

CHAPTER 1

Introduction

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Although the first signs of the current crisis appeared in mid-2007, it was not until September 2008 that the international community became fully aware of the scale and severity of the threat to the global economy. The dramatic bankruptcy of Lehman Brothers that month left the U.S. financial system on the brink of collapse, endangering international economic stability. The rapid reaction of authorities on both sides of the Atlantic saved the financial system from bankruptcy, but it could not prevent economies around the world from slumping simultaneously into a sharp recession that is still affecting growth and overall well-being. Although the crisis originated in the most developed and sophisticated market in the world—the U.S. financial market—the risks to the whole international system were very quickly perceived, including its effects on developing countries. The means through which the crisis spread were not the same in every case, but the recession has been felt to varying degrees across the entire planet and amounts to the first global crisis of the twenty-first century. The abrupt fall in production and trade, the increase in unemployment, the weakening of national financial systems, and record levels of fiscal imbalances, particularly in developed countries, are some of the most visible effects of the crisis.

To tackle this crisis, governments resorted to truly exceptional measures, first to sustain the financial system, then to stimulate demand to head off a new recession, and finally to rebalance budgets to fight the sovereign debt crises. Countries' individual solutions were supplemented by the use of international coordination in policy responses to the crisis, as well as in proposals to reform the financial system. The chosen framework for this was the G-20, which seems to have become, not without reservations, the preferred leading body for global economic governance. However, successive summits over the past three years (in Washington, D.C., London,

Pittsburgh, Toronto, and Seoul) show that reform initiatives have attained uneven progress. As the most pressing emergencies of the crisis have been overcome, reforms seem to have been diluted, both in the degree of consensus that leaders have displayed at summits and in the importance of the agreements reached.

The truth is that more than three years after the start of the crisis, and despite spending an extraordinary volume of public resources, normality does not seem to have returned. Some have expressed fear that the situation could even be worsening. In 2010, economic activity partially recovered in the industrialized world, many developed countries surpassed their pre-crisis levels, and international trade began to grow again, although without fully recovering lost ground. Nevertheless, symptoms of weakness in the financial systems of many countries remain. Additionally, some of the distortions that were at the root of the present crisis are still in place, such as the global imbalances referred to previously, as well as the absence of an international monetary system that encourages global stability and growth.

In any case, the problems caused by the crisis differ depending on the group of countries under consideration. In developed countries, the challenges have to do with achieving sustainable economic recovery (which is still fragile), with consolidating weakened financial systems (which were very badly hit by the crisis), and with heading off problems associated with high levels of public debt acquired during the last few years. It is not, however, an easy task to find the right balance between supporting economic recovery and correcting existing levels of unemployment, on the one hand, and the demands of fiscal consolidation and the correction of public debt levels, on the other. In terms of the countries most in need of international financing, such as some of the European periphery, that balance seems to have tipped in favor of the latter, leading to severe adjustment programs that are redefining the boundaries of the welfare state as such and fueling growing social discontent.

A second group of countries, which includes many so-called emerging markets, have been the least affected by the crisis, and these countries have returned to growth most quickly and vigorously. Their spectacular rates of GDP growth in 2010 set them apart from the more sluggish performance of the main industrialized economies and have transformed them into the principal focus of dynamism in the international economy. Some of them have benefited from the boom in commodity prices, maintaining

comfortable trade surpluses in several cases. For this group of countries, the problem now revolves around making growth compatible with stability, while avoiding the pro-cyclical effect of capital inflows and the induced appreciation of their currencies.

Lastly, there is a third group of developing countries that has suffered the consequences not only from the economic crisis but also from the rise in oil prices and raw materials, including food. This group includes some of the sub-Saharan African countries with the highest levels of poverty, the weakest social protection networks, and the highest dependency on international aid. In these cases, the crisis may be at the root of significant setbacks on the path toward the Millennium Development Goals. These problems have been exacerbated as a result of the expected freezing of international aid, due to the budgetary restrictions of the main donor countries.

