

## Highlights:

UNU-WIDER marked its 25th anniversary with a conference of leading academics and policymakers from across the world for comprehensive discussions on the topics of finance, food and climate change. The Conference was held at the Marina Congress Center, Helsinki, Finland from 13-15 May 2010. [Read more...](#)



Paavo Väyrynen, Finland's Minister for Foreign Trade and Development gives an opening statement at UNU-WIDER's 25th Anniversary Conference: The Triple Crisis - Finance, Food and Climate Change, Helsinki, Finland



Erik Thorbecke, Machiko Nissanke, and Charles Gore at the Book Launch: The Poor Under Globalization in Asia, Latin America, and Africa, Helsinki, Finland

## News:

Web Based Forum on Innovation, Technological Diffusion and Growth. Department for International Development (DFID), UK  
[3-30 June 2010](#)

## MAY 2010

### FEATURE ARTICLES AND HIGHLIGHTS

The Triple Crisis: Finance, Food and Climate Change  
Tony Addison and Finn Tarp. [Full article.](#)

Do the Awakening Giants Have Feet of Clay?  
Pranab Bardhan. [Full article.](#)



The Triple Crisis Panel from left to right: Amar Bhattacharya (G24), Shenggen Fan (IFPRI), William Lyukurwa (AERC), and Jomo K. Sundaram (UN DESA).

### FORTHCOMING EVENTS

Responding to The Triple Crisis: Entrepreneurship, Innovation and Structural Change: UNU-WIDER organized session at the Annual Bank Conference on Development Economics (ABCDE), Stockholm, Sweden  
[31 May 2010](#)

The (Evolving) Role of Agriculture in Poverty Reduction: An Empirical Perspective, with Luc Christiaensen. New York, USA  
[2 June 2010](#)

Nordic Conference in Development Economics (NCDE), Helsinki, Finland  
[18-19 June 2010](#)

Global Crises and Entrepreneurial Incentives with Wim Naudé. New York, USA  
[24 June 2010](#)

### RECENT EVENTS

Climate Change Uncertainty and Adaptation Policy, Bergen, Norway  
[10 May 2010](#)

Book Launch: The Poor Under Globalization in Asia, Latin America, and Africa, Helsinki, Finland  
[12 May 2010](#)

UNU-WIDER 25th Anniversary Conference: The Triple Crisis - Finance, Food and Climate Change, Helsinki, Finland  
[13-15 May 2010](#)

Aid, Growth, and Development by Finn Tarp, Director of UNU-WIDER, Bergen, Norway  
[19 May 2010](#)

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## PUBLICATIONS

### Books and Journals

World Development Special Issue: Globalization, Poverty, and Inequality in Latin America (forthcoming)

Guest Editors Machiko Nissanke and Erik Thorbecke  
[http://www.wider.unu.edu/publications/books-and-journals/2010/en\\_GB/wd38\\_6/](http://www.wider.unu.edu/publications/books-and-journals/2010/en_GB/wd38_6/)

The Poor Under Globalization in Asia, Latin America and Africa  
Edited by Machiko Nissanke and Erik Thorbecke

[http://www.wider.unu.edu/publications/books-and-journals/2010/en\\_GB/poor-under-globalization-asia/](http://www.wider.unu.edu/publications/books-and-journals/2010/en_GB/poor-under-globalization-asia/)

Southern Engines of Global Growth

Edited by Amelia U. Santos-Paulino and Guanghua Wan

[http://www.wider.unu.edu/publications/books-and-journals/2010/en\\_GB/Southern-Engines-of-Global-Growth/](http://www.wider.unu.edu/publications/books-and-journals/2010/en_GB/Southern-Engines-of-Global-Growth/)

UNU-WIDER Special Issue on Fragility and Development in Small Island Developing States

Edited by Amelia U. Santos-Paulino, Mark McGillivray and Wim Naudé

[http://www.wider.unu.edu/publications/books-and-journals/2010/en\\_GB/JDS/\\_print/](http://www.wider.unu.edu/publications/books-and-journals/2010/en_GB/JDS/_print/)

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### WIDER Working Papers

Into the Void: Governing Finance in Central and Eastern Europe  
Katharina Pistor [WP/65](#)

