How to Solve the Global Poverty through the Earth Security Tax (EST) in Global Governance

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Abstract

This study suggests a multi-layer design called earth security tax (EST) under the earth security capital (ESC). The earth security tax (EST) system suggested by the study further expands the whole idea to automatically trade benefits between least developed countries (LDCs) and developed countries (DCs), it also helps to upgrade the export contents in the LDC. The EST system also helps economic development in the DC without changing forcefully their current trade conditions. As for the EST global governance suggested by this study links to market ingredients while dealing with the problem of global poverty. As this study may show, through the help of global governance, international associations such as IBRD are welcome invited to join the system without the necessity to impose any aid conditionality. After the project is accomplished, the system can be applied to dear with another highly homogeneous issue of subsidiaries.

Key Words: Global governance, ESC (Earth Security Capital), EST (Earth Security tax)

1. Introduction

The World Bank (2006) once stated clearly that the most difficult task challenging our society is to alleviate the problem of global poverty. In fact, in September 2000 the UN Conference on Environment and Development already declared that the First Millennium Development Goal (MDG) is, by year 2015, to half those people living in absolute poverty in year 1999 (UN General Assembly, 2000). When the progress of this First MDG is extremely slow, it deserves more attention.

The long experience of helping the least developed countries (LDCs) has already taught us a lesson such that, instead of simply providing aids, creating wealth through trade is the most reliable way of solving their poverty problems (Francis, 2007; Tekin, 2012).
However, for those 47 LDCs, even free trade provides them with very little help; their trade volume in percentage has already been reduced to a meager 1% of global trade volume. Even for developed countries (DCs), more openness to trade can severely hurt their lowest income groups because of deteriorated income distribution (Milanovic, 2005; Cyrus et al., 2007).

Based on this and other considerations, the majority of DCs therefore remains reluctant to lower their protectionist measures against exports from LDCs (Bird, 2007; Khadiagala, 2007). In reality, trade must be an interactive relationship between two nations. When this relationship has long become a deadlock or an important factor detrimental to the mission of global poverty reduction, innovative ideas that can have better opportunities to reverse the situation are unquestionably needed. The aim of this study is therefore to introduce a new idea that can serve as an effective solution.

What will be suggested by this study is a multi-layer design, the earth security capital (ESC) system which, in turn, can include the creation, the implementation, and the exchange market of the ESC. Basically, this ESC system will be designed based on the following logics. First, almost no equitable rule of game has ever been applied to deal with the trade between LDCs and DCs. Failure of the Doha Round already reveals strong evidences such that those unfair rules of game are mostly controlled by DCs only. Therefore, unless adding more new relations hence new rules on the existing ones can be realized, the deadlock will otherwise hold still. Second, the way to establish new relations and new rules also needs to bring DCs into consideration in order to remove their resistance. Third, DCs usually own more advanced technologies that can accelerate the economic development of LDCs.

Therefore, if the way to establish new relations can be undertaken based on this consideration with mutualism, then it certainly can be of more aggressively and efficiently helpful to the economic development for both LDCs and DCs. Fourth, during the process of establishing new relations and technological transformation, helps from international organizations and global governance are clearly needed for effective executions. However, in order to make global governance more efficient, it had better links to the market mechanism especially for the task of solving an economic problem. Finally, ethical elements especially relating to common values can not be excluded if sustaining operation of the whole ESC system is considered.

2. Trade Problems and the Trend of Globalization

According to the orthodox development theory, trade promotes economic growth and economic growth reduces poverty (Harrison and McMillan, 2007). This is the so-called “Bhagwati hypothesis” (Sapsford and Garikipati, 2006). In principle, the more one nation would open to others the faster it could speed up its degree of specialization, reap the benefit of scale economies and improve its competitiveness (Sapsford and Garikipati, 2006; Winters, 2006); also could accelerate imitation and other dynamic study benefits (Acemoglu and Zilibotti, 2001; Wacziarg, 2001).

However, the only fact that can be assured so far is that trade deterioration can further worsen one nation’s poverty and unemployment problems, but the opposite does not necessarily apply (Skae and Barclay, 2007). Other than those political and economic pressures existing in the DCs, the main difficulties confronting most of the LDCs may be twofold. The first is that, since LDCs primarily export low value-added raw minerals or agricultural products, they can hardly enjoy fair not to mention advantageous terms of trade with DCs (Anderson, 2004; Gilpin, 2004; Bernholz, 2007; Harison and McMillan, 2007). In the past, lowering trade barriers has been considered to be one of the most efficient ways to lift off poverty. However, the practicality of this view has been put in doubt when LDCs can not have equal positions to negotiate with DCs (World Trade, 2008). Unless there can have a mechanism that can create the opportunity to accelerate gains from trade, otherwise it is very difficult for LDCs to rely solely on trade to solve their poverty problems (Harris and McMillan, 2007; Skae and Barclay, 2007).