Aside from its immediate effects, there is a consensus that the current economic turmoil represents a turning point for the international economy. An increasing number of people feel that the world that will emerge from the crisis will likely be different in many respects from the one we have known. First, the crisis has shown the need for wide-ranging reforms to reduce levels of systemic risks in the international financial system and to equip the world economy with governance mechanisms that are appropriate for today's conditions. These conditions are very different from those that existed when many of our current international institutions were created. Second, the crisis has shaken orthodox economic assumptions about the functioning of markets: in particular, confidence in the efficiency of financial markets has been seriously questioned. Third, the crisis has caused governments to intervene in the economy beyond the limits demanded by the orthodox canon. These factors substantiate the need for the revision of some of the economic assumptions that formed part of what John Kenneth Galbraith called "the conventional wisdom."

The crisis has also proved beyond a doubt the growing importance in the world economy of Asia, as well as new centers of international economic power that have resulted from the consolidated success of emerging economies, many of which have a clear international vocation (China, India, Brazil, etc.). This points to a move toward a multipolar economic system—one with a financial system that is subject to more stringent regulation and obliged to correct so-called global imbalances—in which the U.S. and E.U. economies' degree of dominance will continue to erode.

Furthermore, the crisis has forced a revision of the structure and mechanisms of the development aid system itself. First, historical experience reveals that, beyond rhetorical declarations, the elasticity of growth of international aid is low, even during economic booms. This brings us to the realization that the development aid system needs (1) to explore new sources of development funding and (2) that beyond aid, greater attention must be paid to sharing development opportunities associated with international regulatory frameworks in the fields of trade, investment, and finance.

Second, in a context of budgetary limits, such as the one created by the crisis, more attention needs to be paid to levels of aid effectiveness in order to maximize the impact of resources on recipient countries. The Paris Agenda and the Accra Agenda for Action define some relevant criteria in this area, but their degree of implementation has so far been limited. Beyond this agenda, other problems—such as aid dependence—should also be considered.

Third, in an increasingly global world, alongside traditional aid tasks related to the fight against poverty, other equally relevant tasks related to the adequate provision of international public goods—some of which are key to promoting development in the poorest countries—will need to be added. This obliges us not only to reconsider the agenda but also the resources and institutions involved. Of all such public goods, those related to preventing climate change are the most demanding.

Finally, the changes to the international system make it less and less appropriate to base the aid system on a neat division between recipients and donors, the latter represented by a select group of Organization for Economic Cooperation and Development (OECD) countries. An increasing number of developing countries, particularly middle-income countries, have joined in active aid policies by giving their resources and experience to other developing countries through South-South cooperation. The international aid system should respond to this more complex framework of relationships by translating it to governance mechanisms for development aid.

This book will analyze these factors, the effects of the crisis on developing countries, the responses of the international economic system, and changes to the aid system. The book collects the studies developed for an International Conference, held in Madrid on June 9 and 10, 2010, during the term of Spanish presidency of the European Union (E.U.). Supported by the Spanish Ministry of Foreign Affairs and Cooperation, this event

benefited from a broad lineup of specialists—researchers in the field of development and international aid, administrators of aid, and representatives of E.U. member governments and social groups—who came together to debate the international economic situation and the future of the international aid system. After some revision, the central presentations of this seminar have become the chapters of this book. Hereafter, we accompany our introductions of each of these chapters with thoughts on the implications that arise from analysis of their content.

THE CRISIS AND ITS EFFECTS

This book begins with a chapter by Ocampo, Griffith-Jones, Noman, Ortiz, Vallejo, and Tyson in which the authors analyze the crisis and its effects on the developing world. This crisis was a result of diverse factors that combined in an explosive mix. Causes of the present crisis include: global payments imbalances; excessive prolongation of a loose monetary policy by the U.S. Federal Reserve; authorities' excessive trust in the self-regulation of markets; limited use of public instruments to regulate and supervise the financial system; absence of adequate incentives for the managers of financial institutions; intensive search for growing leverage in the financial system to sustaining profitability; desire to stimulate the ability of certain poor sections of society to buy through credit; and the behavior of certain financial administrators, sometimes bordering on the criminal.

