank, which should be allowed to exist to perform, respectively, the role of “currency stabilizer” and “international lending institution” after being reformed.

At this point, it might be useful to bring in some of the synthesizer’s thoughts on the subject of alternatives to the WTO to complement the authors’ discussion of an alternative trade regime. In my view, abolishing the WTO would be ideal, but as with the IMF, this might not be politically feasible in the short term. A strategy of disempowering it or radically reducing its power while building up that of other institutions is probably a more viable strategy. Other institutions are, among others, the International Labor Organization, multilateral environmental agreements, United Nations Conference on Trade and Development, and regional economic blocs. The goal is to create a pluralistic system of global governance of trade where the different institutions can check one another. As we have argued elsewhere, “It is in such a more fluid, less structured, more pluralistic world, with multiple checks and balances, that the nations of the South—and the North—will be able to carve out the space to develop based on their values, rhythms, and strategies of their choice.”

The goal should not be to replace the WTO with another centralized institution, even if that institution has principles different from neoliberalism, since centralized structures have strong tendencies to impose one-size-fits-all economic models. Though divergent ideologically, the Soviet state, the IMF, IBM, and WTO all had this drive to eliminate diversity and impose one model from above. This is not to say that there would be no international agreements to guide trade. There would, but they would be in the nature of loose agreements, with no coercive mechanisms, much like the GATT cum UNCTAD system before the WTO came into being. (Here it is important to note that the main reason the WTO came into being was not to promote the expansion of global trade. Global trade did not need the WTO to expand eighty six fold, from $124 billion in 1948 to $10,772 billion in 1997. That expansion took place under the flexible GATT cum UNCTAD framework. The main reason the WTO was founded was to create rules to enable corporations
to do away with institutions, practices, and rules that were blocking their efforts to penetrate and dominate economies globally.)

The pillars of an alternative trade regime would be regional economic associations and South-South trade formations. Both the regional economic associations and South-South trade formations would not be free-trade groups but formations where trade would be just one component of association, the others being technology sharing, regional import substitution, and a planned division of labor. Moreover, the operative principle in the trade dimension would be the subordination of trade to development.

The overall aim would be to build up the capacity of, deepen, and diversify member economies. A key consideration would be to build the dimensions of subsidiarity, sustainable development, and social equity into the design of economic arrangements. Another key consideration is to create structures of democratic governance for these associations as well as institutions facilitating civil society participation and intervention.

Addendum from the Hong Kong Meeting:

There was consensus that the World Trade Organization performed no positive functions except to serve as a rule-setting agent to promote corporate interests, and that the strategic goal should be to phase it out.

It was pointed out, however, that while the WTO continued to exist, developing countries should adopt a defensive strategy within it while focusing their work on positive trade initiatives outside the WTO. In terms of alternatives to the WTO, a number of issues were raised: alternatives should cover not just trade but other economic areas; they should promote not the export-oriented development model but one based on the domestic market; they should be based on regional cooperation and “South-South” cooperation; and they would need the participation in a positive fashion of key advanced developing countries like Brazil, India, and China.

In this connection, the Bolivarian Alternative for the Americas (ALBA), one of whose components is income redistribution to build a strong regional market, deserved support. Under ALBA, which is promoted principally by the Venezuelan government headed by Hugo Chavez, 14 Caribbean countries get a 40 per cent discount from the international price of oil from Venezuela. In exchange for Venezuelan oil, Bolivia can pay in soybeans and Argentina in heifers. There is a plan for a 1000 kilometer gas pipeline from Venezuela to countries south of it which is expected to create one million jobs, although the project may have negative environmental consequences. In addition to these elements, Venezuela has launched Telesur, a progressive regional television network. There is also a plan to create a Banco del Sur (Bank of the South) that would make development loans but without the conditionalities imposed by the World Bank and the Inter-American Development Bank.

Transnational Corporations
By Sarah Anderson

In her paper on Transnational Corporations (TNCs), Sarah Anderson shows that despite their being the most powerful economic actors in the global economy, the 64,000 TNCs defy any global regulation. International Labor Organization conventions, OECD guidelines, the UN Global Compact, and the UN Human Rights Norms on the Responsibilities of TNCs all share two
characteristics: they depend on voluntary compliance and they are ineffective. Indeed, TNCs can often use their participation in a voluntary project of “corporate responsibility” like the Global Compact as a PR tool to improve their image.