For DCs, while more openness to exports from LDCs will add more pressure on upgrading their industries, it can also raise the degree of competition in domestic markets. Basically, no individual DC loves to see any LDC to catch up or even surpass its competitive advantage on trade (Pauwelyn, 2008). In fact, during the past two centuries, the existence of varied trade protectionisms is a long lasting phenomenon in international economy (Gilpin, 2004, p239).
As been clearly explained by Pauwelyn (2008), the political forces among DCs have been shifted to oppose free trade since 1947; that is, most DCs prefer promoting their own industries and employment as their priority. It is therefore not surprising to find that even the main focus of the contingency plan proposed by the WTO is to offer countries the possibility to reintroduce trade restrictions in case their domestic producers will be hurt by imports (Pauwelyn, 2008).

Other than the problem of trade protectionism, another major challenge to be confronted by LDCs is the trend of globalization that is still quite unfriendly to them. Without any doubt, the trend of globalization is not reversible, and it has already caused wide impacts on reducing costs in production, suppressing local culture or biological diversity and so on (Mander et al., 2003; Ehrenheld, 2005, Lee and Vivarelli, 2006). The problem is that, since LDCs do not always benefit from globalization, the urge is therefore to manage the trend of globalization especially on behalf of those LDCs (Stiglitz, 2002; Bhagwati, 2004; Akoum, 2008). Under this consideration, fairer trade has been strongly suggested to be one of the answers (Pauwelyn, 2008), as it can include, for example, introducing rules to end all forms of dumping penalty imposed by the DC, or allowing only the LDC to protect their food security or sustainable rural development. Trouble is, as has been clearly explained by Hulm et al. (2006) and Kaseterine (2006), while containing almost no added value, exports from LDCs can only provide very limited economic contributions even under a fair trade environment.

The fact is that the trend of globalization can bring about both shocks and opportunities to our world (Clarke and Edwards, 2004). Thakur (2002, p270) therefore believes that this kind of opportunities can be used to alleviate the long-lasting global poverty problem if a right solution can be found. Furthermore, since global trade concerns not only trade, more complicated global policies and institutions must be designed to manage those wide-ranging implications influenced by the trend of globalization (Ostry, 2005).

3. The Importance of Global Governance

At this current stage, state sovereignty is unquestionably still the fundamental value that can not be infringed (Frost, 2004). However, most conflicts generated from the impact of globalization are rarely under the capability of any individual nation to manage. Most likely, they have to rely on those highly independent international organizations to deal with (Abbott and Snidel, 2005). But when those international organizations can only be found to be incapable of handling global problems, the idea of global governance is merged (Murphy, 2002).

To a great extent, global governance can still be deemed as the development issue for those international organizations (Wilkinson, 2002). Furthermore, since the complexity and variability of global problems are gradually increasing nowadays, some scholars believe that the best solution is to establish new international or united organizations to assume new responsibilities (Murphy, 2002; Clarke and Edwards, 2004), some others believe that the correct answer is to reform current international organizations and enhance their coordination (Woods, 2002; Muldoon, Jr., 2004). Some even wonder that, since one of the important missions for the World Bank or IMF or other international organizations is actually to alleviate the problem of global poverty but has never been effectively executed, if more global governance can make this world even better when there is still no clear guiding principles to be followed (Gilpin, 2001; Held and McGrew, 2002). By examining the following three s, this difficulty can probably be solved effectively.

First, regarding the goal of global governance, Held and McGrew (2002, p2) believe that it must lead to an optimal solution that can fulfill all political, economic and environmental considerations from all participated nations. To state it differently, Rosenau (2002, p72) explains that, since global governance can provide us an effective way to harmonize different systems around the world and to promote political cooperation for solving global problems, its eternal goal is therefore to sustain and improve human welfare. In details, three dimensions of global governance need to be fulfilled and inspected with care, including stability, reflectivity and order (Rochester, 1993; Muldoon, Jr., 2004).