Aside from its roots, two traits stand out among those that define the present crisis compared with those that marked the crises of the previous two decades. The first is the global impact of the crisis, which has affected—although to varying degrees—the whole international system, with scarcely any economies remaining free from contagion. This has called into question hypotheses concerning the decoupling of certain emerging markets that emphasized the independence of their cyclical performance. The truth is that all economies, including those, such as China's, that recovered most quickly, were initially affected by the crisis. We are therefore dealing with a crisis that is clearly global, both in terms of size and impact—perhaps the first global crisis in history, considering that entire continents (Asia and Africa) remained unaffected by the 1929 crisis.

The second characteristic of the crisis was its epicenter, which for the first time was far from those economies—the emerging markets—that had featured so prominently in the previous episodes of financial instability.

On this occasion, the crisis originated in a segment of the financial sector in the United States, the most developed and sophisticated market in the world. For the first time, an episode of instability had nothing to do with the behavior of developing countries. In fact, it is due to the recovery capacity of a group of developing countries that the dynamism of the international economy did not fall further.

While its impact was global, the means through which the crisis spread differed, depending on context. In some countries, the financial arena was the most significant channel through which the effects of the crisis spread, with the initial drying up of credit giving way to a subsequent contraction in economic activity. In other countries, however—and this is the case for much of the developing world—the most significant channel through which the crisis spread were found in the real economy, through the effect that the severe fall in trade of goods and services, including tourism, had on their productive activity in 2009. Added to this factor, and depending on the country, there was a contraction in other sources of international financing, especially remittances from emigrants, who suffered the effects of increasing unemployment in industrialized countries, as well as other private financial flows.

Seen as a whole, three factors seem to have been decisive in exacerbating the effects of the crisis in individual countries: first, the degree of contagion of toxic assets acquired by national financial systems and the capacity of those systems to clean up the balance sheets of the affected institutions; second, the degree to which the economic dynamic prior to the crisis had been based on the real estate bubble as the main driver of growth; and third, the degree to which each country depended on international financing to correct previous imbalances. In countries such as Iceland—where all three factors combined—the situation was a perfect storm.

The relative absence of these three factors also explains why the crisis did not affect many developing countries in a severe way. Of course they all suffered from the fall in trade and the contraction of international financial flows, but these countries' financial systems had not been involved in the expansion of toxic assets; their economies had not been driven by the real estate bubble; and they were not generally dependent on international financing, as had previously been the case. The efforts made during prior years to stabilize these economies, to restore basic balance, and to regulate their financial systems, combined with a balance-of-payment surplus from exports due to high commodity prices, allowed some of these countries to

pay down their external current liabilities and reduce their international financing needs. All of these factors were key to providing these economies with greater room to maneuver.

In fact, many of the world's developing regions had positive growth rates in 2010—including, in some cases, rates that were frankly high. The rapid recovery of the Asian economies was particularly remarkable. This was so significant in some cases that the problem became focused on tackling the difficulties associated with the management of stability in a context of emerging inflationary pressures and currency appreciation trends, which could affect the sustainability of growth.

The recovery was also accompanied by rising oil and raw material prices, including food prices. This factor is affecting some poorly developed countries, mainly in Africa, that are net importers of food. The combination of the effects of the recession and the effects of the food crisis threatens to cause worrisome social setbacks in these countries, affecting their progress toward the Millennium Development Goals. This trend is all the more worrisome if we bear in mind the limited social protection networks in place and the high proportion of these populations living below the poverty line. This underlines the need for donors to maintain their commitments to international aid.