Moderating Urbanization and Managing Growth: How Can Colombo Prevent the Emerging Chaos?  
Ranjith Dayaratne [WP/64](#)

The New Grand Bourgeoisie under Post-Communism  
Iván Szélenyi [WP/63](#)

Reform and Inequality during the Transition: An Analysis Using Panel Household Survey Data, 1990-2005  
Branko Milanovic and Lire Ersado [WP/62](#)

The Excluded Poor: How Targeting Has Left out the Poor in Peripheral Cities in the Philippines  
Michael P. Canares [WP/61](#)

The Travails of Unification: East Germany's Economic Transition since 1989  
Charles S. Maier [WP/60](#)

Twenty Years Later and the Socialist Heritage is still Kicking: the Case of Russia  
Gur Ofer [WP/59](#)

Fiscal Decentralization and Urbanization in Indonesia  
Margherita Comola and Luiz de Mello [WP/58](#)

Entrepreneurship, Structural Change and a Global Economic Crisis  
Thomas Gries and Wim Naudé [WP/57](#)

Women and Landed Property in Urban India: Negotiating Closed Doors and Windows of Opportunity  
Bipasha Baruah [WP/56](#)

Ethnic Entrepreneurs and Collective Violence: Assessing Spatial Variations in Anti-Chinese Rioting within Jakarta during the May 1998 Riots  
Suranjan Weeraratne [WP/55](#)

Entrepreneurship and the National System of Innovation: What is Missing in Turkey?  
Elif Bascavusoglu-Moreau [WP/54](#)

Central Asia after Two Decades of Independence  
Richard Pomfret [WP/53](#)

Foreign Banks and Credit Volatility: The Case of Latin American Countries  
Meriem Haouat, Diego Nicolas Moccero, and Ramiro

Sosa Navarro [WP/52](#)

The Challenges of Global Environmental Change for Urban Africa  
David Simon [WP/51](#)

The Tangled Web of Associational Life  
Kate Meagher [WP/50](#)

Passage, Profit, Protection and the Challenge of Participation  
Loren B. Landau [WP/49](#)

Is There Such a Thing as a Post-Apartheid City?  
Bill Freund [WP/48](#)

Concepts and Operationalization of Pro-Poor Growth  
Mario Negre [WP/47](#)

The Allocation of Entrepreneurial Talent and Destructive  
Entrepreneurship  
Mark Sanders and Utz Weitzel [WP/46](#)

Urban Development Transitions and their Implications for  
Poverty Reduction and Policy Planning in Uganda  
Paul Isolo Mukwaya, Hannington Sengendo, Shuaib Lwasa [WP/45](#)

A Phoenix in Flames? Portfolio Choice and Violence in Civil War  
in Rural Burundi Eleonora Nillesen and Philip Verwimp [WP/44](#)

Infrastructure and Poverty Reduction: Implications for Urban  
Development in Nigeria  
T. P. Ogun [WP/43](#)

Cityness and African Urban Development  
Edgar Pieterse [WP/42](#)

Transition in Southeast Europe: Understanding Economic  
Development and Institutional Change  
Milica Uvalic [WP/41](#)

The Great Transformation 1989-2029: Could It Have Been  
Better? Will It Be Better?  
Grzegorz W. Kolodko [WP/40](#)

Identity and Space on the Borderland between Old and New in  
Shanghai: A Case Study  
Deljana Iossifova [WP/39](#)

Civil Society, Institutional Change and the Politics of Reform:  
The Great Transition  
László Bruszt, Nauro F. Campos, Jan Fidrmuc, and Gérard  
Roland [WP/38](#)

### UNU Policy Briefs

Linking Globalization to Poverty in Asia, Latin America and  
Africa  
Machiko Nissanke and Erik Thorbecke [03/2010](#)

Promoting Entrepreneurship in Developing Countries: Policy  
Challenges  
Wim Naudé [04/2010](#)

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# The Triple Crisis: Finance, Food and Climate Change

*Tony Addison and Finn Tarp*

More than 200 researchers and policymakers came together in Helsinki in mid-May to celebrate UNU-WIDER's 25th anniversary and to discuss the 'Triple Crisis' of finance, food and climate change—and its implications for poverty, inequality and human development. Energetic debate, from a wide range of perspectives, took place over 13–15 May.

