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# FAIRNESS IN INTERNATIONAL INVESTMENTS AND FINANCING

## *Special Reference to Developing Countries*[*]

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The problem with the financing of the economy at international level, including the determining factors behind the movement of capital and particularly the financing of investment in third countries, constitutes a most attractive topic both with respect to Economic Theory and to Applied Economics as well as with regard to the decision making of economic agents. One must also consider its significance to those with political responsibility at both national and international level. This is true whether such financing is carried out through loan operations or through direct investment outside the country of residence of the main investor.

At the beginning of the twenty-first century, a time in which we are committed to the creation of a global economic model, a world without borders, an efficient and competitive space that guarantees the free movement of goods, services, financial resources and indeed people, the location of the productive activity and the distribution of the means necessary for it to be carried out have assumed an unprecedented interest.

The enormous increase in investment alternatives, geographical destination points and the great diversity in terms of characteristics of those in receipt of financial flows, have made international financing the meeting

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point for economic, political and social considerations as well as moral evaluation. This requires an input of considerable time and effort on the part of those studying this interdisciplinary question.

And within this diversity to be found in the receivers of capital movements, we wish to highlight factors such as standard of living and economic and human development, factors which vary so greatly from one country to another. The forceful statement of Paul VI is still completely valid thirty-six years later:

> ...Flagrant inequalities exist in the economic, cultural and political development of the nations: while some regions are heavily industrialized, others are still at the agricultural stage; while some countries enjoy prosperity, others are struggling against starvation; while some peoples have a high standard of culture, others are still engaged in eliminating illiteracy. From all sides there rises a yearning for more justice and a desire for a better guaranteed peace in mutual respect among individuals and peoples.[1]

And these are the differences that we would like to concentrate on today, with a view to focusing our studies on those less favoured regions, regions that seem to be less attractive to capital flows and therefore remain marginalised and in poverty with a very real danger to their lives and the survival of their kind.

From the inequality outlined in Paul VI's text, it can effortlessly be deduced that when we speak of international financing we have, on the one hand, the developed countries and their economic agents, public or private, who, because of their knowledge, economic capacity or perhaps more importantly their negotiating power – stressed by a multiplicity of alternatives – are capable of operating in an environment where the financial transaction is conducted on equal terms between the financer and the financed, the borrower and the lender, the financial institution – be it private or public, national or international – and the economic agent, regardless of whether this economic agent belongs to the private or public sector.

Because of this, we find it unnecessary to devote special attention to financial relationships of this kind. One can assume that the freedom of agreements between parties so equal in terms of capacity and power will serve to guarantee that the result of the negotiation satisfies the objectives of those entering into the contract. It is unlikely that, in such negotiations, there

[1] Paul VI, 'Apostolic letter *Octogesima Adveniens*', Rome 14.05.1971, n. 2.

will be cases of pressure and the imposition of one party over the other. This is even more the case if we consider the range of opportunities available. In other words, although in exceptional cases, moral considerations may be relevant, in this type of financial relationship it is uncommon to find ethical implications assuming a role of necessary and general consideration.

The situation becomes different when we consider the financing of economic activities in poor countries. To start with, these countries suffer from very rudimentary financial structures. They have little capacity to negotiate lines of finance in a market, which though in theory is extensive and full of alternatives, is far more restricted both in terms of diversity and options when it comes to providing resources to a developing nation. Whether it is the public or the private sector that seeks financing, it is forced to accept the conditions stipulated by the financer.

In most cases these conditions include an extra charge for insolvency risk, which, when incorporated into interest rates, makes financing either inaccessible or tremendously expensive. It is obvious that the risk to which we are referring exists in many cases, but it is no less true to point out that such a generalised measure penalises those who are more trustworthy while those who are less reliable are indifferent given that their insolvency may even be premeditated.

Naturally, what the Social Doctrine has stated with respect to international agreements is also applicable to contracts that establish a financial relationship between two parties. Once again, Paul VI said that:

> ...when two parties are in very unequal positions, their mutual consent alone does not guarantee a fair contract; the rule of free consent remains subservient to the demands of the natural law. In *Rerum Novarum* this principle was set down with regard to a just wage for the individual worker; but it should be applied with equal force to contracts made between nations: trade relations can no longer be based solely on the principle of free, unchecked competition, for it very often creates an economic dictatorship. Free trade can be called just only when it conforms to the demands of social justice.[2]

These demands of natural law and social justice are what motivate us to examine the problems caused to developing countries by the need to seek international financing from a perspective of inequality between the parties that is clear from the outset. Therefore, and without denying the interest of a

[2] Paul VI, 'Encyclical letter *Populorum Progressio*', Rome 26.03.1967, n. 59.

more far reaching study in terms of the diversity of countries under consideration, we have excluded financial problems affecting developed countries and limited our analysis to developing ones and particularly those receiving the greater part of international financing, at least from a quantitative perspective.

## Investment and Financing, an Ever Present Duo in Modern Economies

Great transformations have taken place on the economic stage, from the origins of human activity to the present day. In all of them, one finds *man*, the artifice of change and leader of progress by means of his rational choice.

The transformation is particularly noticeable with respect to the way in which the production of goods and services is taking place, always aimed at satisfying the legitimate needs of humanity and therefore directed towards the good of the community. These needs, being economic in nature, refer to those requiring material resources and if in a certain sense they not exclude the immaterial ones, can also be an instrument at the service of spiritual aims.

In primitive societies with rudimentary economies, the efforts of man were only sufficient to provide the means necessary for the subsistence of the community in its most limited sense. It can be said, with historical veracity, that the fruits of the labour carried out by the economic agents was wholly consumed by the members of the community to which they and their dependents belonged.

The lack of productive education both in terms of ends and means, along with the absence of even the most tenuous specialisation, meant that work was based on physical effort. It was work of low productivity with short term objectives and a scarcity of means with which to achieve them.

This was an economy lacking in productive efficiency and exchange which gave rise to an inability to produce surpluses – *saving* –. Therefore, each moment of the process, was in fact its beginning, without deriving any benefit from the previous period. To express it another way, each moment was a *year zero* in the production process. It was to be the most timid of productive specialisation that would give way to two phenomena. On the one hand was the necessity for exchange and the distribution of goods and services. From that moment, goods and commodities changed hands as a consequence of the different players committed to different processes. On the other hand, while exchange ended the immediacy between means and ends, thereby generating an incipient commercial turnaround, a reduction

in the number of ends increased productive efficiency, giving rise to surplus and accumulation.

Such surpluses in working hours, with respect to those needed to guarantee the subsistence of the community would enable an accumulation in the form of means of production – capital equipment or fixed capital –. This would serve to achieve two objectives. The first was to lighten the load in terms of the physical effort needed to carry out the productive work, which would now have the benefit of new productive tools. The other was the increase in the productivity of the factors of production and labour itself, due to the utilisation of both current work and the saving arising from past work in the form of capital.

Indeed, as Adam Smith pointed out,

> Every fixed capital is both originally derived from, and requires to be continually supported by a circulating capital. All useful machines and instruments of trade are originally derived from a circulating capital, which furnishes the materials of which they are made, and the maintenance of the workmen who make them. They require too a capital of the same kind to keep them in constant repair.
>
> No fixed capital can yield any revenue but by means of a circulating capital. The most useful machines and instruments of trade will produce nothing without the circulating capital which affords the materials they are employed upon, and the maintenance of the workmen who employ them. Land, however improved, will yield no revenue without a circulating capital, which maintains the labourers who cultivate and collect its produce.[3]

From Smith's words we can infer that, in terms of economic thinking too, man and human activity has prevalence over any other material, be it a resource, good, commodity or service. It can be deduced that only man is capable of producing, on his own or with the aid of the fixed capital produced by his own efforts. As Smith points out, fixed capital alone, because of its inert nature, cannot achieve anything without the addition of human work.

However, in addition to its origin, fixed capital eases the burden of productive work by using the power of the machine or tool to reduce what heretofore had to be accomplished with human muscle power. John Paul II pointed out that nowadays,

[3] Adam Smith, 'An Inquiry into the Nature and Causes of the Wealth of Nations'. Liberty Press/Liberty Classics. Indianapolis 1981. Reprint authorized by the Oxford University Press. Oxford University Press 1976. Volume I, Book II, Chapter I, p. 283.

> ...In industry and agriculture man's work has today in many cases ceased to be mainly manual, for the toil of human hands and muscles is aided by *more and more highly perfected machinery.* Not only in industry but also in agriculture we are witnessing the transformations made possible by the gradual development of science and technology...Understood in this case not as a capacity or aptitude for work, but rather as a *whole set of instruments* which man uses in his work, technology is undoubtedly man's ally. It facilitates his work, perfects, accelerates and augments it. It leads to an increase in the quantity of things produced by work, and in many cases improves their quality...[4]

In effect, capital is created by means of an initial sacrifice. This is the sacrifice of present consumption, the consumption man could have enjoyed by virtue of his participation in the production process. Such a sacrifice is made in order to have access to greater consumption in the future. By applying new work to the work that has been saved and accumulated in the form of capital, this new work can generate more goods than could have been produced with present work alone. However, this is not the only benefit to be derived from the sacrifice of present consumption. This sacrifice, known as 'saving', also provides a guarantee fund with which to subsidise future needs which cannot be satisfied by present work. It also serves as a hedge against risks arising from the life circumstances of an individual subject and his family.

It can be inferred from what we have said that the possibilities of this sacrifice are closely linked to man himself and his conditions of work and the efficiency with which this work is carried out. In other words, it is closely related to the degree of culture, knowledge, professionalism and dedication of man with respect to work. Only the possibility to generate, through human work, a greater quantity of goods than that needed for his sustenance and that of his family can give rise to what we have called 'sacrifice of present consumption'. It can be deduced that this possibility is greater if knowledge levels are higher, assuming that all other conditions are equal.

However, the effect of capital, once it has been created and invested, i.e., once it has been made available to the production process, is not only limited to the aspects to which we have referred. Capital, in this dimension, not only has its origins in work culture but also stimulates growth in this cul-

[4] John Paul II, 'Encyclical letter *Laborem Exercens*', Castelgandolfo 14.09.1981, n. 5.

ture. Capital, in its different aspects, facilitates the accumulation of knowledge and information on the one hand, thereby enabling man to intervene more effectively in the different productive activities. However, it also demands of man a receptive and enriching attitude in order to take full advantage of its utilisation.

In this way, far from being a trivial or merely statistical detail, the presence of fixed capital, of physical capital in the productive processes, and the fact that it is increasingly sophisticated and complex, becomes a stimulus for the creation of the resource of 'human work'. This is broadened and perfected based on deeper knowledge resulting in a greater capacity to constitute what, with rather unfortunate use of terminology, is known as 'human capital'. 'Human capital' is no more than the human person and his capacity – general and specialised knowledge, skills, abilities, attitudes, aptitudes, etc. – to contribute to the work of Creation, both for his own good and that of the entire human family. Capital, considered in this way, serves man and through him and his work it serves the community as a whole.