THE NEEDED SOLUTIONS

The third chapter, by Griffith-Jones and Ocampo, is devoted to the authors' evaluation of the response of the international community to the crisis, which has called into question some of the ideas upon which economic management has been based through previous decades. Specifically, the crisis confirmed that excessive trust that was afforded by economic authorities in major industrial countries in the efficiency of financial markets in terms of their ability to self-regulate and adequately measure risk. This excessive trust fueled the loose regulatory stance evident in some of the most affected markets. In contrast with that stance, the crisis has showed that stability must be maintained through adequate regulation and cautious supervision of such markets, where powerful externalities operate amid imperfect and asymmetric information.

Beyond calling into question economic beliefs, the crisis is proving to be an enormous challenge for national governments, as well as for coordinated international action among them. This challenge derives first from

the intensity of the crisis, which required exceptional measures both in the rescue and support of financial systems and in the need to stimulate demand. But the shifting nature of the crisis has posed challenges of its own, requiring changes in response as the crisis evolved. Born as a financial crisis, its problematic effects quickly reached the real economy, turning the situation toward a deep recession, with severe repercussions on economic activity, trade, and employment. Following the episodic appearance of some signs of possible recovery (the “green shoots”), the crisis next entered a new phase, resulting from the tensions that high public deficits provoked in financial markets and leading to the risk of a sovereign debt crisis that is currently affecting mainly European countries.

In any case, the crisis suggested the need to base regulation of the international financial system on new assumptions. In order to avoid new problems in the future, this regulatory response must be based on two central elements. First, regulation should be sufficiently comprehensive to avoid the persistence of grey or opaque areas beyond the oversight of authorities. This would reduce regulatory arbitrage and uncover risks that lead to irresponsible behavior. Second, the regulation should be countercyclical in nature, in order to allow regulatory frameworks to correct (or at least not to exacerbate) the pro-cyclical behavior of markets. This is especially important for developing countries that have less policy space to maintain a countercyclical domestic stance and that are therefore more vulnerable to international markets.

In addition to such regulation, it is necessary to revise the international financial structure to avoid the repetition of destructive episodes such as the current one. The crisis represents a window of opportunity for putting still-unresolved themes on the agenda, including (1) strengthening development financing, with an active role for multilateral financial institutions, and the use of new forms of international financing in the form of taxation (such as a tax on financial transactions); (2) establishment of fast and capable emergency financing, which can be used for countries with liquidity problems without imposing an excessive conditionality; (3) creation of an international monetary system that avoids the recessionary risks and instability generated by dollar dependency; (4) improvement in levels of international macroeconomic coordination through formal institutions that facilitate the early and concerted correction of imbalances; (5) adequate international debt resolution mechanisms that avoid opportunism and treat different sovereign debtors, as well as their creditors, equally; and (6) a deepening of reforms to the structures of governance of international

financial institutions to guarantee that their systems properly represent the structure of the current international economy.

What has been proposed so far at the G-20 summits falls far short of what has been suggested here. In fact, although we should not underestimate agreements thus far reached, there is some disappointment over reform efforts achieved by the G-20.

Apart from this verdict, from the analysis of the crisis and the financial structure in this chapter and in Chapter 2, we draw the following general conclusions that may inform economic policy in the immediate future:

- The need for countries—and particularly those that lack reserve currency—to be given enough room to design and implement counter-cyclical policies. Those countries with options (both monetary and fiscal) to implement this type of policy have better resisted the negative effects of the crisis.
- The importance of attaining a better balance between the contribution of domestic and foreign demand to growth. After the crisis, we will probably see a world in which aggressive trade surplus strategies are more difficult to sustain.
- The crucial need to develop financial systems that are solid and properly regulated.
- The importance, revealed by the crisis, of public-sector development banks, both internationally (Multilateral Development Banks) as well as nationally.
- The need for the international system to design an adequate financial safety net to both prevent and manage financial crises. In the absence of such mechanisms, countries will use suboptimal mechanisms to self-insure themselves through the accumulation of international reserves—at a cost to the countries affected and to the stability of the international system.