Second, regarding the part of mission, global governance has usually been designed and implemented with a direct intention to solve a designated problem (Hunt and Wickham, 1994). However, there can have more to be concerned about the job of finding a better solution. For example, if the intention is to make even more effective global governance, then it had better provide absolute instead of relative benefits to avoid any severe conflict in distributing benefits (Mearsheimer, 2005). With respect to the part of execution, it should be directed to reduce the unstructured complexity and raise the structured complexity of any issue to be concerned (Jessop, 1997).
Whenever international aid is involved, the participation and discretion of control over the administration should also be carefully considered especially on the side of donor (Woods, 2002). The current development of global governance is heading for the following two main directions: one is global democracy and the other global justice (Held and McGrew, 2004). For example, main concerns to be coped with especially within the latter include that unless a globally fair trade can provide mutualism, otherwise, the winner should compensate the loser (Woods, 2004).

Finally, the part of ethics has also been widely emphasized nowadays. In fact, only if issues of how, why and when moral will have its important influence can be thoroughly understood, can we better take care of the current situation of global governance and its future evolution (Agnew, 2004). It is clear that, when the speed of globalization is accelerating, new moral guidelines have to serve as the base for innovating more effective forms of global governance (Frost, 2004). The old international order is already too rigid to cope with new challenges, only globally acceptable common values and beliefs can be taken as the final guidelines for all global governance (Clarke, 2004; Muldoon, Jr., 2004; Pastor, 2004).

4. The Importance of Common Values

Obviously, if the goal is to maximize the welfare of shareholders or citizens, corporations or nations will prefer fulfilling as minimal ethical requirements as possible if having choices. Therefore, morality can still be deemed as an ideal for corporations or state governments, but it can only be a necessity for our earth village. This should explain why the report from the UN General Assembly (2000, pp1-2) points out in particular the importance of common morality in connection with the goal of solving global poverty problem. Obviously, common values are not a mere declaration of moral standards; they have to meet the needs of or even can aggressively assist the mission of global poverty reduction. In the strict economic sense, this study suggests the following two types of common values that can be of especially important to the mission of global poverty reduction. One relates to what has been stated at the beginning of this study, that is, creating wealth through trade is the most reliable way of solving the problem of global poverty. This certainly fulfills the spirit of “self help and people help”. The other relates to the way of providing DCs sufficient economic incentives to have their participation. This can be simply deemed as the requirement of mutualism.

5. The ESC System

When current methods are already inefficient and are very difficult to be directly changed, then developing new ones to collocate the old ones shall be considered. This is exactly the criterion behind the design of the ESC system, to face the least resistance on one hand and seek the most efficient overall solution on the other.

5.1. Creation of the ESC

Other than those already available Official Development Assistances (ODAs), the cost of all MDGs would involve additional ODAs over 2003 levels of USD 66 billion in 2006 and USD 83 billion in 2010 (WB, 2006). Furthermore, given the pressures on public budgets in many OECD countries, to raise more ODAs from them will not be an easy task (OECD, 2005, p1). Therefore, it is better not to add more burdens on DCs if certain financial aids are needed to accomplish the mission of global poverty reduction.

New innovative ideas of solving the shortage problem in global aids are not rare. For example, direct borrowing by the IMF (Bird, 2007); global coordinated tax on environmental damage, currency flows, luxury goods, arms or others (Clunies-Ross, 2004; CIDSE, 2005; Atkinson, 2006); International Finance Facility (IFF) proposed by the UK government and supported by the France (Clunies-Ross, 2004); or new SDR aids (Clerk and Polak, 2002; Soros, 2002; Clunies-Ross, 2004; bird, 2007). As Clunies-Ross (2004) clearly points out, not only most of them will involve tremendous legislative actions from each individual state government, but also there will be an overwhelming moral case for devoting their proceeds to unrelated global purposes. Furthermore, these innovative ideas completely lack any direct benefit of mutualism and only indirect positive externalities especially based on the global tax idea can be expected from them. Also, they can not establish any direct and positive feedback with the necessary condition of economic development in connection with the mission of global poverty reduction. Move innovative thinking is needed.
Under the consideration of imposing no additional burden to the donors, the source of ESC is suggested by this study to be transformed directly from those protection tariffs imposed by DCs especially on exports from LDCs. This sounds as if a contradiction to adding no additional burden on DCs has been declared, but actually it is not. First, any protectionist tariff or non-tariff barrier can be equivalently deemed as a kind of penalty on economic development to LDCs (Das, 2006). Second, when DCs never confront difficulties of protectionist tariffs, it is therefore unjustifiable for them to impose such kind of tariffs on LDCs.