Capital and its investment, therefore, becomes the gateway for growth in a modern economy, insofar as it increases production possibilities by increasing efficiency in the use of limited productive resources. We would go further by arguing that it is a requisite, though not sufficient in itself, to guarantee both economic and social development. It is a necessary condition, though not enough in itself, because if economic benefits are to be translated into human and social development, it is also necessary for certain objectives to be present in the feeling and the actions of men. A growth steeped in selfishness and competitive aggression will achieve no more than a deepening of the chasms separating those who are favoured from those who are not. However, growth within a framework of fraternity, generosity and commitment based on solidarity, will enable all humanity who wish to sit at the banquet of human concourse participate in its progress and will serve for the proper distribution of the abundant fruits to be harvested.

Therefore, Pius XI stated that,

> ...Expending larger incomes so that opportunity for gainful work may be abundant, provided, however, that this work is applied to producing really useful goods, ought to be considered, as We deduce from the principles of the Angelic Doctor, an outstanding exemplification of the virtue of munificence and one particularly suited to the needs of the times.[5]

[5] Pius XI, 'Encyclical letter *Quadragesimo Anno*', Rome 15.05.1931, n. 51.

And, if in the words of the Pope, it was *particularly suited to the needs of the times*, in the year 1931, it is equally true or even truer for the time in which we live and the state of affairs in which we find ourselves at the beginning of the twenty-first century.

Two conditions are clearly set out in the words of Pius XI to which we have alluded. One is that the investment be carried out with human work in mind, i.e., that it favours the participation of the human being in the economic process. To favour, in the current context, implies not only employability in a quantitative sense but also in a qualitative dimension. This means, on the one hand, the creation of more employment opportunities within which men find alternatives for their self-realisation, while at the same time offering employment which by its very nature exalts more and more the dignity of man in the productive process and lessens the physical workload of this process.

In conjunction with all of this, and today perhaps more than ever, an effort must be made to ensure that the provision of a job, whilst satisfying the indubitable demands of the economy, does not impede attention to family responsibilities. We are referring to what has come to be known as 'reconciling family life with professional demands'. This will require great efforts in terms of imagination, organisation and flexibility if it is to be achieved.

Thus far, we have spoken, without more emphasis than strictly necessary, of terms such as *capital* and *investment*. We have configured them in terms of their remotest origins or their immediate and future effects in the areas of production, productive efficiency and the wellbeing of the community. At this point, we would like to concentrate on the distinguishing characteristics of the capital asset and the other goods and services that arise from the production process.

The most cursory of observations is sufficient to confirm that when the consumer of a good pays a price for its consumption in the market, this payment covers in full the labour costs of the workers who have participated in its production, the cost of raw materials, intermediate products, energy, etc. that have been used, or, to express it in a more representative manner, absorbed by the process that gives rise to a new good or service. However, this payment made by the buyer to cover the price of the acquired good, covers but a very small, we may say tiny part of the value of the investment, i.e., the value of the fixed capital which, as physical instruments of production, have been used during the production process of any good from its most initial phase to its completion.

In other words, in the same way that the value of most of the resources used in production are recovered entirely and immediately by the prices

paid by buyers in the market, the capital invested is only recovered at the end of its useful life by means of the accumulation throughout this extensive period of small particles of that value which are included as a production cost – in the form of amortisation or depreciation – in determining the total cost of the product.

This leads to a need to cover the lag between the time of investment and its recovery through prices, which can be done by means of a concept that up to now had been absent: *financing*. The idea is to allocate resources arising from income surpluses, once consumption needs have been covered, i.e., saved income. This is used to pay for investment, before it is recovered for in the productive process by means of the goods produced and the prices paid for them in the market.

This is the characteristic of all financing operations. Financing attends to payment requirements in a context where the economic circumstances and the time at which payment falls due, does not allow for the generation of sufficient resources to cover such payment. Whether saved income comes from the agents themselves involved in the process – *self-financing* – or from external agents – *external financing* –, or whether these agents are national or international is of no importance. From a macro economic perspective, it can be added that this mission to finance fixed capital is ultimately a function of the collective saving of the community. Therefore, with mutual symmetry, investment can only be financed by saving and saving can only used to finance investment. Thus, in conditions of equilibrium, saving and investment must, by definition, be equal.

John Maynard Keynes expressed this in the following terms:

> ...everyone is agreed that *saving* means the excess of income over expenditure on consumption...[by] *current investment*...we must mean...the current addition to the value of the capital equipment which has resulted from the productive activity of the period. This is, clearly, equal to what we have just defined as savings...
>
> The equivalence between the quantity of saving and the quantity of investment emerges from the *bilateral* character of the transactions between the producer on the one hand and, on the other hand, the consumer or the purchaser of capital equipment.[6]

[6] John Maynard Keynes, *The General Theory of Employment, Interest and Money*. MacMillan-St Martin's Press. MacMillan and Co. Ltd. London and Basingstoke. First Edition, February 1936. Reprint of 1970; pp. 61-63.

This necessary equality between savings and investment is the source of our worry and the reason why we have decided to concentrate our study on countries in the process of developing. A broader study would have to include all the other countries, whereas in this particular study we prefer to limit our analysis to the developing nations. It is clear from what we have argued above, that investment in any given economic context is limited by the capacity to save and the availability of savings. Therefore, a community without its own savings is unable to finance any investment, whereas societies with high rates of savings can choose amongst an infinite number of investment options. A greater availability of savings results in a greater diversity of investment alternatives. The financial intermediaries ensure that disposable savings are channelled towards the financing of investment needs.

Once again it was Keynes, in the same book *The General Theory of Employment, Interest and Money*, who established that the percentage of income devoted to consumption declined in accordance with increases in income.[7] Thus, if the propensity to consume is higher when income is lower, the propensity to save, *a sensu contrario*, will be less if income is lower and may even be negative in the case of incomes that are so low that they fail to cover the minimum living needs of the individuals.

This principle, supported by the undeniable evidence of the data at our disposal for the different economies, is what moves us, when we consider the poor countries and the remote possibilities they have of escaping poverty if they can call only upon their own means. We believe that it requires neither a great effort nor more specific data to be in a position to imagine the savings capacity with which to finance investment in countries such as Burundi, with a GDP per capita in 2004 of 90 US dollars, Ethiopia with 114 dollars in the same year, the Democratic Republic of Congo with 119 dollars, Malawi with 149 dollars, or Guinea-Bissau with 182 dollars. It is even more difficult to imagine when we place ourselves in countries such as Luxembourg which, in the same year of 2004, had a GDP per capita of 70,295 US dollars, while Norway came in at 54,465 dollars, Switzerland at 48,385 dollars, Denmark at 44,673 dollars and Ireland at 44,644 dollars.

[7] It is the result of the keynesian consumption function that, in a very simplified way it is expressed by $C=f(Y)$; a function, specifically of the following form: $C=\alpha+\beta(Y)$; that is to say, the consumption as a percentage of the disposable income of individuals, above a constant term $(\alpha)$, that would represent the minimum subsistence level and that, in the event of zero income, would determine the negative saving of the individual or of the community.

The difference between rich and poor countries is so great that the possibility to appreciate and really 'live' the problems faced by some is little short of impossible for others. It will be said that in the examples mentioned, we have chosen the poorest countries on the one hand and the richest on the other. This is true, but the picture hardly improves if we take larger blocks of countries as a reference. Therefore, if we look at the group of countries classified in United Nations terminology as 'least developed countries',[8] the average GDP per capita for 2004 is 355 US dollars, i.e., somewhat less than a dollar per day; while the average for the 'OECD high income countries'[9] is 34,249 dollars for the same year.

It will also be said that we have used income data that has not been adjusted to reflect purchasing power. This is also true. However, the gap is so alarmingly wide that what the poor countries would have gained and rich countries lost in an adjustment to reflect the purchasing power of their respective dollars would not have mitigated the alarming nature of the situation. This is particularly the case if we pause to think that saved dollars, if any, in the poor countries, when used to finance investment in fixed capital, would see the gains of a purchasing power adjustment disappear as they would be forced to pay the prices of the international market.

It seems pointless to go any deeper into a demonstration of the limited financing capacity of these poor economies, given that the principle we have outlined with respect to saved resources being the sole internal source of financing investment is one that is widely accepted in economic theory. The question we face now is determining what the attitude of the developed world should be with respect to investments made in poor countries in order to remedy the situation of poverty in which they live. To put it another way, the question is whether investment efforts in poor countries by rich countries are sufficient to satisfy the properly formed consciences of the latter.

Only one piece of data is relevant for the purposes of passing judgement on the problem from a quantitative perspective: the total foreign direct investment in developing countries in 2004, amounting to 211.5 billion USA dollars, would barely represent 72.6% of the total investment made in one country such as Spain. If we consider Sub-Saharan Africa, the total for-

[8] The meaning and the values are taken from 'Informe sobre Desarrollo Humano 2006 – Más allá de la escasez: poder, pobreza y la crisis mundial del agua'. Published for the United Nations Program for the Development. New York 2006. Spanish edition by the Grupo Mundi-Prensa – Madrid, Barcelona and México.

[9] The meaning and the values are taken from the same reference as the previous footnote.

eign direct investment in the same year for the entire region – a sum of 11.3 billion USA dollars – would not even represent 10% of the investment made in a small but rich country such as the Netherlands.

With such references, it is not surprising that Paul VI should state that,

> Today it is most important for people to understand and appreciate that the social question ties all men together, in every part of the world... The hungry nations of the world cry out to the peoples blessed with abundance. And the Church, cut to the quick by this cry, asks each and every man to hear his brother's plea and answer it lovingly.[10]

Can the developed world shut its eyes and ears to the situation of the developing world? Is not the term itself *developing* an example of the problems of bad conscience of the developed world? Is it not an attempt to avoid more precise terminology such as *poor countries* or underdeveloped countries? The facts seem to appear before us with the clear purpose of reminding us of an irrefutable truth: what we have tried to ignore in a very singular manner in the past half century has become ever more difficult to hide.

The terrible drama of poverty, until recently shut away in the countries where it was suffered is now making its presence felt in the developed world. It is increasingly difficult to aspire to a situation whereby he who feels the need to survive accepts the challenge and stays in his place of origin to witness the disappearance of his nearest and dearest and the community around them. Emigration towards the rich countries is no longer an idle myth, nor is it the result of an adventurous spirit. Emigration is equivalent to the need to survive, albeit in a climate of conflict in a host country that is not always welcoming.