THE CRISIS AND INTERNATIONAL AID

In the fourth chapter, by Mold and Prizzon, the authors analyze the effect the crisis may have on development funding and on flows of international aid. Studying prior episodes of crisis has not enabled us to anticipate what the permanent effect of the current crisis will be on official development assistance. The results of previous crises have been varied, indicating that the effect on aid is highly dependent on the severity of a

given crisis and on the political will of governments and the priorities that they establish.

Examples of other periods of instability reveal that if a fall in resources occurs, it tends to happen some time after the start of the crisis (one year to two years later). This helps explain the relative stability of aid flows during the first phases of the current crisis and suggests that the effects of the recession on aid may yet be felt during later budgetary cycles. It is, therefore, essential to emphasize the need for countries to maintain their international aid commitments.

In periods of crisis, such as the current one, it is likely that budgetary restrictions will limit the resources made available for international aid, and the need becomes clearer for improvements in the quality and effectiveness of international aid. Here the dynamic opened by the Paris Agenda on aid effectiveness constitutes a good foundation for future work. Many of the principles agreed upon in that Agenda (and in the subsequent Accra Agenda for Action) were drawn from the conclusions of studies on aid effectiveness carried out in previous decades and from the assessments that donors and recipients have distilled regarding the best practices. That said, compared to those principles, the following two critical observations should be made:

- Follow-up studies reveal that progress by donors has been very slow and unsatisfactory. In some cases, interruptions in progress toward the proposed goals came as a result of not having foreseen the difficulties that these new forms of development aid management would involve or because of donors' perceptions of an exaggerated risk. As a consequence, much progress remains to be made in terms of higher predictability of aid, the reduction of conditionalities, the improvement of coordination between donors, and the better alignment of donors with partner countries and their administrative practices and public management.
- Some of the difficulties observed have resulted from an excessively bureaucratic (and rather naïve) interpretation of the relationships between donor and recipient countries. Particularly, it would be necessary a richer and more complex vision of the central principle of ownership and, therefore, the need for aid agenda focused on country-specific conditions and needs.

In relation to this last aspect, it is worth revising donor practices of conditionality. Aside from the rhetoric, analysis shows that there is still excessive conditionality attached to aid—sometimes formulated less explicitly than in the past, but producing equally bad results. In some cases, these

new conditions appear to be associated with the use of programmed aid and the forms of financing—budgetary support—that accompany such aid.

In the fifth chapter, by Alonso, Garcimartín, and Martín, the authors analyze the insufficient progress that has been made in aid effectiveness. Apart from other critical considerations, it seems that the Paris Agenda does not take into account the true extent of the problem that aid dependency generates in recipient countries. The studies reveal that aid dependency is a serious problem that reduces the capacity for resources to have an impact, and also reduces the development possibilities of the affected countries. Moreover, this is a problem that could become worse in the future, as aid tends increasingly to be focused around a reduced number of low-income countries. The means by which the negative effect of aid dependency manifests itself are diverse, negatively affecting the conditions for competitiveness in the economy of the recipient country, along with its capacity to efficiently absorb the resources received and the quality and capacity for accountability of its institutions.

Chapter 5 offers an estimate on this last aspect that is revealing. Since it is known the effect of institutional quality on growth, the authors seek to determine whether aid affects the institutional quality of the recipient countries. Previous investigations pointed to an effect that was mostly negative, but here a positive relationship is detected, although subject to diminishing returns. While aid does improve the institutional quality of the recipient countries, beyond a determined threshold that effect becomes negative, a result that points to the problem of aid dependency previously highlighted.

