Blood on Wall Street

Naeem Mohaiemen writes from New York

"For those of us who could never understand the Black-Scholes model, there is a quiet satisfaction that the boffins have not, after all, created a perpetual money machine. There is no fool-proof way to beat the casino."

THE recent collapse of the American Long-Term Capital Management (LTCM) hedge fund, its subsequent bail-out by a consortium of large banks, and the revelation that LTCM's investors include not just commercial banks but also foreign government, have thrown global financial markets into turmoil. In the process, the unfolding controversy has outlined several facts about the health of global capitalism:

*A global crisis in financial markets has been brewing since the Thailand crash. Now, a crisis in Asian corners that most American banks felt free to ignore has spread to US shores. Long-Term's collapse makes it clear that no bank anywhere is immune to the destructive power of investor panic and unfettered capital flight.

*The LTCM episode has stripped the American banking sector of its "moral authority". The same American bankers who lectured Asian nations about the importance of transparency in financial dealings and letting dysfunctional banks fail have now bailed out one of their own.

*Conventional market wisdom has received a mighty blow. LTCM was a hedge fund that boasted two economists who received the Nobel Prize in Economics for their work on assessing financial market risk. Yet, it is that same financial model that has now blown up in investors' faces.

up in investors' faces. *The unravelling crisis has introduced the general public to the greediest brand of speculative gambling in world financial markets. The central players in this global casino are hedge funds, financial instruments that bet on the difference between prices of various financial instruments, and reap billions in profits when those bets come true. In the process, not a single product is built or shipped, no productive benefit is accrued to society. It is the ultimate money-for-money's sake machine, with no attachment to everyday reality.

* Western banks have emerged as the biggest fools in the saga. Repeatedly, they have made staggering mistakes that boggle the mind:

First, there was extravagant lending in US dollars to Thai, South Korean and Indonesian banks and companies. When devaluation slashed the value of local currency, borrowers were unable to cover foreign currency obligations.

Second, when lending to Russia, Western banks, learning from the Asian crisis, insisted on solid collateral to back their loans. That collateral took the form of Russian treasury bills (GKOs), which became worthless when Moscow did the unthinkable and de-

Finally, when dealing with homegrown American hedge fund Long-Term Capital, banks demanded securities issued by Western governments. But by agreeing to take no margin on these loans, they allowed LTCM to build up such vast exposures that even this collateral could not be called in without risking

a global market collapse. Hedge Funds Defined

To understand the LTCM story, it is necessary to first understand the instrument of their downfall-- that exotic, seemingly invincible financial instrument known as a "hedge fund". The phrase "hedge" comes from "hedging your bets", but in reality hedge funds do quite the opposite-- they aggressively chase huge risks, and make billions when those risks pay off.

One of hedge funds' most-

used tactic is to bet on the difference between selling and buying prices of two financial instruments-- e.g., stocks or bonds. They gamble that, eventually, these two prices will equalize, and that is when the fund will make its money. If one stock looks underpriced, the fund manager bets that its price will eventually go up-- so they buy more of these stocks. To balance this purchase, they will also seek out another stock or bond that looks overpriced, advance-selling that item. When these two financial instruments approach each other in price, the hedge fund will make money off the arbitrage opportunities between the two. The risk comes from two directions: first, the two items' prices may not equalize, in which case you have lost the bet. Second, in order to make profits, hedge funds do not just bet with their own money. Using their own money as collateral, they borrow huge amounts from banks. If the bet pays off, the hedge fund will have made so much money that, even after

In spite of these immense risks, hedge funds are private partnerships that are not required to disclose their trading

paying off the bank loan, there

is a tidy profit. But if the bet

fails, as it did in spectacular

fashion for LTCM, you have no

strategies to the regulatory bodies. They take money only from institutions and wealthy individuals. Investors must have net worth of \$1 million or more and an annual income of \$200,000. The Federal Reserve does not regulate these funds on the theory that these "sophisticated" investors understand the above-average risks involved. There are more than 4,000 such funds in the US, handling trillions of dollars of assets.

LTCM's High-stakes

Poker

Among hedge funds, LongTerm Capital was one of the biggest gamblers. John Meriwether, a former trader at Salomon Brothers who had to resign in 1991 when one of his employees was caught manipulating bids on Treasury securities, led the fund. The incident did little to tarnish his reputation-- after leaving Salomon, Meriwether quickly assembled an "all-star team" of traders and financial market specialists, including 1997 Nobel Laureate economists Myron Scholes and Robert Merton. These were the breed of high-flying super-traders about whom Tom Wolfe coined the phrase "masters of the universe". Ultimately, these same superstars turned out to be blind men, leading the fund over the cliffs into bankruptcy.

