

Spring 2008

MIT International Review



A Regulatory Framework for the Hawala System

COVER STORY BY BENEDETTA BERTI ■ PAGE 14

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THE VISION

The *MIT International Review* aspires to support solution-oriented discourse on challenges facing our global community.

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FROM THE EDITORS

Many exciting developments have transpired since we released our inaugural issue in Spring 2007. We have secured full-group recognition from the Association of Student Activities, recruited several new editors, and raised our profile to coincide with the launch of MIT's \$500 million campaign for students. Most recently, President Hockfield tapped our journal to initiate a campus dialogue on this year's Davos Question: "What one thing do you think that countries, companies or individuals must do to make the world a better place in 2008?"

We are also delighted to announce that the Baruch Fund has awarded *MITIR* a generous grant. In addition to being prominent alumni, Jordan Baruch '47 and Rhoda Baruch '48 have donated generously to many philanthropic causes over the years. In conferring their imprimatur on our journal, the Baruchs have at once honored us and charged us with expanding our profile and impact. Two other friends of the Institute, Robert Buxbaum and Ann Buxbaum, have agreed to commit a fixed sum of funding to the journal every year henceforth. They have been a source of great support and guidance, and we look forward to strengthening our relationship with them in the years to come. The next step for us is to become endowed so that we may be self-sustaining.

As we embark on our first full-scale fundraising campaign, we offer you another selection of engaging and innovative essays, addressing such topics as the hawala system of finance in the Islamic world and the potential of needle-free injectors to improve health outcomes in the developing world. The diversity of featured subjects parallels the diversity of our authors: It gives us great pride to feature an undergraduate student, a doctoral candidate, and a tenured professor in the same issue.

We will continue to think of ways to showcase a wider variety of voices in these pages. Our ultimate goal, however, is to serve you, the reader. What are we doing well? How can we improve? Please direct any comments that you might have to mitir-editors@mit.edu. We look forward to hearing from you.

Sincerely,
Ali S. Wyne

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Needle-Free Injectors as a Sustainable Alternative to Syringes

BY MELIS N. ANAHTAR



Melis N. Anahtar '08, a 2007 Rhodes Scholar, will graduate MIT with a S.B. in Mechanical Engineering. She may be contacted at mna@mit.edu.

- Responsible for almost 1.3 million deaths worldwide per year, unclean medical syringes have confounded global efforts to fight infectious diseases.
- As a practical alternative to invasive syringes, needle-free injectors can arrest the growing death toll and reduce significant medical waste.

Responsible for the eradication of smallpox, the virtual elimination of polio, and the dramatic drop in measles mortality rates, vaccines have made a remarkable contribution to global public health. In low-income countries, however, where low sanitation is the norm, they have also been a major cause of death: The frequent unhygienic use of medical needles has led to the widespread transmission of infectious diseases. While vaccinations save two million lives per year, the unclean syringe is responsible for 30% of Hepatitis B and C infections, and 1.3 million deaths worldwide per year.

Given the impressive efficacy of vaccination, it comes as no surprise that injectable medication is in high demand in developing countries. Unfortunately, however, the very countries in which injections are most necessary suffer from weak healthcare infrastructures. Such socioeconomic conditions hinder safe use, and, for a variety of reasons, needles are often reused without being sterilized. Injection equipment is often scarce, medical personnel are neglectful or insufficiently aware of the risks, and disorganized waste management prevents proper needle disposal.

The full effects of needle reuse are usually difficult to identify given the lack of patient surveillance and the long latent periods of target diseases. There are, however, notable exceptions. In the 1980s, hundreds of thousands of Egyptians received a series of 12-16 injections to treat a debilitating water-borne disease called schistosomiasis. The treatments were delivered with needles that contained the Hepatitis C virus (HCV); with no

cure, HCV is a leading cause of chronic liver disease. Egypt now has the highest prevalence of the disease in the world. A 2007 Egyptian government-commissioned study revealed an estimated infection rate of 10-15% in the population. Until the void in public awareness and education is addressed, governments will be unable to improve sterility standards, and such lapses in judgment will persist. To be clear, poor vaccination protocols are not unique to Egypt, as can be seen in viral outbreaks in India, Pakistan, Tanzania, Sudan, Libya, Taiwan, Romania, and Moldova.

While proper disposal can eliminate the possibility of needle reuse, the destruction of medical sharps in the developing world is a highly expensive and dangerous process. To be disposed of properly, syringes must be placed in puncture-resistant, leak-proof boxes for burial in a protected pit, collection for off-site treatment, autoclaving, and/or incineration. An environmental official usually provides oversight to ensure that the syringes are never resold on illegal markets. With weak healthcare infrastructures, developing countries are understandably challenged in undertaking these efforts.

The sterilizable syringe is a cheaper and more environmentally-friendly alternative to the hypodermic needle. Re-usable up to 50 times, these syringes must be sterilized in steam after each injection at a temperature of 121°C for 20 minutes. However, healthcare workers must have access to sterilization equipment and proper training since inadequate sterilization can result in the transmission of disease. On one hand, sterilizable syringes are less expensive and generate a fraction of the waste that is associated with disposable syringes. However, improper sterilization poses a huge public health threat and fails to offer enough of a marginal improvement over current hypodermic needles.

An Army Medical Specialist administers a shot to an Iraqi girl during an immunization program held in downtown Kirkuk, Iraq, in 2003.

PHOTO BY SSGT LEE A. OSBERRY JR., USAF
RELEASED TO PUBLIC

THE TEMPORARY SOLUTION: AUTO-DISABLE SYRINGES

Rogue needle use is to be expected. Syringes are difficult to dispose of, and their very design makes them amenable to reuse. In 1990, leading world health organizations proposed a temporary solution by devising the auto-disable (AD) syringe, which would be unusable after a complete dose of vaccine was administered. The AD syringe eliminates the black market that is associated with disposable syringes, a box of which can be sold for \$30 on the streets of England. Though AD syringes may have prevented the transmission of Hepatitis C in Egypt, critics claim that they are unsustainable for a variety of reasons: excessive prices relative to those of standard syringes, the lack of needle protection, and the same array of waste disposal problems that was noted earlier. Moreover, officials fear a shortage at critical times if their supplies are never to be sterilized or reused.

THE SUSTAINABLE SOLUTION

The injection devices that are currently in use in low-income countries are clearly far from perfect; the World Health Organization (WHO) reports that 30% of administered injections are unsafe. Safer and sustainable needle-free injectors offer a promising alternative to sterilizable and disposable syringes.

Needle-free injectors (NFIs) perform the same task as syringes without the use of a needle. Instead, an NFI drives liquid through a nozzle orifice (76-360 micrometers in diameter), creating a high-velocity liquid jet that punctures the skin and delivers the drug below the skin to fat or muscle. Designed in the 1940s and since developed in a variety of forms, NFIs have been employed in a number of cases: mass immunization, insulin delivery, anesthetics, and growth hormones; and the prevention of cholera, measles, hepatitis B, and polio.

NFIs offer a significant improvement over conventional syringes. Since the device lacks a needle, disposal is safe, and all of the difficulties that are associated with needle sterilization are avoided. There is no risk of needle sharing, no risk of accidental needle-sticks, and no need for a sharps container. Furthermore, some NFIs have the potential to enhance the effects of vaccination

by delivering drugs to the outermost layer of the skin, where an individual's immune response first takes effect. By lowering the required dosage for vaccination, consistent delivery to this anatomical area saves money and materials in the long run.

IMPLEMENTATION

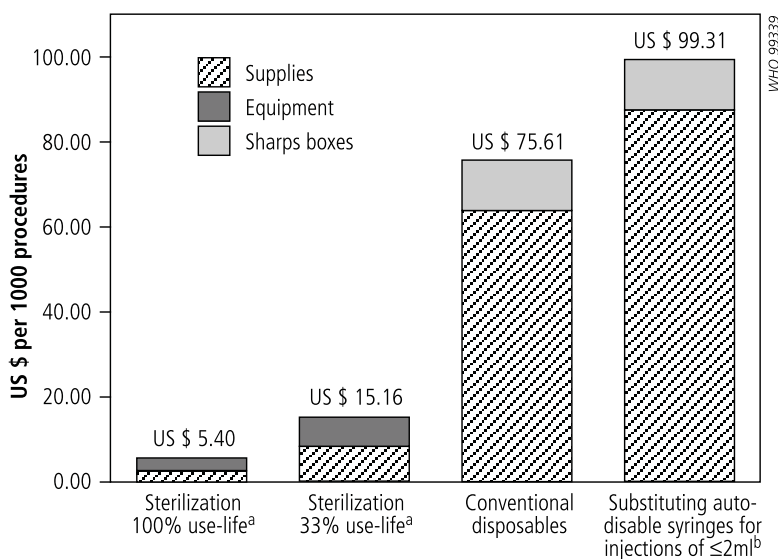
NFIs must meet a series of design requirements to be used for safe immunization in low-income countries:

Portability: As all jet injectors require a power source, the constraints of rural environments must be taken into consideration. The three most common sources of energy include compressed springs, compressed gas, and electricity. The Injex 30 by Equidyne is an example of a spring-powered device that is practical for low-income villages. The size of a pen, it uses disposable ampules and is prepared for injection by using a plastic “reset box” that is the size of a stapler. The Biojector® 2000, on the other hand, is powered by carbon dioxide, and has been used millions of times since its introduction in 1993. Finally, MIT's BioInstrumentation Laboratory has designed an NFI that runs on electric power, using a magnetic switch to deliver injections. For rural settings that may lack electricity and access to compressed gas, the NFIs that rely on compressed springs for power constitute the most inexpensive and sustainable alternative.

Facility: Most jet injectors use an ampule that is similar to a syringe's plastic or glass body. If the injector is not pre-filled with the drug, health administrators should be able to fill the ampule easily from a medication vial without using a needle—the vial adapter on the Injex 30 provides a good example. The device must also be user-friendly, control of injection volumes facile, and set-up and clean-up time minimal. Currently however, most available NFIs are difficult to refill. The Medi-Jector VISION, whose display window is very small and hard to see, has to be primed before injections, a task that can be confusing and tedious. NFIs may be easily disposed of, as ampules can be collected under less stringent conditions for later recycling. However, more time and resources must be dedicated to improving usability.

Affordability: With Sub-Saharan Africa's gross

FIGURE 1. Cost of supplies and equipment per 1000 procedures.



^a Percentage of the equipment's useful life measured by number of times it can be used: 100% of useful life is 50 sterilization cycles for needles and 200 for sterilizable syringes.

^b Auto-disable syringe costs have been used for 0.5-ml, 1-ml and 2-ml workloads. For 2-ml syringes only, the price from UNICEF Warehouse Catalogue, July 1998, has been used instead of the price in the 1998 WHO product information sheet.

Figure reproduced from A. Battersby, R. Feilden, and C. Nelson. 1999. "Sterilizable Syringes: Excessive Risk or Cost-effective Option?", *Bulletin of the World Health Organization*, 77:10 (1999): p. 816.

national income per capita at \$700-800 in 2005, the cost of NFIs is a clear consideration. The use of sterilizable needles is by far the cheapest injection option, at \$5-15 for 1,000 injections (Figure 1). Conventional disposable needles cost about \$75, while AD syringes cost a little less than \$100. It should be noted that these costs do not include those of disposing and destroying syringes, which can add up to initial purchase costs. While they last for several years, NFIs require a very high initial investment and are likely to be too expensive: Starter kits cost between \$165 for the AdvantaJet, \$260 for the Injex 30, and \$300 for the Medi-Jector. For 100 injections, disposable ampules cost about \$50 for the Injex 30 and about \$30 for the Medi-Jector. These prices are sure to decrease with widespread use and international agency support. As was seen with the advent of the transistor, however, price reductions are unlikely to occur until further technological innovation and economies of scale are achieved. Incentives for such innovation are not yet clear.

Consistent Injection Volume: To penetrate the skin and achieve a complete injection using an NFI,

the liquid jet of medicine must reach a critical velocity, usually around 100 meters per second. The critical velocity for penetration depends on the stiffness and thickness of the skin, as well as the site of injection. Once the skin is punctured, continued jet pressure increases the depth of the injection. If the delivered volume exceeds the size of the skin puncture, some of the medicine may splash, resulting in an incomplete or failed injection. Splashing is a major concern in vaccine administration. In the 1980s, small amounts of blood on the tip of a multi-use-nozzle jet injector (MUNJI) were implicated in the transmission of Hepatitis B. Newer multiuse injectors like the Medi-E-Jet, on the other hand, have been shown not to cause cross-contamination in chimpanzees.