The authors also explore whether aid reduces the incentives to consolidate a solid fiscal system in recipient countries. The previous literature on this aspect was rather ambiguous, but in this case, the result confirms that aid has a positive effect—however weak—on the fiscal effort of the countries that receive it, even if that effect is conditioned by the institutional quality of the recipients. In a context of low institutional quality, the effect of the aid can be zero or even negative.

Both results corroborate the damaging effect that high levels of dependence on development aid can have. However, correcting this problem does not necessarily mean reducing aid: doing so would only exacerbate the difficulties of some of the countries most affected by the crisis. Instead, more caution must be taken in certain cases with plans to expand aid, establishing processes to gradually change the amount of aid where the problem is worst, and to pay greater attention to more actively mobilizing the resources of the developing countries themselves, both by strengthening their

fiscal systems and by combating phenomena such as tax evasion, capital flight, and illicit financial flows. At the same time, more work should be done on the financing of international public goods, including global regulatory frameworks that condition the distribution of development opportunities internationally. An adequate provision of such goods could conceivably produce better results than aid itself, without affecting previous levels of aid dependency.

In relation to the mobilization of local resources in developing countries, it seems necessary that donors and recipients pay greater attention to strengthening their fiscal systems as a basic component of a development strategy based on national foundations. Studies of fiscal systems reveal that although reforms have been made during the past two decades, much can still be done to improve the effectiveness, efficiency, and fairness of existing systems. To achieve this, progress must be made in various fields related to the design of taxation structures, the efficiency of tax administration, the prosecution of fraud, and the creation of a civic culture upon which tax collection can be based. These are all areas where donors can adopt more active policies to support and assist developing countries.

In international terms, donors can further play an important role in tax cooperation matters, contributing to the fight against fraud by preventing tax evasion and by controlling other illicit financial flows that drain resources from developing countries. Such cooperative action would not only help establish better governance of the international financial system, it would also give developing countries greater opportunities to finance their own development processes.

CHANGES IN THE INTERNATIONAL AID SYSTEM

In the past few years, the international development aid system has seen the arrival of new aid modalities and instruments that have led to the presence of new participants, including some from the private sector (firms, individuals, and foundations). This series of changes is addressed in the sixth chapter by Sagasti and Prada. The authors analyze the financial needs of developing countries, including the capacities of each to mobilize local resources and to access international financing. They offer criteria to adequately classify countries in terms of those two vectors, helping to appropriately adapt development aid solutions for each case.

In terms of international financing, it should be recognized that the range of types of financing has also increased in recent years, with

the current focus on strategies employing public-private association, both national and international, along with numerous initiatives in the sphere of corporate social responsibility that have further bearing on the field of international development aid. In any case, this is a trend that needs to be promoted because it increases available resources, encourages innovative initiatives, as well as enlarges social support to development aid policy.

Apart from those elements, it is necessary to bear in mind the important changes taking place in the world economy that affect the configuration of the international aid system in a significant way. One of the most relevant of these changes is the increasing diversity of the developing world. It is increasingly difficult to remedy the situations of developing countries with a single diagnosis or therapy. When analyzed with perspective, a double divergence between countries can be observed (1) in the tendency toward a widening gap between the richest and poorest countries of the world and (2) divergence among developing countries themselves.

This fact poses an initial challenge to the field and agenda of development aid. Two very different responses are possible: either aid is increasingly transformed into an instrument specialized for the fight against extreme poverty, with activity increasingly focused on countries with the most extreme deficiencies, or, alternatively, the aid system becomes integrated to support the development efforts of all countries, regardless of their income level, until achievements become irreversible. Although there are arguments to justify the first option—reasons of prioritizing and limiting available resources—only the second option would allow the creation of a development system with defined incentives that are compatible with global development. It should not be forgotten that, currently, about 70 percent of the world's poorest populations live in middle-income countries. Thus, progress in tackling international poverty would seem inconceivable without a clear development policy for this group of countries. This implies a wider vision for development aid policy, which involves varied instruments and differentiated agendas according to the development needs of each group of countries, including lower-middle-income countries.