In this respect, the Compendium says that:

> In the modern world, where there are still grave inequalities between rich countries and poor countries, and where advances in communications quickly reduce distances, the immigration of people looking for a better life is on the increase. These people come from less privileged areas of the earth and their arrival in developed countries is often perceived as a threat to the high levels of well-being achieved thanks to decades of economic growth.[11]

This explains the frequent problems with respect to the acceptation of immigrants.

[10] Paul VI, 'Encyclical letter *Populorum Progressio*', Rome 26.03.1967, n. 3.

[11] Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, Libreria Editrice Vaticana, Città del Vaticano 2004, reprint 2005, n. 297.

It is impossible to continue to ignore the situation or to imagine that a time will come when solutions will be found without effort. With every year that passes, of those born in Botswana, 69.1% will not reach the age of forty. In Lesotho, the figure is 67.6%; in Zimbabwe, 65.9%; in Zambia, 60.1%. In 2003, 73% of the population of Eritrea was considered to be below the level of minimum nutrition, in other words they were undernourished. In the Democratic Republic of Congo, the figure was 72%, while 67% of the population of Burundi was undernourished. All this data shows us that to wait will have a very high cost in terms of human lives, the lives of people whose problem arises solely from having been born, involuntarily, in a poor country.

In the light of Paul VI's text, transcribed above, the most eloquent and clearest imploration from poor countries is to be found in the data we have mentioned. This data is merely a small example of the real lives led by these people, who are in no way different to those of us who, also involuntarily, have been born in developed countries. These are people who, as children of the same Father, are equal in dignity and therefore in terms of the rights of the person. They are ultimately people who are knocking on our door in the hope of the clemency that would alleviate their situation.

## Direct Investment and the Financing of Investment, the Hope of Poor Countries

It is true that developing countries, and to an even greater extent those who are less developed, are countries which, along with shortages on a personal level, also have great material shortages which affect the initial attractiveness of investment. Of course, they have enormous deficits with respect to transport and communications infrastructures as well as an educational deficit which makes it difficult for them to manage the most rudimentary of technology in the field of production. Financial structures are also very precarious. In some countries they are non-existent or subject to regulation that fails almost completely to take account of the economic dimensions.

It is well known that the absence of such structures and channels for financial resources greatly reduces the possibility of economic growth or simply eliminates it completely.

> ...*The experience of history teaches that without adequate financial systems, economic growth would not have taken place*. Large-scale investments typical of modern market economies would have been impossible without the fundamental role of mediation played by

> financial markets, which among other things brought about an appreciation of the positive functions of savings in the overall development of the economic and social system.[12]

These deficits are even present in countries that produce raw materials or have raw material resources. For many decades, the developed countries have had a presence in these countries with a view to taking advantage of their resources. However, in very few cases have they established structures with a long term view. Such structures would enable the transfer of knowledge, production culture and technological training. It would also, and this is of central importance, provide the opportunity to become part of an international context, which is something their economies need to aim at.

To compound all of this, both in countries possessing natural wealth above or below ground and in those with nothing but ethnic, religious, tribal and ever-present political conflicts, there is a generalised presence of corrupt governments. These are prepared to sacrifice their people for the sake of unlimited personal power, both in the political and economic sense. We are conscious of all this but even so, we find it difficult to accept that nothing can be done.

It is clear that we perhaps face a model that differs, in respect to its variables, from that operating in our developed countries. However, this is precisely why those of us who have had the random fortune to have all that we need within our reach, in addition to the possibility of enjoying the opportunities afforded by the world of culture and knowledge, should look for the way to remedy such a plethora of evils.

In terms of social responsibility, we are far from the vision that Ricardo had in mind when he said:

> Whilst every man is free to employ his capital where he pleases, he will naturally seek for it that employment which is most advantageous...This restless desire on the part of the employers of stock, to quit a less profitable for a more advantageous business, has a strong tendency to equalize the rate of profits of all, or to fix them in such proportions, as may in the estimation of the parties, compensate for any advantage which one may have, or may appear to have over the other...
>
> A capitalist, in seeking profitable employment of his funds, will naturally take into consideration all the advantages which one occu-

[12] Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, Libreria Editrice Vaticana, Città del Vaticano 2004, reprint 2005, n. 368.

> pation possesses over another, He may therefore be willing to forego a part of his money profit, in consideration of security, cleanliness, ease, or any other real or fancied advantage which one employment may possess over another.[13]

At the beginning of the twenty-first century, with the level of globalisation at which economic relations exist, it is worth offering some comment on Ricardo's text, more with a view to interpreting it rather than wishing to contradict it. We would like to concentrate our attention on the terms *most advantageous* and *less profitable*. The fact is that these are concepts encompassing somewhat more than a purely monetary benefit arising from the physical aspect of the production function, from productive efficiency and efficacy, and this is acknowledged in the work of Ricardo.

The author himself considers that the investor could decide to sacrifice a monetary utility of greater quantity for another of a lesser amount on taking into account variables such as *security, cleanliness, ease, or any other real or fancied advantage*... In the light of this, how exactly does the investor value the capacity to alleviate poverty, action that would save human lives, investment that would improve the knowledge, the skills, the competence and the abilities of the poor, thereby enabling them to exist in a context fit for human persons? How will the investor assess the level of conflict in his country of origin arising from a marginalised, clandestine immigration that is subjected to exploitation or thrown towards a life of crime? Could he and his family be freed from the conflicts in his own country, which are surely, at least in part, the result of the absolutely precarious living conditions in the poor countries that are the countries of origin of the immigrants? Is it not surprising that, things being as they are in this diverse world in which our economic decisions are taken, we try with all at our disposal to protect our production against the weak production of the developing countries, alleging without embarrassment that their labour costs are excessively low? Would we be willing to pay higher salaries for their productivity levels?

It is fitting to complement Ricardo's text, from the year 1817 with another written almost two centuries later in 1991 by John Paul II and which represented a word of warning with respect to human activity. He said that:

[13] David Ricardo 'On the Principles of Political Economy and Taxation'. In *The Works and Correspondence of David Ricardo*. Edited by Piero Sraffa with the collaboration of M. H. Dobb. Published for The Royal Economic Society. Cambridge University Press. Vol. I, Chap. IV, pp. 88-90.

> ...The economy...is only one aspect and one dimension of the whole of human activity. If economic life is absolutized, if the production and consumption of goods become the centre of social life and society's only value, not subject to any other value, the reason is to be found not so much in the economic system itself as in the fact that the entire socio-cultural system, by ignoring the ethical and religious dimension, has been weakened, and ends by limiting itself to the production of goods and services alone.[14]

Indeed, the subject guided exclusively by the quantitative monetary objectives of production or consumption is a person who, in terms of his economic decisions, is rendered redundant for the purposes of valuing the qualitative aspects that compose the strength of the spirit, including those qualitative aspects with visible economic effects.

Prior to this, Paul VI had reacted against the trend of many to seek refuge in the philosophy of free trade in order to justify a passive attitude to situations of poverty in the third world. The Pope said that:

> It is evident that the principle of free trade, by itself, is no longer adequate for regulating international agreements. It certainly can work when both parties are about equal economically; in such cases it stimulates progress and rewards effort. That is why industrially developed nations see an element of justice in this principle.
>
> But the case is quite different when the nations involved are far from equal. Market prices that are freely agreed upon can turn out to be most unfair.[15]

We are faced by a terribly alarming reality, the death of men, women and children due to a shortage of food and the lack of sanitary conditions which would allow them to continue living. Faced by such a dramatic situation, it is necessary to seek secure paths to the provision of a remedy. In the opinion of Paul VI,

> Individual initiative alone and the interplay of competition will not ensure satisfactory development. We cannot proceed to increase the wealth and power of the rich while we entrench the needy in their poverty and add to the woes of the oppressed...
>
> It is for the public authorities to establish and lay down the desired goals, the plans to be followed, and the methods to be used

[14] John Paul II, 'Encyclical letter *Centesimus Annus*', Rome 01.05.1991, n. 39.

[15] Paul VI, 'Encyclical letter *Populorum Progressio*', Rome 26.03.1967, n. 58.

> in fulfilling them; and it is also their task to stimulate the efforts of those involved in this common activity. But they must also see to it that private initiative and intermediary organizations are involved in this work.[16]

Today, in a global world, an even greater commitment reigns. The model must be to the benefit of all. If not, it is unlikely to be capable of ensuring, in the long term, the benefit of any particular being. Have we nothing to learn from the high number of conflicts between neighbouring countries or even fratricidal wars between ethnic groups within a single country? Are we told nothing by the increase in terrorism, in its multiple forms, that confronts countries or even continents and whose end is difficult to foresee? Is it a coincidence that these focal points of violence have their origin in poor countries, where in addition the value given to human life is minimal? Should we not include in the economic calculation of our investments all these factors and their consequences under what Ricardo called *any other real or fancied advantage*?

But allow us to speak of the distinction alluded to in the title of this section, a distinction which in our opinion is not without substance: direct investment versus financing, even if the latter is financing of investment in real terms.

### A) *Direct Investment of Developed Countries in Developing Countries*

We have already offered data to enable us to appreciate the magnitude of this investment and, in concise terms, we have indicated that we consider it to be clearly insufficient. We remind you that the entire direct investment of the developed world in the developing world barely exceeded 211.5 billion dollars in the year 2004, which in comparative terms is equivalent to 72.6% of investment in Spain in the same year.

Furthermore, the increase in the eight-year period from 1997 to 2005 for the main receiving countries, shown in Table I (p. 166) – those countries specified in the Table, suppose at least 75% of the total external direct investment, for the years under consideration, carried out in the overall developing countries –, and in Figure 1 (p. 579) in terms of its regional aggregate, is barely 40.78% for the entire period. To this fact must be added the variability of these investments throughout these years, something which does not permit a trend

[16] Paul VI, 'Encyclical letter *Populorum Progressio*', Rome 26.03.1967, n. 33.

of consolidation of economic activities that would lead to the strengthening of national economies supported by the initiative of foreign investment.

If, in the light of the data outlined, we look at the geographical distribution of investment flows, we cannot fail to observe the unequal distribution between regions. There is a predominance of investment in East Asia and the Pacific, Europe and central Asia and Latin America and the Caribbean, which together absorb approximately 85% of the total. The remaining 15% is left to the Middle East and North Africa, South Asia, and Sub-Saharan Africa. A further breakdown of the flows reveals not only an inequality between regions, but also between countries. For example, China absorbs 81.2% of the total for its region and Brazil and Mexico absorb more than 50% of all foreign direct investment in their region.

