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South Bulletin: *Reflections and Foresights* takes stock of ongoing debates on major global policy challenges and delivers regular flow of analysis and commentary to policymakers in the South.

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**EDITORIAL: Why the Ecuadorian Proposal May Be a Better Response to Financial Crisis than the G20 Declaration**

**Yash Tandon, Executive Director, South Centre**

On 15 November 2008, at the invitation of President George W. Bush, a group of 20 countries (G20) – selected by the President – met at the White House, and following three-and-half hours of discussion, issued a Declaration on “*Financial Markets and the World Economy*”. There was very little new or inspiring about the Declaration. The G20 leaders made “a commitment to free market principles, including the rule of law, respect for private property, open trade and investment, competitive markets, and efficient, effectively regulated financial systems.”

Their analysis of the “Root Causes of the Current Crisis” boiled down to blaming “market participants” for seeking higher yields “without appreciation of the risks”; in a world of “increasingly complex and opaque financial products”; “inconsistent and insufficiently coordinated macroeconomic policies”; and “inadequate structural reforms” – all of which contributed to “excesses and ultimately resulted in severe market disruption.”

Accordingly, the G20 leaders agreed to take some “immediate steps” to stabilize the financial system, unfreeze credit markets, and ensure that the International Monetary Fund (IMF), the World Bank (WB), and the multilateral development banks (MDBs) have sufficient resources. Also, they agreed on five “common principles” of transparency, sound regulation, promoting financial integrity, international cooperation and reforming International Financial Institutions. These were followed by an “Action Plan” aimed at removing existing weaknesses in the accounting and disclosure procedures, credit rating agencies, procyclical regulatory policies, etc.; and the shortcomings of the Bretton Woods Institutions including the IMF, the WB, the Basel Committee, and the Financial Stability Forum.

This is the sum total of the G20’s unconvincing Declaration. In barely camouflaged ideological assumptions that are both historically and logically flawed, the Declaration lacks empirical correspondence to the reality on the ground and theoretical depth.

We publish in this issue an “*Agenda for the South*” contained in a statement made by Pedro Paez Pérez, the Minister of Economic Policy Coordination of Ecuador at the Interactive Panel of the United Nations General Assembly on October 31, 2008. In contrast to the *globalised integra-*

*tion model* advocated by the G20, Pérez advocates a *regional model*, including “decoupling from the dollar’s crisis logic.” “Today”, he says, “the commercial dependency (and intra-firm trade) with the North is sky high.” Pérez’s observation is similar to my own in my recently published book on *Ending Aid Dependence*.

Pérez carefully goes through the political and technical arguments for creating Regional Monetary Agreements (RMAs), including flexible regional bloc Exchange Rate Regimes (ERR), and the creation of regional currencies. With these, the South can reduce “the artificial need for dollars in the regional trade, financial markets, and therefore, the technical need for reserves through the deployment of intra-continental system of settlements”. These measures will converge towards “a sense of regional identity, responsibility and community of interests... and breaking out of the `prisoner’s dilemma` of unilateral decision making.” In relation to Latin America, he advocates building on the “New Regional Financial Architecture” agreed upon by the seven ministers of finance (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela) in the Quito Declaration of May 3, 2008. He goes on to urge “an international diplomatic campaign” to launch, in parallel, similar accords in other regions of the world (Chiang Mai, Africa, Arab countries, etc.)”

Pérez’s proposal is in line with what we have been suggesting for some time in this *Bulletin*. We have argued that it is *imperative* that the South *decouples* itself from the crisis-prone system of the North. This is particularly urgent in the present phase of *financialised capitalism* when financial markets are privileged over production; when house mortgages, consumer spending, the commodity market, the oil market, the food market, etc. are all subject to asset securitization and speculation in the uncontrollable futures market; and when profit maximization by mostly Western banks and corporations, sometimes in collaboration with Southern large corporations, have disembowelled and weakened the resilience of smaller enterprises in the South and thrown them out of their domestic markets.

The sub-prime housing crisis which started with the US and then got “globalised” (to a greater degree in Europe than in Asia, Africa and Latin

## Editorial

America) through inter-bank collateralised securities was not a product of "severe market disruption" as the G20 Declaration argues, but endemic to the present system of capitalism, as part of its inner logic. In the 1990s the then British Prime Minister Margaret Thatcher coined the phrase "There is No Alternative" (to neo-liberalism), or TINA. In 2002, a new word entered the financial lexicography of housing mortgages – NINA (No Income, No Assets). People with neither income nor securities were provided mortgages by happily whistling bankers. These twin maids – TINA and NINA – have caused untold misery to the poor of both the North as well as of the South.

This is only one side of the coin – the side of globalised financialised market of housing, stock, and dot-com bubbles.

The South must not forget another side of the coin. In 1997 during the Asian financial crisis, Mahathir Mohamed, then Prime Minister of Malaysia, called for greater international control on the speculation of hedge funds such as George Soros' Quantum Fund. Northern "experts" pronounced him "mad". But Mahathir saved his country from the prescriptions of the IMF which brought the economies of Thailand, Indonesia and South Korea crashing down. As this was happening, curiously but not surprisingly, two hedge fund economists, Robert Merton and Myron Scholes, were awarded the Nobel Prize for their "sterling work" in risk-free financial management. The Black-Scholes model was eagerly lapped up in university MBA curricula, and commodity and currency exchanges. In 1998, tragedy struck. The Long Term Capital Management (LTCM) of which Scholes and Merton were partners crashed. At the time, the LTCM had capital of \$4.8 billion, a portfolio of \$200 billion built from credit lines with all the major US and European banks, and derivatives with a notional value of \$1,250 billion. Its CEO was the legendary hedge fund trader, John Meriwether, who when asked if he believed in efficient markets, replied, "I make them efficient."

In 1999, encouraged by US Federal Reserve Governor Alan Greenspan and US Treasury Secretary Robert Rubin, the Congress repealed the Glass-Steagall Act. This opened up a bonanza for US banks. They started snatching all kinds of assets from insurance companies, pension funds, finance houses, mortgage companies, etc. They also created "innovative" financing instruments including CDOs and SPVs that we analysed in the last issue of the *Bulletin*. What we are witnessing today is no ordinary "cyclical crisis". It is deep-seated systemic crisis that cannot be resolved by a little patch-up work, fiscal injection and counter-cyclical measures suggested by the G20 Declaration inspired by President Bush's last minute effort to save "free market" capitalism.

The South must not forget also that most of the present woes of many countries in the South stem from the conditionalities (such as the Structural Adjustment Programme) imposed on the countries that borrowed from the IMF and the WB. The IMF bailouts were not aimed at protecting the economies of the South. The objective, or at any rate the effect, of these was to bail out the hard-pressed American financial and banking interests, and to create conditions for further control by American (and allied) capital over the national economies of the developing countries in distress. In other words, these developing countries were placed in distress through debt burden, trade liberalisation, and other conditionalities of donor funding, and then to get them out of the distress, IMF moved in and cleared the way for American-European-Japanese capital to take over. This, at least, is what evidence showed on the ground. Even the London-based *Economist* had to admit that IMF's Korea foray after the financial crisis of 1997/98 proved that the IMF had become an "adjunct to US foreign policy". (The *Economist*, December, 13, 1997, page 80). It went on to say that the US also had a "big hand" in dictating IMF

conditions for bailing out Mexico and Indonesia. In the IMF, the *Economist* concluded, it is "politics in command". Larry Summers, the intellectual power behind US economic foreign affairs, said: "In some ways the IMF has done more in these past months to liberalize these economies and open their markets to US goods and services than has been achieved in rounds of trade negotiations in the region." ("*American Farmers: Their Stakes in Asia, Their Stake in IMF*," Office of Public Affairs, US Treasury Department, Washington DC, February 23, 1998).