High Throughput: Once the cross-contamination risks that are associated with splashing are resolved, MUNJIs present distinct advantages for immunization because they reduce medical waste, costs, and administrative time. Disposable-cartridge jet injectors like the Injex 30, which are better for curative injections, eliminate contamination risks but sometimes require energy-intensive loading and preparation. It would be easier if the injection could be preset and displayed prominently on the NFI, with refilling activated by the flick of a switch. Several models that have been devised at academic research centers like the MIT BioInstrumentation Lab provide this capability.

The ideal jet injector is months, not decades, away. With the support of such authorities as the WHO, which have championed the cause of safe immunization and can spread awareness about the issues that it entails, safe injectors can be distributed worldwide within the foreseeable future. If such influential groups could provide incentives for manufacturers to invest in research and development for NFIs, the cost of producing such injectors could significantly decrease, making them a feasible option for the countries that need them most. The lives of untold millions are at stake. [IR](#)

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- India's growth depends on its ability to revamp its poor education sector, which suffers from problems of outreach and quality.
- Improvements in India's education sector will require sustainable investments in a vast network of private schools and a standardized quality of education at an affordable price for the low-income, mass-market customer.
- Investments in the form of financial resources, organizational support, and value-added services can help these schools become efficient and effective educational institutions.

Our first visit to a government school in India, in the southeastern metropolis of Hyderabad—the building was freshly painted. At 1:00 pm, it was already deserted.

Classes were either empty or had a few girls. The boys were wandering outside. They had had their fill of the free mid-day meal and did not see a reason why they should sit around in classrooms waiting for their teachers to show up. The only teachers who seemed to be teaching were the “Vidya volunteers” (para teachers) who earn the equivalent of \$25 a month and are only temporarily employed. The government instructors earning salaries of \$300 were either absent or had left early to teach private lessons, albeit illegally. And yet, thanks to a powerful teachers’ union, no instructor would ever have to worry about losing his or her job. Of the 18 toilets in the school, 17 were locked, and the only open toilet was filthy. The school had an air-conditioned computer room with several brand new machines and a state-of-the-art projector, barely used—yet there was no computer teacher. The school building had a shiny new gate that kept the children locked until 12:30 pm, at which point the free mid-day meal was served. Asked why classes were empty, the principal quipped, “The school needs a compound wall to prevent the children from escaping!” In a subsequent visit to the principal’s office, we noticed a graph on the wall announcing the fact that 83% of his students had failed the Class X state board exam required to gain admission into college.

Compare this school with one in which students are provided a standardized quality of education at an

affordable price of \$3 per month. Teachers are punctual and held accountable for their performance. Effective teaching methodologies help bring back the joy of learning. Enrollment figures are high and absence rates are negligible. Scholarships are available for poor, but deserving students. The education is relevant; skills required for success in higher education and competition in the booming Indian economy form an integral part of the curriculum. Microfinanciers and educational ventures make sustainable investments in a collection of educational institutions. Private entrepreneurs monitor conditions intently, incentivized to deliver high-quality education in return for attractive financial and social dividends.

Utopian though this vision may be, Indian entrepreneurs can collaborate with social investors to build networks of private schools that will deliver a high standardized quality of education to students from low-income families.

THE CONTEXT

According to a Goldman Sachs report *Dreaming with BRICs* (Brazil, Russia, India, and China), India could be one of the world’s most dominant economies by 2050. The soaring Indian stock market has demonstrated an extraordinary level of confidence in the country’s potential. India’s population of 1.1 billion—having often been considered a liability—is now being redefined as its “demographic dividend.” Behind the gloss of the predictions is an open caveat: Much of India’s growth depends on its ability to bring substantial improvement to its dismal education sector.

GOVERNMENT SCHOOLS—FREE BUT INEFFICIENT

India's educational system suffers from the basic problems of "outreach" and "quality." Millions of children are out of school, and learning outcomes are alarmingly poor. 75% of all children attend government schools. Unfortunately, however, these schools are failing millions of children. According to the World Bank, a quarter of government school teachers are absent on any given day, with no more than half of those present actually teaching; India has the second-highest rate of teacher absenteeism in the world. High levels of teacher absence and turnover have crippled the educational system. According to a study by the MIT Poverty Action Lab, in the Indian financial capital of Mumbai, 25% of all students in Classes III and IV are illiterate, and 35% of students cannot identify basic numbers.

PRIVATE SCHOOLS—A BETTER ALTERNATIVE?

Frustrated by the inefficiencies of government schools, millions of poor parents are voting with their feet by pulling their children out of the free, yet abysmal, public system. They are increasingly sending them to private schools run by young edupreneurs who charge a nominal monthly fee. According to a study by Rukmini Banerji, head of a non-profit educational organization in India called Pratham, only 17% of Mumbai's children of proper age attend primary schools. According to James Tooley and Pauline Dixon, two experts on private education in developing countries, Hyderabad hosts an equivalent number of students in private schools and government schools. Private schools in the Indian context are a far cry from Western private schools that cater to the wealthy—in India, they serve children from all socioeconomic segments.

In recent years, thousands of schools run by enterprising edupreneurs have taken root in urban slums, small towns, factory settlements, and the by-lanes of suburbs that are inhabited by low- and middle-income Indians. Parents believe in the transformative power of education for their children and are willing to pay a price. While government schools usually teach in

local regional languages, most private schools promise an "English" education and guarantee satisfaction. However, these promises often remain unfulfilled. A large fraction of these schools remain unrecognized by educational authorities—although they can enroll and educate students, graduates must pay an additional fee for a seat at government exams. Moreover, most unrecognized schools lack adequate infrastructure and suffer from high rates of teacher turnover. Teachers at these schools are often untrained and unqualified to teach. Parents of enrolled children are usually illiterate and belong to poor communities. Unable to distinguish between good and bad schools, or afraid to hold school owners accountable for their mistakes, these parents remain wishful for an alternative.

EDUPRENEURS—THE NEW-AGE EDUCATION ENTREPRENEURS

Nevertheless, several private schools have demonstrated remarkable results. Run by young, enterprising, innovative community members, these institutions are committed to delivering quality education despite a myriad of challenges. Edupreneurs have attempted to fill the void in areas where government schools are either missing or ineffective. They have successfully convinced local parents that their children will receive personalized attention and a competitive education. The edupreneurs have kept their promises by attracting talented teachers from within the community, implementing effective teaching methodologies, and extending school hours to ensure that children are able to study without the pressures of child labor and unsupportive family environments. By offering scholarships to deserving students (particularly girls and orphans), these school founders have mobilized community members to support educational causes.

During our visit to Hyderabad, we met an edupreneur named Anwar. Having founded a school in a local slum a few years ago, he now runs four schools. He is currently constructing a junior college for girls and is seeking a loan to start another college. At the entrance to Anwar's school is a huge banner with pictures of students who have received merit ranks—a brilliant



strategy that recognizes the success of his students and advertises the school to parents who are choosing between 15 other neighborhood private schools. Anwar stands in front of the banner each morning for two hours, talking to parents concerned about their children's progress. He addresses inquiries on subjects ranging from school fees to complaints about the neighborhood bully. He is extremely responsive to parents' needs—the students' report cards have graphs depicting their performance and pictorial depictions that help illiterate parents monitor their children's progress. To address the concerns of teacher absenteeism, Anwar is now installing closed-circuit cameras in all of his classrooms.

His students have made him proud. Classes are packed with neatly dressed, disciplined, eager students who want to become doctors, engineers, teachers, and academics. These are children of mechanics, day laborers, farmers, and truck drivers. Parents pay all but two to five dollars per month.

Despite these successes, the efforts of edupreneurs like Anwar are fragmented. They find themselves in a

constant struggle with public bureaucrats to obtain legal recognition as they compete with highly subsidized government services. With no collateral to offer banks, cash and resources are scarce; microfinance institutions are reluctant to offer the amount of capital that they need. Moreover, a significant fraction of participating parents are poor—making fee defaults quite common. Edupreneurs are thus forced to rely on lenders for the payment of day-to-day expenses and instructor salaries. These institutions are difficult to sustain.

McEDUCATION—A FRANCHISE NETWORK OF SCHOOLS

What, then, is the alternative? A rapidly growing economy like that of India demands an adequate supply of accountable and quality education. Experiences among independent private school leaders in the recent past demonstrate the need for a consolidated network of schools that is designed to deliver a high standard of education under a unified framework. A branded network of private schools that is intended for low-income communities can offer children a standardized curricu-



lum at an affordable cost and significantly bolster the efforts of edupreneurs vis-à-vis public authorities and lenders. An enterprise of this sort can fill the void in India's educational system. To succeed, however, it must adopt a versatile and efficient strategy, meet the needs of local communities, parents, and children, and empower school founders to build effective and sustainable institutions. It should have the following characteristics:

Private Schools Owned and Operated by the Poor:

The delivery of sustainable and profitable local education services will depend on the empowerment of community members who wish to open and run private schools. The power of grassroots entrepreneurship is on ample display among the thousands of existing private school owners like Anwar. If these edupreneurs are provided with necessary resources and support structures, they will continue to thrive and revolutionize the educational system. Kenya's Sustainable Health Foundation has attempted to develop a similar model in the country's healthcare sector, where nurses and other healthcare workers have opened a series of franchise pharmacies that aim to provide safe and affordable drugs to low-income communities.

Local Entity, National Identity: Although they will be integrated under a common brand, portfolio schools will have to be adapted to meet lo-

cal requirements. Parents are known for peculiar needs throughout various sections of the country. A catered local approach will ensure that all stakeholders are satisfied.

Industrial Strength Standardization: Starting a school in India is an arduous task. The school owner must spend several years addressing government mandates, then struggle to find teachers, procure materials, and build a sustainable institution. Resources from a consolidated private school network can dramatically expedite the start-up process; consider for instance, a sort of plug-and-play model that comes with all of the materials that are required to start and run a school—for example, government paperwork, training material for teachers, standardized curricula, and more.

Best-of-Breed: Rather than reinvent the wheel, the network should assemble the best elements of proven educational and operational models.

Economies of Scale: The network can leverage its size to secure bargain prices on all resources.

A consolidated network of private schools can offer a number of advantages to its stakeholders:

Parents:

- Low-income parents in India have demonstrated a strong willingness to pay higher fees for sound

educational opportunities. School branding can help parents make informed decisions as they distinguish between schools of various quality.

- As part of a larger network, constituent schools will be held accountable for performance and transparency, updating parents continuously about their children and their studies.

School Owners:

- A branding system will allow school founders the opportunity to distinguish themselves from mediocre schools and establish a set of performance benchmarks.
- Constituent schools can earn the option to increase their enrollment fees with significant improvements in their performance.
- Schools will have access to funding at reasonable terms.
- Access to value-added educational services such as teacher training, educational software, product collaborations with local brands, and standardized tests will ensure that all students are measured on the same scale and receive a uniform education.
- With the provision of management and operational support to schools, the network can employ best practices and innovative teaching methodologies to maximize efficiency and impact.

Creating a sustainable model for the enterprise will depend on a sound investment policy, a reliable strategy for edupreneur recruitment, and other long-term strategies:

Legal Approvals: Regulatory requirements vary across states and often constitute a primary source of concern for edupreneurs. To obtain legal approval for their activities, most are often forced to pay bribes. In light of these challenges, the private school network must be prepared for the demands of an intransigent and unpredictable governmental system. A strong set of regulatory compliance processes must be in order for all schools.

Reliable Process for Selecting Edupreneurs: Individual edupreneurs will form the backbone of the school network. While consistent performance metrics are vital, network managers must identify edupreneurs who are both proficient in their work and capable of driving change under adverse circumstances. Commitment to education, acumen in business, creativity, ingenuity, and honesty constitute the most valuable skill set.

Investment Strategy: Making judicious investments is a balancing act. The network will need to establish a rigorous investment process that takes into account the disparate financial needs of various schools. Partnerships with banks and other financial institutions will be critical to ensuring the right mix of loans, guarantees, and equity financing.