It is obvious that the importance we place on direct investment is due to the fact that in this type of investment can be found the combination of activity that would put resources to use in the receiving country, particularly human resources, which would otherwise almost certainly remain redundant. At the same time, direct investment would mean the introduction of technology, irrespective of its type. This would of necessity require a process of the training of the human factor in order to enable it to use efficiently the instruments and facilities resulting from the investment. Therefore, the worker would develop in terms of abilities, skills and knowledge and there would be a build up of what is now known as *human capital*.

There is also another aspect of direct investment which simply must be pointed out. This is ensuring that the financial resources related to the investment will in fact be devoted to that investment and not channelled into other areas that are frequently far removed from the common good of society. Unfortunately, the latter occurs all too often in developing countries when financial flows are not subject to conditions.

It can be said that this type of investment best reflects the view of the Second Vatican Council:

> Investments...must be directed toward procuring employment and sufficient income for the people both now and in the future. Whoever makes decisions concerning these investments and the planning of the economy – whether they be individuals or groups of public authorities – are bound to keep these objectives in mind and to recognize their serious obligation of watching, on the one hand, that provision be made for the necessities required for a decent life both of individuals and of the whole community and, on the other, of looking out for the future and of establishing a right balance

> between the needs of present-day consumption, both individual and collective, and the demands of investing for the generation to come. They should also always bear in mind the urgent needs of underdeveloped countries or regions.[17]

Investment in productive sectors is what creates wealth and jobs and therefore benefits for workers. These benefits are both monetary and, as we have already mentioned, in relation to the acquirement of the knowledge and skills needed for the carrying out of economic activities. This is therefore where the emphasis should be placed in terms of the aid that developed countries can offer to developing countries. This mission and objective finds its true stage in the relationship between the private sectors of the developed country and the country where the investment takes place and this is more favourable if the object of the investment can be shared with the members of the local community. If advantage is taken of this possibility, it serves as a means of introducing local agents to the context of the market, its structures and how it works. In broad terms, it is a matter of helping them to participate in the global market in which we currently operate.

This participation, perhaps difficult in the context of an absence of prior initiatives in the receiving country, becomes quite simple in the case of activities already underway, in which an injection of financial capital, taking into account the investment needs of consolidation and expansion, are of vital importance in achieving the objectives we have outlined. On the one hand, it provides the fixed capital required by the production process and on the other hand, it broadens the knowledge of the foreign sector and favours the relationship with this sector, thereby providing a breath of fresh air for the domestic economy of a developing country.

It is only fair to point out that the degree of effectiveness of these financial flows are very relative. Provisional figures of portfolio investment from rich countries in companies residing in developing countries for the period of the study, 1997 to 2005, can be seen in Table II (p. 167). Aggregated regional figures can be seen in Figure 2 (p. 580). If we compare these portfolio investments with those for direct investment shown in Table I, it can be concluded that they range from 3% to 25% per annum with respect to foreign direct investment in developing countries in the same period.

The reason for this relatively low investment in company shares with respect to direct investment may be due to the difficulties involved in a

[17] Second Ecumenical Vatican Council, 'Pastoral Constitution *Gaudium et Spes*', Rome 07.12.1965, n. 70.

negotiation process between people of such different cultures. In this respect, we refer specifically to company cultures and in particular company practices in areas such as accounting control and tax obligations arising from the economic activity. In addition, and apart from the management innovation that a foreign company might provide to the receiving country enterprise, an alliance with an already established domestic company with a view to strengthening it technologically and financially and having access to its distribution network would appear to ease the way for a newly established investor.

With a view to anticipating possible criticism, which in itself may be justified, we would like to underline the fact that we have taken into account portfolio investment within the framework of direct investment. If this investment in shares is an investment in new shares, i.e., newly issued shares as a result of an agreement with respect to an increase in capital, it is clearly a case of direct investment. Only if these shares were already in circulation and the sellers did not devote the proceeds to new business objectives, would the financial flow from the developed to the developing world not represent investment for the receiving country.

We have looked at the evolution of these two investment instruments – direct investment and investment in shares – and we have also looked at the weight of the former with respect to the latter. We should now ask ourselves about the significance of these investments and particularly direct investment, which is more significant in quantitative terms, for the economy of the receiving country. In other words, what would happen in the receiving countries and their productive economies if such foreign direct investment did not exist? We could also ask if foreign direct investment is a sufficient response from rich countries to the plight of poor countries, a matter addressed by Paul VI in the Encyclical letter *Populorum Progressio* Are these resources sufficient to enable poor countries to be in a position to avail of the advantages enjoyed by the developed countries?

It is clear that isolation is one of the great enemies facing developing countries in their quest to escape poverty. It must, therefore, be one of the objectives of those who, committed to development for all, are in a position to invite poor Lazarus to the table of cooperation. John Paul II, in his final social Encyclical said that,

> ...it was thought that the poorest countries would develop by isolating themselves from the world market and by depending only on their own resources. Recent experience has shown that countries which did this have suffered stagnation and recession, while the

> countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level. It seems therefore that the chief problem is that of gaining fair access to the international market, based not on the unilateral principle of the exploitation of the natural resources of these countries but on the proper use of human resources.[18]

Without wishing to underestimate the direct investment of the developed countries in those trying to escape from underdevelopment, Table III (p. 168) and the corresponding Figure 3 (p. 581) offer two rather striking ratios. We show them both separately and also in terms of the relationship between them. One of the relationships studied is that between foreign direct investment and the GDP of the receiving country, with a view to examining the importance of that investment on the magnitude of reference of the country in question in the year 2004. In the light of the data provided, and leaving aside the atypical case of Thailand, foreign direct investment ranges from 0.44% for Indonesia to 8.08% for Chile, with the percentages in all cases being with respect to the volume of gross domestic product for the year 2004.

Judging from these figures, one ventures to suggest that the importance of foreign direct investment is not of great significance in the receiving countries. It is true however, as we have already pointed out, that there are indirect benefits in terms of culture and international context which must be taken into account. However, the amounts in themselves point to very moderate progress indeed.

On the other hand and in a separate column, we can observe the relationship between gross domestic investment and gross foreign investment for each country with respect to its GDP in 2004. Remember that without investment, economic growth is not possible. This investment ranges from a minimum of 12% – for Angola and Venezuela – to a maximum of 27% in the case of the Czech Republic. We exclude from this analysis the extravagant data relative to investment in China, which amounts to 44% of its gross domestic product.

The People's Republic of China has a system of economic planning in which the planner decides what proportion of the income generated in the nation should be distributed amongst citizens in the form of disposable personal income. Therefore, the national economy has, from the outset, an imposed saving and cannot be compared to other countries where, although the market may not be entirely competitive, there is at least a

[18] John Paul II, 'Encyclical letter *Centesimus Annus*', Rome 01.05.1991, n. 33.

direct relationship between the income generated in the economy and the income of the economic agents.

Given that the quantities in both columns are with reference to the same base – gross domestic product –, one can draw conclusions with respect to the weight of foreign direct investment in relation to the total fixed capital formation of the country. It can be concluded, therefore, that in the case of Indonesia, of the 22% of GDP equivalent to fixed capital formation, only 0.44% comes from foreign investment. In India, of the 22% of GDP making up fixed capital formation only 0.82% comes from foreign investment. However, in the case of Angola, of the 12% of GDP which goes to fixed capital formation, 7.39% has its origin in foreign investment.

Lastly, it should be mentioned that what is most striking to us, in terms of its effect on putting a country on the road to growth or otherwise is precisely the data related to fixed capital formation. Fixed capital conditions the possibilities of an economy taking off and is in turn conditioned by the volume of saving in the domestic economy and by the volume of saving which the international economy is willing to place at its disposal for this purpose, and in this respect we must remember that these are countries with very little capacity for saving.

Rates of fixed capital formation have to be considerably higher if these countries are to escape from the precarious situation in which they find themselves. If we compare the rates of capital formation to those commonly found in developed countries, countries that do not require growth to escape underdevelopment, we find that they are more or less the same. Let us remember that the rates for the developed countries of the OECD range from a minimum of 16% of GDP to a maximum of 28%.

Both investment for growth and access to the international context require attitudes not only on the part of the developed countries but also on the part of those countries who legitimately aspire to development. John Paul II reminded us that:

> Stronger nations must offer weaker ones opportunities for taking their place in international life, and the latter must learn how to use these opportunities by making the necessary efforts and sacrifices and by ensuring political and economic stability, the certainty of better prospects for the future, the improvement of workers' skills, and the training of competent business leaders who are conscious of their responsibilities...[19]

[19] John Paul II, 'Encyclical letter *Centesimus Annus*', Rome 01.05.1991, n. 35.

B) *Other Financial Flows Into Developing Countries*

It is clear that there are other ways of financing economic needs in general, including those of investment, apart from the ones that we have looked at up to this point – direct investment and portfolio investment. Quite another matter is the possibility of controlling financial flows from one country to another and, in any case, whether these have the effect of producing a debt in the receiving country with certain terms and conditions in respect of repayment schedules and interest rates.

We are of course speaking of the creation of a current liability in the receiving country, which if used for productive purposes can be self-amortised but otherwise will suppose such an effort on the part of the national economy that it will result in a worsening of the living conditions of the population. Let us remember that the financing contemplated in the previous sub-section, because it is based on provision or participation in the equity capital of the companies receiving the investment, is considered a non-current liability. In addition, it is subject to market risk and can ultimately be transferred if there is a buyer interested in its purchase. In contrast, loans granted to either the public or private sector to service their investment needs must be repaid at its maturity, plus the payment of the agreed interests due along the period.

Expressed in this manner, there is nothing exceptional about the credit instrument we are examining. It is common in taking those savings from economies that have the capacity to produce them and transferring them to economies with a need for saved resources in order to finance their investments.

The worry arises from the unknown factors which may exist with respect to the use of these financial resources. In other words, we must ask the question as to what point the desire to be financed and the desire to finance might lead to the creation of a burden of debt that would be unbearable for the economy and the population of a given country. John Paul II warned that

> ...one must denounce the existence of economic, financial and social mechanisms which, although they are manipulated by people, often function almost automatically, thus accentuating the situation of wealth for some and poverty for the rest. These mechanisms, which are maneuvered directly or indirectly by the more developed countries, by their very functioning favour the interests of the people manipulating them at in the end they suffocate or con-

> dition the economies of the less developed countries. Later on these mechanisms will have to be subjected to a careful analysis under the ethical-moral aspect.[20]

It seems unlikely that foolish or capricious indebtedness would arise from the private sector. This is true, not only due to the attitude of the debtor, who must always take into account the conditions under which the loan is taken out, but it is also a consequence of the prudence of the lender. Whether it is a bank or a financial institution, it will strive to ensure a satisfactory outcome to the loan operation, notwithstanding the corresponding assumption of risk by both parties. The problem basically arises when the borrower is the state itself, the government of a nation as a visible party to the loan contract. The risk is greater when the financing is not linked to a specific project and is further compounded if the lender is a public financial institution, perhaps international in terms of scope.

