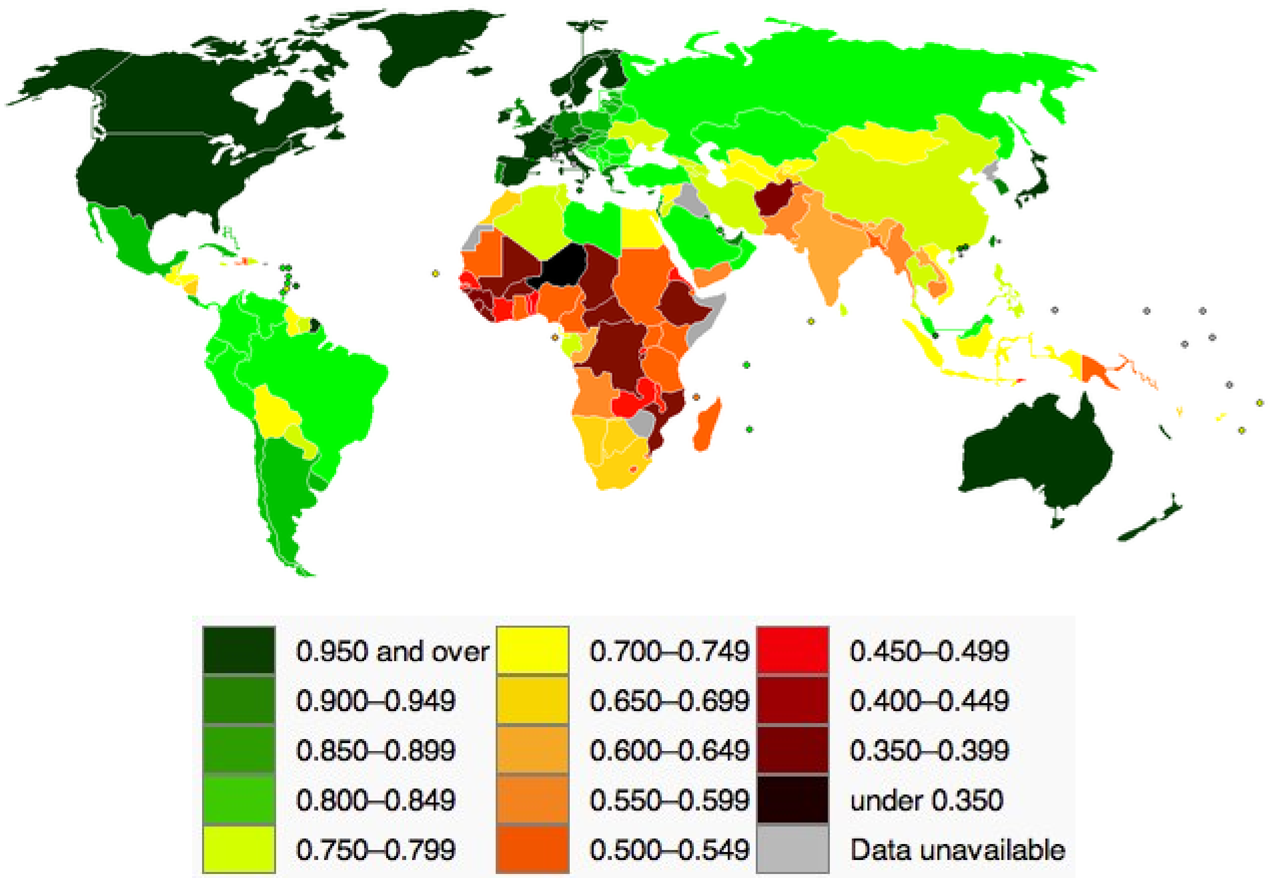
Compare the importance of two different transfers of capital [loans | debt repayment | development aid | remittances | foreign direct investment | repatriation of profits] between the global core and peripheries. *[10 Marks]*