Third, as has been mentioned in Section 3, since state sovereignty is still something needed to be respected in global governance, DCs can always have their own authority to impose certain protectionist tariffs as a relief of their political or economic pressures regardless of whatever the reason can be. However, all protectionist tariffs have to be transformed into the ESC to resume justice. Obviously, any individual DC by itself can remove the initial protectionist tariffs completely, and this shall make its LDC trade partners regain their deserved fair trade and competitiveness.

For an average LDC, since the demand elasticity of its exports to a certain DC is usually smaller than unity even after protectionist tariffs is imposed, the most direct path to accelerate its trade growth is therefore to raise the added values of its exports. Therefore, transplantation of the sunset industry from the DC to the LDC should be a priority to be considered especially when this process can be promoted based on the EST generated in the first place. Basically, the critical stage of upgrading raw materials into intermediate or final products falls on the first step of industrial transformation. It is important for the LDC not only to escape from the trap of exporting only raw materials, but also to start laying the foundation for future advancement. The success of the export processing zone in Taiwan can be taken as the convincing example (Wu, et al., 2006). Only after this critical stage of industrial transformation can be realized can people in the LDC expect to have a brighter future and exert more effort to catch up.

If it already is a sunset industry influenced by import substitutes in the DC, then all its affected labor must require a reasonable adjustment time for learning new professional skills or make other arrangements. The time table for imposing corresponding protection tariffs can therefore be reasonably determined. As to the LDC, since it already can acquire immediate help to upgrade its export contents, certain but still limited sacrifice of long term benefits is reasonably necessary to be exchanged as the incentive of mutualism. Clearly, this will further make the creation of ESC less compulsorily to the DC.

5.2. Implementation of the EST

Within The Least Developed Countries Report (UNCTAD, 2004, p11), one of its focuses is that, under the purpose of making an inroad to poverty reduction, a country’s real export growth rate must exceed 5 percent per annum. While it is very difficult to surpass this threshold when only raw materials can be exported from almost all LDCs, upgrading their exports with more added values is definitely a realistic and effective way of accelerating their growth in trade (Lamy, 2006; World Trade, 2008). This shall serve as the primary mission for implementing ESC. The DC government certainly needs to take a long term responsibility to supervise the execution of its collected EST, and protects the benefits of its corporations in participation. Besides, if joint venture will be taken and governmental associations can be provided, the risk of investment shall be reduced tremendously.

Naturally, implementation other than upgrading the export contents can also be considered by the LDC if necessary. For example, releasing the pressure of government’s foreign debts (Bond, 2006); promoting the labor mobility to accelerate efficiently economic development (Bolaky and Freund, 2004; Pauwelyn, 2008; Liu, 2011); educating and stimulating consumption (Harrison and McMillan, 2004); or encouraging more women to participate in export production and business (Laxton, 2008). A quite complete detail is also listed in the Development Cooperation Report (OECD, 2006) that, in turn, can be used to find out what is truly the most important direction to accelerate the economic development of one the LDC.

5.3. The EST Exchange Market

For any individual LDC to be concerned, its current DC trade partners may not be the best choices for upgrading its export contents. The most efficient way to be undertaken is by all means to shop around the world. This is why the ESC exchange market has to be established and become a part of the ESC system.

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In principle, international organizations like the WTO can be a legitimate role to organize and supervise this EST exchange market. Once an ESC exchange market can be well developed, its sequel of an ESC loan market shall also be considered. Theoretically, an expected amount of ESC that can be possibly created in the near future can be calculated and loaned by the DC without too much difficulty, and this process can certainly be executed through an efficient ESC loan market. Obviously, this extra amount of ESC can provide the LDC even better opportunities to accelerate its speed of upgrading export content and making economic development.

5.4 The ESC Global Governance

In accordance with the job of solving the problem of global poverty, if it will be undertaken without a proper guiding blueprint, then most likely no solution can yield twice the result with half of the effort. This is because, as been well pointed out by Weber (2002), one of the important missions for those international organizations like the World Bank, IMF or the Regional Development Banks is actually to alleviate the problem of global poverty, but it has never been effectively executed. As a matter of fact, the current performance of global governance is quite disappointing, and this already forces so many people to wonder if more global governance can make this world even better when there is still no clear guiding principles to be followed (Gilpin, 2001; Held and McGrew, 2002).