In a study undertaken by a group of researchers from both the North and the South in 2002-2003, initially with World Bank blessing (later the Bank withdrew from it), found that the effects of SAPs on the economies of Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mexico, the Philippines, Uganda and Zimbabwe were "disastrous". It led to loss of policy space, privatisation of public assets (the reverse of what the Western governments are now doing in nationalizing private banks and other assets), fiscal discipline (as opposed to fiscal leniency now adopted by Western governments when their own economies are in distress), deindustrialisation, unemployment, poverty, collapse of social safety nets, food importation, and the creation of economic refugees and emigration.

The G20 Declaration aims at restoring the legitimacy of the IMF by pumping money into it. At least it is an admission of the IMF's lack of legitimacy. However, no amount of replenishing the IMF's diminishing liquidity will restore its legitimacy in the eyes of the millions that have suffered under its disastrous policy prescriptions of the last nearly three decades. It is for these reasons that we must advise the countries of the South, especially the smaller and vulnerable ones, to challenge the simplistic analysis of the G20 Declaration on the current crisis, its ill-conceived ideology of free market liberalism, and its proposed remedies.

The Ecuadorian proposal enunciated by Minister Pérez, on the other hand, has an alternative strategy for the South. "As in other historical experiences" says Pérez, "the most vulnerable ones will end up paying for the excesses of others, unless a viable and technically well designed roadmap is created to defend their interests." It is an outstanding example of innovative and practical thinking from the South. It is a doable strategy with a clear roadmap based on "learning-by-doing". It seeks to build confidence and trust through a "collegial process" among countries in the three regions of the South (Asia, Africa and Latin America and the Caribbean). And it is "oriented towards another kind of development and new relationships between states, capitalist firms and the heterogeneous spectrum of popular economies (medium, small and microenterprises, community and cooperative structures, etc.)"

The Ecuadorian proposal deserves serious study and consideration by the leaders of the South, big and small. If the leaders of the seven countries of the South, who went to Washington and after barely three-and-half hours of discussion on a precooked text, endorsed the G20 Declaration out of courtesy to the outgoing President of the US, then there is still hope. Diplomatic courtesy is part of South's culture. This said, a serious debate is urgently needed in the South itself – between its political leaders, its academic and intellectual community, its civil society and above all, between all of these and the movements of the people on the ground who are at the receiving end of all ill-conceived policies done in their name. This is the democratic transparency that is needed, not the top-down financial and banking "transparency" of the G20 Declaration. People do matter.

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## Rhetoric vs. Reality: The Real Issue of Global Sustainability

Mukul Sanwal

Sustainability has been on the global agenda since the Stockholm Conference on the Human Environment, held in 1972. President-elect Obama is expected to give renewed impetus to multilateral environmental treaties, in particular to climate change. It is, thus, an appropriate time to reflect on the positions adopted on these issues by the United States and other developed countries, to see where change is likely to come about, or should come about. Diplomatic correspondence relating to the Stockholm Conference, declassified by the United States State Department, provides interesting insights.

### The Problem

The nature of the global problem has long been recognized, but not acted upon because of "political" considerations. The report 'US Priority Interests in the Environmental Activities of International Organizations', prepared by the Committee on International Environmental Affairs of the State Department, noted that:

*"Long range policy planning to cope with global environmental problems must take account of the total ecological burden. This burden tends to increase with population growth and with the level of economic activity, whereas the capacity of the environment to provide essential inputs to production and to absorb unwanted outputs from consumption is fundamentally limited. The problem with managing total ecological burden will remain even after world population is stabilized. Controlling that burden by systematic reduction in per capita production of goods and services would be politically unacceptable. A concerted effort is needed to orient technology towards making human demands upon the environment less severe"* (italics added).

All developed countries, including the United States, have ratified the United Nations Framework Convention on Climate Change (UNFCCC), and have agreed to "modify longer term trends". They should acknowledge that climate change is really a problem of the ecological burden of developed country per capita consumption and production patterns. However, global attention is sought to be focused on the increasing emissions from China (and India), where three quarters of the electricity generated goes for industrial production and any reduction in emissions will have a direct impact on economic growth, unlike in developed countries where consumption by households accounts for two-thirds of the electricity generated, and reductions will impact only on (wasteful) lifestyles.

### Objectives

The policy priorities were laid out in the run up to the Stockholm Conference, after a two year period of preparation by an inter-departmental group. A supporting paper for the report on 'US Priority Interests in the Environmental Activities of International Organizations', pointed out that the Stockholm Conference will discuss:

*"the global aspects of various forms of pollution, as well as the adverse effects on the environment that might result from future economic development in the less developed countries"* (italics added).

The leader of the US delegation to the Stockholm Conference obtained the approval of the President on the environmental goals, stating that:

*"the overall U.S. objective to the conference is to raise the level of national and international awareness and understanding of environmental problems*

*and to increase national, regional and global capabilities to recognize and solve those problems which have serious adverse impact on the human environment. By doing so we will maintain and improve our international economic, competitive position as other countries adopt control measures comparable to our domestic measures"* (italics added).

Actions by developing countries, interlinked with commercial interests of developed countries, were also a decisive factor in the United States agreeing to the Montreal Protocol. Richard Benedick, who led the United States delegation,

documents the pressure "American corporate chiefs" put on the Bush Administration.

In the ongoing negotiations on climate change, the stress on global emissions standards in electricity generation, cement and steel sectors will largely impact the developing countries and shift the burden onto them while opening the way for export of equipment for the developed countries. In the developed countries industrial emissions have been steady since 1992, and any global standard would be based on levels they have already achieved. The focus on production patterns also diverts attention from modification of consumption patterns - in the services, household and transportation sectors - where emissions in developed countries are growing sharply. This is despite the fact that local solutions like energy efficiency in buildings have a greater emission reduction potential.

*"In the ongoing negotiations on climate change the stress on global emissions standards in electricity generation, cement and steel sectors will largely impact the developing countries and shift the burden onto them..."*

## Rhetoric vs. Reality: The Real Issue of Global Sustainability

### Approach

The absence of a shared global vision has hindered a global consensus. The State Department noted that:

“...some African representatives may strongly *challenge developed countries “doctrine” on environmental matters at the up coming Stockholm Conference....* their views linking environment and development will be with us for years to come... that the documents prepared for the Conference *give far more weight to the preoccupations of industrialized countries than to the far more serious ones of the developing countries...* the problems to be discussed at the conference are of a *political nature*” (italics added).

Even though three-quarters of Africa still has no access to electricity, the aspirations of developing countries for economic growth continue to be highlighted as the problem, while the impact of developed countries economies on the environment is ignored. For example, the Energy Information Administration has predicted that coal would provide 57 per cent of US electrical power production in 2030, up from 51 per cent today (EIA, 2008), but the focus in the media and in the negotiations is on the continued reliance of China and India on their coal reserves. The additional cost of building integrated gasification combined cycle (IGCC) coal fired plants in China, instead of more conventional plants, has been estimated by the US National Academy of Sciences to be \$190 billion. However, there is limited discussion of technology transfer at the global level. It is also not generally pointed out that China has only 13 per cent of the number of cars in the US, with a population that is four times larger. A shared global vision of environmentally sustainable global growth, supported by technology transfer, will be essential for any meaningful deal on climate change.