Anderson thinks that the most important arena for regulating TNCs is at the national level. Nevertheless, international regulatory mechanisms are important supplementary mechanisms, and she proposes a strategy to eventually force international mandatory controls on TNCs. Proposed as a long-term objective is the establishment of an International Court for Corporate Crimes patterned after the International Criminal Court. While there are those who argue that the stronger powers would manipulate the rules to the advantage of its corporations, Anderson feels that on balance “the suffering caused by a lack of enforcement authority at the international level outweighs these concerns.” Also, the mere threat of legal proceedings at the international level could strengthen national government actions, much like the celebrated international prosecution of the dictator August Pinochet contributed to local Chilean efforts to strip the latter of his immunity. While the Court would ideally cover the whole spectrum of corporate criminal activity, the author feels that it should start with prosecution of the most egregious crimes such as using slave labor, forced labor, and child labor.

Anderson feels that given the current balance of forces, an International Court for Corporate Crimes will not be established anytime soon. In the medium term, however, she proposes a multi-pronged effort to set the ground for the eventual establishment of the International Court. This would include a) getting the United Nations Commission on Human Rights to support the UN Norms for Business by formally adopting them; b) launching information gathering activities on corporate behavior, like establishing a data base of corporate crime, issuing regular reports on TNC behavior abroad to supplement the national reports on their domestic behavior in the US that they are required to file under “right to know” legislation, and collecting and disseminating information on runaway shops evading labor regulation; c) convening an international panel to advise governments on ways to limit corporate corruption of domestic political processes; and d) gathering and publicizing data on trends in corporate concentration and monopolistic practices.

Commentaries on Anderson’s proposals were contributed by Peter Utting and Kavaljit Singh. Utting agrees with Anderson’s assessment that there are hardly any effective international checks on corporate behavior. He reports though that there is “considerable backing for strengthening the application of the OECD Guidelines and related complaints procedure” which might be worth incorporating as part of the strategy.

Kavaljit Singh makes a number of important suggestions in the way of completing the picture of TNCs Anderson provides in her introduction. First, he suggests that Anderson mention that in recent years foreign direct investment has consisted of mergers and acquisitions (M&As), with no new addition to productive assets and capital stock. Second, he proposes focusing not just on TNCs that engage in direct foreign investment but also those that engage in speculative activities given the increasing importance of the latter and their role in provoking financial crises in the last few years.
Singh goes on to agree with Anderson that voluntary codes of corporate behavior are ineffective in curbing corporate abuses and, at best, can only complement, not substitute for state regulation.

Singh also agrees with Anderson that while international regulatory mechanisms are important, the principal mechanism for regulating TNCs is local state action in the domestic arena. Singh rightly warns that international regulations should be crafted carefully to discipline corporations as well as expand policy space for national governments to pursue development, not restrict them as under the proposed WTO investment agreement.

A few thoughts from the synthesizer:

The legitimacy and credibility of TNCs is probably at its lowest point today than at any time in the last 50 years. The costs of TNC operations have been underlined especially by global warming, and the US refusal to sign the Kyoto Protocol owing to pressure from the TNC lobby has been a very important event in this process of de-legitimization. Resistance to TNCs is widespread, and here, perhaps even more than labor unions, the role of affected communities has been central.