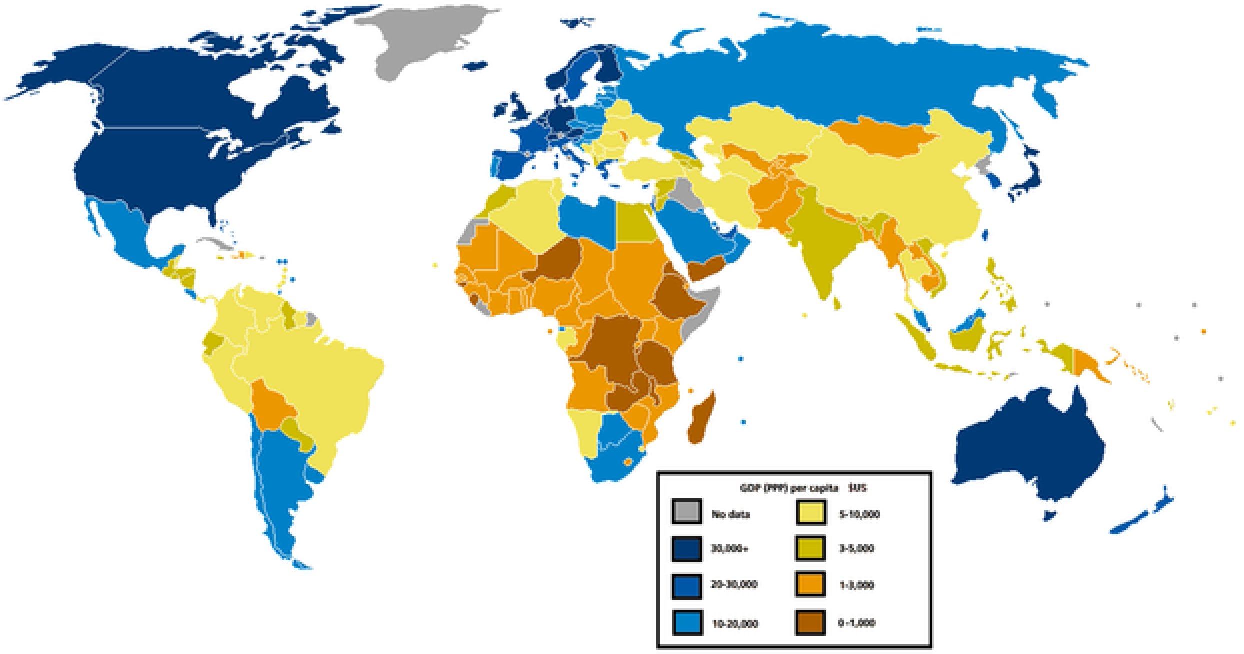
A joint study of different transfers of Capital worldwide.

By Sophie Topp, Katie Green and Benjamin Buckley.

HDI Map of the World



GDP Map of the World



Loans
Money borrowed from the International Monetary Fund, World Bank or private organizations with the aim of aiding development projects. The loaned money needs to be invested wisely to get a return to service the debt. Interest repayment rates can fluctuate with the global economic markets.

Case Study
Nigeria, is hosted the Fifa U-17 world cup in 2009. This is to help “encourage inward investment into developing nations.” They believe that it will help increase tourist inflows and business revenues to Nigeria. Major sport events are believed to bring long-term benefits including city and country branding. It is the responsibility of the government to build basic sport facilities, but they also need investments from inside and outside the country to allow the sport industry in Nigeria to reach its full potential. Ghana is looking to bid for the 2015 All African Games, for the same reason of Nigeria so that it can bring economic prosperity to the country. After the 26th African Cup of Nations, held in 2008 in Ghana, the country's central bank took a look at the economic effect of the tournament on the economy. The results were encouraging. Ghana was told that it would get a $600m three-year loan from the International Monetary Fund (IMF). The country needs funds to reduce its budget deficit and support its currency, the country faces high food and fuel prices, an energy crisis and heavy spending in the run-up to last year's elections.