Naivety in this matter can lead to the structures of the financial markets – as mediators between savings and investment they play a central role without which the channelling of these resources could not take place – being transformed into perverse mechanisms which end up *suffocating or conditioning the economies of less developed countries*. If the government of a nation is insensible or even directly engages in acts of corruption, it is the responsibility of the financial institutions to ensure that their loans do not enrich the governor at the unbearable expense of the national community.

Faced with this reality, we consider it opportune to remember the call made by H.E. Mgr. Mendes de Almeida, at that time President of the Bishops' Conference of Brazil. At an international symposium attended by a group of multinational companies from diverse activities as well as several banks and financial institutions, he asked all of them to return to Latin America to provide investment and technology in order to improve the living conditions of the people. He also took the opportunity to warn, particularly the financial institutions, that financing efforts should be concentrated in the private sector and that loans should never, ever be granted to the public sector, for the reasons we have outlined above.[21] At stake is the survival of the nation and even more dramatically, the expectations of future generations.

[20] John Paul II, 'Encyclical letter *Sollicitudo Rei Socialis*', Rome 30.12.1987, n. 16.

[21] Speach of H.E. Mgr. Mendes de Almeida at the Symposium on 'Multinational Enterprises and Investments in Developing Countries'. UNIAPAC. Wolfsberg (Switzerland) 17th to 19th May 1989.

> A financial economy that is an end unto itself is destined to contradict its goals, since it is no longer in touch with its roots and has lost sight of its constitutive purpose. In other words, it has abandoned its original and essential role of serving the real economy and, ultimately, of contributing to the development of people and the human community. In light of the extreme imbalance that characterizes the international financial system, the overall picture appears more disconcerting still: the processes of deregulation of financial markets and innovation tend to be consolidated only in certain parts of the world. This is a source of serious ethical concern, since the countries excluded from these processes do not enjoy the benefits brought about but are still exposed to the eventual negative consequences that financial instability can cause for their real economic systems, above all if they are weak or suffering from delayed development. *[Cf. John Paul II, Address to the Pontifical Academy of Social Sciences (25 April 1997), 6: L'Osservatore Romano, English edition, 14 May 1997, p. 5].*[22]

In the light of all we have said, and demonstrating that the warnings of Mgr. Mendes de Almeida have had little effect, Tables IV (p. 169) and V (p. 170) show details of public sector foreign debt or debt entered into with the guarantee of the public sector for the group of selected countries. The latter table shows private sector foreign debt for the same countries over the same period. The tables are represented in graph form, in regional aggregate terms, in Figures 4 (p. 582) and 5 (p. 583) respectively.

The low efficiency to which we have referred is demonstrated by the fact that the total volume of debt for all developing countries is greater in all the years for the public sector than for the private sector. This may confirm that ease of negotiation and the size of the loan are more relevant than the economic aspects of the use of financial resources and the ethical behaviour of lenders and borrowers. If we concentrate on the year 2004 and the provisional figures for 2005, two exceptions are worthy of mention. In a certain sense and with knowledge of their economic evolution, they are very logical exceptions. We speak of East Asia and the Pacific on the one hand and Europe and Central Asia on the other.

[22] Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, Libreria Editrice Vaticana, Città del Vaticano 2004, reprint 2005, n. 369.

## By Way of Epilogue

Sixteen years ago John Paul II made public his concern with respect to the foreign debt of poor countries. He said that:

> At present...are being affected by the...unsolved problem of the foreign debt of the poorer countries. The principle that debts must be paid is certainly just. However, it is not right to demand or expect payment when the effect would be the imposition of political choices leading to hunger and despair for entire peoples. It cannot be expected that the debts which have been contracted should be paid at the price of unbearable sacrifices. In such cases it is necessary to find – as in fact is partly happening – ways to lighten, defer or even cancel the debt, compatible with the fundamental right of peoples to subsistence and progress.[23]

Sixteen years later, what is the situation of poor countries and what has been the effect of foreign debt in terms of increasing the economic capacity and income generation of the countries in debt?

Table VI (p. 171) and its corresponding graph (Fig. 6, p. 584) shows the total foreign debt of the developing countries expressed as a percentage of gross domestic product. Thailand, which we earlier classified as atypical, stands out with foreign debt of more than nine and a half times its gross domestic product in 2004. Excluding Thailand, the Lebanon takes on a volume of debt that is approximately ten percent more than its gross domestic product. This may be explained by the permanent conflict within the country which forces it to accept more and more financial resources in order to tackle the enormous expense arising from this conflict.

It is much more difficult to explain the case of Argentina, with a debt amounting to 110.59% of GDP, taking place in the context of a country rich in natural resources and in human capital. Only bad management at government level can possibly explain the waste. It is worth noting in this case that, as we can see in Tables IV and V, Argentine public sector debt is higher than private sector debt for all the years under analysis. However, from 2001 up to the provisional figures for 2005, public sector foreign debt is more than double that of the private sector. This is a clear result of the failure to heed the warning of Mgr. Mendes de Almeida, to which we referred earlier.

This consideration is more serious still if we consider it in relation to the other column of the same Table VI (p. 171), which shows the percent-

[23] John Paul II, 'Encyclical letter *Centesimus Annus*', Rome 01.05.1991, n. 35.

age of GDP devoted to the gross fixed capital formation. Only 19% of GDP is channelled to capital formation, that is to say, investment, while the total external debt is 110.59% of GDP. The relevant question is: for what has the debt entered into by the Argentine nation been used?

At the other end of the scale, we have countries such as South Africa with a foreign debt of only 13.39% of GDP and capital formation standing at 16% of GDP. Another example is India with a foreign debt of 18.03% of GDP and gross fixed capital formation amounting to 22.0% of GDP. As we have already said the case of China is hardly worth mentioning because of its very specific nature. With a debt of 15.09% of GDP, its capital formation is 44.0% of GDP. In any case, this shows us that the real engine for the financing of investment is domestic saving.

Finally, we would like to consider those countries which, not only due to their volume of debt with respect to GDP, but also because of their minimal capacity to accumulate their own resources from the foreign sector – exports –, present great current and future difficulties. Table VII (p. 172), and its corresponding Figure (p. 585), show countries with heavy indebtedness. In one column we can see Total Foreign Debt versus the volume of Exports and in the other column, the relationship between Total Foreign Debt and GDP. The former indicates the capacity for the recovery and covering of the debt entered into and the latter is an indication of the determination and commitment of each country with respect to the income it is capable of generating. Look at the situation of countries such as Burundi, Liberia, Saint Thomas and Prince, Sierra Leone, and so many others with an indebtedness in excess of their GDP figure and astronomically higher than their volume of exports.

The situation of these countries is particularly complex. Not only are they poor countries, but they are also engaged in fratricidal wars, mostly of an ethnic origin. They have easily corruptible governments, more interested in personal benefit and remaining in power than in the common good. The international community has a great challenge here. The most modest of these challenges is to bring about a reduction in the number of countries living in these extremely alarming conditions. The most ambitious is to develop aid models and practices which would benefit the different national communities. With them, it is necessary to be scrupulous in the application of the criteria of justice, but once these are satisfied, a direct appeal must be made to criteria of solidarity.

An international society in which some of its members live in permanent conflict will not enable the achievement of a guarantee of peace, not

even for those who are not directly involved in the conflicts. The awareness of interdependence in the world must be greeted in its positive dimension but we must not be blind to its negative effects if the sense of fraternal interdependence is absent. The absence of this sense of fraternity will lead us to ever more frequent trans-national conflicts. The positive dimension will lead us by the hand to the practise of solidarity.

John Paul II said that:

> ...It is above all a question of interdependence, sensed as a system determining relationships in the contemporary world, in its economic, cultural, political and religious elements, and accepted as a moral category. When interdependence becomes recognized in this way, the correlative response as a moral and social attitude, as a 'virtue', is solidarity. This, then, is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say to the good of all and of each individual, because we are all really responsible for all.[24]

Forty years have passed since Paul VI expressed the hope for that rebirth of a new man, an unselfish man who attends to the needs of others. The Pope said that:

> We cherish this hope: that distrust and selfishness among nations will eventually be overcome by a stronger desire for mutual collaboration and a heightened sense of solidarity. We hope that the developing nations will take advantage of their geographical proximity to one another to organize on a broader territorial base and to pool their efforts for the development of a given region. We hope that they will draw up joint programs, coordinate investment funds wisely, divide production quotas fairly, and exercise management over the marketing of these products. We also hope that multilateral and broad international associations will undertake the necessary work of organization to find ways of helping needy nations, so that these nations may escape from the fetters now binding them; so that they themselves may discover the road to cultural and social progress, while remaining faithful to the native genius of their land.[25]

[24] John Paul II, 'Encyclical letter *Sollicitudo Rei Socialis*', Rome 30.12.1987, n. 38.
[25] Paul VI, 'Encyclical letter *Populorum Progressio*', Rome 26.03.1967, n. 64.

We are probably faced with a situation that not only demands economic resources but also an injection of human resources to present new ways of living peacefully together. In addition to the challenge of growth and distribution, we also have the specific challenges of development and most especially those of civic, social and political education.

Perhaps these challenges demand a higher degree of fraternal commitment, a greater devotion. Perhaps they cannot be resolved with a few dollars in aid that may be put to better or worse use, but by the determination to achieve objectives of a human nature. These objectives may be complex and this complexity may have it origins in a degree of pharisaism which seeks to hide a hunger for power and personal gain to the exclusion of the needs of others. Paul VI's affirmation still has the same relevance today, approximately forty years after he said that,

> Human society is sorely ill. The cause is not so much the depletion of natural resources, nor their monopolistic control by a privileged few; it is rather the weakening of brotherly ties between individuals and nations.[26]

If what we lack is the necessary fraternity to attend to the remedy of all these evils, the financial resources we commit to this mission will serve for nothing and the objective will prove unattainable in every sense.

And let us bear in mind that if we are not prepared to cooperate to make the situation better at source, in the place where these men have been born, reared and have developed, they, uprooted by their own hunger and that of their families will come to knock upon our doors and we will have no case for keeping them closed. Because, how can we close our eyes to the need for survival of our brothers?

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[26] Paul VI, 'Encyclical letter *Populorum Progressio*', Rome 26.03.1967, n. 66.