Scalable Investment Model: The network must create a sustainable, scalable, and portable investment model. A good model for investing in private schools will encompass a variety of elements, including franchisee fees, default strategies, and revenue collection cycles.

Communications Strategy: Given mainstream perceptions in India that education is a public good that should be free of cost, the network must devise a well-equipped communications campaign. To manage the challenges of edupreneurs as they struggle to ensure order in their schools, the franchise must put support services and public relations resources at their disposal. With an effective communication mechanism, school founders can keep parents well-informed about school performance.

Accountable Governance Structure: As a consolidated organization, the network can help to hold constituent schools accountable with metrics for impact, financial returns, and reach. Developing a governance structure will require the combination of formal compliance processes that are common among investment funds and informal checks and balances that are common to grassroots organizations.

Strategy for Fostering Innovation: The network will need to encourage innovation in teaching methodologies, learning techniques, and school governance among its edupreneurs to ensure that the curricula have a marked effect on student trajectories.

Equity for Edupreneurs: To align the incentives of all stakeholders, edupreneurs must be made equity holders in the enterprise.

Education is the widely acknowledged first step to development. Private schools offer an alternate system of education that can empower the poor through greater choice and access. The challenge is to innovate and reestablish a sense of confidence in the quality of education as a public good. A consolidated franchise of private schools can provide a powerful catalyst. 



COVER STORY

The Economics of Counterterrorism: Devising a Normative Regulatory Framework for the Hawala System

BY BENEDETTA BERTI



Benedetta Berti is a Ph.D. Candidate in International Relations at the Fletcher School of Law and Diplomacy. She may be contacted at benedetta.berti_alberti@tufts.edu.

- Grounded in core Islamic values and compliant with Islamic law, the *hawala* system provides a structure for remittance transfer across the worldwide Muslim community. Due to its facility and efficiency, it has remained in wide use among expatriates from this community.
- In the recent past, the hawala system has provided an effective vehicle for money laundering and terrorism financing, frustrating the efforts of law enforcement agencies.
- The international community has a clear interest in devising an effective regulatory framework to ensure the system's accountability and transparency. This critical imperative requires an understanding of hawala's important role in countries that lack conventional banking structures.

A rogue insurgent group in Iraq is strapped for cash. It plans to bomb a strategic target in a matter of weeks, and money is the only obstacle. American military forces have ensured that local banking systems are impossible to navigate. Law enforcement agencies cast a watchful eye for the slightest evidence of suspicion.

Not to fear, though. Thanks to an underground network of money dealers that spans the globe, funds are at arm's length. The insurgent leader places a call to al-Qa'ida relatives in Pakistan, who pass word through a labyrinth of bank tellers in hiding. Within a few hours, \$25,000 are available. There is no paper trail.

The invisible banking system that is employed in this scenario, known as *hawala*, has offered the worldwide Muslim community an efficient means of monetary transfer for over 1,000 years. With origins in Islamic scripture, the system dates back to the Middle Ages, and was originally designed to enable Muslim traders to circumvent restrictions on lending in the Roman Empire. In recent times, hawala transactions have constituted an alternative remittance system, enabling expatriates from Muslim countries to deliver funds to family members. However, given strict regulations on the worldwide banking system in the aftermath of 9/11, transnational terrorist groups such as al-Qa'ida have found that this web of trust and honor suits their needs

A hawker in the main bazaar of Sanandaj, Kurdistan, counts his earnings as other hawkers look on.

PHOTO BY HAMED MASOUMI
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very well. Criminals, terrorist financiers, money launderers, and drug traffickers have all been able to accrue substantial benefits. Unregulated and evasive on the Islamic street, the web of hawala continues to stymie the efforts of counterterrorism agencies.

Adequate surveillance of the hawala system can provide a critical lever in an effective financial strategy against terrorism. Thus far, the lack of a concerted approach on the part of the global community has bred fertile ground for illicit transfers. Building a normative framework will require a keen understanding of hawala's role in the Muslim community and its operational and structural characteristics. Until legal authorities learn which elements make hawala different from alternative remittance systems—for example, its Shari'a-compliant structure—a comprehensive and effective policy will remain elusive. While Hawala's unique characteristics pose many challenges to law enforcement, a number of practical regulatory measures can still be devised.

THE HAWALA ALTERNATIVE REMITTANCES SYSTEM

OPERATING PRINCIPLES AND CHARACTERISTICS

Hawala channels transmit billions of dollars of funds with impressive speed. According to Pakistani officials, the system is accountable for the influx of over seven billion dollars per year to Pakistan alone. As an alternative remittances system or informal value transfer system (IVTS), hawala has found support among a variety of sources, including large international companies and local community-based networks. They offer numerous

Hawala 101

The hawala system is an effective way to transfer money quickly (and sometimes illegally).

Here's a simplified example of how the system works:

A Pakistani living and working in New York wants to send \$5,000 to his family in Karachi.

He stops by a bank to start the transaction, but finds out that he will have to open an account and will be charged to convert the dollars to rupees and to send the money. He thinks he might be able to do better.

Instead, he chooses a hawala dealer who offers him a lower fee and better exchange rate than the bank. He gives the dealer the \$5,000 plus the conversion and delivery fees.

The New York dealer contacts a dealer in Karachi and provides the details of the transaction. Since the hawala system relies on trust, the dealers are able to proceed with the transaction immediately.

If the Karachi dealer has the rupee equivalent of \$5,000 on hand, the New York dealer asks the sender for a password, which the sender shares with his family.

The New York dealer gives the Karachi dealer the password, and when the sender's family in Karachi provides the correct password, they receive the money and the transaction is complete.

The family does not have to pay a fee, and there is little or no paper trail. The dealers will settle their debt later.

services, employing couriers to deliver money and intermediaries to deliver “gifts” or payments in kind, making quick transfers across countries that come with no cash deliveries. The hawala system has offered the equivalent of a Western Union to poor natives of the the Islamic world, following a model that is common in other countries: the *Fei-Ch’ien* in China, the *Padala* in the Philippines, the *Hundi* in India, the *Hui Kuan* in Hong Kong, and the *Phei Kwan* in Thailand are a few examples.

Despite the existence of such systems, the hawala system is peculiar because of its compliance with Shari’a Islamic law. According to the Middle East and North Africa Financial Action Task Force, an intergovernmental body formed in 1989, hawala is “an informal remittance system that does not require transfer or identity verification...The transfer of money is carried out through [an] unregulated network with no physical or electronic movement of money.”

The settlement takes place between one *hawaladar* (the intermediary commander) and another (the intermediary receiver). Upon hearing from a customer who seeks a remittance transfer, the commander phones the final recipient with an identification number. The receiver awaits the man with the number, provides cash in local currency, and takes a premium of about two percent. He expects a payment in kind from his partner once funds or goods flow in the reverse direction, usually within a matter of minutes¹.

Herein lie the main elements of the system: trust, oral communication, and anonymity. There is complete secrecy in content, form, and procedure. Furthermore, with a coding system for identification, virtually no physical movement of cash, and a code of honor that quickly weeds out the disingenuous, it is no surprise that counterterrorism agencies see hawala as a black box. The very characteristics that account for hawala’s success have made it an impenetrable haven for illicit and criminal transactions.

THE ISLAMIC NATURE OF THE HAWALA SYSTEM

Despite its counterparts in other countries, the hawala system is most distinguished for its origins in Is-

lamic jurisprudence. Hawala transactions are designed to be interest-free in accordance with the principles of Islamic banking, and they find validation in several sources of Islamic scripture. A *fiqh*, or decree, by Imam Al-Khoei summarizes the conditions under which a *hawala* transaction would be considered *halal*, or legitimate, under Islamic law:

The debtor, the creditor and the person to whom collection is referred, should be adult and sane, and no one should have coerced them, and they should not be feeble-minded, that is, those who squander their wealth. And it is also necessary that the debtor and the creditor are not bankrupt. Of course, if the debt is transferred to a person who is solvent, there is no harm even if the person assigning the transfer is bankrupt.

The system is therefore grounded in the core Islamic values of justice and trust. The hawala system was first devised as a form of medieval commerce to allow transactions between South Asia and the Middle East. Muslim merchants used it to finance long-distance trade and facilitate value transfers without the risks of traveling with large sums of money. Operationally, the system was quite similar to its present form: The merchant would deposit funds in exchange for a *hundi* (bill or draft), a promissory note, and an effective bill of exchange that he would later cash at his arrival destination. The main guarantee for both parties was the relationship of trust that they had established, a relationship that found affirmation in their affiliation with the same religious-ethnic community. This system took root in many Islamic regions—including those of the Abbasids, the Ilkhanids, the Saldjuks, the Ottomans, and the Moghul Empire—and was used in the Indian sub-continent for centuries thereafter.

THE HAWALA SYSTEM AND THE CRIMINAL-TERRORIST NEXUS

Layering, whereby complex monetary maneuvers are employed to confuse authorities attractive to millions of legitimate customers every year—its expediency, anonymity, and lack of bureaucracy—make it a powerful alternative for terrorist organizations and criminals as well.

Criminal activities and illicit fund transfers are not exclusive to the informal economic sector, however. To be sure, money laundering poses a common threat to the conventional banking system. However, there are substantial constraints on such activity: Local financial intelligence units are quick to check large transfers and note suspicious activity among regular channels.

However, hawala transactions rely entirely on trust between partners and the guarantees of families and communities. Formidable to monitor, control, or regulate, they present a critical challenge to the law enforcement apparatus. Phone calls are the only form of interaction that can possibly be traced. In most cases, hawala dealers never keep standardized or easily retrievable data, and even if they do, great care is taken to prevent external access.

There are many other challenges. Hawala activities often take place in secret alongside the operations of other businesses; both general and criminal hawala transactions are concealed amidst legitimate business activities. In fact, many hawaladars divide their time between regular business activities and hawala transfers, using a single bank account to minimize the operational costs of remittance transfers.

Another widely used practice is the creation of *benami*, or false nominee, accounts. These accounts enable the transfer of money by way of an intermediary to the intended receiver. Nominal account holders often assist criminal or terrorist organizations, and shield their financial dealings by merging them with legitimate or unrelated business transactions. In a system with no oversight, the identities of many account holders may be entirely fictional.

The twin revolutions in communications and technology have further compounded this problem. With nerve centers in Pakistan, India, the Gulf States, and the city of Dubai in particular, hawala now offers individuals the opportunity to reach street corners across the globe.

Despite these difficulties, law enforcement agents are not completely helpless. Certain indicators can be used to identify operations centers and detect potential criminal activities, including signs of client-differenti-

ated recordings and fee-collection systems, the absence of data on large monetary transactions, the use of various collection methods, the existence of frequent transfers to companies that are involved in different activities, and the evidence of activities that make little economic sense.

Even though zeroing in on illicit hawala transactions is not impossible, they remain a boon to money launderers and terrorists. In the case of money laundering, the hawala system is conducive to each major stage of the process: (i) *placement*, at which point funds exit normal financial channels; (ii) *layering*, which refers to the complex monetary movements that aim to confuse authorities; and (iii) *integration*, at which point funds reenter the financial system in the form of a legitimate investment. Because they leave no paper trail, hawala transfers are particularly useful in the layering phase: The system's legitimate ties with trade-intensive businesses like those of jewelry, import and export sectors, and travel and foreign exchange services, all provide a good cover for the critical interface between legal and illegal channels. Hawala provides an effective path for integration for the same reason.

The implications for terrorist financing are similarly striking. For transnational terrorist groups like al-Qa'ida, hawala represents a significant asset in a highly diversified funding system. The five main funding sources for such groups are (1) donations from charities, (2) individual contributions—whether they are coerced or spontaneous, (3) state sponsorship, (4) profits from legitimate businesses, and (5) profits from criminal enterprises. The hawala system has bolstered these fundraising efforts by providing a secure channel for transfers between legitimate companies and criminal enterprises.

Al-Qa'ida relied on this system even before 9/11. In 2000, over \$110,000 was transferred from an exchange house in the United Arab Emirates (UAE) to a Citibank account in Florida, which was owned jointly by two of the hijackers, Mohamed Atta and Marwan Al-Shehhi. Just before the attacks, Atta and Al-Shehhi sent \$15,000 to Bin Laden's lieutenant in the UAE, who collected the money and fled. According to Douglas Farah, a journal-

ist on finance and national security for *The Washington Post*, al-Qa'ida was found to have collected deposits of money and gold in Afghani banks and moved these assets to Karachi immediately following the attacks. With the help of the hawala system, the organization then transferred its funds to safe destinations in the Middle East, North Africa, and Asia.