Based on the explanations provided on the above, the EST global governance can now be suggested and examined accordingly. While bringing necessary conditions into consideration, first of all, since collection of the EST is mainly under control of the DC, international organizations also need to provide their associations to assure the openness and justice of taxation and transfer. Second, it is also clear that both jobs of implementation and the exchange market of the EST can only be operated efficiently under the supervision of corresponding international organizations. Finally, if more help from, for example, the IMF and its SDR system can be provided, better efficiency can be expected if a more proper way of global governance can be designed accordingly (Jessop, 1997; Muldoon, Jr., 2004).

With respect to the consideration of sufficient conditions, on the account of goal, the EST global governance needs to be designed not only to provide an optimal solution in both political and economic senses, but also to serve as an automatic stabilizer to world economic development. On the job of mission, while the EST system is capable of providing absolute benefits for all participated countries, conflicts of distributing all generated benefits can be mush easily avoided or reduced accordingly. Furthermore, the unstructured complexity behind the political or economic concern of imposing any protection tariffs can now be transformed into the structured complexity within the task of how to affirm a protection tariff. Finally, about the part of morality, The EST global governance must acquire globally acceptable common value and belief as its foundation that, in turn, can effectively support its sustainable operation.

6. Conclusion

If accomplishment of the MDG proposed by the UN ought to be concerned, then it is seemingly becoming a mission of impossible. The reason, as been clearly explained by Bond (2006), is its progress thus far has been extremely slow. The way our global economy operates has never been friendly to all LDC (Mander, et al., 2003). For example, any protectionist tariff or non-tariff barrier can be equivalently deemed as a kind of penalty on economic development to those LDC (Das, 2006). The long record of international trade also reveals that the LDC can rarely receive fair not to mention favorable terms of trade from the DC, and this certainly will make the expectation of relying on trade to accelerate the economic develop in those LDC highly unrealistic. Theoretically speaking, trade can become an important part of development policy for the LDC. However, since the current global economic system has never been designed to be responsive to those LDC (Cavanagh and Mender, 2004), it is therefore necessary to build additionally new mechanisms that can further expand current benefits from trade and accelerate the pace of economic development in the LDC.

Specifically, this kind of mechanisms can create the possibilities to expand existing benefits from trade especially between LDC and DC, and must not become a burden for the latter. The EST system suggested from this study is exactly designed based on these considerations. Its primary function is to expand automatically trade benefits between LDC and DC, and upgrade the export contents in the LDC. In the meantime, it can also help economic development in the DC without changing forcefully their current trade conditions.
Failure to reconcile both domestic and international pressure upon the disputes of imposing protection tariff or non-tariff barrier is probably the major reason behind the disruption of international trade negotiations like the Doha Round. However, if the concern can be switched from reducing or removing existing protection tariffs to making affirmation of protection tariff, most disputes can probably have a better chance to be dissolved. Under the opinion taken from Rosenau (2002, p84), there are three factors important for a successful development of global governance: creditability, transparency and validity.

The EST global governance suggested from this study can obviously satisfy those three criteria with not too much doubt, and the key point is to link to market ingredients while dealing with the problem of global poverty. Furthermore, it can also be expanded to invite associations from related international organizations such as the International Bank for Reconstruction and Development (IBRD) without the necessity to impose any aid conditionality. Besides, after the mission is completed, it can still be transformed to deal with another highly homogeneous issue of subsidiaries. On one hand, more closeness will absolutely become the feature of our world culture in the future (Rosenau, 2002); on the other hand, more coordination and cooperation from international organizations are necessary to manage the even wider impact and influence caused by the trend of globalization (Woods, 2002). Based on certain common values and beliefs that are globally acceptable, the idea of EST system and related global governance suggested from this study is therefore designed based on both considerations just mentioned. While capable of being mutually beneficial to both DC and LDC, it can also achieve though indirectly a minor goal of fairer trade and stabilize automatically the world wealth, hence can serve as an effective tool to manage the trend of globalization. The current development of world political condition is already stiffened; applying existing mechanism and operating process to solve the problem of global poverty shall be a considerable idea with the least resistance to manage the trend of globalization.

Basically, corporations only need to fulfill a minimum requirement in ethics when pursuing the maximum welfare of their shareholders is a priority. Similarly, no single nation has any moral responsibility to take care of another nation. However, without any higher authority to be relied on, every world problem can only be solved by self effort from all human beings. It is therefore clear that only globally acceptable common value and belief can serve as the guiding lines for sustainable global governance. Under the view point from this study, as long as the consensus about how to solve the problem of global poverty can be determined, it is still optimistic to expect that the first MDG can be accomplished without too much delay.

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