This is at a time when the global economy is passing through a period of profound change. How to interpret that change, and what it means for the next 25 years of UNU-WIDER research and training, was central to the Triple Crisis conference. And how economics as a discipline refocuses itself on the really important dangers facing humanity was an issue that ran throughout the 3 days of debate.

## **The Financial Crisis**

The immediate concern is with the global financial crisis, which has reverberated across the world for the last two years—with commentary switching regularly between optimism and pessimism. While the crisis originated in the under-regulated financial systems of the North, it hit the South. And while the South has performed better than initially expected—helped by continued growth in the emerging economies—the financial crisis has placed a major strain on the fiscal position of the world's richer countries. At some point the massive dose of Keynesian medicine that rich countries put in place after the onset of the financial crisis will be reversed, and we do not know how the global economy will respond to this tightening of fiscal and monetary policy after their unprecedented easing.

The UNU-WIDER conference saw much debate on what the developing world should do next to offset likely future shocks. This is in a world where developing countries have had to self-insure—through the accumulation of large foreign-exchange reserves—given the continuing weaknesses in the international support available to meet shocks. There has not been a repeat of past currency crises in the South, which generally entered the global economic slowdown in better shape than before. Africa, especially, has gained some room for manoeuvre after its hard-won battles to build policy capacity, although the region remains much too dependent on the fortunes of world commodity markets. No country, rich or poor, is unaffected by contagion across financial markets, and the UNU-WIDER conference took place amidst much turbulence in the euro-zone—reinforcing the message that the global economy is not yet 'post-crisis'.

## **The Climate Change Crisis**

Simultaneously, climate change remains unchecked. NASA is predicting that climate change and El Niño will make 2010 the warmest year on record. The global economic slowdown took a bite out of greenhouse gas emissions, but too little action came out of the UN climate change conference (COP15) in December 2009. Climate is therefore the second, but most far-reaching, crisis.

The present global growth model is environmentally unsustainable, and the UNU-WIDER conference saw much discussion of how to reform it. The poor are the main victims of environmental stress, and with unchecked climate change being an increasing driver of poverty in future years, the international system must radically step up its help to developing countries for adaptation and mitigation. But to get the right investments and policies in place, we need to know much more about the country level and regional impacts of drought and flood. This was a key issue in the discussion at the UNU-WIDER conference of the research challenges for development economics inherent in climate change.

Underlying this crisis is a global failure to invest in sustainable energy research, especially in technologies suitable for poor countries. While this has begun to grow again after decades of decline, massive public and private investments are required. The financial crisis hit venture capital funding and public funds, but the world is neglecting energy investment at our peril. Underinvestment has left the world with a very narrow menu of non-fossil fuel energy sources. Participants at the UNU-WIDER conference reminded us of how turbulence in the price and availability of energy have shocked the global economy before, and how energy waste underlies the unsustainable nature of the present global growth path. These issues can only intensify as the economies of the rich world move towards recovery, leading to more pressure on fossil fuel sources—a competition for energy that is also a creator of conflict.

### **The Food Crisis**

The third dimension of the Triple Crisis, and certainly not the least, is that of malnutrition and hunger which are on the rise again. The poor were hit hard by the fall-off in remittances and trade volumes that occurred at the start of the global recession. Equally worrying has been the upward march of food prices in recent years, with a sharp spike in the price of basic staples over 2007-08 before falling back, somewhat, as global growth slowed. But with more than half the planet's population now urbanized, the increase in food-demand that follows from rising prosperity in the emerging economies, and the switch of more crop-land to bio-fuels, the world—and especially the poor—will certainly confront more food-price shocks in the future.