Importance
The IMF gave the go-ahead for a $741m (£469m) loan to Iraq. The money is part of a previously agreed $3.7bn loan programme designed to help the country rebuild its ravaged infrastructure. Iraq relies on oil revenues for as much as 90% of its income and needs funds to rebuild after years of conflict and insurgency following the 2003 US-led invasion.

Debt Repayment

Debt is money owed: either the original sum borrowed or interest charges levied on the original sum. Debt service is the process of repaying a loan according to an agreed schedule. High debt service payments are often blamed for reducing government revenue, and thus resources for health and education. As a result, there are increasing calls for debt relief, which is a term used to describe the process of either forgiving or reducing debts held by poor countries.

Case Study details (Sophie)

- The world's leading industrialised nations have pledged to write off the debts that Haiti owes them, following a devastating earthquake last month.
- Haiti was rated as the poorest nation in the western hemisphere even before the earthquake struck.
- Canada's finance minister announced at a summit in Iqaluit, northern Canada,that Canada France, Germany, Italy, Japan, United Kingdom, and United States. (the G-7)
- $1.2 of Haiti's $1.9 debt has been written off.
- “We are committed in the G7 to the forgiveness of debt, in fact all bilateral debt has been forgiven by G7 countries vis-a-vis Haiti," Mr Flaherty said at the end of the two day gathering of finance ministers.
- At least one million people are in need of aid in Haiti after the magnitude 7.0 earthquake which struck in mid-January, killing more than 200,000 people.
- Gordon Brown told the BBC (when he was Prime Minster) that in order to rebuild a country, they must not be in debt.
- The earthquake in Haiti was a catastrophic setback to the Haitian people who are now facing tremendous emergency humanitarian and reconstruction needs, and meeting Haiti's financing needs will require a massive multilateral effort," said Treasury Secretary Timothy Geithner.
- Oxfam has urged the writing off of about an additional $900m (£557m) that Haiti still owes to donor countries and institutions.
- Venezuela, one of Haiti's biggest creditors, last month forgave the country's $295m oil-related debt.

<u>Importance.</u>

The Human Development Report 2002 from the United Nations Development Programme (UNDP) shows that, among 50 African countries, at least 29 recently spent more on debt service than on health. At present 41 countries are classified as heavily indebted poor countries (HIPCs) - 33 in Africa, four in Latin America, three in Asia and one in the Middle East. The main objective of the HIPC initiative is to reduce debt in these countries to a sustainable level, thereby releasing extra budgetary resources for poverty-reducing expenditure, including expenditure on health.

Development Aid

Definition: Development aid or development cooperation (also development assistance, Official

Development Assistance (ODA) or foreign aid) is aid given by governments and other agencies to support the economic, environmental, social and political development of developing countries. It is distinguished from humanitarian aid by focusing on alleviating poverty in the long term, rather than a short term response. There tends to be a grant element to distinguish from a loan.

Case Study details (Ben)

Facts and figures (Source: BBC, http://news.bbc.co.uk/2/hi/business/7971914.stm)

The following figures show the total amount of aid given to developping countries
The total amount of aid rose by 10.2% in 2008 to $119.8bn, the highest amount recorded.

- The US was the largest donor, with its net aid rising 16.8% to $26bn.
- The UK's net aid rose 24.1% to $11.8bn, the third-largest amount.
- Five countries - Denmark, Luxembourg, the Netherlands, Norway and Sweden - exceeded the United Nations' target of 0.7% of gross national income in 2008.
- Germany, France and Japan were also among the five biggest donors.
- South Korea's aid rose 31.5% to $797m in 2008. The country aims to become a member of the DAC (Development Assistance Committee) in 2010.

The OECD (Organisation for Economic Co-operation and Development) warned countries about using the financial crisis to cut back on aid. The current global financial crisis is having a serious impact on low-income countries. For that reason, aid cuts at this point in time would place a dangerous additional burden on developing countries.