### Process Management

The methods adopted for arriving at a consensus continue to have a familiar ring to them. The Scientific Attache in Brazil suggested to the State Department that:

“...as you know one of the standard department procedures, especially where international organizations or activities such as the upcoming Stockholm Conference are concerned, when they run into trouble is to attempt to *mount a demarche by all of the ‘friendlies’ on the poor little fellow who happens to be ‘unenlightened’ to appreciate fully the merits of our position...* I think we can anticipate without much difficulty that there is going to be a con-

tinuation of the feeling among many of the underdeveloped countries *that being concerned about the environment is, in the final analysis, a rich man’s game*. This feeling may well, in fact be present at a low level even with countries which may be pragmatically willing to go along *“for what’s in it for them”*. While we know this is not just a rich man’s game, we also know that *it is sometimes very difficult to persuade otherwise someone whose major goal must be development*. Accordingly, my suggestion would be that you... set in motion now...with specific ‘friendlies’... a well thought programme of gradually informing and hopefully converting the key policy-makers wherever that seems necessary. ...to *establish long term persuasive relationships with the policymakers of specific underdeveloped countries where they may have influence by virtue of past association or a special relationship...*” (italics added).

*“Even though three-quarters of Africa still has no access to electricity, the aspirations of developing countries for economic growth continue to be highlighted as the problem...”*

It is now being recognised that “the times when it was possible to sweeten a deal for developing countries with placebo funds and voluntary declarations have irrevocably passed”. A shared global vision would not need tactics that knowingly lead to outcomes detrimental to the interests of one partner in the negotiations.

The context in which sustainability has been discussed at the multilateral level has changed, since the issue first came onto the global agenda in 1972, stressing single global solutions. Since then, financial and technological globalisation and the sustained economic growth of

Asia have broadened perspectives. The response at the multilateral level to the seismic shift in economic power and demand has largely been of a scarcity mentality seen as a zero-sum game, rather than develop a shared vision where everyone can become better off. The challenge now is to increase resource productivity – using fuel, water and raw materials more productively. In this framework of global sustainability stressing demand side management, there will be no single solution, but rather many local solutions. The time has come for change.

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*The complete article along with the footnotes is available from [www.INSouth.org](http://www.INSouth.org) under the profile of the author along with his other articles.*

## Poznań Climate Conference: Overview and Submissions by Developing Countries South Centre

The Poznań Climate Change Conference, the Conference of Parties Meeting 14 (COP14) to the United Nations Framework Convention on Climate Change (UNFCCC), will be held from 1-12 December 2008 in Poland. The meeting comes midway between COP 13 held in Bali, Indonesia last year and the upcoming COP 15 that will take place in Copenhagen, Denmark at the end of 2009, at which the negotiations for the post-2012 (or the second commitment period of the Kyoto Protocol) period are set to conclude.

Delegations from over 187 countries that signed the Bali "roadmap" last year (COP 13) will participate in Poznań, Poland. The Parties are expected to:

- Agree on a plan of action and programmes of work for the final year of negotiations after a year of comprehensive and extensive discussions on crucial issues relating to future commitments, actions and cooperation;
- Make significant progress on a number of on-going issues required to enhance further the implementation of the Convention and the Kyoto Protocol;
- Advance understanding and commonality of views on "shared vision" for a new climate change regime;
- Strengthen momentum and commitment to the process and the agreed timeline.

Two working groups, the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA) and the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP), will meet at Poznań.

In addition, the Second Review of the Kyoto Protocol under Article 9 will meet, with a specific focus on the scope and effectiveness of the flexible mechanisms, including the capacity of Parties to participate in the Clean Development Mechanism (CDM).

The AWG-KP is scheduled to finish deliberations on means for achieving mitigation objectives, as well as considering ranges of emission reduction objectives of the Annex I Parties.

The fourth session of the AWG-LCA will deal with 'adaptation, mitigation, technology, financing and the shared vision for a new climate change regime.' It will hold three focused in-session workshops on:

- Shared vision for long-term cooperative action;
- Risk management and risk reduction strategies, including risk sharing and transfer mechanisms such as insurance;
- Cooperation on research and development of current, new and innovative technology, including win-win solutions.

The Parties will also discuss detailed proposals to put forward at Copenhagen regarding the future financial architecture and technology and capacity-building.

Several Parties (India, Singapore, Switzerland, Panama, USA, Norway, South Africa, Argentina, Brazil, New Zealand,

Japan, Republic of Korea, Russian Federation, Sri Lanka, China, Turkey, Central American Countries, Group of 77 and China) have made new submissions since the third session of AWG-LCA in Accra.

### Submissions of Parties of Developing Countries:

The **Group of 77 and China** in their proposal, "A Technology Mechanism under the UNFCCC", seeks to address the shortfall in implementation by developed countries of their obligations to provide technology and associated finance and capacity building to developing countries to enable them to implement the Convention. The proposal sets out the rationale, criteria and institutional arrangements for a new technology mechanism, which include a new subsidiary body to the Convention (the Executive Body on Technology) as well as a Multilateral

Climate Technology Fund, which, along with other funds would operate as part of an enhanced financial mechanism under the Conference of Parties.

In their proposal, "Financial Mechanism for Meeting Financial Commitments under the Convention" tabled at the Accra Climate Change talks in August 2008, the Group of 77 and China stressed that a new mechanism would be based on principles of equity and common but differentiated responsibilities, under the authority and control of the COP, and that funding would come from 'new and additional' financial resources over and above available overseas development assistance (ODA) funding. They stated the funding should be predictable, stable, and timely, and that developing country parties are to be provided with

*"The Group of 77 and China proposal sets out the rationale, criteria and institutional arrangements for a new technology mechanism, which include a new subsidiary body (on technology) to the Convention as well as a Multilateral Climate Technology Fund..."*

## Poznań Climate Conference: Overview and Submissions by Developing Countries

new and additional financial resources, covering the full incremental costs for: mitigation, capacity-building, research and development, patents, preparations of national action plans and implementation, and transfer and utilization of technology.

**China, India and Brazil** in their submissions have reiterated their views that developed countries need to “take the lead” in reducing the greenhouse gases (GHG) emissions.

**China**, through its submission, seeks that technology transfer and the provisions of financial support and capacity building by developed country Parties for national mitigation actions in developing country Parties shall be measurable, reportable and verifiable, and be new and additional to ODA. The funding scale shall be 0.5-1% of the annual GNP of Annex I Parties and additional to the existing ODA and will be used to enhance actions on adaptation, mitigation and technical research, development, demonstration and transfer, as well as related capacity building, through establishing specialized funds such as the Convention Adaptation Fund, the Mitigation Fund and the Multilateral Technology Acquisition Fund. The submission desists countries from making further sub-categorization of developing countries as it runs against the Convention itself and is not in conformity with the consensus reached in the Bali Action Plan.