Another change associated with growing diversity in the developing world is the progressive emergence of a number of countries as globally important economic and political centers. Many of these countries have initiated an active international development policy; some specialize in aid to neighboring regions, while others take a more global vision. The result of

these efforts is the increasingly vigorous South-South cooperation, which looks set to become ever more important within the international development aid system. Sagasti and Prada also analyze in their chapter this mode of development aid.

Promoting South-South cooperation has three benefits: (1) it increases the resources available to correct international inequalities; (2) it favors double-dividend practices in which both participants in the relationship—both developing countries—gain from the development aid; and (3) it allows for governance of the international system to be based on a principle of shared responsibility, meaning that all countries contribute—to the extent that they can—to a fairer and richer international order. For these reasons, South-South cooperation is a promising dynamic that should be supported by donors through help to regional cooperation initiatives among developing countries or through the implementation of triangular cooperation mechanisms.

Some changes to the development agenda and its participants pose a challenge for the governance of the development system. This issue is discussed in the seventh chapter by Barder, Gavás, Maxwell, and Johnson. The authors set out to define some general criteria for proper international governance. Applying those criteria to the current institutions of the aid system, they find notable weaknesses and shortcomings: none of the existing institutions fulfills all the identified criteria to a satisfactory degree. This points to the need to reform governance of the aid system.

Such reform should first consider the emergence of new donors that have not been incorporated into the definition of the international consensus on development aid policy and are not members of those organizations—such as the OECD's Development Assistance Committee—where the said consensus are formed. Again, there are two possible options for donors: they can either hold their previous commitments and institutions intact, inviting new donors to join those organizations, or they can rethink development policy to meet a broader framework, including the efforts, resources, and visions of those new donors. Although there are reasons to adopt the first option, only the second is capable of turning the development system into a global system—and not just the policy of a few donors—thereby favoring a sense of ownership of the system by all developing countries. One way to achieve this last objective would be to actively use the Development Cooperation Forum of the United Nations Economic and Social Council—

which was created in 2007 and which calls together old and new donors as well as aid-receiving countries—and to develop new mechanisms for non-governmental agents to participate.

At the same time, it is necessary to revise the governance of the system in order to avoid costs deriving from a proliferation of participants in a context of poor international coordination. The truth is that this problem has increased in recent years, with the incorporation of new players (mainly private participants) into the aid system and the multiplication of institutional mechanisms (through so-called global partnership funds), but without many improvements in coordination. This has led to inefficiencies and transaction costs in the system that should be corrected.

FINAL CONSIDERATION

This overview is not an exhaustive restatement of the themes tackled in the various chapters. Rather, it presents elements of analysis that readers will find in each of them, as well as proposals for reform, to address the crisis and to strengthen development cooperation policy. At this moment of change in the economy and in international relations, such a space for reflection and analysis is welcome in order to develop proposals to assist in redesigning the world that will emerge from the current crisis.

The succession of phases of instability over these last two decades highlights the need to correct two imbalances on which the globalization process, now under way, has been founded. First is the imbalance between the existence of high levels of sophistication and interdependence of markets and the limited ability of the international system to generate coordination mechanisms capable of governing those interdependencies. Second is the imbalance between the distribution of the benefits of globalization and the assumption of responsibilities in relation to its costs. The first imbalance shows that globalization has been accompanied by a process of increased risk, both as a result of an increased probability of episodes of crisis and the widespread impacts that such crises can have, due to the heightened likelihood of contagion. The second imbalance means that parts of the world's population feel excluded from the benefits of globalization, and that the current institutions and coordinating organizations are seen as lacking legitimacy—a perception that affects the governance of the international system.

Overcoming these problems requires more international cooperation, on the one hand, and greater development opportunities for low-income countries, on the other. The concern that inspires this book is based on these two pillars: the need to strengthen the international development system, and to allow developing countries to make fuller and more efficient use of their possibilities for progress.