Scholes and Merton, the "brains" of Long-Term Capital, helped programme powerful computers to detect minor price differences between similar sorts of securities that financial history suggested should not exist. Bets were then placed on the likelihood of these differences going away. To boost its returns, the fund borrowed heavily to place bets-- a few billion in investor dollars were turned into \$90 billion worth of assets. The ratio of borrowed funds became precarious when, at the end of August '98, LTCM's equity was 60 times their own capital holdings. On Wall Street, this level of precarious borrowing is called "nosebleed"

Things Fall Apart

LTCM's crisis was precipitated by global financial market turmoil, especially in Russia. The fund was not directly invested in Russia, but in the bond markets of the developed countries. But with increasingly interconnected global markets, the Russian and Asian crisis ended up sinking all of the company's gambles. Long-Term's computer models predicted that American corporate bonds looked cheap against US Treasuries, so it bought the former and sold the latter, waiting for the market to re-align so they could make profits

Then came the unthinkable: the Russian government defaulted on their debt, sending shockwaves around stock and bond markets. The result was "flight to quality"-- with frightened investors pulling money out of risky investments and moving them into the safest purchases-- government bonds. American treasury prices shot up, confounding LTCM's precise bets

Faced with gigantic losses, LTCM was caught in a trading conundrum-- liquidity trap, or the inability to get rid of the positions they were holding due to lack of cash. With a huge amount of outstanding debt to banks, LTCM physically lacked the cash to sell off its various positions. The company might still have survived if the banks were willing to look the other way and not demand immediate repayment on loans. But, as the value of this star-portfolio fell, lenders became nervous. Banks that had made loans to LTCM

started demanding it back. In the first eight months of 1998, Long-Term Capital lost \$ 2 billion of its \$ 4.3 billion portfolio, and was facing liquidation due to huge losses in fixed-income markets around the world. On September 18, Bear Stearns, an LTCM lender, asked the fund to reduce trading positions because the value of bonds they had pledged as collateral had fallen astronomically. At this darkest hour, LTCM finally called the Federal Reserve for help (former Federal Reserve Vice Chairman David Mullins was one of the managers of the fund). Fearful of a global market crash if LTCM defaulted on loans and shut down, Fed chairman Alan Greenspan finally stepped in to

broker a rescue.

"Rescue Me"

On September 23, Greenspan summoned the bosses of leading banks to a meeting in New York. Two dozen bankers from the world's leading financial firms gathered for the meeting, including some of the most powerful bankers in the world-Goldman Sachs co-chief executive Jon Corzine, JP Morgan Chairman Douglas Warner 3d, Merrill Lynch chairman David Komansky, UBS (Switzerland)'s David Solo and top representatives from Morgan Stanley and

Travelers Group.
The bankers converged at

the chosen "neutral" meeting place-- the Federal Reserve headquarters. David Komansky of Merrill pushed the group the hardest, asking pointblank: How much additional money can each bank contribute to stop the collapse of the fund? Each of the representatives knew his own bank stood to lose huge sums of money if LTCM failed. Fueled by this tension, angry arguments broke out. As the Economist wittily reported, if any of the banks decided to refuse to save the fund and instead "seized their collateral and fled, only a few of them

would reach the exit before the roof fell in. Bear Stearns was the one firm that dug in its heels and refused to contribute any funds to the rescue mission. This break in the ranks was so rancorous, it threatened to torpedo the whole process. The day was saved by the resilient David Komansky, who cornered the Bear Sterns banker during a break and insisted that, even if his bank would not contribute. he should not discourage others from doing so. Finally, 14 banks committed funds to reach a grand total of \$ 3.5 billion in new funds. In return, LTCM surrendered control to an oversight committee that would

run the hedge fund. Did We Forget to

Mention..? As news broke about the bailout, questions began to be asked about the propriety of the "rescue" process. Why exactly did the banks step in to save a hedge fund that had essentially shot itself in the foot? The answer, of course, was self-interest. As the week progressed, news began to leak about the depth of the banks' vulnerability from bad loans to Long-Term Capital. It also became clear that the banks had not only lent money, they had also invested their own money into the fund. David Komansky of Merrill was revealed to have personal investments in the fund, raising questions about conflict of interest.
The first full disclosure

The first full disclosure came from UBS AG of Switzer-land, Europe's largest bank, which said its investments with LTCM would result in \$685 million in losses. The bank's stock price immediately fell 11 percent. UBS chairman Mathis Cabiallavetta, and three other senior executives resigned in disgrace. Alex Krauer, who was named interim chairman of UBS, described the situation as "a crisis of confidence". Two

UBS, described the situation as "a crisis of confidence". Two more large European banks also reported losses, US \$153 million in the case of Dresdner Bank.