Importance.
The largest Development Assistance Committee donors were the United States ($21.8 billion), Germany ($12.29 billion), France ($9.88 billion), United Kingdom ($9.85 billion). However, none of those met the UN target of giving at least 0.7 percent of the Gross National Income (GNI) as aid. United States (0.16% of GNI) and Japan (0.17% of GNI) were in fact giving least among the members of DAC. The only countries meeting the targets in 2007 were Norway (0.96% of GNI), Sweden (0.93% of GNI), Luxembourg (0.91% of GNI), the Netherlands and Denmark (both 0.81% of GNI).

Remittances
A remittance is a transfer of money by a foreign worker to his or her home country.

Case Study details (Sophie)

Money sent back home by migrants far exceeds international aid given to developing countries. The report, compiled in collaboration with the Inter-American Development Bank (IDB), based its findings on official data from governments, banks and money transfer operators.

- About 150 million migrant workers sent more than $300bn (£147.3bn) home in 2006, says the International Fund For Agricultural Development (IFAD).
- That compared with $104bn in aid from donor nations and direct foreign investment of $167bn.
- Asia led the remittance table, receiving $114bn, followed by Latin America and the Caribbean.
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Importance

Migrant workers are suffering worst in the aftermath of the global recession. Foreign workers in developed nations are more likely to be jobless than their native-born counterparts, as the employment gap widens between the two. At the end of 2007, 12.4% of immigrants in Spain were jobless, as against 7.9% of native-born Spaniards.

Foreign Direct Investment

The purchase of land, equipment or buildings or the construction of new equipment or buildings by a foreign company. FDI also refers to the purchase of a controlling interest in existing operations and businesses (known as mergers and acquisitions).

Case Study details - Katie

- Guinea's military rulers have agreed a huge mining and oil deal with China.
- Mines minister Mahmoud Thiam said a Chinese firm would invest more than $7bn (£4.5bn) in infrastructure.
- In return, the company would be a "strategic partner" in all mining projects in the mineral-rich nation.
- China has been praised recently by think-tanks and African leaders for choosing to invest in infrastructure and business in Africa, rather than doling out aid money.
- Analysts say the timing of the Guinea deal is likely to stir controversy, as the legitimacy of Guinea's government is under question.
- the firm involved has not been named, but though it is the same firm that has invested billions in Angola - the Hong Kong registered China International Fund.
- A national mining firm would be set up, with the Chinese company becoming "strategic partners".
- Guinea is thought to have the world's largest reserves of the aluminium ore, bauxite.

Importance

Many Chinese firms employ large numbers of local workers but wages remain low. However, there is evidence that workers are learning new skills because of the availability of Chinese-funded work. Taking advantage of low labour costs, the Chinese are also building factories across Africa. Most African countries now have a growing trade deficit with China, in spite of favourable tax-free trading agreements. Ethiopian exports to China reached $132m (£63m) in 2006, a figure dwarfed by the value of Chinese imports of $432m (£206m).

Repatriation of Profits
Definition: To return something, especially money or profit, to the country of its owner or its origin

Case Study details - Ben

U.S. tax policies penalize the repatriation of so-called "foreign source income," essentially the profits earned by foreign subsidiaries of U.S. corporations. The corporate cash pile is not being hoarded or held on the sidelines, as many pundits have suggested. It is being kept offshore by the tax structure

The US has numerous firms overseas, hence in foreign countries. Unlike most other countries, the U.S. taxes profits earned overseas by its corporations. The federal tax code then defers the tax on the non-U.S. profits until the corporation brings them into the country. Since repatriating these profits means incurring taxes of up to 35 percent, most overseas profits ultimately remain offshore.

Repatriation on such a scale would effectively amount to the largest-ever economic stimulus event. Not only would the cash go right where it is needed most—the private sector—but this stimulus would not add a single dollar to the federal budget deficit (The amount by which a government's expenditures exceed its tax revenues). In fact the economic growth created through the deployment of this corporate cash would generate billions in additional tax revenue.

Most successful U.S. multinational companies face this dilemma: Keep the cash overseas or bring the profits home at a cost of up to 35¢ on every dollar repatriated.

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