**India** notes in its submissions that equity must be central to the way forward on climate action and calls for equitable sharing of the carbon space and protecting the right of developing countries to sustained economic development. On financing, it stresses that the funding to service legal commitments under the Convention cannot be voluntary as these are not predictable. Further, the financial contributions made to service these commitments cannot be treated as aid or assistance under a donor-recipient platform. It calls upon annual contributions equal to 0.5% of the total GDP of the developed world for funding full agreed incremental costs of adaptation and mitigation through resource transfers or grants.

The submission draws attention to increases in terms of per-capita emissions in the Annex I countries, and calls for this alarming trend to be immediately reversed. It calls upon the international community to start identifying an indicative stabilization target and a time-frame for its achievement along with an equitable paradigm for sharing the carbon space.

The submission by **Brazil** notes the need for full recognition of the mitigation actions that have been and are being implemented by developing countries. This would help avoid the false view that mitigation so far has been achieved only by a limited group of Annex I Parties. On Reducing emis-

sions from deforestation and forest degradation (REDD), Brazil notes that actions regarding REDD are an important part of mitigation efforts by several developing country Parties, and forest mitigation activities under the UNFCCC should not be discriminated from the treatment of other non-forest mitigation activities.

The submission by **South Africa** on “Means of Implementation” emphasises its support for the G77 & China proposals on the financial and technology mechanism. It calls for a shift from project-based approach to a programmatic approach in order to drastically scale up climate action and make optimal use of the full range of means of implementation available. On mitigation action, South Africa proposes the establishment of a register of nationally appropriate mitigation actions (NMAs) by developing countries to enhance the existing provisions of the Convention, namely Article 14.2.

The **joint submission by Panama** on behalf of five Latin American nations states the desire to see more responsibility taken by developed countries in financing the developing countries as they begin to address the issues posed by climate change. Specifically, it calls for a clear, transparent, and sustained new financial flow to allow the governments of developing countries to successfully make the necessary changes to reduce greenhouse gas emissions.

The submission by **Argentina** notes that continued use of flexible mechanisms to reduce GHG emissions requires close consideration given their potential to displace domestic action by Annex I countries and capture, primarily, only the least expensive mitigation activities in developing countries. Argentina believes that market-based mechanisms have a role to play but markets alone cannot deliver the expected outcomes soon enough to avoid irreversible climate change. Further, the Carbon markets do need to be scaled up to deliver additional financial flows to accomplish the task ahead; but there is a need to identify ways of financing low-carbon investments in developing countries that do not involve transferring the burden of mitigation from the developed to developing world. On REDD, the global approach should incorporate safeguards to ensure that global scale activities, such as sales of REDD

credits, are coherent with national development goals protection of the countries concerned.

The submission by **Sri Lanka** supports the concept of financial compensation for climate victims and the international insurance mechanism which would support countries to face losses due to extreme events. It further supports the proposal of the global carbon tax for countries with high annual per capita emission, which would flow to adaptation and insurance funds in low emitting countries.

## Poznań Climate Conference: Overview and Submissions by Developing Countries

### End Note

With the global economic crisis in full swing and the mitigation and full effects of it just beginning to emerge, there is some worry about the climate change issue once again getting lost in the shuffle of more pressing national agendas. It is imperative that the critical challenges posed by climate change are addressed adequately and in a timely fashion.

Developing countries need to actively participate to ensure that the current financial crisis does not create an excuse for inaction or detract focus or commitment regarding the important issues to be addressed at the Poznan Conference.

*Analysis undertaken by Vikas Nath and Amy Schweikert, South Intellectual Platform, South Centre Geneva.*

### Important Links on Poznań Climate Conference:

The Official Website for the Poznan Climate Change Conference COP14: <http://www.cop14.gov.pl/>

Poznań Climate Change Conference Agenda

[http://www.cop14.gov.pl/files/Program\\_Konferencji\\_07\\_11\\_08.pdf](http://www.cop14.gov.pl/files/Program_Konferencji_07_11_08.pdf) (update of 7 November 2008)

Scenario Note on the Fourth Session of AWG-LCA

<http://unfccc.int/resource/docs/2008/awglca4/eng/15.pdf>

Submissions to the Fourth Session of AWG-LCA

[http://unfccc.int/meetings/ad\\_hoc\\_working\\_groups/lca/items/4578.php](http://unfccc.int/meetings/ad_hoc_working_groups/lca/items/4578.php)

The Submission of South Centre to the COP 14 are available from the UNFCCC website at:

[http://unfccc.int/parties\\_and\\_observers/igo/items/3714.php](http://unfccc.int/parties_and_observers/igo/items/3714.php)

## South Centre Publications on Climate Change

- The Role of Decentralized Renewable Energy Technologies in Adaptation to Climate Change in Developing Countries
- The Administrative Costs of Climate Change Adaptation Financing: The Global Environment Facility as an Operating Entity of the UNFCCC Financial Mechanism
- Financing the Global Climate Change Response: Suggestions for a Climate Change Fund (CCF)
- Promoting the Development of the South in the Trade and Climate Regimes
- Integrating Development in Climate Change

These publications can be downloaded from <http://www.SouthCentre.org> (Home > Issues > Climate Change)

## South Centre News

### New Publications

African Countries and the EPAs: Do Agriculture Safeguards Afford Adequate Protection?

Controversial Points in the Discussion on Special Safeguard Mechanism (SSM) in the Doha Round

Intellectual Property Quarterly Update - 3rd Quarter 2008

Food and Energy Crisis: Time to Rethink Development Policy (Key messages now available in French and Spanish)

### Upcoming Events (Financing for Development, Doha 2008)

- Side-Event: Challenges and Opportunities Beyond Doha, 2 December 2008
- Yash Tandon (Panelist): Climate Change and Development – How to Mobilize, Transfer and Use Innovative Funding, organised by European Commission, Governments of Germany and Sweden, 1 December 2008

More information at <http://www.SouthCentre.org> (English, French, Spanish)

## Doha Financing for Development Talks: What Should Developing Countries Push for? South Centre

*This document is a brief précis of some key points that were raised in the context of the « Briefing on the Global Financial Crisis and Possible Multilateral Responses to Systemic Issues: The Doha Financing for Development (FFD) Review Conference and Beyond», jointly co-sponsored by the G-77 and China (Geneva), the South Centre, and UNCTAD on 31 October 2008 at Palais des Nations, Geneva.*

### Towards a New Financial Order

#### i. We need a new financial order

It is likely that this reform will have to come from outside of the IMF and World Bank. The UN must play a very important role. The upcoming Financing for Development conference in Doha is the first step towards bringing about this change. Developing countries should use this forum to urge all partners that a major reform of the financial system is necessary. It must go much beyond adjustments in national regulation. We also need regulation to be coordinated at the international level and also target long term solutions.

The dysfunction of today's financial system leading to the current financial crisis should therefore be brought into the text, so that there can be a process that will lead to a new Bretton Woods conference and fundamental reforms in the financial architecture. (Whilst the G77 and China are pushing for the inclusion of the financial crisis in the text, the developed countries are opposed to having it mentioned).

#### ii. Dysfunction in the current financial architecture must be addressed

Model of capital flows and finance must be rethought – particularly as concerns the spinning of derivatives where \$1 which the banks has can lead to \$30 of loans and \$300 of derivatives. In future, multilateral regulation is necessary. It could take the form of licensing of financial products – much like the way pharmaceutical or motor products are licensed. Financial products should also be subjected to strong regulation. Today, financial toxic wates are produced because there is no licensing of financial products.