Surplus countries will wish to protect their domestic consumers first, and severe disruption to global food markets—upon which food-deficit countries depend—cannot be ruled out. UNU-WIDER's 25th anniversary conference benefited greatly from the participation of national and international policymakers and researchers in seeking answers to this urgent policy challenge. Social protection, especially, will need to be put in place in far more countries, and it must address the challenges of climate change and global economic shocks as well. There is much to be learnt from the experiences of countries such as Brazil and Mexico that have successfully stepped up social protection over the last decade. The immediate task is to get these lessons adopted in programmes for the poorer world, especially in Africa, where a combination of domestic finance (especially in the region's resource-rich countries) and foreign aid, must be mobilized to fund social protection.

### **Foreign Aid and the Triple Crisis**

Over the past half century, the world of foreign aid has expanded to create a complex web of donors and recipients. This complexity has several dimensions: the number of bilateral and multilateral donors; the variety of old and new delivery mechanisms for aid funds; the multiplicity of objectives for aid; and the 'transactions' costs (in approval, implementation, and monitoring) for donors and recipients. At the same time, the effectiveness of aid is subject to intense scrutiny.

We need to examine the bigger picture that sets the framework, but also the challenges, for foreign aid. The Triple Crisis is at the core of that bigger picture, along with its implications—and those of other threats—for peace and security, a key concern for the United Nations system. The role for aid, how to improve its impact, and how to mobilize more private capital, were debated throughout the three days of the UNU-WIDER conference.

## The Task Ahead

Twenty-five years on from the commencement of UNU-WIDER's operations, the need for thorough, rigorous, and policy-focused research and training is as pressing today as it was then. International governance remains under pressure from multiple crises. Our focus on the Triple Crisis does not imply that other issues are ignored—the task of improving human health and well-being, including tackling HIV/AIDS, remains urgent. So too, does the need to prevent and end conflict.

From UNU-WIDER's home in Helsinki, and with the support of the host country and other donors, we have been able to build an international network of researchers and policymakers committed to delivering research and training that makes a difference. Our 25th anniversary conference celebrated that achievement, but it also reminded us of the daily fate of the many hundreds of millions of people, who continue to live in poverty. We must take on this challenge in a concerted and decisive way. Hard work lies ahead—in which we must all engage.

Tony Addison is Chief Economist and Deputy Director, UNU-WIDER. Finn Tarp is Director, UNU-WIDER.

### Further reading:

The issues discussed in this article are developed further in: Tony Addison, Channing Arndt, and Finn Tarp 'The Triple Crisis and the Global Aid Architecture', *Working Paper* No. 2010/01, UNU-WIDER.



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## Do the Awakening Giants Have Feet of Clay?

*It's imperative to demolish myths around the economic achievements of China and India and get a better sense of the real challenges.* The author of the book, 'Awakening Giants, Feet of Clay: Assessing the Economic Rise of China and India' (Princeton University Press, 2010) discusses here some of the main themes of the book.

*Pranab Bardhan*

Over the past few years the media have been all agog over the rise of China and India in the international economy — and their remarkable recovery in this current global recession. After decades of relative stagnation, these two countries, containing nearly two-fifths of the world population, have had incomes grow at remarkably high rates in the last three decades.

In the world trade of manufacturing, China, and in that of services, India, have made big strides, much to the consternation — as yet largely unfounded — of workers and professionals in rich countries. Industrial growth, along with acquisition of international companies by China and India, attract much of the Western media's attention.

But more important is what has happened to the lives of people in these two countries and under what structural constraints. It's imperative to demolish myths that have accumulated in the media and parts of academia around the economic achievements of China and India and get a better sense of the real challenges faced by them.

In the recent, often breathless, accounts of the economic rise of China and India, a set of simple generalizations have become part of the conventional wisdom. The familiar story runs along these lines:

*Many decades of socialist controls and regulations stifled enterprise in both countries and led them to a dead end. Their recent market reforms and global integration have finally unleashed their entrepreneurial energies. Energetic participation in globalized capitalism has brought about high economic growth in both countries, which in turn led to a large decline in their massive poverty.*

*In particular, China is now the 'manufacturing workshop of the world' and its industrial growth during the past quarter century is hailed as historically unique, even better than the earlier East Asian 'miracles.' India's economy has been transformed by service-sector-led growth, but overall growth has not been as dramatic as in China. China's better performance suggests that authoritarianism may be more conducive to development at early stages, as demonstrated earlier in South Korea, Taiwan and Singapore.*

*Global capitalism, however, has inevitably brought rising inequalities, more in China than in India. But all is not lost for democracy in China. The prospering middle classes will slowly but surely demand more democratic rights and usher in democratic progress in China, as they have in South Korea and Taiwan.*

There are, of course, some elements of truth in this story, but through constant repetition it has acquired a certain authoritativeness that, as closer scrutiny shows, it does not deserve. The story is far too oversimplified.