Al-Qa'ida is not the only terrorist group to rely consistently on the hawala system. Radical groups in Kashmir have also benefited; the series of bombings that shook India in 1993 were funded by hawala operators in the United Kingdom, Dubai, and India.

The hawala system has also been implicated in such criminal activities as human trafficking and weapons smuggling. Its benefactors include corrupt politicians. In India, for instance, several major corruption scandals were financed through the hawala infrastructure. In a 1996 bribery scandal, authorities found records documenting the transfer of about \$18 million to politicians from hawala brokers known as the Jain brothers; in a similar case in 1995, Sukh Ram, former Communications Minister of the Indian National Congress, was accused of and tried for corruption.

Because the hawala system can be easily used to finance criminal and terrorist activities, governments around the world have been anxious to monitor and regulate it, and, in some cases, destroy it altogether. To what extent a practicable regulatory framework can take shape will be a decisive factor in counterterrorism strategy.

HAWALA REGULATION: A NORMATIVE FRAMEWORK

Most countries tend to apply blanket regulatory regimes to all informal monetary transfers within their borders. With a few exceptions, however, laws are more permissive, as is currently the case with the hawala system. For instance, smaller hawala dealers are often given more freedom of action in comparison to their more established counterparts. Among countries that regulate informal remittance systems, and the hawala system in particular, the regulatory policies vary substantially, with absolute prohibition on one



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end—hawala transactions are illegal—and more conciliatory postures on the other—considered parts of the “gray” economy, value transfer systems are *de facto* tolerated. A review of registration procedures for hawaladars alone demonstrates significant differences in the approach of host countries. In particular, major discrepancies exist between the laws of hawala-recipient and hawala-remitting countries, given the latter’s liberal foreign exchange policies, developed financial and banking sectors, and restrictive policies. In light of these contrasts, how can the international community arrive at a concerted policy approach?

Stakeholder countries are currently debating the costs and benefits of various regulatory measures. The World Bank has laid out the following options for hawala regulation: (1) pursuing a policy of non-regulation, relying solely on self-regulation among operators; (2) establishing special regulatory standards for the informal sector; and (3) extending the regulations of the formal banking sector to IVTSs with the creation of external supervisory bodies.

It does not prefer a policy of “zero-tolerance,” although alternative remittances have been *de jure* illegal in India and Japan. Until 1999, in fact, India identified hawala as a criminal offense by decree of the Foreign Exchange Regulation Act (FERA), punishable with imprisonment for up to seven years and a fine of up to five times the amount that was exchanged in the illegal

transaction. In 2000, the Foreign Exchange Management Act took the place of FERA, making hawala only a civil offense and substantially restricting search and seizure powers.

Complete prohibition would raise several concerns. First, such a measure is impracticable. In some developing countries with ineffective or wholly absent banking infrastructures, these informal transfer systems constitute the only alternative. According to the “Abu Dhabi Statement on *Hawala*”, the hawala system fills a void that is created when the banking sector is weak. After all, hawala thrives on restrictive economic policies, distortions in payment schemes, and weak foreign exchange systems. Moreover, many claim that hawala empowers marginalized groups with no access to the formal economy. It reaches geographically remote areas that are otherwise left outside the circuits of conventional banking. Hawaladars often belong to the same ethnic community as that of the sender and the receiver, thereby promoting an environment of greater proximity, flexibility, and trust that is lacking among commercial options. To bring hawala transactions to a complete end could compel dealers to switch to even less traceable alternatives. For example, commodity-based value transfers and other sophisticated schemes could fill the void.

To be sure, a loose approach would be even more detrimental. Unregulated foreign exchange transactions can negatively impact the balance between national and foreign currencies, distorting investment flux as a result. Hawala transactions are made off the books and are never taxed; the lack of data on the flow of money frustrates public efforts to devise and implement sound macroeconomic policies. Finally, given strong and persistent bonds between international criminals, terrorist organizations, and the hawala system, tighter scrutiny is a security imperative for any effective, sustainable counterterrorism strategy.

If prohibition, non-regulation, and unofficial regulation all seem problematic, external regulation may offer the best alternative. An effective strategy will remain elusive unless it is designed to accord well with hawala’s tacit rules. The hawala system, after all,

is not entirely “anarchic.” An internal code of conduct, based on values of integrity, trust, and community, has played an important role in regulating the system for years. Cheating among hawaladars connotes a “loss of honor”—an “economic death sentence”—that can often be accompanied by physical violence. Though it would have a minimal effect, the first step in an effective regulatory framework would be to promote existing internal mechanisms, increasing the coordination between internal self-regulation committees and external regulatory bodies. By creating a sense of ownership for hawala constituents, such measures can foster collaboration between authorities and locals, much needed in the fight against rogue activity.

In addition to facilitating these internal efforts, a sound strategy will require well-defined rules of conduct and independent monitoring mechanisms. Presented in a number of international declarations, the minimum regulation standard appears to be less restrictive than the rules that are imposed on conventional banks; it nonetheless represents a good start. The Financial Action Task Force (FATF)’s Special Recommendation Six, released in October of 2002, lays out several critical conditions for a future agreement: operator registration, compliance with public investigative efforts, and sanctions and suspensions for illicit activity.

Requirements on hawaladar licensing and registration can be transformative. A degree of flexibility may be necessary at first, especially if countries lack the capacity to enforce requirements. Operators may simply register with a local authority or undergo a more formal licensing process. Regardless, subjecting all operators to audits will lead many to apply a greater level of care in their activities. In instances where a role in illicit affairs can be proven, license suspension or revocation may be in order.

As proposed by the FATF, hawaladars must comply with 40 internationally accepted recommendations on money laundering if they wish to maintain their licenses². Moreover, operators must be in place to cooperate with financial intelligence units and report suspicious transactions. Local governments should conduct awareness campaigns to educate hawaladars on sound

methods of detecting and reporting suspicious activity. As a source of deterrence, appropriate sanctions should be warranted in instances of non-cooperation.

The Asia Pacific Group on Money Laundering reiterates several FATF recommendations and proposes a few additional measures. For example, the “know your customer” clause mandates that operators register the identity of their customers—effectively a prohibition against anonymous transactions. According to the resolution, hawala operators must retain identity and transaction records for a minimum of five years.

Numerous countries appear to be moving in this direction. In 2003, the Central Bank of the UAE decided to regulate hawaladar registration, adopting a normative framework for licensing and supervision. After soliciting applications for a free hawaladar certificate, bank officials now interview applicants to assess character and test knowledge on UAE money laundering and terrorism financing laws. Upon completion of this process, successful applicants receive a certificate and are expected to submit regular reports on their activities.

The UAE has devised a domestic regulatory framework to increase the hawala’s accountability and transparency without suffocating the system. If it is emulated in other countries, a framework of this nature could play a fundamental role in diminishing the risks that are inherent to informal economic mechanisms.

At the same time, international efforts must complement one another. As countries seek to take a more active role in regulating hawala and similar systems, it is important that they work in tandem. The existence of legal loopholes and unregulated areas may facilitate transfers between countries.

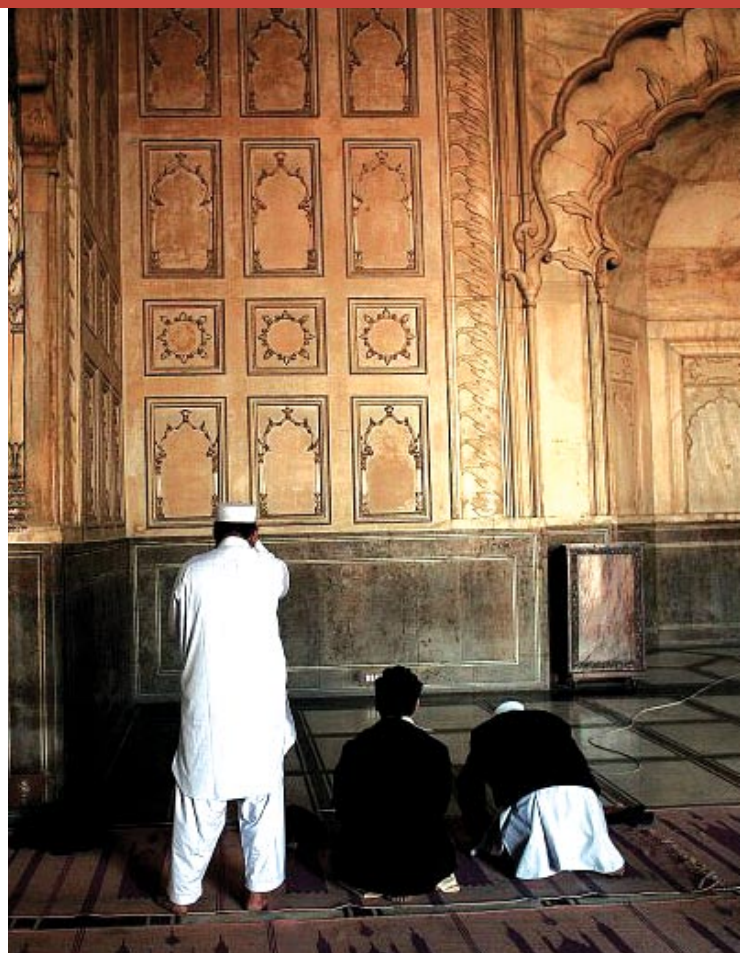


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Consistent and adaptable normative hawala policies are short-term imperatives, but countries must not lose sight of the political and economic deficiencies that have helped entrench hawala as a channel of choice for so many Muslims. As noted earlier, many of the countries in which it has flourished tend to suffer from weak financial infrastructures and judicial systems. Unless such structural limitations receive the attention they deserve, the hawala system will continue to elude regulators in the long-term. **IR**

Article Footnotes

1: Lisa C. Carroll, “Alternative remittance systems distinguishing sub-systems of ethnic money laundering in Interpol member countries on the Asian continent,” *Interpol* (December 2002), available at <http://www.interpol.int/Public/FinancialCrime/MoneyLaundering/EthnicMoney/>. Carroll explains that “Ethnic bankers have lower business overhead than banks, enabling them to offer better rates of exchange than the official exchange rates and still profit from the transaction... *Hawala* bankers also speculate on the natural fluctuations in currency demand to generate a return on their remittances.”

2: “The 40 Recommendations provide a complete set of counter-measures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. Initially developed in 1990, the Recommendations were revised for the first time in 1996 to take into account changes in money laundering trends and to anticipate potential future threats. More recently, the FATF has completed a thorough review and update of the 40 Recommendations (2003).” Quote taken from FATF-GAFI, “The 40 Recommendations,” available at http://www.fatf-gafi.org/document/28/0,2340,en_32250379_32236930_33658140_1_1_1_1,00.html (2008).

The South Asian Free Trade Agreement: Evolution and Challenges

BY DILIP K. DAS



Dilip K. Das is a Toronto-based consultant to multilateral organizations and a prolific author on international trade, international finance, and globalization. He may be contacted at dilip.das@sympatico.ca.

- After the Second World War, significant protectionist sentiment compelled the economies of South Asia to pursue import-substituting industrialization (ISI).
- While intra-regional trade is not a novel concept for the region, the economies of South Asia are new to the ideas of regionalism and regionalization.
- Several factors combine to make a negative case for a viable free trade agreement in the short-term. Even so, a reasonable case exists for the creation and gradual strengthening of SAFTA, as there are few benefits to dwelling on historical ill will. As these economies grow and economic complementarities begin to develop, the countries of South Asia may find that SAFTA can offer a potentially significant contribution to their progress.

Despite strong incentives to create a framework for economic integration, the countries of South Asia have faced an arduous path. The first concrete proposal to establish a model for regional cooperation emerged in May 1980 with the encouragement of Bangladesh's former President, Ziaur Rahman. His idea was realized five years later through the establishment of the South Asian Association for Regional Cooperation (SAARC).

Due to a legacy of conflict between them, the member countries of SAARC were initially hesitant to come together. A lack of enthusiasm, a poor understanding of the benefits to regional integration, and excessive caution, made the processes of negotiation and implementation lengthy and challenging. Instead of devising pragmatic sub-regional integration schemes for the good of all members, SAARC often seemed to be nothing more than a host to discussions, seminars, and conferences. Notwithstanding its potential to accelerate growth, intra-regional trade, and investment, and alleviate poverty, it has fallen short of its stated objectives (Table 1).