#### iii. Fixed exchange rates or control of capital flows?

The IMF was first created to safeguard a system of fixed exchange rates. Now it advocates flexible exchange rates and also free movement of capital. There are tensions bet-

ween the two.

The global system should only have one or the other – we cannot have flexible exchange rates and free movement of capital without creating enormous noise in the system. It inevitably leads to speculation and the rise of instruments such as derivatives to take advantage of the system. If countries want to have free movement of capital, there should be stable exchange rates. Alternatively, if we have flexible exchange rates, there must be regulation of capital movement so that the exchange rates are not moved by speculative movement, but by factors in the real economy.

#### iv. Reject traditional IMF prescriptions

The IMF seems to be prescribing the same medication to borrowing countries as during the Asian Financial Crisis – demand compression, fiscal squeeze, monetary tightening etc, leading to the impact of the crisis becoming much more devastating and exaggerated than is necessary. In fact, these policies will ensure that borrowing countries fall into deep economic recession, as was the case of the Asian countries during the Asian financial crisis.

On the day that the IMF raised interest rates in Iceland by 6%, the US brought it interest rate down to 1%. We need instead to learn lessons from the western economies – to have low interest rates, fiscal stimulus and liquidity in the markets etc.

Developing countries are particularly vulnerable. We need to avoid all policies that will lead to a fiscal crunch during this time

of recession when GDP rates are falling; companies' profits are falling; commodity prices are going down; and tariff revenues are falling due to free trade agreements.

#### v. Strengthening the South in the international financial system

Thus far, we have seen that in institutions where the South does have majority vote, such as the InterAmerican Bank and the African Bank, there has been no insertion of a real Southern viewpoint. The IMF is also calling upon the emerging developing economies to provide funds for its lending facility to deal with the current crisis. It would be ironic if the IMF uses these funds to provide lending to other developing countries imposing its traditional conditionalities.

There is an urgent need to raise the voice of the South through access to information and analyses. The developing

*“Whilst the G77 and China are pushing for the inclusion of the financial crisis in the Financing for Development text, the developed countries are opposed to having it mentioned.”*

## Doha Financing for Development Talks: What Should Developing Countries Push for?

world is in a much stronger position than it was 20 years ago and certainly than at the time of Monterrey. There is much greater South–South trade and greater flow of foreign investment into developing countries. There are also South-led initiatives, like the Chiang Mai Initiative, currency pooling arrangements in Latin America and the Bank of the South. We should strengthen these Southern initiatives and create a role for ourselves.

The IMF could become overseer and coordinator, but in this new terrain, decisions are made at the South–South level and the South has much greater voice.

### vi. Regionalisation of banking and credit systems

There must be a regionalisation of our banking and credit systems so that at the regional level, developing countries can be protected from financial shocks and volatility. We should therefore have regional banks in Southeast Asia, Latin America and Africa. In the future, we may even want to think of having regional currencies.

### vii. IMF's dysfunctional governance structure must be addressed

IMF reforms will not bear any fruit if they do not go beyond the issue of votes. The governance structure of the IMF is dysfunctional. Representatives of countries are effectively paid by the IMF. This is a 'moral hazard' and creates problems, including the disconnect between what goes on in New York and developing countries' representatives in Washington. This issue must be addressed.

### viii. Surveillance of developed countries

If the IMF is to continue having a role on the international financial system, the principles on which the institution has been set up must be re-thought. For example, in surveillance, its surveillance must not only cover borrowing countries but also the major economic powers.

### ix. Immediate Measures: Standstill in capital outflows and suspension of tariff cuts

Immediate measures countries should be allowed to take to prevent a national emergency (since most developing countries do not have the financial prowess to inject large fiscal and bailout package as with the case of the US or EU):

- standstill in capital outflows; standstill in stock markets and portfolio investments.

- suspension of deep tariff liberalisation commitments since this will cut into countries' revenues.

## Financing for Development and the Trade Regime

### i. Regulation of commodity prices and market power

Commodities excite a lot of interest when prices go up. However, there tends to be silence when prices come down. Today, the issue remains orphaned – the international institutions are not seriously addressing this issue.

Although trade barriers have been brought down, trade is no more fair today than it was 10 – 20 years ago. Government regulation has been replaced by the market strategies of the big corporations. As a result, developing countries' positions in the value chains – whether countries are micro chip producers or garment producers – have deteriorated.

The FFD process must address the concentration of trade networks by a handful of multilateral corporations. This issue lies at the heart of finance and development. This is not only a problem for commodities, but also for other sectors important to developing countries, such as in the garment industry.

### ii. Developing countries must have more policy space in the Trade Regime

Developing countries must push for more policy space in the trading regime. In the light of the financial and economic crisis, developed countries have used a large number of instruments to salvage their economies eg. huge government supports

to banks and corporations. Developing countries must also have the policy instruments required to deal with such hostile situations eg. tariffs; quantitative restrictions; and government supports.

Import liberalisation which we have negotiated during periods of economic success must be rethought. If developing countries reduce tariffs, and at the same time, our export earnings have declined drastically due to commodity price drops and subsidies and protection in developed countries, developing countries would be faced with trade deficits, balance of payment problems, increased indebtedness, devaluation of currencies, in ability to repay debts etc. That is, unless countries use the policy instruments that the developed countries are utilising, and other instruments which are more suited for developing countries' situations, such as tariffs, many economies could easily spiral into crisis.

*“If the IMF is to continue having a role in the international financial system (...) its surveillance must not only cover borrowing countries but also the major economic powers.”*

## Doha Financing for Development Talks: What Should Developing Countries Push for?

### iii. It is necessary to rethink trade liberalisation and the Doha Round

There should not be a glib recommendation in the Financing for Development text for the WTO's Doha Round to be concluded as soon as possible, so that modalities are concluded by December this year on any terms. The substance of the modalities is more important than the timeliness and there are many problems with the proposals of July 2008 and the G7 text. The text in the non-agricultural market access (NAMA) negotiations, for example, requires developing countries to implement drastic tariff cuts in industrial products, and participation in sectoral negotiations. This looks less and less attractive in the light of today's crisis and economic downturn.

### iv. Rethinking services liberalisation in the Doha Round - especially financial services

There needs to be a rethinking of services liberalisation. There is a push by developed countries in the WTO services negotiations to have countries bind their services liberalisation at their current applied levels and to liberalise their services sectors further from that point. These demands will not be beneficial for developing countries in the light of the reregulation that is being put in place today, particularly in financial services.

There has also been a push to add impetus to the plurilateral services negotiations – including for developing countries to allow the importation of new financial services that led to this crisis. These demands are now obsolete.

*“Instead of reinstating the same liberalisation policies, the overall approach to trade must change, allowing countries the policy space they need to respond to their people who are already in distress (as the US and EU respond to their corporations in distress).”*

### v. The Premises behind the EPAs and FTAs are no longer valid

The Economic Partnership Agreements (EPAs) between the EU and ACP countries, and other Free Trade Agreements (FTAs) countries are negotiating are even more problematic than the WTO's Doha agenda in the light of the financial crisis.

The EU's Cariforum EPA text calls for the free inflow and outflow of funds. This has been a major cause of the financial crisis. Secondly, the text also states that when countries introduce new financial services (for example, hedge funds), they will have to allow the EU to export such services also to these countries. Again, such proposals look unfeasible today.

The prudential clauses accompanying the financial services agreement are inadequate.