In America, Merrill Lynch revealed an exposure of US \$2 billion. On October 13, Merrill Lynch announced it would cut 3,400 employees (5% of its work force), sending shivers through Wall Street. This was followed by the October 16th demotion of three top executives and forced "leave of absence" for Merrill's top risk manager Daniel Napoli. On October 18 the bloodbath continued with the announcement that another hedge fund, Ellington Capital Management, was also in trouble. Finally on Oct 20, David Coulter, President of the second largest American bank BankAmerica was forced to resign after revealing \$372 million losses related to loans to

DE Shaw's hedge fund.

Far more disturbing than private bank losses was the revelation that foreign governments had also dabbled in these unsafe investments. The Italian government announced that its Foreign Exchange Office (a division of the Bank of Italy) had invested US \$100 million in LTCM and lent the hedge fund another US \$150 million. This prompted the Singapore Business Times to speculate that several Asian central banks and quasi-government institutions may also have invested in LTCM and other risky hedge funds. Financial reporter Wong Wei Kong astutely observed that this would explain why the US Federal Reserve acted so quickly to bail out LTCM-- the fear was not just of a US fund's failure, but also the havoc it would wreak in already

comatose Asian markets. Wei Kong quoted a Hongkong-based strategist who said, "The disturbing suspicion nurtured by the Fed's actions is that sovereign capital is commingled with private capital in LTCM, stirring a volatile cocktail. Were it to be the case that governments were speculating with their reserves, this would precipitate a crisis of confidence of imposing proportions." Further evidence of Asian governments' involvement was provided in a November 1996 article in Institutional Investor. This article reported that there were persistent rumors about Talwan central bank, Hongkong Land & Development, and Government of Singapore Investment Corp beTerm Capital rescue rattled investors further, as news of the potential link to Asian central banks were revealed. U.S. stocks fell precipitously, dragging the Dow Jones average down more than 100 points in a single day. In the last two weeks, the Federal reserve has cut interest rates twice, in an unprecedented attempt to boost stock prices back up and ward off a recession.

Outrage on the Street

Business Week aptly dubbed the rescue of Long-Term Capital as a "3.5 Billion Tranquilizer". Others were harsher, pointing out the irony of America acting to save a hedge fund, while advising other nations for "transparency" in financial institutions. Fiduciary Trust International vice chairman Michael Magdol wrote to the New York

"We, as a country, assert the efficiency of free-market forces and consistently advocate these principles to the global community. Why, then, do we have Federal regulators arranging this bailout rather than allowing the market to do its work?' Michael Shamosh of Irvington asked. "Can we advise the Japanese to close down their insolvent banks? What credibility do we have after we just orchestrated the bailout not of a bank bit of a hedge fund?..The social implication [is] that the rich must eat caviar so the rest can have bread."

US capital markets are world-renowned for being the best-supervised, most transparent markets in the world. Yet. one single firm was able to get away with making risky and unsound bets of insane magnitude. The incident proved to be spectacular egg-in-face for Federal Reserve chairman Alan Greenspan, who only the previous week had told Congress that "hedge funds are strongly regulated by those who lend the money." It turned out that the Fed had been asleep at the wheel while crazy gambling went on in the world's financial capital. Sardonic wags at The Nation pummeled the Fed's top-man in an editorial: "Greenspan might as well have been smashing a champagne bottle over the prow of the Titanic as it slid down the ramp into the harbor... As with the Titanic, the lifeboats in the global economy are going to the fat cats, with everyone else taking their chances.

Foreign advisers have not missed the delicious irony of the situation and lost no time in lambasting US double standards. Thai economic experts called for transparency in Western banking, and former deputy governor of Bank of Thailand Ekamol Kiriwat told the press "Transparency must be applied to US banks and hedge funds as well." At this week's Washington meeting of the G-7, World Bank and IMF. one Latin American finance ministry official described his colleagues to the Financial Times: "They try to disguise it. but they are panicking."