TABLE 1. Gross National Income (GNI) in 2004

Country	GNI (in Billions of Dollars)	GNI Per Capita (in Dollars)
Bangladesh	61.3	440
Bhutan	0.7	760
India	673.2	620
Pakistan	90.7	600
Nepal	6.6	250
The Maldives	N/A	2,300
Sri Lanka	19.5	1,010

Source: The World Bank. 2006. *World Development Indicators*. Washington, D.C. Table 1.1.

LIBERALIZING PROTECTIONIST REGIMES

After the Second World War, significant protectionist sentiment compelled the economies of South Asia to pursue import-substituting industrialization (ISI). They maintained a strong anti-export bias, a massive public sector, and a control-ridden private sector at their periphery. ISI advocates worked to limit trade, especially intra-regional trade.

Pre-1990 tariff levels in Bangladesh, India, and Pakistan are demonstrative. In the early 1990s, a few South Asian economies began to slash tariffs and liberalize their domestic trade regimes. According to the United Nations' Commodity Trade Database, while considerable tariff liberalization did occur, the region has continued to rank among the most highly protected in the world, second only to the group of socialist economies (Table 2).

TABLE 2. Tariff Rates in South Asian Economies (Percent)

Country	Year	Simple Average	Weighted Average	Standard Deviation
Bangladesh	2004	18.42	16.87	10.2
Bhutan	2002	16.61	18.18	10.9
India	2001	32.32	26.50	13.0
The Maldives	2003	20.21	20.68	13.2
Nepal	2003	13.61	16.80	10.9
Pakistan	2003	17.10	14.46	10.9
Sri Lanka	2001	9.25	6.68	9.3

Source: Mukherji. 2005. Computed from the United Nations' COMTRADE Database.



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Both simple and trade-weighted average tariff rates¹ were highest in India and lowest in Sri Lanka. In 1989-90, applied average unweighted tariffs for the South Asian economies were 76%. Non-tariff barriers (NTBs) and para-tariff barriers (PTBs) have also presented serious problems to sub-regional integration. In April 2006, trade ministers of the seven countries met in Dhaka to review and control NTBs and PTBs. Pursuant to that end, the SAFTA Committee of Experts was established to meet twice a year.

The South Asian economies implemented macro-economic reforms and liberalization measures due to general disenchantment with the socialistic style of economic management that prevailed under the ISI regime, whereby large governments intervened in the economic sphere. Regional economic policymakers believe that their countries have been missing out on the growth opportunities that East and Southeast Asia enjoy. Except for Sri Lanka, the economies of South Asia failed to liberalize their trade and foreign investment policies until the early 1990s. A pioneer in the region, it undertook significant reform and liberalization measures towards the end of the 1970s and during the 1980s. Given the country's relatively high per capita GNI, its reforms

seem to have yielded significant benefits (Table 1).

In conjunction with trade policy liberalization, the South Asian economies also launched a much-needed and long-awaited campaign of industrial deregulation. Public policy mandarins were slow to realize the error of their ways. The business community and a segment of the policymaking community eventually began to recognize, however belatedly, how critical the external sector could be to economic growth and poverty alleviation. Even incomplete reform measures of recent times have achieved clear gains. At 16.1% in 1981, the poverty gap index for the region declined to 11% in 1990 and 6.4% in 2001².

FINANCIAL SECTOR LIBERALIZATION

Until the region could adopt a greater degree of integration, financial sector liberalization was necessary. India and Sri Lanka began to deregulate interest rates and permitted private sector banking to grow in the mid-1990s; Nepal and Pakistan pursued identical measures in the late 1990s. With the exception of India and Sri Lanka, who were concerned with looming budget deficits, a majority of South Asian economies followed suit.

Launched after a long period of procrastination, economic and structural reforms in these economies have been incomplete. There is a pressing need to implement further reforms, unleash market forces, reduce the high level of government intervention, and address the rigidities of current regional economic structures. As exemplified by the trade-induced path to growth that East Asia pursued, these measures promise to benefit the absolute poor³.

CONSEQUENCES OF REFORMS AND RESTRUCTURING

A review of the region's economic history suggests that openness correlates significantly with accelerated economic growth. This relationship holds whether "openness" is measured in terms of trade policy (for example, the level of tariff and non-tariff barriers) or policy outcomes (for example, the ratio of trade (exports plus imports) to GDP). As seen in increasing levels of globalization during the 1990s, export-led growth provided a key strategic thrust to the South Asian region (consider, for instance, its significantly increasing ratio of merchandise trade to GDP).

In generating higher and more stable growth rates gradually, such measures brought about an impressive reduction in poverty. Three countries in particular—Nepal, India and Bangladesh—witnessed dramatic rates of reduction (11%, 10%, and 9%, respectively). Despite a backdrop of rapid economic expansion and significant welfare growth in the 1980s, Pakistan experienced an 8% point increase in poverty in the next decade.

These traditionally slow-growing economies also began turning in superior economic performances. From 2000 to 2005, Bangladesh, Bhutan, India, the Maldives, and Pakistan recorded average GDP growth rates of 5% or greater. Sri Lanka and Nepal fell behind, however, with respective growth rates of 4.7% and 2.5%. According to the World Bank's 2006 *World Development Indicators Report*, GDP growth rates for all of the South Asian economies had passed 5% by 2005. India and Pakistan turned in stellar performances with respective annual GDP growth rates of 8.5% and 7.8%.

MORE THAN INCOMPLETE REFORM PROGRAMS

Reform implementation has remained slow and incomplete in the region. According to South Asia scholars, governance issues have proven to be its Achilles' heel. Transparency International's Corruption Perception Index (CPI), an annual ranking, found that Bangladesh was the most corrupt nation in the world, receiving a score of 1.7 out of 10. Other ranked South Asian countries also recorded poor performances (Table 3).

TABLE 3. Country Rank in the World CPI Score

Country	Rank	Score
Bangladesh	158	1.7
Pakistan	144	2.1
Nepal	117	2.5
India	88	2.9
Sri Lanka	78	3.2

Source: Transparency International. Berlin, Germany.

The economies of South Asia have continued to suffer from macroeconomic, financial, and governance-related constraints. These deficiencies have combined to retard productivity growth rates and rein in the competitiveness of export-oriented sectors. In effect, private economic activity has suffered from infrastructural bottlenecks, poor economic governance, labor and land constraints, and deficient financial market performance. The most conspicuous economic constraints have been attributable to power shortages, archaic labor laws, and inefficient customs procedures and trade regulations. Small and medium-sized business enterprises have frequently faced problems in accessing capital from the organized financial sector. While property rights have been properly defined, implementation has been arbitrary. Bureaucracy and rent-seeking practices in government continue to increase transaction costs enormously.

Longstanding social challenges have only exacerbated these economic difficulties—the presence of corruption, inefficient government systems, incompetent bureaucracies in the larger South Asian economies, domestic turmoil, and foreign conflict have all proved detrimental.

Though incomplete, recent reforms in this arena have demonstrated promise in facilitating the path towards integration. An increasingly democratic environment has contributed to institutional development and free press in the region. While bureaucratic hurdles have slowed progress on the one hand, associated governance improvements have accelerated it. Importantly, these reforms have helped to erode the most egregious forms of anti-export bias from which these economies suffered in the past.

Gradual domestic policy reforms improved export performance from 1990 to 2000, as reflected in improvements in trade to GDP ratios. According to two World Bank economists who study the South Asia region, financial flows helped South Asian economies surpass trend growth rates. After 9/11, Pakistan's external debt burden declined sharply. A significant source of capital flow originated from remittances—more nationals from the larger South Asian countries live and work abroad as they repatriate their savings. In 2005, a total of \$22 billion in remittances helped to stabilize the region's balance of payments.

INTRA-TRADE AND REGIONAL INTEGRATION INITIATIVES

While intra-regional trade is not a novel concept for the region, the economies of South Asia are new to the ideas of regionalism and regionalization. Even before tariff barriers and NTBs had yet to be raised, trade barriers in the industrial economies were still significant at the time given the legacy of the Great Depression. As a result, intra-regional trade in South Asia declined. As many of the countries gained independence in the late 1940s, intra-regional trade came to account for almost one-fifth of total trade. However, these levels would soon see steady reductions—to 4% of total trade in 1960 and 2% in 1970. This figure more or less persisted until 1990, rising to only 4% by 1999.

Since the Uruguay Round (1986-94) and the Doha Round (2001-2006) of multilateral trade negotiations, India, Bangladesh, and Pakistan have begun to pursue strengthened economic ties with some enthusiasm. During the Doha Round of negotiations at the World

Trade Organization, India was one of the leaders in the G20 economies, helping to define the rules of the multilateral trade regime on behalf of medium-sized and large developing countries. Bangladesh also played an effective role on behalf of the large developing countries in the Doha Round. While regional trade and integration endeavors in South Asia remained weak during the Uruguay Round, they accelerated markedly during the Doha Round.

Even so, this group of economies was still among the most highly protected groups in 2005. South Asia failed to open its domestic economies to global competition or attract greater levels of foreign direct investment (FDI). The Maldives was an exception in this regard and was able to attract a notable amount of FDI to its tourism sector. While FDI inflows to the sub-region have improved since 2000, South Asian economies have, on the whole, remained unattractive to the global investment community. Furthermore, regionalism and regionalization in this group of economies have failed to make much headway. Intra-regional trade currently accounts for a mere 5% of total merchandise trade. As a share of GDP, relative intra-regional trade levels in South Asia are among the lowest in the world (Table 4).

TABLE 4. Intra-Regional Trade as a Percent of GDP in 2004

Region	Intra-Regional Trade
East Asia and Pacific	26.5
Europe and Central Asia	15.3
Latin America	6.4
Sub-Saharan Africa	5.3
Middle East and North Africa	3.5
South Asia	0.8

Source: World Bank. *Global Economic Prospects* 2005. Washington, D.C. p. 43.

Why is 95% of South Asia's trade carried out with extra-regional economies? Close scrutiny of trade flows and statistics reveals that intra-regional trade has remained heavily concentrated in a small number of traditional regional markets. These economies have neglected to expand their intra-regional markets in the postwar period. Persistent protectionism, long-running conflicts among the larger countries, and transportation constraints have remained among the principal

inhibiting factors.

Due to multifarious feuds in South Asia, many countries were reluctant to form an economic union of any kind. Confrontations during the postwar period made economic cooperation difficult. The seven South Asian economies belatedly signed an agreement in 1993 to form the South Asian Preferential Trade Area (SAPTA) by December 1995. Despite three rounds of negotiations, member countries failed to compromise. SAPTA's shortcomings left no one surprised, given the obstacles at the time: the persistence of protectionist sentiment among member countries, a lack of substantial tariff reduction measures, outright exclusion of several large sectors of trade from tariff reduction, domestic crises, and tense relations. Posing yet another challenge, India refused to remove a ban on consumer product imports from SAPTA countries until 1998 and from the rest of the world until 2001. At its very inception, SAPTA had fallen short.

INDIA'S UNIQUE POSITION

India has emerged as the region's unquestioned economic leader. It has failed to reach its full potential, however, due to tenuous relations with its neighbors. Experiences of the last two decades (1985-2005) have shown how difficult it is to bring about reasonable economic integration between such politically acrimonious members of the SAARC as India and Pakistan. Their relationship has always been one of suspicion⁴. In stark contrast, the small economies of Bhutan and Nepal have maintained strong trade links with India.

It is important to note the extent to which economic developments in India can affect developments in other sub-regional economies. Until the early 1990s, India was never regarded as a rapidly growing economy or successful trader. Its export structure abounded in products that were undifferentiated, labor-intensive, low-skill, and technologically simple. Its dispirited performance adversely affected neighbor economies. The situation changed dramatically when its growth began to accelerate in the 1990s. Since 2000, several macro-economic and financial indicators suggest a marked improvement. India's trade with Asian economies,

particularly China, has improved significantly after the currency crisis of 1997-98. India's stock market has boomed, with capitalization growing at a heady pace. Recent rankings show India as one of the three most favored destinations for FDI. The flow of resources to India has provided benefits to the rest of the region.