US FTAs are even more extreme. The premises of these FTAs are no longer valid because the situations, beliefs and conditions have changed, particularly in those countries which are pushing for these FTAs.

In the area of agriculture, it has even been acknowledged by Bill Clinton that 'We Blew It' as far as African agriculture is concerned. He acknowledged that the African food crisis was caused by World Bank and IMF conditionalities, supported by the US government, including himself. The policies forced Africans to eliminate subsidies, government procurement at fixed prices and government expenditure in agriculture. Coupled with the reduction in applied tariffs, this led to the demise of African agriculture.

Instead of reinstating these same liberalisation policies, the overall approach to trade must change, allowing countries the policy space they need to respond to their people who are already in distress (as the US and EU respond to their corporations in distress).

### Financing and Climate Change

Financing is a major issue in connection to climate change. The financing required by developing countries must be new and in addition to existing Overseas Development Assistance (ODA) flows, that is, climate financing must not be considered as part of ODA flows but rather as treaty-mandated flows under the UNFCCC. The G77 had requested earlier for 200 million in financing support, and subsequently 7 billion. In contrast, \$3□5 trillion have been mobilised

in the space of just one month to fix the banks and corporations in the North. The South should also be thinking in terms of trillions since this is indeed necessary if we are to comprehensively adapt to and mitigate the challenges of climate change.

**This précis has been prepared by Aileen Kwa, South Centre, Geneva.**

*The key points identified in this document do not necessarily represent the consensus view of the participants, nor do they necessarily represent or reflect the official views and perspectives of the G77, the South Centre, UNCTAD, or their respective Member States.*

## The Ecuadorian Proposal for a Crisis Response Agenda from the South

Pedro Páez Pérez

Perplexed and unable to decide what to do, most of the humanity is watching the international financial crisis deepening and increasingly jeopardizing the precarious living conditions of billions of persons. Meanwhile, a fast process of mergers and acquisitions is taking place, and a vast amount of taxpayer's money is pouring into the financial markets. As in other historical experiences, the most vulnerable ones will end up paying for the excesses of others, unless a viable and technically well designed roadmap is created to defend their interests. The Government of Ecuador is presenting a series of initiatives for a collective construction of a new international order.

### The Proposal

Given the speed and depth with which the crisis is unfolding, we believe a Regional Monetary Agreement (RMA) among the countries of South America is urgent. This RMA would act as a common framework in which the exchange rates of participating countries would be monitored, assessed and, if possible, agreed upon at the (sub) regional level, according to the principle of mutual concern for exchange-rate credibility and stability. As the pressures and the conditions for each individual country are heavy and heterogeneous, we believe that it's more viable to push for now for semi-annual agreements within bands.

The immediate effect of the announcement would be a calming effect on financial markets. However, the medium and long term conditions for sustainability must

be addressed for the proposal to be credible. That means advancing simultaneously with the three basic pillars of the New Regional Financial Architecture agreed upon by the seven ministers of finance (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela) in the Quito Declaration of May 3, 2008.

At the same time it is very important to launch, in parallel, an international diplomatic campaign to push for similar accords in other regions of the world. There are processes in progress in several zones (Chiang Mai, Africa, Arab countries, etc.) that could be coordinated and replicated. Coordination of relatively flexible regional bloc agreements is the most plausible way to achieve a rapid outcome. The success of this step could generate the political momentum for further institutional arrangements that would open the horizon for a holistic and stable New Global Financial Architecture.

### Immediate Regional Blueprint: Three Steps Option

Depending upon the political possibilities of each country in the current situation, it is important to explore different institutional arrangements. Three such arrangements are described below in order of increasing detail and depth of cooperation over time: first to define a multi-lateral agreement to share information about and monitor monetary policy, second to establish a single agreed monetary policy definition framework and third to fix on a compulsory shared policy. Restrictions on capital movements (according to Articles VII, 3(b) XIV, 2 of the IMF's Agreement) should not be excluded as options where politically viable.

#### Step One

Among the more flexible options in the spectrum of possible Exchange Rate Regime (ERR), the regional monetary agreement would be limited to a formal cooperative commitment (in absence of formal commitments about any parity grid among regional partners). The commitment would be:

- permanently monitor exchange-rate policies and
- regularly share ex-ante information on the respective national policy mixes and macroeconomic development

This monitoring exercise, involving peer exchange of opinions and criticisms (in closed-door meetings for policymakers

initially) would build confidence and reduce information asymmetry among regulators. Thus, by tackling possible speculative attacks and sharing experiences, uncertainty among policymakers would be reduced. At this first stage the advantage compared to traditional non-cooperative, unilaterally floated rates, would be the access to privileged information and the creation of dynamic exchange of best-practice techniques between peers. This will open significant opportunities to determine better exchange rate movements and to avoid speculative attacks by jointly examining compatibility of national policies and their resulting impact on bilateral exchange rates.

This dynamic would bring about quickly an additional benefit for the region: positive external effects on domestic economic agents, public opinion, external financial markets and creditors through greater predictability, better anchoring of expectations, and smaller interest-rate spreads. Such benefits could become tangible (and very significant

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in terms of budget and growth) to the degree that the monitoring is rigorous, transparent and useful for citizens, economic agents and external creditors. The only way to meet these crucial conditions is by publishing well organized information and by hosting open professional debates about the results of the closed door monitoring exercises.

The indicated double benefit of this collegial process of consensus building on exchange rates should bring many advantages to the economies of (sub) regions when compared to purely individually floating regimes or to the coexistence of conflicting ERRs in the same region. These would be:

- better building of institutional capacity and consensus
- faster adjustment in policies
- higher degree of transparency and information for market agents about policy intentions (contributing to the shaping and anchoring of their expectation)
- deeper links and confidence between policymakers

All these advantages converge for developing a sense of regional identity, responsibility and community of interests, making it easier to achieve a genuine spirit of cooperation and breaking out of the "prisoner's dilemma" of unilateral decision making. In this positive context each region is able to make better policy choices, to tackle ERR on a sounder basis, and to consider more alternatives than just corner solutions for their own circumstances.

### Step Two

The next intermediate stage would involve setting "soft" regional target zones; narrowing the range of options. This group includes the full range of non-binding bands within which the regional consensus communicates optimal exchange rates for all the partners' currencies. Obviously, the simplest of these is merely a target zone for each currency set against the US\$ which provides implicitly a regional parity grid for bilateral rates. However, we know that this will not continue to be the best option from a "stability and growth" point of view. Ideally, target zones should be defined in the framework of the so-called "BBC regime", (Basket, Band, and Crawl), which solves most of the defects of corner solutions. Indeed, movements among third currencies (\$/€ for example) are par-

tially neutralized at the macro level by the "basket" effect. Random fluctuations in expectations are tackled by the "band" and the credibility of the monitoring process upon which it relies. Finally, relative inflation differentials could be neutralized by the crawl rule with the "real target" approach. Meanwhile, those adjustments to shocks that cannot be neutralized (changes in terms of trade and underlying capital flows) could be ensured by adjustment of real targets. Also, in case of a need for a "nominal anchor" through parity for those economies in a process of disinflation, pre-announcing a conditional path for the crawl would provide the same effects as a peg regime.