Japanese economist Tadashi Nakamae told reporters: "It showed us that the Americans could easily ignore their own principles."

Stiglitz of the World Bank cast blame on the banks as well by pointing out. "If you have a bad borrower, you maybe have a bad lender too." Last year's Nobel Prize winners were also badly tainted by the whole incident. Even as Amartya Sen was announced as this year's Nobel Laureate. Swedish Academy members were being asked to comment on the disaster that had befallen last year's winners.

Watching the crisis unravel. and receiving worried phone calls from friends on Wall Street. I sit here in New York watching the end of an era. Like the Stock Market crash of 1987 this latest high-speed "flame out" is inducing soul-searching on Wall Street. American financial markets have been felled by their own arrogance, US policymakers lecturing other nations about transparency are being accused of double standards, and financial wizards find their Nobel-garnered reputation in tatters. In my college years, I remember sitting in a Finance class, utterly puzzled by the Black-Scholes model for risk analysis. In a Dhaka corner lives Zahin Hasan-- my only classmate who understood the model. Now after the LTCM crash, I have discovered that others shared my ignorance. Everyone knew the Emperor had no clothes, but they were too dazzled by the piles of money on the table to

Finally, the London Times admitted on behalf of former Economics students like myself: "For those of us who could never understand the Black-Scholes model, there is a quiet satisfaction that the boffins have not, after all, created a perpetual money machine. There is no fool-proof way to

Thoughts on Air Quality Management Project

All those who have worked to reach this stage will have to continue to work hard to see that this project actually achieves its goal. Without their constant vigilance and active intervention, it is difficult to be sanguine about the ultimate success of this project.

THE World Bank has signed a memorandum of understanding with Bangladesh government to finance and provide technical assistance for implementation of the \$6.5 million four-year "Air Quality Management Pro-

Apparently this is good news. One of the main components of this project seems to be phasing out of the two stroke engine vehicles (TSEV). TSEVs are the prime source of air pollution in Bangladesh, especially in Dhaka, and their eradication has been one of the main demands of all environment conscious people.

Many organizations and in-

dividuals have worked toward this goal, and credit goes to them all for getting the government finally committed to this goal. These include newspapers like The Daily Star which has tirelessly editorialized and reported on this issue. Also notable was the role of the daily Sangbad whose news breaking story about nationalized commercial banks loan to import more TSEVs generated the protest that lead the government to retreat. Also important was the role of organizations like Bangladesh Environment Lawyers' Association (BELA) which finally brought suit against government secretaries on this issue. According to reports, the environment minister Ms. Sajeda Chowdhury had to put up a stiff fight against the transportation authorities

(including BRTC) to make them finally agree not to issue new permits to TSEVs. She and other officials of her ministry also need to be thanked. In short, everybody who worked for this object deserve some credit

However, there are several reasons to worry. First, this is still a memorandum of understanding (MOU). This needs to be fleshed out into a detailed project and then faithfully implemented. Hence there is still a long way to go. Interested quarters may continue to try and be successful in derailing and foiling the main purpose of the project, namely eradication of TSEVs. People involved may prove eager to get the money earmarked for various testing and reduction of emission (with dubious ultimate effect), and let the main goal of TSEV-eradica-tion to be diluted and slip by.

Thus, all those who have worked to reach this stage will have to continue to work hard to see that this project actually achieves its goal. Without their constant vigilance and active intervention, it is difficult to be sanguine about the ultimate success of this project.

This also brings up the second source of worry. The Daily Star in its editorial (Oct. 17) has lauded the World Bank for its role in preparing this project and getting it approved. This shows two things. First, as a nation we, by ourselves, are still not capable of taking as simple

a policy initiative as that of phasing out TSEVs. These days, one often hears from our ministers, like industries and commerce minister Mr. Tofael Ahmed, that Bangladesh is soon becoming a rich developed nation. The other day the finance minister, Mr. Kibria. also expressed similar sentiments in a meeting in Boston. Yet, the fact remains that Bangladesh could not take the simple decision of replacing TSEVs by more regular type vehicles without being cajoled

Is it because the country is too poor to deserve regular type vehicles instead of the TSEV death machines? If that is so, then why is all this talk about Bangladesh almost becoming a rich country? If poverty is the reason, then how Nepal, whose per capita income is even less than that of Bangladesh, could nevertheless ban TSEVs?

It is not only that the World Bank had to cajole us to this decision, frankly speaking, it had to basically 'bribe' us to this decision. It had to come up with a multi-million dollar project. Only then could many of the Bangladeshi officials be made interested in such an initiative.