MIXED EVIDENCE OF COMPLEMENTARITY

In comparison to those of other regions, South Asia's exports include an unusually large share of labor-intensive manufactures, owing to its distinctive combination of resources and factor endowments—relative to their supply of labor, South Asian economies have lower levels of education and fewer natural resources. Any future trade and development policy schemes must internalize these realities.

India and Pakistan's exports are notably complementary to the imports of some South Asian economies, particularly those of Bangladesh and Sri Lanka. Other economies, however, demonstrate efficiency in only a small number of export areas, most of which are not complementary to India's imports (or those of any other country). South Asian export markets compete in a narrow range of products, particularly in textiles, apparel, and other light manufactured goods. Given this trade structure, the prospects of sub-regional integration do not seem promising.

ASSESSING THE ECONOMIC CASE FOR SAFTA

Historical figures reveal a steady decline in intra-regional trade in South Asia during the postwar period—down to 2% of total trade levels by the mid-1960s. Despite small improvements in recent years, consistent figures of less than 5% indicate the low likelihood of uniting the sub-region as a cohesive trading bloc in the short-term. Moreover, the World Bank concludes that SAFTA member countries have tended to trade far more extensively with industrial economies like the United States and the European Union, due perhaps to differences in factor endowments (India and Pakistan provide a case in point).



While Bangladesh and Sri Lanka, in contrast, respectively received 20% and 15% of their total imports from South Asian countries (notably India), their import volumes covered a small share of Indian exports. As a share of total exports, Indian trade flows to neighboring sub-regional economies did see a small increase in the 1990s, from 3% in 1990 to 5% in 2002. These improvements were not, however, universal—unilateral non-discriminatory tariff liberalization was carried out on a most-favored-nation basis. This evidence suggests, albeit weakly, that a cohesive and profitable free trade agreement in South Asia is possible in the short-term.

ESTIMATES OF BENEFITS FROM QUANTITATIVE STUDIES

A number of scholars have attempted to model the potential economic benefits of free trade in South Asia. While quantitative predictions offer varying degrees of accuracy, the popular gravity and computable general equilibrium (CGE) models seem to offer significant insight on how much economic synergy might be achieved.

In its basic form, the gravity model postulates that the degree of trade between two countries is directly

proportional to the product of their GDPs and inversely proportional to their distance. Popularized for modeling trade flows, the gravity model has received numerous adjustments. In particular, it has proven unable to account for the welfare effects of free trade agreements.

Using 1997 statistical series, Kabir Hassan discovered that the seven SAARC economies not only reduced trade amongst themselves but with other regions as well. Given the traditionally weak trading performance of SAARC economies, particularly the large ones, his conclusion seems intuitive. Seekkuwa Hirantha also employed the gravity model, using both panel and cross-sectional data from 1996 to 2002 to estimate trade creation and trade diversion effects under the current SAFTA regime. Unlike Hassan, Hirantha found evidence of trade creation among the SAARC member countries, without any trade diversion with the rest of the world.

On the other hand, CGE models have the advantage of providing estimates of future consumption patterns, production patterns, and trade figures at the sector level. Unlike those of the gravity model, its calculations can also predict the welfare effect of SAFTA formation. It is worth noting, however, that CGE's

predictive power is not comparable to that of other econometric models, as its output is based on data for one specific year.

Of the two empirical studies that utilized CGE modeling to estimate the welfare effects of SAFTA, one is slightly dated. In 1997, Miria Pigato, then a member of the World Bank, and others published the results of the popular Global Trade Analysis Project (GTAP) database and model. Her study concluded that while SAFTA resulted in welfare gains to its member countries, these gains were larger when liberalization took place unilaterally in a non-discriminatory manner. In another CGE modeling exercise published in 2003, Jayatilleke Bandara and Wusheng Yu employed a different version of GTAP data to estimate that real income gains could reach up to 0.21% for India and 0.03% for Sri Lanka. They also found that while the income levels of other SAFTA members would improve on the order 0.08%, Bangladesh would suffer a real income loss of 0.1%. These results suggest that South Asia, on the whole, stands to gain more from unilateral non-discriminatory liberalization and multilateral liberalization than from the formation of SAFTA. None of the empirical studies predicted robust welfare gains from the formation of a free trade agreement in South Asia.

A REASONABLE CASE FOR SAFTA

South Asia saw a far larger level of intra-regional trade half a century ago than it has seen in current times. Recent history demonstrates that hurdles in the path towards an active and functional free trade agreement are essentially political in nature. The countries of South Asia must strive to emulate the recent achievements of Southeast Asian economies, which have succeeded in achieving economic integration despite a history of rivalry and poor mutual relations. The pursuit of mutual economic interest must be prioritized over political harmony. South Asian policy makers must be responsible enough to realize that if regional welfare gains are to be achieved, animosity must be put aside. A legacy of tension has made the member countries excessively cautious in taking meaningful policy measures toward economic cooperation. Thus viewed, several factors combine to make a negative case for a viable free trade agreement in the short-term. Even so, a reasonable case exists for the creation and gradual strengthening of SAFTA, as there are few benefits to dwelling on historical ill will. As these economies grow and economic complementarities begin to develop, the countries of South Asia may find that SAFTA can offer a potentially significant contribution to their progress. **IR**

Article Footnotes

1: The trade-weighted average tariff is one of the standard measures of the tariff rate. This measure is regarded as more realistic and accurate than the average tariff. It weights each tariff by the share of total imports in that import category—that is, if a country has most of its imports in a category with very low tariffs, but has many import categories with high tariffs but virtually no imports, then the trade-weighted average tariff would indicate a low level of protection. The standard way of calculating this tariff rate is to divide total tariff revenue by the total value of imports. Many countries regularly report this data.

2: This argument does not necessarily conflict with the fact that poverty amelioration in India during the 1980s was greater than in the 1990s, although growth performance in the 1980s was relatively weaker. The reason is that the poverty elasticity of economic growth in India fell over this period—poverty elasticity indicates the extent to which poverty can be reduced with a 1% point increase in the GDP growth rate.

3: The definition of absolute poor is based on subsistence, the minimum standard that is needed to live. The coiner of this term, Robert McNamara, defined it as “a condition of life beneath any reasonable standard of human dignity.” There has been a longstanding debate in development economics regarding whether income or consumption poverty lines should be defined in absolute or relative terms. Most international organizations define the poverty line in an absolute way as the “level of income necessary for people to buy the goods necessary to their survival.” In keeping with this concept, the dollar-a-day line, at 1985 purchasing power parity, is being used extensively among academics and policymakers. However, a broader definition of poverty indicates a general lack of capabilities that enables a person to live a life that he or she values, encompassing such domains as income, health, education, and human rights.

4: Disagreements between India and Pakistan on SAFTA-related issues persisted even in 2006. In November 2006, India claimed that Pakistan was deviating from the SAFTA Agreement and was refusing to implement it in letter and spirit. The Indian Minister of External Affairs suggested that it would be difficult to operationalize SAFTA unless Pakistan implemented it earnestly. While Pakistan had expanded the basket of tradable goods under the positive list by 78 items, obstructions to trade continued. The minister accused Pakistan of applying conditions to trade with India under SAFTA, a step that went against the essence of the agreement. India launched a formal complaint to the SAARC Council of Ministers.



Insecure and Secure Cities: Towards a Reclassification of World Cities in a Global Era

BY DIANE E. DAVIS



Diane E. Davis is Professor of Political Sociology and Head of the International Development Group at MIT. She may be contacted at dedavis@mit.edu.

- **Contrary to previous city typologies, which were understood in terms of national economic prosperity and degrees of industrialization, a crucial distinguishing feature of globalizing cities is the degree to which large informal sectors flourish and accelerate public insecurity.**
- **Changes in the built form of Mexico City illuminate the “competing globalizations” that increasingly operate in today’s cities.**
- **The root cause of growing insecurity is social, spatial, and economic developments of the past and how they locate themselves in the present era of globalization.**

INTRODUCTION

As anyone who has recently traveled to China, India, Brazil, or Mexico knows, the largest cities of the developing world are no longer what they used to be. Far from the picture of resource-poor, dilapidated, and under-built backwaters of poverty that has long dominated the perception of the global south, cities like Shanghai, Mumbai, Sao Paolo, and Mexico City now host gleaming skyscrapers and applications of some of the newest urban and infrastructural technologies. Conversely, many of the prosperous cities of the developed world—for example, New York and London—now exhibit accelerating social and economic polarization, giving them indices of inequality that have long been associated with the developing world. Together, these patterns suggest a convergence in land uses, built forms, and social problems in cities all over the world—ranging from upscale real estate developments and high-end global business clusters to social and economic polarization to culturally and globally hybrid work forces, all of which operate in the context of extreme urban concentration and sprawl. Many scholars have traced these newfound patterns of urban development to globalization. Globalization not only brings rapid and accelerating flows of global capital in search of new forms of investment, but also leads the shift from manufacturing to service and information economies. The question, however, is as follows: Are we really seeing a commonality of urban patterns worldwide, particularly among the major cities of the world? Or do these visual commonalities hide, or co-exist with, other less obvious differences? If the latter, what are those differences, and what challenges



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do they pose for international urban development planners and practitioners?

To ask these questions is not merely to call attention to the physical and social transformation of cities in the contemporary epoch. Doing so also suggests an analytical concern with understanding the best ways to categorize world cities and diagnose their key developmental challenges. This paper argues that, contrary to previous city typologies, a crucial distinguishing feature of globalizing cities is the degree to which large informal sectors flourish and accelerate public insecurity.

Prior to globalization, most typologies for world cities grew out of an understanding of the larger economic context in which urban locales were situated, understood in terms of national economic prosperity and degrees of industrialization. These notions were captured in the lexicon of “developing” versus “developed” country cities, or cities of the global “north” versus “south.” The primary cities of developed countries were understood to host more investments in the

built environment, higher-end services and commerce, more developed property markets, higher rates of home ownership, and less poverty. Cities in developing countries were seen as lacking in basic urban infrastructure, frequently leading to their characterization as “over-urbanized,” especially in comparison to those of the developed world. They were also overcrowded and poor; informality in housing and employment was the norm, and industrial factories dominated prime urban lands.

Political context was occasionally used as a reference point for city typology, albeit often in tandem with the aforementioned economic characteristics. Democratic countries, especially those in which market capitalism flourished and the state was responsive to the productive classes as much as the people, were seen as hosting different urban patterns than socialist, communist, or authoritarian countries in which the “command” efforts of the state trumped market logic. Likewise, cities in colonial countries, where mercantile relations linked ruler and ruled, were also seen as hosting different urban forms, reflecting either an outflow or inflow of capital and investments. In both cases, political regime types were associated with certain urban land use patterns, ranging from the absence of commercially-based downtowns to the emergence of massive public housing blocs to limited investments in non-productive urban infrastructure, to name but a few. While these urban differences were sometimes attributed to national “character,” social history, or cultural repertoires, a more likely explanation was the degree of market versus state balance in urban policymaking, a distinction that itself was correlated to the type of political regime.

Within countries of the same developmental status or political regime-type, a similar logic was used to differentiate among locales. Cities were frequently defined in terms of their position in the political system (such as capital versus other cities), in terms of their functional role in the domestic economy (such as industrial, commercial, service, or agricultural centers), or in terms of their cultural histories. The first set of explanations was used to show why Washington, D.C. differed from New York or Monterrey differed from Mexico City, while the second and third explanations could account for

differences between New York City and New Orleans, Mexico City and Veracruz, or Rome and Bari, to name but a few examples.

In the contemporary era, however, as global capitalism brings ever more cities into its orbit, such territorially-based cultural, economic, and political regime distinctions have started to break down. Many cities share common economic features and similarly built urban environments. The stark distinctions between producer, consumer, investor, and exchange roles in both the domestic and global economy have become blurred, as have the distinctions between flows of capital, building styles and patterns of urban land use within and between rich and poor countries around the world. The question thus emerges as to what urban typologies and categorizations can best capture these contemporary local, national, and global dynamics. Will new typologies undermine or co-exist with old ways of classifying cities, either in terms of methodological building blocks or classificatory outcomes, how or why, and with what implications for urban theory and practice?