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## APPENDIX OF TABLES AND FIGURES

TABLE I.- NET INWARD FOREIGN DIRECT INVESTMENT (Billions of US Dollars)

| Countries /Regions | 1997 | 1999 | 2001 | 2003 | 2005(*) |
|---|---|---|---|---|---|
| ***All developing countries*** | ***168,7*** | ***183,3*** | ***176,9*** | ***161,6*** | ***237,5*** |
| **East Asia and Pacific** | **62,1** | **50,8** | **48,5** | **59,8** | **65,3** |
| China | 44,2 | 38,8 | 44,2 | 53,5 | 53,0 |
| Indonesia | 4,7 | -1,9 | -3,0 | -0,6 | 2,3 |
| Malaysia | 5,1 | 3,9 | 0,6 | 2,5 | 4,2 |
| Philippines | 1,2 | 1,7 | 1,0 | 0,3 | 1,1 |
| Thailand | 3,9 | 6,1 | 3,9 | 1,9 | 3,1 |
| **Europe and Central Asia** | **24,6** | **29,8** | **32,7** | **35,9** | **75,6** |
| Czech Republic | 1,3 | 6,3 | 5,6 | 2,0 | 11,0 |
| Hungary | 4,2 | 3,3 | 3,9 | 2,2 | 4,0 |
| Poland | 4,9 | 7,3 | 5,7 | 4,1 | 7,7 |
| Russian Federation | 4,9 | 3,3 | 2,7 | 8,0 | 14,6 |
| Ukraine | 0,6 | 0,5 | 0,8 | 1,4 | 7,8 |
| Turkey | 0,8 | 0,8 | 3,3 | 1,8 | 7,2 |
| **Latin America and the Caribbean** | **66,7** | **88,3** | **71,1** | **41,1** | **61,4** |
| Argentina | 9,2 | 24,0 | 2,2 | 1,7 | 4,7 |
| Brazil | 19,7 | 28,6 | 22,5 | 10,1 | 15,2 |
| Chile | 5,3 | 8,8 | 4,2 | 4,4 | 7,2 |
| Mexico | 12,8 | 13,4 | 27,7 | 12,3 | 17,8 |
| Venezuela, R. B. de | 6,2 | 2,9 | 3,7 | 2,7 | 3,0 |
| **Middle East and North Africa** | **2,1** | **2,4** | **3,4** | **5,6** | **9,1** |
| Algeria | 0,3 | 0,5 | 1,2 | 0,6 | 1,4 |
| Egypt, Arab Rep. of | 0,9 | 1,1 | 0,5 | 0,2 | 3,1 |
| Morocco | 0,0 | 0,0 | 0,1 | 2,3 | 1,0 |
| **South Asia** | **4,9** | **3,1** | **6,1** | **5,6** | **8,4** |
| India | 3,6 | 2,2 | 5,5 | 4,6 | 5,6 |
| Pakistan | 0,7 | 0,5 | 0,4 | 0,5 | 2,2 |
| **Sub-Saharan Africa** | **8,3** | **9,0** | **15,0** | **13,6** | **17,6** |
| Angola | 0,4 | 2,5 | 2,1 | 3,5 | 1,5 |
| South Africa | 3,8 | 1,5 | 7,3 | 0,8 | 6,3 |

(*) Estimated data.

*Source*. J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006.

TABLE II. NET INWARD PORTFOLIO EQUITY FLOWS (Billions of US Dollars)

| Countries /Regions | 1997 | 1999 | 2001 | 2003 | 2005(*) |
|---|---|---|---|---|---|
| ***All developing countries*** | ***30,6*** | ***12,6*** | ***6,4*** | ***25,2*** | ***61,4*** |
| **East Asia and Pacific** | **4,1** | **2,2** | **2,0** | **12,4** | **26,5** |
| China | 5,7 | 0,6 | 0,8 | 7,7 | 19,0 |
| Indonesia | -5,0 | -0,8 | 0,4 | 1,1 | -0,2 |
| Malaysia | 0,0 | 0,0 | 0,0 | 1,3 | 0,9 |
| Philippines | -0,4 | 1,4 | 0,4 | 0,5 | 1,5 |
| Thailand | 3,9 | 0,9 | 0,4 | 1,8 | 5,3 |
| **Europe and Central Asia** | **4,0** | **2,0** | **0,3** | **0,5** | **5,8** |
| Czech Republic | 0,4 | 0,1 | 0,6 | 1,1 | -1,5 |
| Hungary | 1,0 | 1,2 | 0,1 | 0,3 | 0,0 |
| Poland | 0,6 | 0,0 | -0,3 | -0,8 | 1,3 |
| Russian Federation | 1,3 | -0,3 | 0,5 | 0,4 | -0,2 |
| Turkey | 0,0 | 0,4 | -0,1 | 0,9 | 5,7 |
| **Latin America and the Caribbean** | **13,3** | **-3,6** | **2,5** | **3,4** | **8,5** |
| Argentina | 1,4 | -10,8 | 0,0 | 0,1 | 0,0 |
| Brazil | 5,1 | 2,6 | 2,5 | 3,0 | 6,5 |
| Chile | 1,7 | 0,5 | -0,2 | 0,3 | 1,7 |
| Mexico | 3,2 | 3,8 | 0,2 | -0,1 | 3,4 |
| Venezuela, R. B. de | 1,4 | 0,4 | 0,0 | 0,1 | 0,1 |
| **Middle East and North Africa** | **0,7** | **0,7** | **-0,2** | **0,1** | **0,9** |
| Egypt, Arab Rep. of | 0,5 | 0,7 | -0,2 | 0,0 | 0,7 |
| **South Asia** | **2,9** | **2,4** | **1,0** | **8,0** | **12,2** |
| India | 2,6 | 2,3 | 1,0 | 8,2 | 12,2 |
| **Sub-Saharan Africa** | **5,6** | **9,0** | **-0,4** | **0,7** | **7,2** |
| South Africa | 5,5 | 9,0 | -0,4 | 0,7 | 7,1 |

(*) Estimated data.

*Source.* J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006.

TABLE III. NET INWARD FOREIGN DIRECT INVESTMENT VS. GDP RELATED TO GROSS CAPITAL FORMATION, FOR YEAR 2004 (in % of GDP)

| Countries | FDI/GDP(1) | GCF/GDP(2) |
|---|---|---|
| China | **3,33** | ***44,00*** |
| Indonesia | **0,44** | ***22,00*** |
| Malaysia | **3,90** | ***22,00*** |
| Philippines | **0,58** | ***18,00*** |
| Thailand | **26,42** | ***24,00*** |
| Czech Republic | **4,21** | ***27,00*** |
| Hungary | **4,59** | ***23,00*** |
| Poland | **5,22** | ***18,00*** |
| Russian Federation | **2,15** | ***18,00*** |
| Ukraine | **2,62** | ***21,00*** |
| Turkey | **0,89** | ***18,00*** |
| Argentina | **2,68** | ***19,00*** |
| Brazil | **3,07** | ***18,00*** |
| Chile | **8,08** | ***21,00*** |
| Mexico | **2,57** | ***20,00*** |
| Venezuela, R. B. de | **1,34** | ***12,00*** |
| Algeria | **1,11** | ***25,00*** |
| Egypt, Arab Rep. of | **1,46** | ***16,00*** |
| Morocco | **1,61** | ***23,00*** |
| India | **0,82** | ***22,00*** |
| Pakistan | **2,35** | ***16,00*** |
| Angola | **7,39** | ***12,00*** |
| South Africa | **2,96** | ***16,00*** |

Footnotes: (1) This column represents en percentage terms, the ratio between the Net Inward Foreign Direct Investment versus the GDP; (2) In this case, the values are those of the Gross Capital Formation versus the GDP, also in percentage terms.

Source. J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006. The data for GDP and for Capital Formation, are from United Nations 'World Statistics Pocket Book'. United Nations, New York 2006.

TABLE IV. TOTAL EXTERNAL DEBT OF DEVELOPING COUNTRIES, OWED BY PRIVATE SECTOR BORROWERS (Billions of US Dollars)

| Countries /Regions | 1997 | 1999 | 2001 | 2003 | 2004 | 2005(*) |
|---|---|---|---|---|---|---|
| ***All developing countries*** | ***740,2*** | ***869,3*** | ***879,7*** | ***1.023,9*** | ***1.166,2*** | ***1.317,5*** |
| **East Asia and Pacific** | **254,4** | **231,4** | **239,4** | **262,9** | **308,3** | **353,8** |
| China | 33,9 | 52,9 | 93,1 | 123,3 | 158,1 | |
| Indonesia | 77,3 | 67,3 | 56,2 | 52,7 | 58,0 | |
| Malaysia | 30,4 | 23,0 | 20,9 | 23,2 | 26,6 | |
| Philippines | 23,5 | 21,7 | 27,1 | 25,2 | 24,2 | |
| Thailand | 85,0 | 62,0 | 39,3 | 34,1 | 36,0 | |
| **Europe and Central Asia** | **101,8** | **187,1** | **216** | **344,3** | **442,5** | **542,3** |
| Bulgaria | 2,4 | 2,0 | 2,0 | 4,5 | 7,0 | |
| Czech Republic | 10,2 | 15,1 | 17,1 | 26,1 | 33,5 | |
| Hungary | 9,3 | 13,0 | 17,6 | 31,0 | 42,4 | |
| Poland | 7,5 | 32,8 | 41,7 | 60,5 | 62,6 | |
| Russian Federation | 7,8 | 38,3 | 41,3 | 71,6 | 94,1 | |
| Turkey | 36,1 | 50,6 | 45,0 | 56,8 | 71,9 | |
| **Latin America and the Caribbean** | **290,9** | **351,9** | **332,3** | **311,8** | **302,3** | **297,3** |
| Argentina | 55,4 | 56,7 | 51,6 | 51,4 | 51,3 | |
| Brazil | 110,7 | 142,8 | 124,6 | 106,7 | 99,3 | |
| Chile | 22,7 | 29,2 | 33,0 | 35,3 | 34,6 | |
| Colombia | 16,5 | 14,2 | 14,5 | 14,2 | 14,4 | |
| Mexico | 55,2 | 74,1 | 68,6 | 64,1 | 61,5 | |
| Venezuela, R. B. de | 6,7 | 8,9 | 10,8 | 10,4 | 9,7 | |
| **Middle East and North Africa** | **23,6** | **30,2** | **25,8** | **28,4** | **28,7** | **32,7** |
| Algeria | 0,2 | 0,2 | 0,2 | 0,7 | 1,1 | |
| Egypt, Arab Rep. of | 3,1 | 4,8 | 4,0 | 4,1 | 2,9 | |
| Libanon | 2,7 | 2,9 | 3,5 | 3,8 | 4,7 | |
| **South Asia** | **19,9** | **17,4** | **23,4** | **31,3** | **38,6** | **47,0** |
| India | 14,3 | 11,9 | 18,7 | 27,1 | 34 | |
| Pakistan | 4,8 | 4,1 | 3,4 | 2,9 | 2,8 | |
| **Sub-Saharan Africa** | **49,7** | **51,3** | **43,0** | **45,2** | **45,8** | **44,3** |
| South Africa | 13,3 | 15,7 | 16,1 | 18,7 | 18,7 | |

(*) Estimated data.