In fact, this second kind of intermediate regime could be the natural next step in the process of consensus building and macroeconomic convergence triggered by the first option described earlier. Indeed, for those economies already able to reach a common view on sustainable exchange-rate targets, the same regional monitoring scheme could ideally announce "recommended bands" for exchange rates that would be compatible with the stated and expected national policies. This concept of recommended bands does not imply a system of fixed bilateral parities or compulsory limits since it is also applicable to floating rates. Initially, these consensual bands would be broad and non-binding, serving only to shape market expectations. They could lead to specific regional consultations among national policymakers when indicative band limits of the soft target zone are approached or breached. Such consultations would serve to spur policy adjustments -or replies if necessary- or otherwise to adjust the target zones conformant with some new regional reality.

*Step Two:  
The next intermediate stage would involve setting "soft" regional target zones; narrowing the range of options. This group includes the full range of non-binding bands within which the regional consensus communicates optimal exchange rates for all the partners' currencies."*

Progressively this kind of RMA could lead to a decision to make these consultations compulsory. In this case, one could expect the compulsory consultations to impel design of the rules and procedures of the surveillance scheme set by the RMA. The consultations would work by consensus, allowing a veto to each member – even to a single national central bank – towards mobilizing a range of concrete shared instruments. These instruments would cover a broad range, from merely issuing an ad-hoc "joint-communiqué", through to launching convergence criteria and to agreeing compulsory rules of discipline with consequent rewards or sanctions. They would also cover ad-hoc cooperative actions, such as deciding on joint interventions in favor of specific

## The Ecuadorian Proposal for a Crisis Response Agenda from the South

currencies, announcing new consensual bands or implementing coordinated policy adjustment for supporting the achievement of agreed bands.

After a training test-period, the system should provide the basis for designing a common system of exchange rate orientation by anchoring market expectations by prescribing precise criteria and formal procedures and by providing transparent information on the respective policy stances behind the bands and on the required adjustment path. The participating members would progress to discussing the option of trying a real or a nominal fixed parity grid once they were able to achieve an effective degree of consensus and cohesion. This would be evidenced by their consistency respecting the common criteria and rules established by regional consensus.

### Step Three

The next step toward a more closely engaged regime is the setting up of compulsory target zones (i.e. formally binding bands). This is an almost fixed, but adjustable ERR, and corresponds to transforming the previous RMA into a real regional Exchange Rate Mechanism (Real ERM). It is different from the traditional nominal ERM experimented with by the European Monetary System created in 1979 (and still working in the EU as a condition for the Member States applying for joining the euro area). Indeed, as is well known, the "impossible trinity" will expose any adjustable peg-regime to wild, unsustainable capital movements once unforeseen events affect the credibility of the policies or of the regional commitments (including the monitoring or integration processes).

This mechanism does not correspond merely to a fixed regime, since it would be more flexible, and would imply a higher degree of cooperation, through the collegial process of defining the bands and assessing the policies. Of course, this regime requires a sufficient degree of convergence and consensus among the members and a more developed scheme of policy monitoring, with greater sharing of discipline, rules and sanctions. However, in the progressive process we are recommending, these complements would result from the learning-by-doing stage developed during the two previous intermediate regimes.

### The Ecuadorian proposal for a new regional financial architecture

The credibility of the proposal presented above requires defining a horizon of sustainability that includes a robust institu-

tional framework.

The axis of the Ecuadorian Proposal for a New Regional Financial Architecture is based in three main characteristics. The first one is sustained in democratic and transparent governance as well as proportional and equitable responsibility. The second is the simultaneous construction of a new process of integration, moving towards three basic components: i) the creation of the Bank of the South (Banco del Sur) as the core of an alternative development bank network, ii) the strengthening of a regional central bank system, articulated through a continental system of payments and a Common Reserves Fund (probably through an enhancement of the Latin American Reserve

Fund - FLAR), iii) give coherence to these two processes –within an inherent logic, with the impulse of a common monetary system linked to the issue of Regional Drawing Rights and an electronic regional currency. Finally, the Ecuadorian proposal needs an efficient and technical operability oriented towards another kind of development and new relationships between states, capitalist firms and the heterogeneous spectrum of popular economies (medium, small and microenterprise, community and cooperative structures, etc.).

There are two important issues that our region should overcome in order to have a successful decoupling from the dollar's crisis logic and achieve macroeconomic sustainability. First, the region should reduce the artificial need for dollars in the regional trade, financial markets and, therefore, the technical need

for reserves through the deployment of the intra-continental system of settlements. Secondly, with the Common Fund, this system reduces the sum of the individual optimal amount of international reserves, even with the danger of simultaneous shocks and correlative risks. Those excess reserves funds could support the convertibility of the regional electronic currency, as part of the Common Fund complemented with exhaustible natural resources and national currencies.

On the other simultaneous dimension of this institutional arrangement, the Banco del Sur loans in national and regional currencies would provoke deeper productive integration. This new institution will stimulate the intra-regional system of payments with cost incentives for Net of Networks transactions redeemable in dollars or national currencies (with a premium for taxes or local credit, gradually

*Step Three:  
Setting up of formally binding bands. This is an almost-fixed, but adjustable, Exchange Rate Regime and corresponds to transforming the previous Regional Monetary Agreement into a real Regional Exchange Rate Mechanism.*

## The Ecuadorian Proposal for a Crisis Response Agenda from the South

increasing quotas per country). Moreover, there will be an extra-regional sustainability that will link the Central Bank Networks with the core of the Common Reserve Fund. In addition, a non-Maastricht type of macroeconomic convergence commitment will emphasize stabilization tasks with a development and structural asymmetries reduction plan.

This proposal will open several doors for countries with diverse political, financial and economical realities, to fit into this new impulse towards the process of integration whose key reference point is the UNASUR, but which will be able to transcend it. Each country could take different entries to the process, but the process as a whole must not move in sequential terms: this must be a simultaneous effort with growing synergies that will allow a new cohesive phase. In order to achieve the critical mass for the proposal's take over, a core of committed countries should advance in this collective construction.

The capital structure of the Banco del Sur should be a space for both, national currencies and the regional currency. These currencies must also be included in lending operations and must be subject to cross demands in other member countries. In order to make the Banco del Sur sustainable, it is necessary to strengthen functions of the regional central bank network that guarantees that the regional currency works and that the national currencies space could be enhanced and can relate to each other in these new terms.

The Banco del Sur will bind together in a coherent way the commercial, financial and monetary integration with a dyna-

mic flow of the productive system from the functioning of the economy. For the horizon of an electronic common currency -or a regional account unit-, there must be a system that allows the strengthening of these links. It is not about strengthening commercial relationships where they are not convenient: we have to make changes in the productive structures so that they are complementary amongst themselves. In this proposed scheme, large nations have the incentive to benefit from seigniorage and increased demand for their exports and large companies.

It is very difficult to move ahead with a new international financial architecture if each country doesn't work simultaneously on a new domestic financial architecture and a new productive system. The economy is not flat: the productive system is hierarchical, and if strategic sectors of the economy are going to benefit, a new powerful system of powerful interests committed to integration can be built. Today the commercial dependency (and intra-firm trade) with the North is sky high, and with the change of the productive system, great returns will be generated in the construction of supranational spaces of food, energy and health sovereignties.