It is not that we have to against aid projects per se, though it is doubtful how beneficial foreign aid generally is. However, in Bangladesh, as in many other developing countries, aid money has been and is being spent on far more dubious

and harmful projects. Compared to the damage that TSEVs are causing to our national health, \$6.5 million may not be a big sum, even considered as a 'bribe.' What is worrisome is that if money is the main driving force behind this decision, and not commitment to interests of the nation and the people, then it is difficult to be certain that the goal of TSEV eradication will be actually achieved even after this money

This makes the necessity of continued vigilance, initiative, and intervention of the environmentally conscious people of Bangladesh regarding this project all the more acute.

On a broader note, it is necessary for all to work towards developing a "national capability" so that Bangladesh on her own, without being coaxed by outsiders, can understand what is bad for the lungs of her citizens. Unfortunately, just as all men, including Ulysses', entering Circe's house turned into animals, all policy initiatives in Bangladesh get transmuted into aid- (read loan-) financed projects. Often times these projects end up being just rackets. It is necessary to make sure that this new World Bank TSEV elimination project does not meet with similar fate.

The writer is Professor of Economics, Emory University, Atlanta, USA and Coordinator, Bangladesh Environment Network.

Animal Lovers to the Rescue of Abused Elephants

by TP Alexander

"Twenty-five per cent of the 2,000-odd mahouts in the state know hardly anything about the nature and behavioural pattern of the elephants. At least one elephant in the state dies every month."

EPELLED by the cruel treatment meted out to L elephants, animal lovers in the southern Indian state of Kerala have launched a campaign to teach mahouts and owners on how to be gentle to the beast. They attribute the rising number of fatal cases involving elephants and mahouts to man's inhuman treatment of the animal. Elephants are an integral part of many Kerala temples and festivals as well as the commercial timber industry

In the past 20 years, as many as 250 mahouts and 234 elephants have been killed in the state, according to the sponsors of the awareness campaign, the State Elephant Protection Council, and an organisation called Daya, which in many Indian languages means kindness.

Eighteen mahouts were

killed last year alone. Human failure in according proper care to the animal tops the long list of reasons that could drive the animal mad, according to KC Panicker, Elephant Protection Council secretary and an expert in tranquilising rogue pachyderms.

There are 600 tame elephants in the state now as against 250 two decades ago. Of the 600, over 400 were brought from the states of Arunachal Pradesh, Bihar and Karnataka. "Our knowledge of the giant animal is very little. They run amok or die mainly because of torture. Injuries caused by torture, diseases, lack of nutrition and unbearable workload are their main curses," says Pan-

"Twenty-five per cent of the

2,000-odd mahouts in the state know hardly anything about the nature and behavioural pattern of the elephants. At least one elephant in the state dies every month," he adds. The animal's legendary memory would be the sharpest when it is ill, he points out. "It is then that they wreak vengeance on mahouts. he says. Considering the number of slain mahouts, their job is very tough and risky, vindicating the Malayalam adage living off the elephant means countdown to death

Panicker says he has so far saved 150 rogue elephants since April 24, 1979, when he fired the first tranquilizer shot in the state. Since then his teams have fired at 350 elephants. Citing the federal government ban on elephant trapping and the growing instances of torture as the main reasons for the dwindling number of Kerala elephants, he warns that the local

elephants would become extinct if the trend persisted. The mahouts should pay special attention to the animals when they are in heat, experts say. Elephants above 20 years of age are especially prone to this.

To avoid the ill-effects of be-

ing in heat, the animals are being castrated in foreign countries. Veterinary doctors in India too are ready to do the job but no elephant-owner is willing to subject the animal to such an experiment. The animal's testicles are located in the belly and the process of castration involves surgery, Panicker says. An awareness meeting organised by the elephant welfare bodies and doctors, mahouts, owners and other elephant lovers in the southern town of Kollam recently noted that mahouts in Kollam and Thiruvananthapuram districts were notorious for ill-treating the animal.