*Source*. J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006.

TABLE V. TOTAL EXTERNAL DEBT OF DEVELOPING COUNTRIES, OWED BY PUBLIC AND PUBLICLY GUARANTEED BORROWERS (Billions of US Dollars)

| Countries /Regions | 1997 | 1999 | 2001 | 2003 | 2004 | 2005(*) |
|---|---|---|---|---|---|---|
| ***All developing countries*** | ***1.366,8*** | ***1.476,4*** | ***1.400,9*** | ***1.557,9*** | ***1.589,5*** | ***1.482,9*** |
| **East Asia and Pacific** | **271,9** | **307,4** | **277,5** | **278,6** | **280,6** | **279,9** |
| China | 112,8 | 99,2 | 91,8 | 85,3 | 90,8 | |
| Indonesia | 58,8 | 83,9 | 77,9 | 84,3 | 82,6 | |
| Malaysia | 16,8 | 18,9 | 24,2 | 25,4 | 25,6 | |
| Philippines | 27,2 | 36,6 | 31,2 | 37,2 | 36,3 | |
| Thailand | 24,7 | 34,7 | 27,9 | 17,7 | 15,3 | |
| **Europe and Central Asia** | **288,6** | **315,7** | **292,1** | **336,3** | **352,5** | **327,8** |
| Bulgaria | 8,7 | 9,0 | 8,5 | 8,9 | 8,6 | |
| Czech Republic | 12,9 | 7,7 | 5,7 | 8,7 | 12,0 | |
| Hungary | 15,3 | 16,9 | 12,7 | 16,3 | 20,7 | |
| Poland | 34,2 | 33,2 | 25,7 | 35,0 | 36,6 | |
| Russian Federation | 119,8 | 136,4 | 111,2 | 103,9 | 103,2 | |
| Turkey | 48,1 | 51,6 | 68,4 | 88,6 | 89,7 | |
| **Latin America and the Caribbean** | **378,6** | **420,5** | **420,7** | **474,1** | **476,6** | **426,4** |
| Argentina | 72,8 | 88,9 | 102,4 | 114,7 | 117,9 | |
| Brazil | 87,4 | 102,4 | 106,5 | 129,9 | 122,9 | |
| Chile | 4,4 | 5,7 | 5,6 | 8,0 | 9,4 | |
| Colombia | 15,4 | 20,2 | 21,8 | 22,8 | 23,4 | |
| Mexico | 92,4 | 92,4 | 77,0 | 77,5 | 77,2 | |
| Venezuela, R. B. de | 29,0 | 28,7 | 25,2 | 24,5 | 25,9 | |
| **Middle East and North Africa** | **127,7** | **125,5** | **117,2** | **132,8** | **135,2** | **129,8** |
| Algeria | 30,7 | 27,8 | 22,4 | 22,9 | 20,9 | |
| Egypt, Arab Rep. of | 27,0 | 26,3 | 25,3 | 27,3 | 27,4 | |
| Libanon | 2,3 | 5,3 | 9,0 | 14,8 | 17,5 | |
| **South Asia** | **129,7** | **144,6** | **132,8** | **150,2** | **155,3** | **147,7** |
| India | 80,1 | 86,4 | 78,8 | 85,6 | 88,7 | |
| Pakistan | 25,3 | 29,8 | 28,3 | 33,0 | 32,9 | |
| **Sub-Saharan Africa** | **170,3** | **162,7** | **160,6** | **186** | **189,2** | **171,3** |
| South Africa | 11,9 | 8,2 | 7,9 | 9,1 | 9,8 | |

(*) Estimated data.

*Source*. J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006.

TABLE VI. TOTAL EXTERNAL DEBT OF DEVELOPING COUNTRIES VS. GDP RELATED WITH GROSS CAPITAL FORMATION VS. GDP, BOTH FOR YEAR 2004 (in percentage of GDP)

| Countries | TED/GDP(1) | GCF/GDP(2) |
|---|---|---|
| China | **15,09** | ***44,00*** |
| Indonesia | **62,49** | ***22,00*** |
| Malaysia | **44,23** | ***22,00*** |
| Philippines | **70,14** | ***18,00*** |
| Thailand | **967,92** | ***24,00*** |
| Bulgaria | **64,34** | ***21,00*** |
| Czech Republic | **42,62** | ***27,00*** |
| Hungary | **63,01** | ***23,00*** |
| Poland | **41,06** | ***18,00*** |
| Russian Federation | **33,88** | ***18,00*** |
| Turkey | **53,51** | ***18,00*** |
| Argentina | **110,59** | ***19,00*** |
| Brazil | **37,43** | ***18,00*** |
| Chile | **46,87** | ***21,00*** |
| Colombia | **39,39** | ***18,00*** |
| Mexico | **20,51** | ***20,00*** |
| Venezuela, R. B. de | **31,79** | ***12,00*** |
| Algeria | **27,23** | ***25,00*** |
| Egypt, Arab Rep. of | **34,12** | ***16,00*** |
| Lebanon | **111,56** | ***29,00*** |
| India | **18,03** | ***22,00*** |
| Pakistan | **38,10** | ***16,00*** |
| South Africa | **13,39** | ***16,00*** |

Footnotes: (1) This column represents en percentage terms, the ratio between the Total External Debt versus the GDP; (2) In this case, the values are those of the Gross Capital Formation versus the GDP, also in percentage terms.

*Source*. J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006. The data for GDP and for Capital Formation, are from United Nations 'World Statistics Pocket Book'. United Nations, New York 2006.

TABLE VII. TOTAL EXTERNAL DEBT RATIOS VERSUS EXPORTS AND INCOME, FOR DEVELOPING COUNTRIES (% average for 2002-2004)

| Most significant countries | TED/Exp.[(1)] | TED/GNI.[(2)] |
|---|---|---|
| *Severe indebtedness* | | |
| Burundi | 3.069,00 | 227,00 |
| Central African Republic | 730,00 | 91,00 |
| Democratic Rep. of Congo | 765,00 | 208,00 |
| Ginea-Bissau | 791,00 | 331,00 |
| Liberia | 1.891,00 | 674,00 |
| Malawi | 584,00 | 188,00 |
| Rwanda | 964,00 | 96,00 |
| Sâo Tomé and Principe | 1.655,00 | 666,00 |
| Sierra Leone | 903,00 | 177,00 |
| Zambia | 530,00 | 170,00 |
| *Light indebtedness* | | |
| Barbados | 44,00 | 27,00 |
| Belarus | 30,00 | 20,00 |
| Botswana | 14,00 | 8,00 |
| China | 48,00 | 15,00 |
| Equatorial Guinea | 10,00 | *** |
| Fiji | 16,00 | 9,00 |
| Islamic Republic of Iran | 33,00 | 10,00 |
| Malaysia | 42,00 | 52,00 |
| Oman | 30,00 | 18,00 |
| Swaziland | 24,00 | 26,00 |

Footnotes: (1) This column expressess the ratio between the Total External Debt and the total exports value of goods and services. (2) In this case tha values established are those of the ratio between the Total External Debt and the Gross National Income of the mentioned country.

*Source*. J.T. Raga on the data of World Bank 'Global Development Finance 2006 – The Development Potential of Surging Capital Flows'. The International Bank for Reconstruction and Development. Washington 2006.

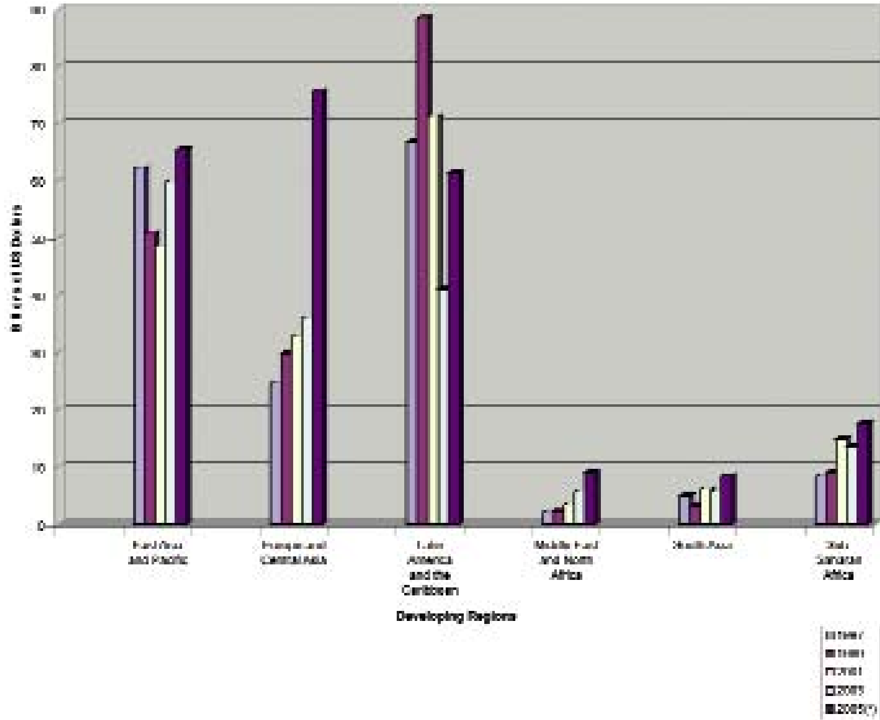


Figure 1. Net inward foreign direct investment (Billions of US Dollars).

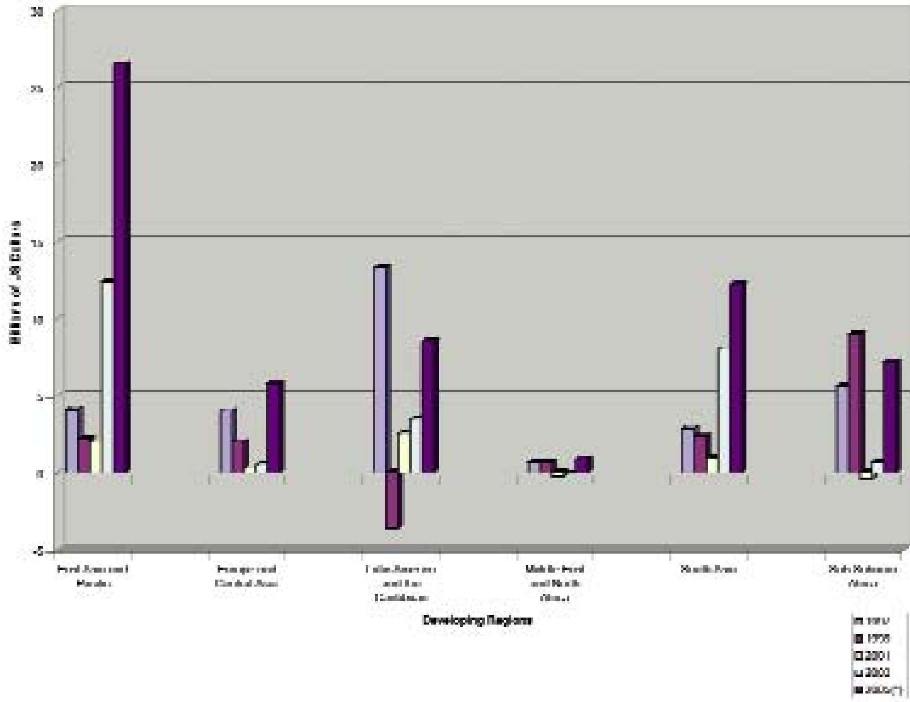


Figure 2. Net inward portfolio equity flows (Billions of US Dollars).