First, two relatively small points about industrial growth in China: while China is possibly the single largest manufacturing production center in the world for many goods in terms of volume, it is not so in terms of value-added; the world share of US or EU in this area is still substantially larger.

Similarly, although the industrial growth rate has been phenomenal in China, South Korea and Taiwan grew at a faster pace in value-added terms during the first 25 years of their growth spurt. More important, contrary to popular impression, China's growth over the last three decades has not been primarily export-driven. While China made major strides in foreign trade and investment during the last 15 years, earlier — between 1978 and 1993 — the nation had a high average annual growth rate of about 9 per cent.

Much of the high growth in the 1980s and the associated dramatic decline in poverty happened largely because of internal factors, not globalization. These internal factors include an institutional change in the organization of agriculture, the sector where poverty was largely concentrated, and an egalitarian distribution of land-cultivation rights.

While expansion of exports of labor-intensive manufactures did lift many people out of poverty in China, the same is not true for India, where exports are still mainly skill — and capital — intensive. It is also not completely clear that economic reform is mainly responsible for the recent high growth rate in India. Reform clearly made the Indian corporate sector more vibrant and competitive, but most of the Indian economy is not in the corporate sector, with 94 per cent of the labor force working outside this sector, public or private. Consider the fast-growing service sector, where India's information —technology-enabled services have made a reputation the world over. But that sector employs less than half of 1 per cent of the total Indian labor force.

While globalization generates some destabilizing forces, the rise of inequality is not the highest in the (globally) more exposed coastal regions of China, but rather in less-integrated interior areas. Contrary to popular impression, the level of economic inequality is actually lower in globally more integrated China than in India. In particular, domestic factors like the much higher inequality in land distribution and education drive greater inequality in India.

For the financial press, China and India have become poster children for market reform and globalization, even though in matters of economic policy toward privatization, property rights, deregulation and lingering bureaucratic rigidities, both countries have demonstrably departed from the economic orthodoxy in many ways. If one looks at the figures of the widely-cited Index of Economic Freedom of the Heritage Foundation, the ranks of China and India remain low: out of a total of 157 countries in 2008, China's ranks 126th and India 115th. Both are relegated to the group described as 'mostly unfree.'

Although there is no doubt that the period of socialist control and regulations in both countries inhibited initiative and enterprise, it would be a travesty to deny the positive legacy of that period. It is arguable, for example, that the earlier socialist period in China provided a strong launching pad particularly in terms of a solid base of education and basic health, rural infrastructure, a rural safety net from equitable distribution of land cultivation rights, regional economic decentralization and high female labor participation.

A major part of the legacy of the earlier period in both countries is the cumulative effect of the active role of the state in technological development.

The relationship between democracy and development is quite complex, and authoritarianism is neither necessary nor sufficient for development. In fact, authoritarianism has distorted Chinese development, particularly as powerful political families distort the allocation of state finance and unaccountable local officials in cahoots with local businesses carry out capitalist excesses, both in land acquisition and toxic pollution.

Democratic governance in India, on the other hand, has been marred by severe accountability failures. Nor can one depend on the prospering middle classes to be sure-footed harbingers of democracy in China. In many cases



the Chinese political leadership has succeeded in co-opting the middle classes, including the intelligentsia, professionals and private entrepreneurs, in its firm control of the monopoly of power, legitimized by economic prosperity and nationalist glory. Indian democracy derives its main life force from the energetic participation of the poor masses more than that of the middle classes.

While both China and India have done much better in the last quarter century than they have during the last 200 years in the matter of economic growth, one should not underestimate their structural weaknesses. Many social and political uncertainties cloud the horizons of these two countries for the foreseeable future.

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