They used thorny belts and sharp bridling sticks to beat the animals with and also did not feed them adequately. An elephant weighing 4,000 kilogram should be given 200 kg of palm leaf daily but the mahouts did not do so. They even resorted to torture tactics like starving the animal. Though elephant trapping has been outlawed, there are two elephant 'kraals'

(training centres) in the state, one at Kodanad and the other at Konni. The few inmates of the kraals, massive wooden cages which can house up to six elephants, now are those which accidentally get trapped or those that stray out of forests. During the British colonial rule, many elephants trained in the kraals were exported to Britain and other parts of the world. The few landing at the kraals these days are auctioned off after a strict one-year regimen of taming and training. They are mainly used for logging huge forest trees felled for

And even as the state's animal lovers campaign for a saner treatment of the animal, a global signature campaign is on against cruelty to elephants in Kerala. The annual Great Elephant March, a tourism promotion event held in January in the state, has been dubbed as the "March of Misery" by the Born-free Foundation, the Indian Express has said. "It is not a traditional festival. purely a tourist attraction for photo opportunities," Born-Free says. "Elephants are chained and forced to stand in the hot sun with no access to

— IANS

Is Globalisation Marginalising the South?

by Thalif Deen

The new political jargon from the North included "efficiency, effectiveness and markets," he said. The new North-South dialogue should go far beyond official development assistance (ODA) and financial flows.

HE growing trend toward globalisation and liberalisation has further marginalised developing countries from the mainstream of the world economy, says the head the Third World coalition 'Group of 77'.

"Many developing countries, particularly in Africa, have not been able to attract any significant amounts of foreign investment while their debt burden has increased and external assistance diminished," according to G-77 chairman, Makarim Wibisono of Indonesia.

Speaking on behalf of 132 developing nations and China. Wibisono declared recently that economic cooperation, in the new era of globalisation and liberalisation, has to be on new terms and conditions.

"When all is said and done.

the fact remains there must be a flow of resources from the developed towards the developing countries. Recycling of existing resources is not the answer," he said. Addressing a one-day seminar on "Perspectives from the South on Financing for Development in the Globalisation Process," Wibisono said net transfer of resources to developing countries have averaged less than one percent of their gross domestic product (GDP).

The seminar, sponsored by the Group of 77 in cooperation with the Rome-based Society for International Development (SID), was attended by Third World diplomats, senior UN officials and representatives of non-governmental organisations (NGOs).

Wibisono said the demands

of development are such that there must be an injection of new resources through official development assistance (ODA). But he regretted that ODA itself has declined: from 58.9 billion dollars in 1995 to 55.1 billion dollars in 1996.

"This declining trend con-

tinued unabated in 1997," he noted, adding that the decrease has been in the region of about 4.0 percent in real terms.

Wibisono also said that al-

though private financial flows to developing countries have increased in recent years, they have remained uneven and lopsided. Only few countries have accounted for more than three-quarters of the total flow in 1996 and 1997.

"Obviously, it is very difficult to developing countries, to attract these private flows on any substantial scale, bearing in mind their extremely difficult socio-economic conditions and structural constraints," he added.

Roberto Savio, Secretary-General of SID, said globalisation refers to a new form of global and national governance which gives precedence to orpromoting neo-liberal policies such as the World Bank and the World Trade Organisation (WTO) over other multilateral organisations such as the United Nations.

ganisations monitoring and

Savio said globalisation also subordinated national politics to the international economy and concepts such as "social justice, solidarity, welfare and development" were disappearing from the political lexicon of the North.

The new political jargon from the North included "efficiency, effectiveness and markets," he said. The new North-South dialogue should go far beyond official development assistance (ODA) and financial flows.

"If development (in the ideological sense) remains first and foremost a project of the South, we may ask to what extent the new institutional arrangements for globalisation are responsive to Southern concerns," Savio said.

Under the development regime, ODA was the central component of North-South relations for development. But under the globalisation regime, ODA becomes a secondary component which merely complements other financial and trade arrangements.

James Gustave Speth, Administrator of the UN Development Programme (UNDP), pointed out that foreign direct investment (FDI), although massive, has largely bypassed low-income countries. About 90 percent of FDI going to the developing world today goes to middle income countries and to

A central element of development cooperation, where UNDP has been taking a lead role, is the eradication of poverty "The poor are not in the modern market, neither as producers nor as consumers," he

China.

* Speth said the eradication of poverty would increase the size of the global market, it would create incentives for the expansion of production and of consumption. "The importance of bringing the poor to market, and of eliminating poverty by achieving bottom-up growth, is beginning to be recognised by private enterprise, by those enterprises driving globalisation,"

Speth also said that by its very definition, globalisation calls for multilateral solidarity. Developing countries cannot effectively take advantage of globalisation individually. "They must pool resources, link up markets, and exchange valuable lessons in management and technology."

— IPS/APB