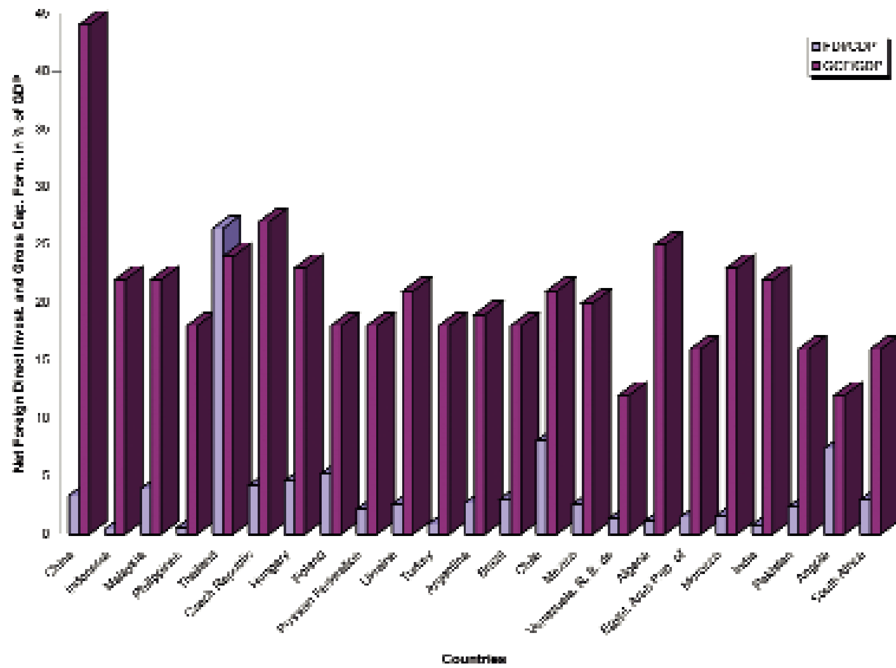


Figure 3. Net foreign direct investment and gross capital formation (in % of GDP for year 2004).

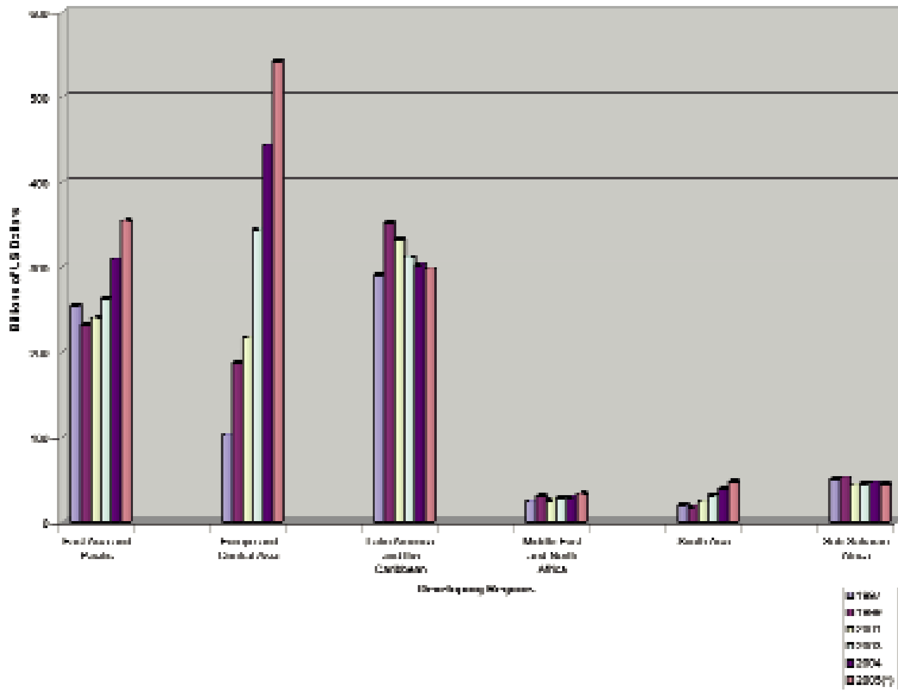

Figure 4. Total external debt of developing countries, owed by private sector (by Regions and in Billions of US Dollars).

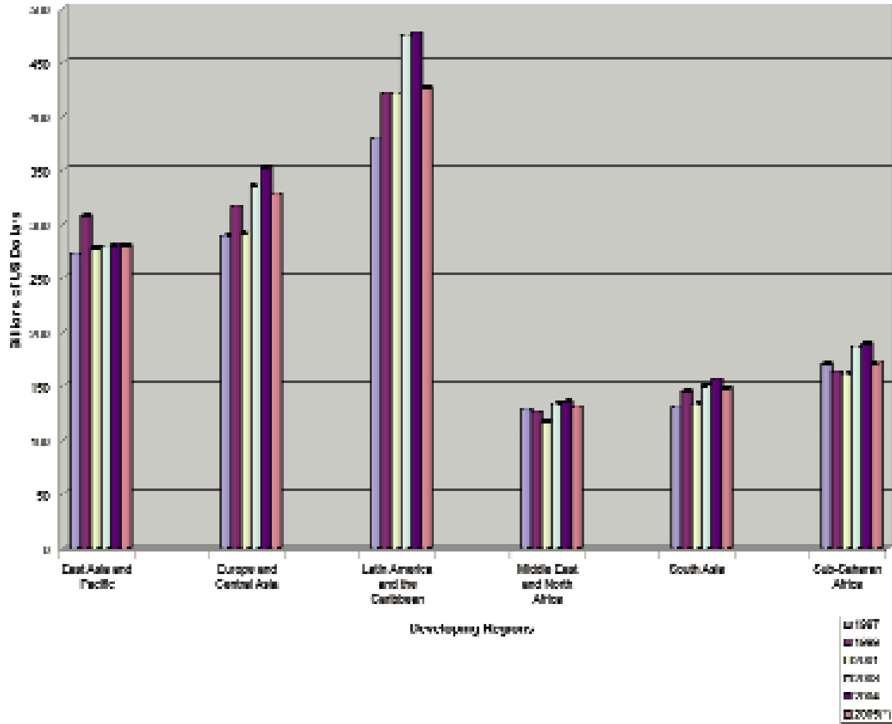


Figure 5. Total external debt of developing countries, Owed or Guaranteed by public sector (by Regions and in Billions of Dollars).

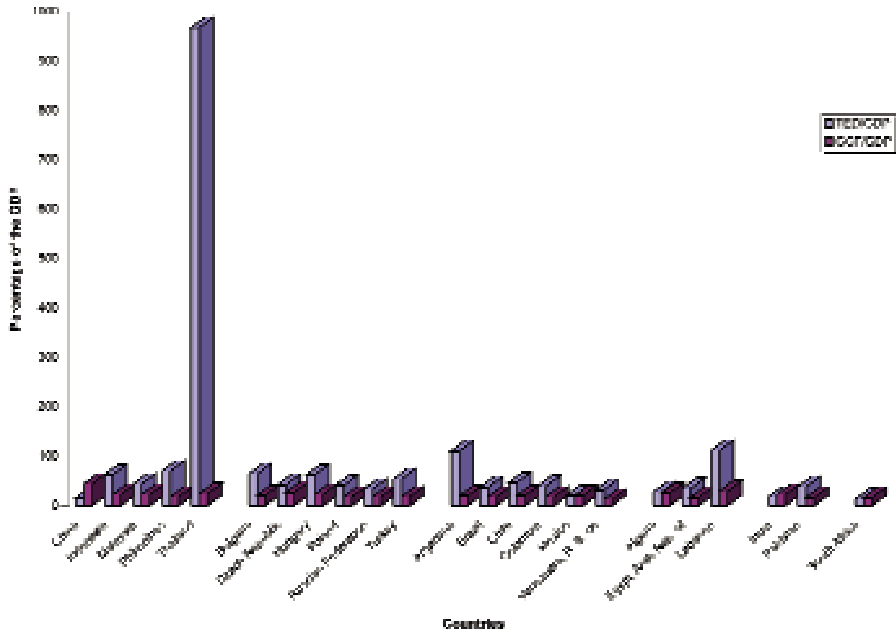


Figure 6. Developing countries: total external debt and gross capital formation vs. GDP (year 2004, in percentge of GDP).

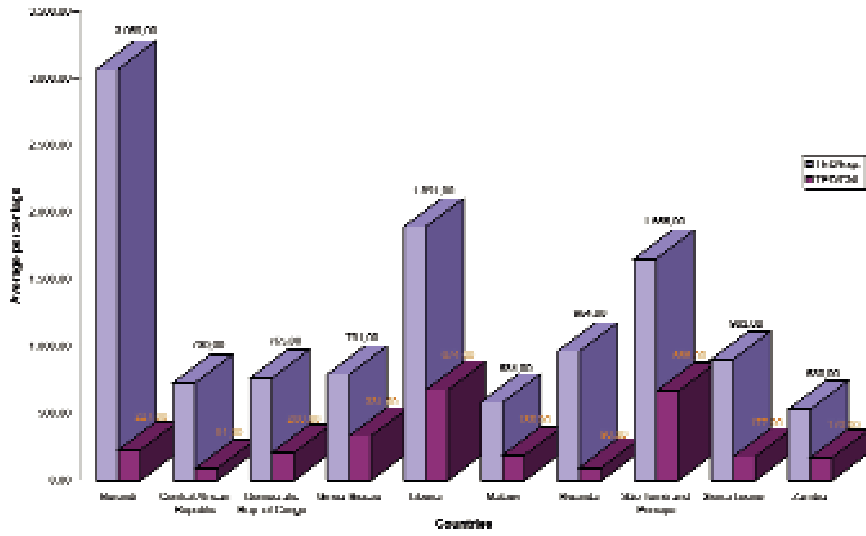


Figure 7. Total external debt in most indebted countries vs. Exports and gross national income (in average percentage for the period 2002-2004).