I seek to answer these questions using the case of Mexico City as a reference point. By exploring the recent changes in Mexico City’s form, function, and character as a result of globalization and other recent economic and political changes, and by comparing Mexico City’s current patterns to those that are now evident in cities of Europe, the United States, East Asia, and other urban locations worldwide, I seek to arrive at a new typology for characterizing what is similar and what is different among world cities in the contemporary global era. Among the methodological strategies that are used to arrive at this alternative typology are close examinations of (i) the new political, social, and economic actors that globalization has produced, (ii) the ways in which these new actors change the daily life and built environment of the city, and (iii) how and why these actors and activities are distributed across all “global” cities. The key urban problems and conflicts that emerge as a result of this new constellation of forces and conditions are also identified as central in the definition of alternative city types.

This paper argues that a key feature that distin-

guishes world cities from each other, despite the shared architectural and investment profile of the urban built environment within many of them, is the degree of accelerating public insecurity and the deteriorating rule of law. It argues that such problems can exist even in cities that on the visual or architectural surface seem eminently “modern” and globalized. It further claims that the emergence of a large, globally-linked informal sector can exacerbate problems of public insecurity by generating new forms of conflict and tension, which I will characterize as “competing globalizations.” I define these competing globalizations as the struggle between two “economies,” or divergent networks of economic forces that draw their economic strength from entirely different complexes of global actors and investors, yet whose uneasy co-existence in a delimited physical space turns them into ruthless competitors to control land use and the character of downtown. The public insecurity that results from these conflicts produces social, spatial, and economic fragmentation in ways that drive the cycle of tensions over globalization, and further distinguish insecure from secure cities. This paper ends with an assessment of why some global cities are more prone to urban insecurity and lawlessness than others.

Before turning to more discussion, a few words are in order about why this methodological exercise matters. One cannot understand international development these days, and the longer-term prospects for prosperity in a given nation, without understanding what is happening in key global cities, which serve as the command and control functions of global capital. To understand global cities, in turn, requires an appreciation of changes within each of these cities, and an understanding of whether and how the attributes that are associated with certain global cities can affect long-term urban sustainability. Undertaking this task not only entails an examination of whether recent changes make these cities better places in which to live, but also efforts to identify and reinforce (or eliminate) those conditions that facilitate (or impede) long-term prosperity. To do so, it is important to understand the large sociological dynamics that underlie urban trends, precisely because such knowledge gives us clues as to how and why social

and economic trends might be changing in the world’s global cities—either for the better or the worse. Specifically, the exercise of generating new categorizations or typologies for contemporary global cities gives a shorthand method for understanding more general urban trends that may spread across divergent developmental states or economic conditions, which in turn can serve as a way to examine the most pressing policy concerns and the most appropriate domains for development planning action.

MEXICO CITY AS A CASE STUDY

As noted earlier, previous frames of reference for categorizing cities frequently relied on national-level characterizations of political and economic “progress.” The most challenged cities were in “late industrializing” countries where democracy remained elusive and poverty persisted. As globalization and liberalization began accelerating over the last several decades, many of these countries faced the promise of fundamental change, both urban and national. Mexico is a good case in point. Newfound prospects for democracy and the promise of sustained economic development that came with global support for liberalization (up to and including the 1994 signing of the North American Free Trade Agreement) produced a spurt of enthusiasm among investors and public officials who were eager to transform that country’s capital into a global city. The idea was that through investments in urban infrastructure and new urban mega-projects, the world’s leading investors would feel comfortable enough to locate global corporate headquarters in Mexico City, and that such urban developments would generate sufficient capital flows to spur new patterns of national investment (and vice-versa). Changes in the built form of Mexico City appear to reflect these global trends.

Over the past 15 years, Mexico City’s urban economy and downtown land uses have transformed along the lines that global cities literature would predict. These evolutions are apparent in the recent “rescue” of downtown Mexico City, accomplished through the development of a new, upscale tourist, corporate, and residential complex. Night life, commerce, and youth

activities are on the upswing in ways that would have been unthinkable a mere five years ago, and the ever more modern building projects that dot the skyline make this city a cosmopolitan rival to other affluent, globally connected cities around the world. Mexico City also shows its new face in an area that is ten kilometers from downtown, called Santa Fe. Considered a major new “cluster” development that is intended to attract a wide array of global firms, it is filled with high-rise after high-rise that are conceived within the most exotic and sophisticated architectural styles imaginable. On the surface, its buildings resemble those that dot the skylines of London, New York, Miami, and Tokyo, and the degree of concentration of residential and corporate high-rises evokes the feel of cities like Singapore, Shanghai, and Hong Kong. These projects have increased the social and political profile of a new cadre of “globalizing elites,” not just corporate executives of both foreign and national origin, but also a smattering of hotshot architects who possess name recognition and global visibility. Governing officials in the metropolitan area, while hardly new actors, once again stand at the

forefront of the public eye as their willingness to invest in new infrastructure (roadways, fiber optics, bridges, security technologies, and so forth) has generated considerable political discussion.

Nonetheless, these are not the only new actors in the contemporary global city. Also on the rise in terms of social visibility and impact on land use are informal sector workers, many of whom are involved in illicit activities. Many of these people have had their economic livelihood disrupted—and their downtown-based activities displaced—by the new urban mega-projects. As a result, the overall urban ambiance is not as idyllic as the iconic architectural styles and new corporate or residential buildings would suggest. Nor is the quality of life in Mexico City the same as it is in the global cities of Europe and the United States that it visually seeks to resemble. Over the last several years, problems of violence, crime, and insecurity have emerged with a vengeance in many parts of the city. They were first most visible downtown, but they have gradually migrated to more peripheral parts of the metropolitan area, as the perpetrators have been slowly but steadily pushed out of downtown. Extreme public insecurity and random violence wrack most neighborhoods. Of



the newly redeveloped areas, only Santa Fe seems to have escaped the worst of the daily problems of insecurity, but this outcome prevailed only because this area has been designed as an urban fortress, with technology, gating, tunnels and other architectural innovations that limit the free flow of people and goods. Private security guards roam the streets with a frequency that has no parallel in the city's past, and in ways that can be readily replicated in other "globalizing" parts of the city, especially downtown. Even with surveillance cameras and security guards, the problems of insecurity continue to accelerate.

The massive property development projects downtown, most of which started in 2001 and 2002, have stalled considerably because the security situation has not improved enough for most middle- and upper-income residents to move to the redeveloped parts of the city, and because many low-income residents insist on remaining downtown. With many low-income residents and small commercial firms unwilling to move away from this strategic central location (which continues to serve them well in an expanding metropolis of 20 million people), developers may have hit a glass ceiling in terms of the revenue to be generated through

investment in an upscale downtown property market. Such constraints have further fueled the development of gated "cluster" areas like Santa Fe, which exists almost as "another world."

But again, the rest of the city is not nearly so protected, so security conditions almost everywhere else are far more fragile. Most streets remain dangerous, and daily excursions from home to work remain volatile, with murders and assassinations relatively unchecked, and with Mexico City police remaining fearful at times of entering certain neighborhoods. A steady inflow of street vendors and other under-employed service workers fills most of the city's streets beyond capacity, reproducing the old-style informality and a mix of rich and poor that is more commonly associated with past epochs and "traditional" third world cities than with a modern, globalizing metropolis. In short, the problems of insecurity exist alongside the new urban mega-projects and infrastructure developments that global capitalists have spurred to catapult the city into yet another world-recognized global city.



“COMPETING GLOBALIZATIONS”

What makes this state of affairs particularly intriguing, if not somewhat paradoxical, is the fact that many of the forces that are responsible for the conditions of crime, violence, and insecurity have themselves been empowered through globalization, albeit through a very different network of global flows and activities than that which has brought the downtown and Santa Fe property development forces into the picture. Even in the face of the Alameda project’s recent approval, one could say that continued conflict over Mexico City’s downtown development owes to “competing globalizations.”

We could identify these two distinct global networks as “liberal” and “illiberal” (rather than legal and illegal). The former are defined as “liberal” since they appear “legitimate” in the eyes of economic liberalization’s proponents; they constitute a legally accountable network of corporate and property investors who operate in a world of regulations, property rights, and formal contract law. The latter are defined as “illiberal” because they are considered “illegitimate” partakers of the global economy; they constitute networks of illicit (and often small-scale) investors whose global supply chain revolves around black market, undercover, clandestine, or violence-prone activities where the rule of law remains elusive (that is, those that involve the marketing and global distribution of drugs, guns, and other forms of contraband). They assert their political and economic power through illicit rather than licit networks of trade and distribution, and they sustain their activities despite the absence of formal property rights over the spaces that they control and the goods that they trade.

Complicating matters further, these “competing globalizers” have divergent spatial aims and colliding downtown development visions. The “liberal” globalizers desire an upscale renovation of downtown with open spaces and pristine architectural environments for other global investors, tourists, and upscale consumers. The “illiberal” globalizers thrive in the dilapidated, informal, and inaccessible back alleys and streets where their clandestine activities can remain hidden from view, and where police often fear to tread. This dichotomy implies that liberal and illiberal global forces frequently

clash over the desired character and built environment of downtown; this conflict produces the violence and insecurity that now destabilize Mexico City. It is further worth noting that these struggles are as much about control over space and the nature of the city as they are about the direction, or globalization, of the economy. Stated differently, they raise a question of whose global network is going to prevail in what physical space, with the main protagonists in the struggle being liberal and illiberal forces, both tied to globalization in some way. To the extent that these struggles over space are linked to economic livelihood and profitability, the stakes are quite high. Because the conflict involves “illiberal” forces who shun the rule of law, it can be quite violent and dangerous; urban politics does not offer any easy remedy to such battles.

For all of these reasons, Mexico City now experiences ongoing conflict between “competing globalizers.” These battles play themselves out in the streets of the city and on the terrain of security as much as they do in formal political deliberation and dialogue. This conflict over the city’s “global character” continues to drive violence and insecurity, pushing this city on a downward spiral towards near anarchy—and authoritarian attempts to control it—in the institutions and practices of everyday urbanism.

The Alameda area is already protected by a special police force, high-tech surveillance cameras, and private security guards, even as it remains surrounded by dilapidated areas that play host to informal sector activities. Further efforts of this nature will likely be used to create mobility barriers between the upscale, redeveloped parts of the Alameda and the surrounding area of Tepito. As a result, Mexico City could face even greater socioeconomic and spatial polarization (both within Tepito and between it and other key downtown locations). Such spatial outcomes may sustain the theoretical propositions that are advanced in the urban globalization literature, and suggest a certain convergence in land use patterns across global cities. However, they also suggest an extreme form of social and spatial polarization that is mediated by violence that we would not expect to see in other global cities like London, Tokyo, and Singapore. Complicating matters, the short-term

implications of this pattern may undermine the long-term path towards convergence. Extreme polarization and violence will set clear limits on further upscale property development and circumvent any movement towards global “convergence” in downtown urban land uses across the Mexico City metropolitan area, as well as between Mexico City and other global cities.

SEEKING THE ORIGINS OF THE NEW GLOBAL URBAN DISORDER: HISTORY, ECONOMICS, AND POLITICS

How can we explain this state of affairs, featuring high levels of violence that permeate upscale global investment centers like Mexico City, and ongoing tensions over domination of space between “competing globalizers?” One answer is that the growing problems of urban violence and insecurity are traceable to the path-dependent consequences of past decisions about economic development, governance, state formation, and industrialization. That is, where a city “comes from”—in terms of its history and with respect to the larger national development context in which it emerged—limits what type of contemporary global city it can become.

In prior decades, governments in countries of the global south like Mexico were able to pursue industrialization projects because they counted on strong and/or authoritarian states that developed strong policing and military apparatuses to control labor and consolidate state power vis-à-vis agrarian interests on behalf of an emergent industrial class of manufacturers. These legacies empowered the late developmental state’s coercive apparatuses so as to undermine the judicial system and facilitate corruption and impunity within the ranks of the police and the military (if not the state itself). Over time, such abuses of power led to demands for democratization. Even so, regime democratization did not eliminate all prior institutions and practices. Even after democratic transition, many late developers still face the political and economic future with the same old coercive networks intact, especially in the rank-and-file segments of the police and military.

After years of working without effective institutional constraints—as part of the bargain with the elite to

police the nation’s political and economic “enemies,” be they laborers, socialists and communists, street vendors, or agrarian rebels, so as to guarantee state power and economic progress—the coercive arms of the late developmental state became well ensconced in a networked world of impunity, corruption, and crime. Their power and longevity sustained illegal practices in the state and in civil society, leading to a steady erosion of the rule of law. Such is the institutional legacy bequeathed to many countries of the global south, and democracy has done little to reverse it.