**Pedro Páez Pérez is the Minister of Economic Policy Coordination, Republic of Ecuador.**

*This statement was delivered by the Minister at the Interactive Panel of the United Nations General Assembly on the Global Financial Crisis in New York on 31 October 2008.*

### South Centre Board Members on USA President-Elect Barack Obama

#### Chief Emeka Anyaoku, Nigeria:

*Obama, as the elect most powerful man on earth is a ringing endorsement of the inherent quality of human beings irrespective of racial and cultural differences. By electing Barack Obama as their 44th President, the Americans have demonstrated to the world their belief in the concept of a common humanity. They have successfully confronted the abiding legacy of the trans-Atlantic slave trade, which is covert and sometimes overt racist discrimination against the people of Africa and their descendants.*

*I and other like-minded people see in Obama's assuming the Presidency of the United States an opportunity for the world to move towards an equitable and inclusive globalisation.*

#### Professor Norman Girvan, Jamaica:

*If America can elect a Black man as President, why can't Caricom nations agree to pool their sovereignty so that we can speak with one voice in world trade and politics; and our people walk taller in the world by virtue of their Caribbean identity, as did every person of colour on the morning of November 5, 2008?*

*And if an African-American named Barack Hussein Obama can mobilise millions of his compatriots of all ethnicities to the cause of creating a more just, equitable and decent society in the United States, that most individualistic and materialistic*

## Development Through Choice

### Pushpa Kamal Dahal, Prime Minister, Nepal

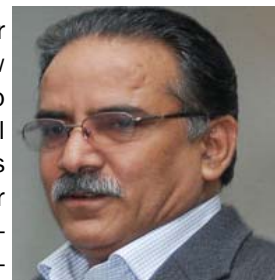
As the first democratically elected prime minister of Nepal, I had the honour of addressing the United Nations' General Assembly in late September. We met shortly after the World Bank had released new poverty estimates – telling us that the world and especially Asia had actually been much poorer than they had thought. Strong speeches were given by the world's leaders about how to eradicate poverty and confront the global food crisis.

On my way back to Nepal, this small, landlocked and least developed country, I thought about those bold and even grandiose Millennium Development Goals – to cut the number of people living in poverty and hunger by half, reduce child mortality, roll back disease. Sitting on the plane at 10,000 meters, I reflected that that was where the discussions in New York took place – high above the land where ordinary people live every day in poverty. While we were talking about poverty, we were not really talking about the poor and even less with them. Otherwise we could perhaps easier understand why the poor are poor and why all those billions of development aid budgets have not ended poverty. On the ground you get a better understanding of the root causes of why six million children die from treatable diseases every year and why nine million people starve to death. They don't die merely of a microbe or a shortage of food. They die from rampant inequality and social injustice, from a poverty of equal opportunities.

Social injustice is when poor farmers lose the right to choose their way of farming or their choice of crops and fertilisers to multinational agro-industrial businesses. More than two-thirds of the people in South Asia depend on agriculture – almost all of them poor, small-scale farmers. This also means that they depend for their very survival on land, water, seeds and other natural resources. Increasingly, those life-giving natural commons, the joint birth-right of humanity which has fed and nourished generations since the dawn of time, are being privatised for the profit of a few. The rich heritage of thousands of local seeds is being wiped out by imported varieties that need endless chemical inputs – and making local farmers dependent for the first time on the price of oil. The 50 years of the 'green revolution' and the current food crisis clearly show that scaling up inputs and increasing productivity alone cannot solve the problem of hunger. Justice and equality can end hunger. Human rights and true democracy can end hunger.

*“Re-establishing and guaranteeing the farmers inalienable right to choose – the concept of food sovereignty – is an essential part of social justice and empowerment and therefore vital for food security and the fight against poverty.”*

The one billion people in hunger need not be. I call on my fellow presidents and prime-ministers to demonstrate greater political will and leadership to promote policies that transfer power to the poor and the means to their own sustainable livelihoods. The pesticide-driven industrialisation of agriculture has contributed to devastating economic and ecological problems affecting farmers and their environment. It would be mindless to follow the same neo-liberal paradigm



and repeat the same mistakes. We need to return economic sovereignty to the people. Genuine agrarian reform with access to land and land ownership empower farmers who can use traditional production practices to produce a livelihood for themselves and their families in a way that is ecological and economical sustainable.

Re-establishing and guaranteeing the farmers inalienable right to choose – the concept of food sovereignty – is an essential part of social justice and empowerment and therefore vital for food security and the fight against poverty. This is why we have included the right to food sovereignty in our constitution. Only empowered citizens, aware of their rights and choices, can overcome deprivation and marginalisation. We also need to empower women – more than half of the population living in poverty – to lead their own lives as full members of communities, thus overcoming the evils of vulnerability and

marginalisation.

The solution is not in technology alone, and not in press conferences about poverty, but in empowering people and giving them the opportunity to choose their own solutions to end poverty, like growing their own crops in their own communities; not becoming global dependents. When we work directly with communities, focusing our work on the people and therefore see them as partners – because it is they who are poor and who know best – I am very confident that we can make historic progress. The current top-down development paradigm needs to be replaced with working solutions from below. Aid must be based on justice and not charity.

*This opinion piece by the Prime Minister was requested by the LDC Watch and the South Asia Alliance for Poverty Eradication (SAAPE) with its European partner Eurostep as part of their work on "Food Sovereignty".*



**SOUTH BULLETIN :**  
Reflections and Foresights

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## Leader Speak @ G-20 Meeting, Washington DC, 15 November

**Cristina Fernandez de Kirchner, President, Argentina**



### End of an Economic Model

*The global financial crisis is not only an economic crisis but also an end of political and economic model that trumpeted the lack of controls as a concept.*

*Not long ago, analysts from investment bank Lehman Brothers announced the fall of Argentina. Shortly after we realized that what they were hiding was the real possibility of their own bankruptcy, as it indeed happened.*

**Hu Jintao, President, China**

### Four Priorities in Reforming the International Financial System

*The four priorities in reforming the international financial system:*

- *stepping up international cooperation in financial regulation;*
- *advancing reform of international financial institutions;*
- *encouraging regional financial cooperation; and*
- *improving the international currency system.*



**Luiz Inacio Lula da Silva, President, Brazil**



### Chronic Problems of the Economic Policy of US and the EU

*The best solution for the crisis not to spread is that rich countries resolve their problems. For the first time the problems are not in the poor countries, they are in the rich countries. It doesn't help to look for palliative measures if you don't resolve chronic problems of the economic policy of America and economic policy of the EU.*

**Manmohan Singh, Prime Minister, India**

### Decrease in Capital Flows to Developing Countries

*Changes are needed in the global financial architecture to avoid the current financial crisis from recurring.*

*Developing countries are in a peculiar situation, they are not the cause of this crisis, but are amongst the worst affected. The contraction of exports, a credit crunch, and lower flows of capital and foreign direct investment would slow down their economic growth push millions of people back into poverty, with adverse effects on nutrition, health, and education levels.*



**Kgalema Motlanthe, President, South Africa**



### Fallout of Global Financial Crisis on Millennium Development Goals

*While the financial crisis originates in the rich countries, it perpetuated a sudden and sharp increase in the borrowing costs of developing countries and in many cases their currencies have fallen dramatically too.*

*The Millennium Development Goals are among the first casualties of this crisis. These goals have been set back by about seven years, precisely because there's a slowdown.*

Read complete statements at the Intellectual Network for the South [www.INSouth.org](http://www.INSouth.org)

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*Articles in the South Bulletin express views of the authors and not those of South Centre or its Member Countries.*