A great number of these acts of resistance have been successful. The July-August 2005 issue of the Multinational Monitor provides a partial listing of these: the anti-apartheid divestment campaign in South Africa; the struggle against nuclear power; indigenous peoples’ mobilizations for land and resource rights against TNCs in Canada, Brazil, Wisconsin, USA, and Colombia; the unionization of the notorious garments textile giant JP Stevens in the American South; the introduction of the airbag against Detroit’s wishes; the anti-big-dam campaigns in Chile, Brazil, Paraguay, and the Nile; union organizing of farmers at Campbell’s Soup and other food producer; the adoption of the Montreal Protocol to protect the ozone in the teeth of opposition from the chemical industry; the free and open software movement’s fight against the Microsoft operating system; and the anti-incinerator movement; the janitorial workers’ struggle against corporate subcontracting in the US; Malaysia’s imposition of capital controls against the wishes of global speculative capital; banning or restriction of biotech corn in Mexico and in most of Africa; the campaign to loosen Big Pharma’s “patent rights” and bring down the cost of life-saving drugs that culminated in the 2001 WTO Doha Round ministerial declaration that public health has priority over patents rights; Argentina’s radical devaluation of its debt to private bondholders; the campaign to phase out Persistent Organic Pollutants (POPs); the Framework Convention on Tobacco Control which imposes very tight restrictions on tobacco advertising and other promotional tools; the Rainforest Action Network’s campaign to get Citigroup and other banks to prohibit lending to activities that damaged primary tropical forests and other endangered ecosystems; and UNOCAL’s being forced to a settlement to compensate the victims of its pipeline from Burma to Thailand.

Despite their loss of legitimacy and proliferating grassroots opposition, the corporations continue to elude global and national regulation. A key reason is that they were successful in deflecting pressures for government regulation to the voluntary approach based on “corporate social responsibility,” of which the Global Compact is one example. Today, all giant corporations have their “corporate codes of conduct.” With resistance to corporations at an all time high in many countries in Latin America, for instance, corporate codes and voluntary approaches, all invoking corporate social responsibility or good
corporate citizenship, are proliferating in the region. Oftentimes, corporations make a great show of having “dialogues” and “agreements” with affected communities in much the same way the World Bank conducts “civil society consultations” with grassroots groups.

Thus, a very important part of efforts to effectively regulate TNCs will have to be a campaign to expose corporate codes of conduct as derailing movements away from the task of effectively countering TNC’s. This will mean working with grassroots groups so that it is their own experience of dealing with “responsible corporations” that leads them to see the limitations and negative effects of the voluntary approach.

The absence of effective mechanisms of TNC regulation and control at the global and national level brings up an opportunity for civil society to take the lead in formulating regulatory frameworks for TNCs. At both levels, civil society groups and networks can set up rules on TNC behavior and sign up to cooperate to serve as the enforcement or coercive mechanism. Should a TNC be found to be in violation of this “Civil Society Rules for TNCs,” which would encompass environmental protection and the protection of human, civil, economic, and political rights, campaigns can be called against it. Such a multifaceted campaign would include encouraging strikes, demonstrations, consumer boycotts, and systematic press campaigns. It has been through such comprehensive campaigns that civil society groups have won battles against TNCs over the last 30 years. Instead of waiting for governments to discipline TNCs, they should initiate the process themselves. With TNC’s increasingly sensitive to bad press and a bad image—as Nike was to its image as an exploiter of young women workers--successful campaigns can be undertaken. With the internet, local campaigns can be nationalized and internationalized fairly quickly. Targets will need to be selected carefully since campaigns will have an exemplary dimension—“if you don’t behave, we can take you on as we have taken on Corporation X, which is far more powerful than you.”

As the balance of forces shift and governments begin to develop more spine to deal with TNCs, the Civil Society Rules for TNCs can become the basis for international and national governmental agreements and codes to discipline TNCs. But even as such rules are developed by governments, civil society should not dismantle the system of rules and penalties it has built up.

A final point: hard thinking should begin on what mechanisms of production and distribution can replace TNCs and what principles can replace the current criterion of profitability as the engine of such enterprises.

Addendum from Hong Kong Meeting:

The discussion on TNCs was particularly rich. It was pointed out that an important task is dispelling many myths about TNCs. One myth is that they are transnational in their operations; in fact, most assets and sales of TNCs still take place in their country or region of origin. Another is that capital from TNCs is essential for development; in fact, there is no correlation between inflows of capital and gross capital formation. Participants expressed support for the idea that while international mechanisms to control TNCs should be explored, the brunt of regulatory efforts should take place at the national level. It was also suggested that small and medium enterprises should be promoted as alternatives to TNCs as agents of production.