Such is not to say that all cities of the late developing world are saddled with similar legacies, or that, even if they were, they would all face identical problems of insecurity. Nor is such to suggest that the police and military are the only sources of violence and contemporary disorder. Many countries did effectively purge their old police during the democratic transition, with South Africa being one of the few to do so successfully. Other late developers, like India, have been democratic for much longer, and their main cities do not confront the legacies of police and military coercion. Still others, such as the East Asian tigers, have hosted authoritarian regimes but have eluded much of the violence and insecurity that plague their late developmental counterparts. Thus, it is important to recognize that the economic legacies of late development are also important in accounting for patterns and locations of problems of insecurity in so many countries of the global south. There are two other key factors that are linked to prior economic development models: the extent of informality and the extent of income and social polarization. Both trace their roots to past patterns of political and economic development.

In prior decades, most late developers tread a very rocky economic road in which formal employment in industry paled in comparison to informal employment in small-scale commerce and other petty services, with government employment generally taking up the slack. These sectoral imbalances were all too often ignored in much of the sociological work on late development, which focused primarily on the key drivers of production (capital, labor, and the state) and the big-ticket

strategies of growth (industrialization, either import-substitution industrialization [ISI] or export-oriented industrialization [EOI]), while ignoring the diversity of class identities and sectoral composition of economic activities that sustained late development. These sectoral patterns have always been problematic, but globalization and liberalization on a world scale have exacerbated them. With the neoliberal turn bringing a downsized state, and with expectations of greater global competitiveness driving many countries to reduce traditional sources of manufacturing and agriculture, these sectoral imbalances—and the attendant growth of services and informality—have become more extreme.

Part of the problem is that the two main sources of economic growth in today's world—export-led industrialization and the development of the high-end financial services that are linked to real estate development and the information economy—exacerbate social and income polarity, especially in cities. In both social and spatial terms, the polarization is extreme, and these patterns lie at the root of the current problems of urban violence and insecurity. The issue, again, is not merely income inequality. Polarization also raises the question of what employment sectors remain open as the largest source of work opportunities. With fewer available job prospects in industrial manufacturing and many new employment opportunities beyond the educational reach of those who have been laid off from factories in the drive to develop a more globally competitive information technology service sector, more citizens than ever before are being thrown into the informal sector. Such employment, which barely meets subsistence needs for those who are stuck within it, is becoming more “illicit” as protectionist barriers drop, as fewer domestic goods for sale are produced, and as the globalization of the illegal goods trade picks up the slack. In many cities of the global south, mafias involved in all forms of illegal activities, ranging from drug and weapons trafficking to the sale of knock-off designer products and CDs, are calling the shots. These forces often take on the functionally equivalent role of mini-states by monopolizing the means of violence and providing protection and territorial governance in exchange for allegiance.

For those of us who want to understand the impact of these large-scale political and economic transformations within the context of urban insecurity, we need to understand the spatial context of these developments. Specifically, much of the current informal employment is physically and sectorally situated within an illicit world of violence and impunity, not just because of the sheer illegality of many of the goods that are traded, but also because big-money trade in drugs, guns, and other contraband products generally necessitates its own “armed forces” for protection and contract enforcement. The result is often the development of further clandestine connections between local police, mafias, and the informal sector, as well as the isolation of certain territorial areas as locations for these activities. This illicit network of reciprocities, and the territorial concentration of dangerous illegal activities in locations that function as independent fiefdoms, outside state control, further drive the problems of impunity, insecurity, and violence in cities where these mafia reside. The most dangerous areas can be found in large cities where global supply chains find the greatest concentration of producers, consumers, and distributors. The purveyors of these goods often locate in old central business districts where local chambers of commerce face a declining manufacturing base and are especially desperate to attract high-end corporate investors and financial services. This need leads to a physical clash of forces and development models—and growing problems of insecurity—that can thwart the developmental aims of aspiring global cities as well as those of the national investor class that seeks to generate global capital and visibility.

TYOLOGIES FOR A NEW GLOBAL ERA: SECURE AND INSECURE CITIES

Mexico City may have its own political, spatial, and historical peculiarities that have made its built environment particularly contested, complex, and violent. Even so, it is not alone. Many other cities share these legacies, and they tend to face chronic problems of violence and insecurity. Indeed, the persistence and growth of an informal sector throughout periods of industrialization, the spatial contiguity of various social classes, the

vibrancy of commercial and downtown life, the politics of urban clientelism, and the expanding networks of illegal activities that hovered in the background of the Mexico City story, are also characteristic of other developing-country cities that now wish to achieve global preeminence: Johannesburg, Buenos Aires, Rio de Janeiro, and Manilla, among others.

Still, these problems cannot be understood as affecting all cities of the global south; nor are they entirely absent in every city of the global north, even if the pervasiveness of the problem may not be as extreme. Put another way, not all of the cities of the south are becoming like those of the north, even though some cities of the north share characteristics with their southern counterparts. The root cause of growing insecurity is social, spatial, and economic developments of the past and how they locate themselves in the present era of globalization. There are certain cities in the “industrialized north” that share many features of those in the global south, just as there are cities in the late-industrializing world that have transcended those constraints. In the late-developing world, for example, it is striking that many of the cities of East Asia seem to have avoided the descent into violent chaos and the clash of development models that plague their Latin American counterparts. Why is such the case?

First, burgeoning urban informality is not a serious problem across all cities of the global south. Massive employment in export-led industrial sectors arrived early on in East Asian countries, thereby allowing them to avoid the disruptive plant closings and attendant unemployment that came in the abrupt shift from ISI to EOI in most of the rest of the global south. Just as important, these are the same late developers that remained rural for much longer and in which high rates of urbanization came relatively late. For another, even as they pursued export-led industrialization, these countries also fostered small-scale commercial and industrial production, and prioritized employment over capital intensity in commercial and industrial production, be it domestic or export-led. Thus, their economies remain a vibrant source of both employment and growth. This combination of “historical advantages” set a clear cap

on the growth of the informal sector.

Paradoxically, moreover, these very same historical advantages have given certain countries like South Korea and China a leading role as suppliers in the global network of (manufactured) contraband consumer goods, many of which are found on the streets of troubled cities like Rio de Janeiro and Mexico City. Thus, we see a small but leading group of “late” developers reaping the benefits of export-led industrialization once again, but doing so at the cost of rising illegality and violence among its less fortunate counterparts, whose problems stem from being on the wrong end of the same global supply chain. The result is a “categorical” split within the so-called “global south” where the relevant analytical distinction is not so much the degree of formal democracy or the extent of global integration and global investment in the built environment, but rather, the extent of violence, insecurity, illegality, and lawlessness. Stated differently, global cities differ in the degrees of their security and insecurity, despite sharing many similar built environmental features, but these differences do not map neatly into a north-south division. Rather, they are more directly correlated to particular urban and national development histories, which themselves must be examined with something more than a northern and southern, or early versus late developmental, lens.

Let us take this logic one step further, using it as a basis for developing a new framework for understanding similarities and differences in contemporary cities of the global north. Clearly, the problems of extreme violence, insecurity, and lawlessness that characterize so many Latin American and African cities—and that are related to histories of informality, occupational structure, income inequality, and national industrial development trajectories—are not evident in most major cities of the global north, among them Paris, Milan, Tokyo, and New York. Such is not to say, however, that they are absent, or that they are not materializing as a result of globalization. In the United States, Europe, and elsewhere in the advanced capitalist north, many secondary and tertiary cities grew with similar patterns of industrialization, demography, and urban form. Detroit is a good example in the United States. Little money was spent on upscale real



estate development and downtown “modernization,” in contrast to the capital cities in the aforementioned countries. Employment centered on industrialization for a domestic market, and low-level commerce and services were the norm. In some instances, rural decline brought new migrants to cities in search of employment opportunities, a population pressure that translated into an inflated small-scale commercial and service sector, especially when their arrival coincided with a decline in the manufacturing sector. Many locales of southern Italy and certain Eastern European countries could also serve as good examples. To be sure, in most of the cities of the global north, even small ones, strong welfare state programs and commitment to employment prevented these conditions from devolving into the social polarization and intense informality that laid the basis for subsequent patterns of violence in certain cities of the global south. However, the current era of globalization may be changing that reality.

Given the political and economic restructuring of national economies in response to globalization, new

actors and urban conditions emerge. The move from manufacturing and industrialization to high-end services and an information- or technology-based economy, evident in many parts of the advanced capitalist north as well as the “south,” has brought forth new investors and actors while displacing old ones who remain wedded to the industrial economy. Combined with the fact that many nation-states are pursuing a more neoliberal social policy, these economic and public policy shifts have placed constraints on full employment. The balance of industry and services is also shifting dramatically, driving investors to turn to real estate developments and other high-end urban projects even as it displaces factory workers who now seek new sources of work. While longstanding residents might not be pushed into low-end services or informality as a result of these larger macroeconomic shifts, new immigrants, who flow into these cities as a result of more fluid national borders and a globalizing labor force, gravitate to these low-skill areas of employment, where limited education and language deficiencies are not large barriers to entry.

Further social and economic polarization may follow if they bring cultural traditions or longstanding customs of trading and informality, and if they are residentially isolated from the mainstream or socially excluded in ways that limit their physical, social, or cultural interaction with long-standing residents. In such environments, crime often flourishes.


Thus, alongside major global investors in real estate and iconic architecture who are seeking to jumpstart the urban economies of the post-industrial era, one might also see new foreign immigrants who are employed in services (formal and informal) and linked to trade in consumer goods, both legal and illegal, all of whom are operating in a context of increased crime. These patterns are starting to emerge in cities of the global north. When these new and old sets of forces clash socially, struggle for dominion over urban space, or find themselves on the opposite ends of urban privilege (in terms of income, access to basic needs provisions, and so forth), we may begin to see a version of the same problems that brought insecurity and violence in Mexico City and other historically similar urban locales of the global south.

Again, it is important not to over-emphasize the extent of similarity between the contemporary cities of the global south and north, in part because legal frameworks of urban action are so much more established in the latter than in the former, while it is an insufficient or deteriorating rule of law that has fueled the rise of insecurity and violence in cities of the late developing world like Mexico City. However, there are many urban locales in the democratic and affluent “north” where corruption, mafias, bribery, and other illicit practices also impact urban decision-making, suggesting that the distinction between law-abiding and lawless cities is better understood on a continuum.

Moreover, the overall sense of growing urban fear, and concerns about violence that have started to plague many cities of the global north in the last decade or so, have pushed residents to hire private security guards, develop gated communities, and use new technologies to protect themselves. These trends start to eat away at the institutional edifice of a rule of law because they shift responsibility for vigilance and maintaining public

order to private hands. If security and, by extension, the “rule of law,” are available only to those who have the financial means to afford them, and if the whims of private individuals determine security actions and urban conditions, then the larger social contract that sustains the public guarantees of equitable legal treatment for all is in danger of rupture. Without a viable, publicly sanctioned, socially inclusive, and well-legitimized rule of law for the city, “mere” problems of violence can readily transform into widespread urban chaos and insecurity, especially if the socially, spatially, economically excluded newcomers turn to their own “rules” for governing urban life and livelihood.

WHAT CAN BE DONE?

The problems that are described above are enormous, tracing their roots to macroeconomic shifts that are associated with globalizing economies, as well as their impact on urban social, economic, and spatial structures. They cannot be easily reversed. However, planners, architects, and sociologists must be prepared to think about how to envision a city that would not fall prey to these problems. Stated differently, they must think about how to make or keep cities secure, but without resorting only to “privatized” efforts to guarantee security. That is, they must be committed to developing truly public spaces that are open to all classes and cultures; they must be able to transcend the temptation to use gating or other techniques of spatial isolation to protect individuals; they must think about new ways to structure built form so as to emphasize social and economic integration rather than fragmentation; and they must struggle for urban *and* national-level social policies that guarantee sectorally balanced urban employment patterns and alternative land uses, all in order to prevent the social and spatial polarization of urban life and the compartmentalization of physical spaces and economic activities into high and low-end activities, that compete with, rather than complement, each other. It is only by undertaking this massive cross-sectoral effort to engage citizens and the state at a variety of levels, that social peace and urban harmony can be achieved. 

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